



## Annual Report 2010

Sovereign Food Investments Limited

### OUR VISION

To become the most competitive poultry integrator on earth!

### MISSION STATEMENT

Sovereign Food aims to provide the South African nation with consistent access to nutritious, tasty poultry products. Our product range will be primarily targeted at the budget-conscious consumer. We will lead the world in yield maximisation across the production and sales value chain through being the foremost user of poultry production technology and by having the fastest and most effective supply chain and delivery system. We will selectively market premium poultry products that are more profitable both domestically and by exporting to select markets.

Our five critical success factors are the driving force behind our vision:

1. Focused on beating our own records inside the business.
2. Be a customer-centric operation, internally and externally.
3. Focused on increasing the yield from operations.
4. Have stringent quality measures in place in all areas of the business.
5. Have a team that is engaged for motivation, passion and performance.

### CORPORATE VALUES

1. We are ferocious about cutting wastage in every area of our business and are forever obsessed with finding a better way of doing anything.
2. We measure our success by the satisfaction of our customers, internal and external.
3. We love what we do and believe we can be the best in the world.
4. We pride ourselves on team success and focus on results.
5. We speak with candour and respect of and value every team member regardless of position, gender, age or race.



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# Consumer brands overview

Sovereign has positioned itself in the retail/wholesale and food services sectors of the frozen chicken market with a number of brands that cater for all levels of consumers.

## Retail Brands

Rocklands is a quality frozen chicken brand aimed at low-income consumers whose buying motivation is price, value-for-money and taste. The range also includes bulk products, an economic solution for mass catering.



LSM 1 – 4  
Rocklands

Country Range is a Grade A frozen chicken brand aimed at low- to middle-income consumers who want to provide their family with quality, tasty and value-for-money meals. The brand consists of a huge range of different product sizes to cater for all affordability needs in this consumer sector.



LSM 5 – 8  
Country Range

Farmer's Lane is a quality frozen chicken brand aimed at upper-income consumers. Containing zero-seasoning solution, it allows chefs at home to prepare their chicken in their own unique way.



LSM 9 – 10  
Farmers Lane

## Food Services Brand

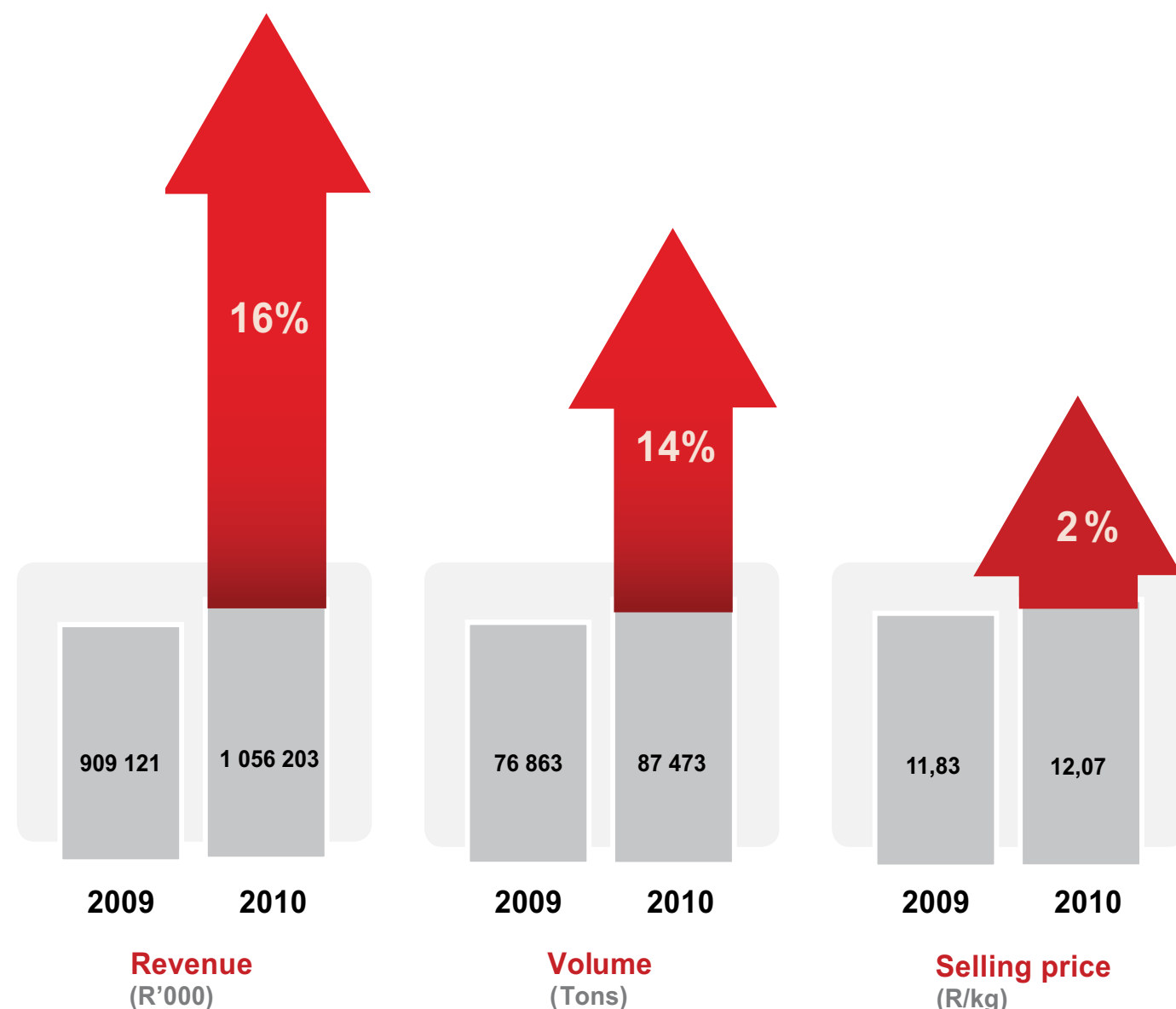
Cater Chicken is a premium food services brand that offers a range of chicken portions, fillets and whole grillers, all of which are perfect for use in restaurants, hotels, fast food outlets, function venues and delis.



Cater Chicken

# Financial highlights

2010 proved to be a challenging year for the industry as a whole.



# Seven-year review

	2010	2009	2008	2007	2006	2005	2004
<b>CONSOLIDATED RESULTS R'000</b>							
Turnover	1 056 203	909 121	581 232	458 652	398 580	367 380	331 138
Group operating profit	77 926	50 647	74 339	99 153	85 989	55 474	17 132
Attributable income/(loss)	11 069	(492)	46 716	67 385	56 655	34 745	6 107
Total assets employed	1 113 599	1 100 557	811 686	479 550	411 919	274 745	221 785
Net current assets	65 360	61 406	79 680	135 303	157 205	69 278	51 375
<b>ORDINARY SHARE PERFORMANCE</b>							
Earnings/(loss) per share (cents)	30,7	(1,5)	142	207	182	119	21
Net worth per share (cents)	1 158	869	869	702	568	387	283
Market price at year-end (cents)	850	451	1 250	1 245	1 050	700	150
Net cash flow per share (cents)	68	(81)	279	277	301	174	67
<b>LIQUIDITY</b>							
Interest cover (times)	1,2	0,9	6,8	22,5	13,4	6,2	2,0
Gearing (%)	92	163	6,7	1,7	(14,9)	26,0	48,8
Current ratio	1,3	1,2	1,4	3,1	3,3	2,2	2,1
<b>PROFITABILITY</b>							
Operating profit margin (%)	7,4	5,6	12,8	21,6	23,5	17,2	6,9
Return on net assets (%)	18,6	17,7	25,9	23,2	23,9	24,0	9,2
Net asset turnover	2,5	3,2	2,0	1,1	1,1	1,6	1,8
Return on shareholder equity (%)	6,7	(0,9)	18,1	29,1	30,8	31,4	7,4
<b>VALUE ADDED</b>							
To remunerate employees (%)	50	52	43	26	25	34	57
To providers of finance (%)	26	32	10	7	8	1	15
To the government (%)	10	7	16	23	22	17	11
To replace assets (%)	10	9	7	5	5	7	8
To expand the Group (%)	4	(0)	24	40	40	31	9
<b>Total value added (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## DEFINITIONS OF RATIOS AND TERMS

Net worth per share	Ordinary shareholders' funds divided by the number of ordinary shares in issue at year-end
Cash flow per share	Available operating cash flow before dividends divided by the weighted average number of shares in issue during the year
Interest cover	Profit before interest divided by net interest paid
Net borrowings	Net interest-bearing debt less cash reserves
Gearing	Net borrowings as a percentage of capital employed
Current ratio	Current assets to current liabilities
Return on net assets	Profit before interest as a percentage of net assets
Net asset turnover	Turnover divided by net assets
Return on shareholders' equity	Earnings attributable to ordinary shareholders as a percentage of ordinary shareholders' funds



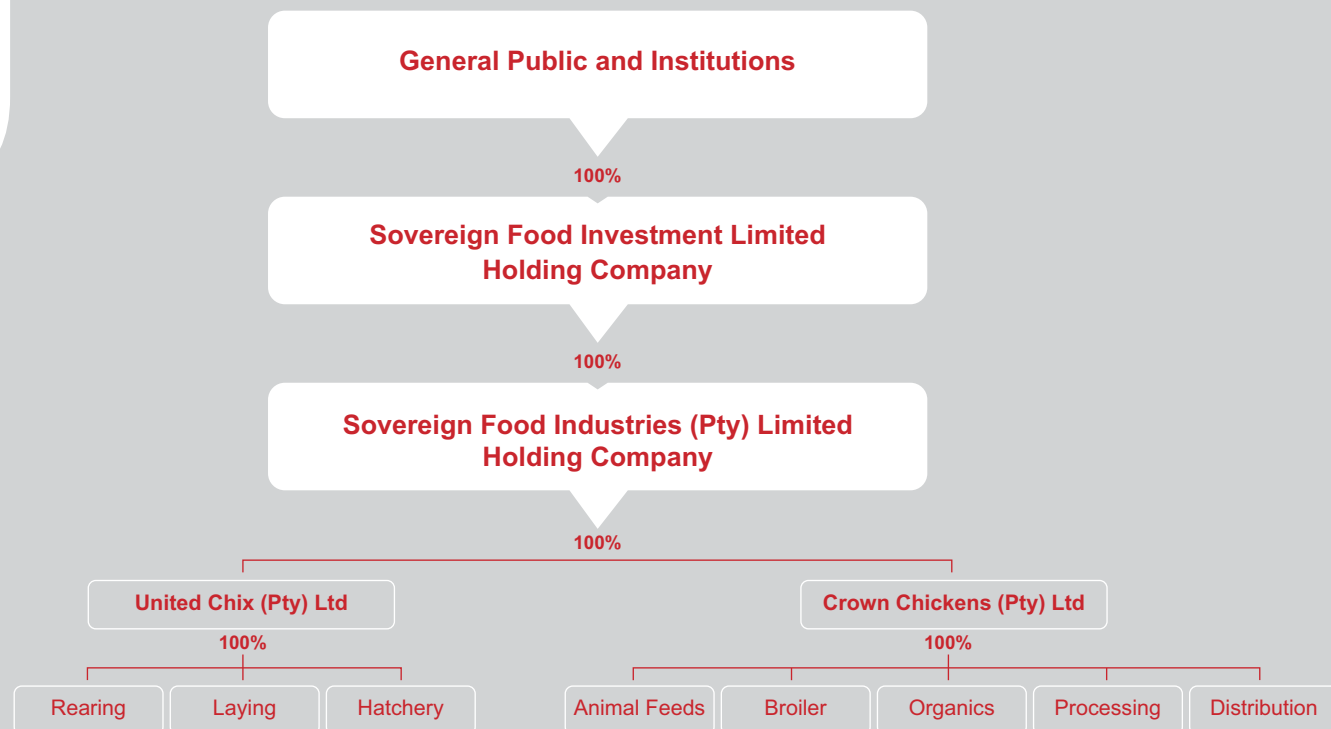


### Strategic Objectives

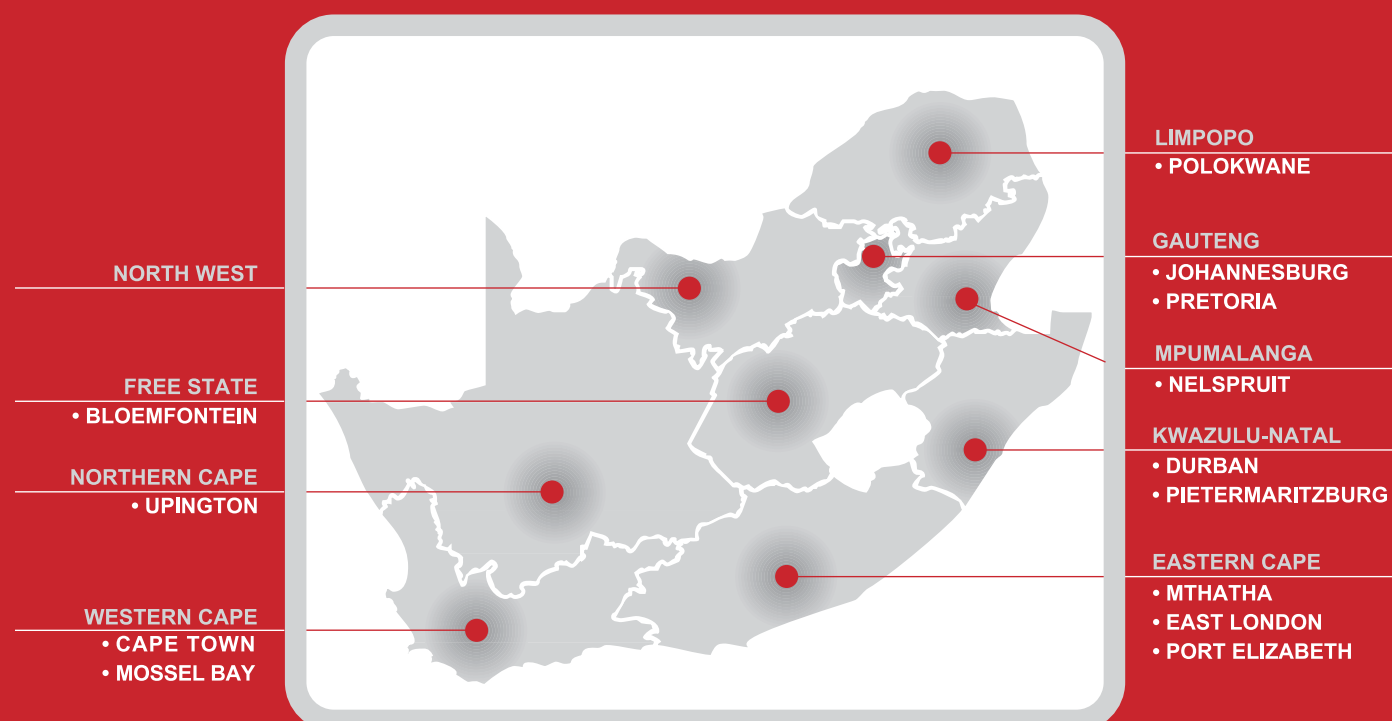
- A people-orientated culture focused on competency and empowerment.
- A customer-driven operation focused on consumer-friendly brands.
- The lowest cost producer.



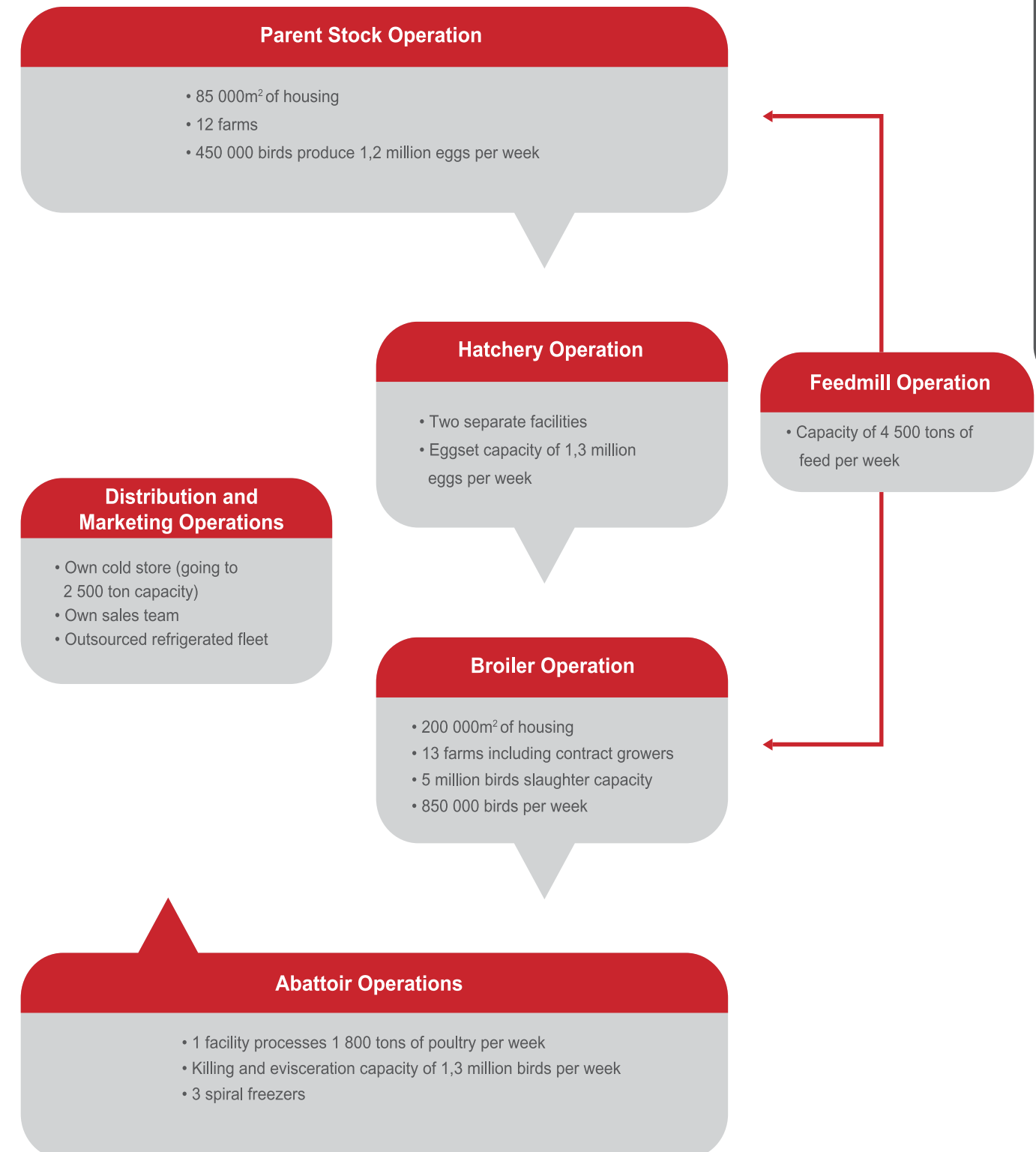
# Company Structure



# DISTRIBUTION MAP



# Business Process



# Chairman's report

[ Charles Davies ]

2010





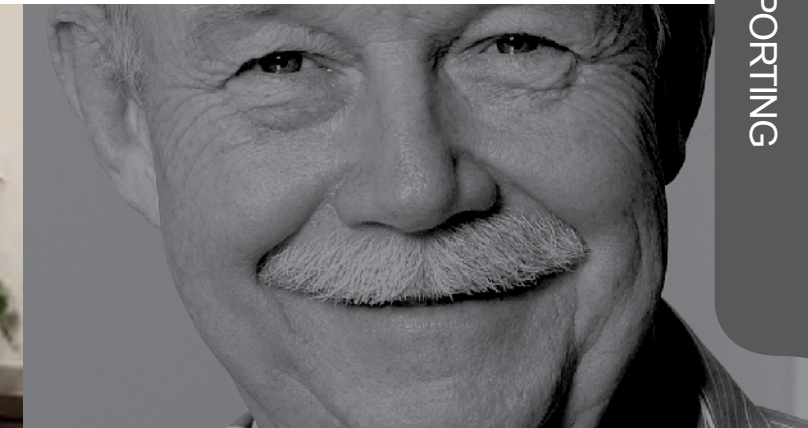
# Chairman's report

Charles Davies

## Overview

As a Group we have overcome a number of challenges and obstacles during the 2010 financial year, but fortunately our local markets are now beginning to report an upward trend after a turbulent year for both the local and global economies. Following the Group's expansion over

the last two years and in particular given the expected improvement in the general economy and the customer's disposable income, we are well prepared to take advantage of the increased demand for poultry as the cheapest source of available protein.



## Business review

Our operating income for the first half of the year saw excellent growth with turnover increasing 49% half-year-on-half-year primarily due to an increase in volumes. The second half of the year, however, saw unfavourable conditions putting the price of poultry under pressure.

The completion of the feedmill expansion has enabled the Group to produce an additional 16% feed volumes, and this, coupled with a decline in the price of maize in the second half of the year, has led to a reduction in input costs of raw materials. For the year ahead we are suitably hedged from market fluctuations to ensure we have a consistent raw material price going forward.

The Broiler Division is reaching its production capacity with a live mass in excess of 6 500 tons per month, an increase of 13% year-on-year.

Sales were under pressure during the last quarter of the financial year as a result of consumer

spending having been reduced by the effects of the recession, coupled with an increase in poultry imports. Our expansion plans, however, ensure we are able to service a wider range of consumers through a diverse product basket in order to address these challenges.

The rights offer undertaken in December, which raised R125,9 million (before costs) of new equity for the Group, has strengthened the balance sheet considerably and gearing is now within the target range envisaged prior to the rights offer. The full impact of the rights offer on the income statement is only expected to be seen during the 2011 financial year. It is heartening to report that the rights offer was very well supported by our shareholders.

## World meat consumption

According to the South African Poultry Association world meat consumption is expected to grow at 2,2% per annum until 2015 from 280 million tons in 2008 to 319 million tons. They estimate about a third (105 million tons) will be provided by poultry meat. This is apparently attributed to an increased



... The Group has made a substantial investment in production capacity over the last two years, which is expected to enhance earnings in the future ...





# Chairman's report

... continued

trend in both health and budget consciousness amongst consumers worldwide.

## International poultry and economic conditions

Assuming no disease outbreak, international poultry supply is expected to marginally increase by 3% year-on-year, driven mainly by a rebound in Brazilian and Chinese production levels. The macroeconomic outlook is expected to facilitate an increase in a positive environment for international trade and poultry consumption. Globally, more poultry products are being consumed annually than all other animal protein sources combined. Statistics show in South Africa, 57% of all animal protein consumed is provided by the poultry industry.

## World food crisis

Global demand for food continues to increase faster than the population growth, and it is estimated that in the next decade there will be an additional 700 million people to feed. Across the globe, agricultural supply has been negatively impacted by the rising input costs of fertilizer and fuel, and worldwide climate distortions have caused disruptions to global food supply. The trend towards the use of food crops such as maize, sugar cane and rice for the production of bio-fuel has put enormous pressure on the prices of basic commodities.

Our local market has not gone unaffected by these global trends, as we have seen food prices increase significantly. Fortunately for South African consumers, the country's large maize harvests experienced recently have eased pressures on some food prices.

Government and agriculture in general need to encourage more locally produced produce,

especially commodities, to ensure South Africa becomes a net exporter rather than a net importer of food. This will also have the effect of protecting our consumers from the impact of global price changes and imported inflation. In short, National Government needs to ensure a policy structure is in place which assists and makes certain South Africa is in a position to feed our people and earn export revenue from increased local production.

## The poultry industry

The poultry industry continues to represent an important growth opportunity in South Africa and the greater African continent. Whilst the recent past has seen business and consumers alike subjected to severe pressures leading to a slowing of the economy, one has also had to deal with the effects of Eskom price hikes and a shortage of water in the Eastern Cape. However, we expect the cost of raw materials will decline in the short term, with maize and soya prices falling as a result of large local and international crops. The need for inexpensive protein puts poultry producers in a very favourable position.

## The environment

As a socially responsible organisation, we are committed to conducting our business activities in an environmentally responsible manner whilst at the same time making a concerted effort to reduce our carbon and environmental footprint. We are committed to developing and implementing our certified Environmental Management System and promoting the efficient and sustainable use of all resources and technologies by minimising waste.

## Prospects

There remain challenges as described in the Chief Executive Officer's report, but following on the expansion of recent years and a sound management structure, the future prospects look good. The Group is prepared to take advantage of the added capacity and ready to benefit from improved market demand and conditions going forward.

## Dividend

The Group has made a substantial investment in production capacity over the last two years, which is expected to enhance earnings in the future, but in the interest of improving the gearing position the directors consider it prudent not to declare a dividend at this time.

## Directors

I have been supported by a committed board of directors that was called upon on two occasions to deliberate on potential strategic alliances with role players in the poultry industry. Whilst these exercises were unsuccessful, they did lead to the successful rights offer referred to earlier.

On a sad note, I must advise of the resignation of Mike Hankinson, who for reasons of business conflict which would compromise his position as an independent non-executive director, has had to resign from the board. He will be sorely missed.

## Appreciation

A special thank you must go to our customers, who have been the backbone of our expansion and been strong in their support. The directors, the CEO and the entire Sovereign team salutes you. My appreciation is again extended to the directors, as well as to Mike Davis and his dedicated and committed staff who remain focused on the strategy and the way forward. Sovereign Foods will continue to build a foundation for a world-class business worthy of confidence by shareholders and stakeholders.



**CP Davies**  
Non-executive Chairman

	DESIGNATION	COMMITTEE REPRESENTATION
CP Davies	Non-executive Chairman	HR and Remuneration – Chairman Audit and Risk
MJB Davis	Chief Executive Officer	
MJ Hankinson	Non-executive Director	Audit and Risk
KT Kweyama	Non-executive Director	HR and Remuneration
Prof PM Madi	Non-executive Director	HR and Remuneration
LM Nyhonyha	Non-executive Director	Audit and Risk – Chairman
C Coombes	Chief Financial Officer	
BJ van Rensburg	Director, Group Services	
GG Walter	Director, Processing, Sales and Distribution	

# CEO's report

[ Mike Davis ]

2010



# CEO's report

Mike Davis

## Performance Review

The 2010 financial year has been a difficult year for us to navigate as a business. The poultry industry in particular has felt the negative effects of limited consumer spending power. The traditional upswing over the festive season was extremely disappointing with the normal price increases and demand not experienced. Fortunately we have

been in a favourable position to effectively weather the storm largely due to our successful expansion programme conducted over the last four years and the dedication by the Group to continuously revise and improve short-term strategic plans. The challenges of a tough trading environment have been compounded by the stresses that the business has experienced in adjusting to the substantially increased volume levels.



## Revenue

Revenue increased by 16% over the prior year to R1,05 billion, which is as a result of a 14% increase in volumes and a 2% increase in average prices.

## Volumes

Our sales volumes increased by 14% during the year to ensure output of 7 250 tons per month.

## Feed costs

The average price of feed for the year was 4% lower than previous years. Although the underlying commodities declined in price fairly sharply in the last six months of the year, the Group will only see the benefit of this from May 2010. The Group has continued to struggle to achieve its targeted FCR and this will be a major focus for the year ahead.

## Non-feed costs

Severe inflationary pressure was experienced as a result of the huge jump in electricity and other utility-related costs as well as in fuel and wages.

For this reason our cost per unit increased by 3% year-on-year. The total impact on the Group of the recent escalation in electricity costs is anticipated to be in the vicinity of R10 million a year.

## Poultry industry overview

National pricing in the first half of the year increased strongly period-on-period, which was very promising. Unfortunately this trend was not maintained and pricing declined substantially in the second half of the year. This was as a result of pressured consumers tightening their belts to cope with the recessionary environment and the balance between supply and demand being upset by high import volumes for the period. The South African market continues to have a supply-versus-demand disparity and imports were up 4,5% for the comparable period in 2009.

Pricing has softened due to the strengthening of the rand with import volumes stabilising towards the second half of the year. Indications are that pricing will recover towards the end of the 2010

“ . . . we have been in a favourable position largely due to our successful expansion programme conducted over the last four years and the dedication by the Group to continuously revise and improve short-term strategic plans. ”





# CEO's report

... continued

calendar year, but this will depend largely on the exchange rate. Should the rand continue its trend, we could see imported stock remaining a major threat for the 2011 financial year.

The current pricing weakness will shortly be offset by the reduction in the price of key raw materials used in the production of poultry feed which have declined sharply through the year. This has been due to highly favourable local weather patterns and the record crops recorded around the world. The weakness in our selling prices will be offset once the full benefit of these reductions have impacted our cost of production.

## 2010 FIFA World Cup

We expect a significant positive change in consumer buying trends as a result of the 2010 FIFA World Cup. The foods services industry forecasts a 30% increase in demand above the traditional December buying patterns, which usually see a spike in demand. We have developed a strategy to accommodate the expected increase in demand throughout the tournament and are looking forward to this exciting event being held in our country.

## Prospects

Despite the current challenges of a weak selling price and the hangover of commodities hedged at a higher price than spot, the Group is positive about the year ahead. Through the last year the Group has seen a gradual improvement in key operating

numbers after experiencing many challenges as it struggled to adjust to the scope of the expansion plan. These trends are expected to continue into the new financial year, which will contribute to improved margins in the future.

In this period we will increase cold storage capacity to maximise the production of our most profitable products, which will allow us to meet customer demand and provide improved service. Additionally, the processing plant will be upgraded to include an additional rendering facility and improved production flows. All of these projects are cash flow positive in less than twelve months and will contribute positively to the Group's overall performance.

Statistics indicate that consumer buying trends will continue to show an increasing preference for poultry as the cheapest source of protein. For this reason it is expected that pricing in the new financial year will increase over the prior period.

## Changes to management

During the year a strategic decision was taken to focus the business into three key areas of responsibility. Blaine van Rensburg's role is now Director, Group Services. Gerald Walter has expanded his Sales and Marketing portfolio and has additionally taken up responsibility of Distribution and the Processing Plant. Etienne du Preez has been promoted to head up the Agricultural Division, encompassing breeders, broilers and the feedmill. I wish them well in their endeavours as they continue to lead a powerful and dynamic team of individuals.

## Conclusion

Our expectation is that through the period ahead the business will perform well and begin to reap the benefits of the expansion over the last four years. We continue to be a Company full of exciting potential. Inside the business our focused staff have remained positive and highly dedicated to the achievement of our vision of becoming the most competitive poultry integrator on earth. Each of them has continued to strive to achieve this through passion, focus and dedication. As a result of a period of intense corporate action and the challenging business environment, no CEO could ask for a better team to have coped with such pressures. In conclusion I would personally like to express my deepest appreciation to the board, our executive team and each one of our staff, customers and suppliers.

I look forward to working with all of you during the year ahead and making progress towards the achievement of our vision.



**MJB Davis**  
Chief Executive Officer

# Board of Directors



## CP Davies

Charles Peter Davies (63)  
Independent Non-executive Chairman.

Appointed to the Sovereign Foods board:  
19 February 2007.

Charles began his career in the insurance industry in 1971, and established his own broking firm in 1972.

He was appointed as Managing Director of Norwich Life in March 1989 followed by Chief Executive Officer of Norwich Holdings at its incorporation in 1995. He held this post until his retirement from the company in 1999.

He is currently involved in managing his own dairy enterprise, is actively involved in empowerment farming initiatives and serves on various boards in a non-executive capacity including Basil Read Holdings Limited and Amadlelo Agri (Pty) Limited.



## MJ Hankinson

Michael John Hankinson (61)  
Non-executive Director

Qualifications: CA(SA)

Appointed to the Sovereign Foods board: 21 September 2007

Mike started his career at Deloitte & Touche in 1971 from which he joined Romatex as a Financial Manager in 1976. While at Romatex he served as Managing Director in various divisions, until his appointment as Group Chief Executive in 1994.

In 1997 he was appointed CEO of BTR Dunlop Limited. Following restructuring and name changes Dunlop was sold to Apollo Tyres Limited in 2006.

Mike continues to serve as chairman and director on the boards of a number of companies.



## KT Kweyama

Khanyisile Thandiwe Kweyama (45)  
Non-executive Director

Qualifications: BBus Admin, PDM, Masters of Management

Appointed to the Sovereign Foods board: 1 October 2007

In 1989 Khanyisile started work at Washington DC ELCA where she held the position of Office Manager and Anti-Apartheid Programmes Officer. She was appointed Assistant National Programmes Director, Consultative Business Movement in 1991. From there she joined BMW where she held the position of Government and Authority Sales Manager.

Khanya became Managing Director of Nokusa Communications in 1995 and started KTK HR Solutions in 1999 as Managing Director until 2003. She then held the positions of Group Executive: HR and Transformation and Group Executive: Corporate Affairs with Allied Technologies, part of the Altech Group.

In 2008 she was appointed Group Executive: Global HR and Transformation at Barloworld Limited, where she is responsible for Group Human Resources and Organisational Performance, Empowerment and Transformation as well as Government and Stakeholder Relations.

She is an Executive Director of Barloworld SA and serves in a non-executive capacity on the board of Barloworld Logistics Africa.

Khanya also holds the position of non-executive director on the boards of a number of companies.



## Prof PM Madi

Phinda Mziwakhe Madi (46)  
Non-executive Director

Qualifications: BProc, EDP (Northwestern University, Chicago), MDP (HEC Business School, Paris)

Appointed to the Sovereign Foods board: 8 October 2007

In 1987 Phinda joined the French Bank of South Africa as Corporate Banking and Legal Officer. In 1990 he became a candidate attorney with Young Davis Attorneys.

He was appointed In-house Consultant on Employment Equity for the Standard Bank Group in 1992 and in 1994 he founded and became Managing Director of Simeka Consulting. In 1997 he sold his stake in Simeka Consulting and became Chairman of Madi Sussens & HerdBuoys.

From 2001 to 2003 he held the position of Group Managing Director, Thebe Risks and Benefits Group. Phinda has held the position of Executive Deputy Chairman, Allcare Medical Aid Administrators, from 2004 to 2008, when he was appointed Executive Chairman.

He has been an Ad Hominem Professor, Rhodes University Business School, lecturing MBA students on Business Leadership.

Prof Madi has written three books: *Affirmative Action in Corporate South Africa*, *Black Economic Empowerment in the new South Africa* and *Leadership Lessons from Emperor Shaka Zulu The Great*.

He also serves as a director on the boards of numerous companies including Illovo Sugar, Spar and Nampak.



## LM Nyhonyha

Litha Mveliso Nyhonyha (51)  
Non-executive Director

Qualifications: BCom (UCT), CA(SA)

Appointed to the Sovereign Foods board: 21 September 2007

Litha qualified as a CA in 1989 after completing his articles with Ernst & Young. After serving as Senior Audit Manager, Litha moved to the corporate finance department of Ernst & Young until his departure in 1992 to establish Thebe Investment Holdings.

Litha has been a director and Executive Chairman of Regiments Capital from its inception in January 2005. He is responsible for building and growing Regiments Capital to achieve its stated objective of being "the pre-eminent and most successful player in our chosen financial services segments".

Litha is a director of the chemicals and explosives Group AECL and Psitek and is the Chairman of Plessey (Pty) Limited.

He also serves as a director on the boards of a number of other companies.



## MJB Davis

Michael John Bromiley Davis (48)  
Chief Executive Officer

Qualifications: BCom

Appointed to the Sovereign Foods board: 9 April 2001

Mike started his career in the retail sector as a Manager with OK Bazaars. In 1984 he moved to the SA Bottling Company, where he held various financial positions, before he was appointed Group Budgeting Officer.

He moved to Dorbyl Automotive Components as a Financial Manager in 1991. From there he served as Area Operations Manager for Federated Timbers for three years.

Mike joined Sovereign Foods in May 1995 as General Factory Manager, Processing and held various senior positions throughout the company, before being appointed to his present position on 9 April 2001.



## C Coombes

Christopher Coombes (43)  
Chief Financial Officer

Qualifications: CA(SA), BSc (Civil Engineering)

Appointed to the Sovereign Foods board: 1 March 1999

Chris started his career as an engineer with a number of civil engineering companies from 1989 to 1994. He then moved into the accounting profession as an articled clerk with PKF from 1994 to 1997.

Chris joined Sovereign Foods in May 1997 as Group Financial Manager and was appointed to his current position in March 1999.



## BJ van Rensburg

Blaine Justin van Rensburg (38)  
Director: Group Services

Qualifications: NDip Labour Law

Appointed to the Sovereign Foods board: 22 June 2006

Blaine joined Sovereign Foods in August 1997 after spending a number of years in the hospitality industry and soon attained the position of General Manager, Processing. He held the position of General Manager, Logistics, from January 2002 to April 2004. From there he returned to the processing plant as General Manager.

He was appointed to the position of Operations Director in February 2006, followed by Director, Group Services, in December 2009.



## GG Walter

Gerald Godfrey Walter (36)  
Director: Processing, Sales and Distribution

Qualifications: Sales Diploma

Appointed to the Sovereign Foods board: 28 September 2008

From 1996 to 1998 Gerald held the position of Area Sales Manager at the Cold Chain.

He then joined McCain Frozen Foods as Key Accounts Manager and left them to become the Inland Key Accounts Manager, County Fair Foods, in 2001. In 2002 he was appointed National Sales and Marketing Manager.

Gerald joined Sovereign Foods in August 2007 as Sales and Marketing Manager and on 28 September 2008 he was appointed as a Director. In December 2009 he was appointed as Director, Processing, Sales and Distribution.



# Business overview

## Background

Originally a small family owned business started in 1948, Sovereign Foods has become one of South Africa's top mid-tier poultry producers. Sovereign Foods is the fourth largest poultry producer in the country.

The company embarked on a R650 million expansion programme over the past four years, doubling the Group's production capacity. The expansion includes one of the largest hatcheries in the Southern Hemisphere, allowing the Group to produce 920 000 chicks per week, with the potential to reach 2 million per week and

an upgraded feedmill to produce 20 000 tons of feed per month, thereby making the Group self-sufficient in terms of feed production.

In addition, an extra 100 000 m<sup>2</sup> of environmental-controlled poultry housing was built to ensure the best growing conditions for the livestock. The processing plant was equipped with the largest STORK® installation in the world outside their headquarters in Holland, capable of processing 200 birds per minute.

Sovereign Foods prides itself on a culture of relationship building, where the customer's needs are the driving force of its business performance.

## Highlights

- Production capacity is 7 250 tons of poultry products per month
- Poultry sales of R1,05 billion per annum
- 25 farms, 1 feedmill, 2 hatcheries, 1 abattoir
- Provides employment for 2 200 people, third largest provider of employment in Nelson Mandela Metropolitan Municipality

## Breeder divisional overview

Since 2007 the Breeder Division has been headed up by Nathan Smith. The division currently places between 55 000 females and 8 000 males every six to seven weeks. At any given time the division has up to 150 000 rearing birds and 300 000 layers on the ground. This is made up of four

rearing farms and eight layer farms. On average, each layer hen produces 160 eggs during a 65-week cycle.

920 000 day-old chicks are placed per week, produced by a state-of-the-art hatchery which receives 170 000 eggs every day. Between 600 000 and 1 200 000 eggs are stored in an egg bank at any given time. Eggs are set in the setters five days a week, and in incubation for 18 days after which they are transferred to the hatchers. Day-old chicks are hatched after three days.

## Broiler divisional overview

The broiler division is headed up by Bruce Green who has over 10 years' experience in broiler farming. The broiler farms consist of 9 farms, consisting of 76 houses in total. Additionally, the



Group outsources to contract growers who have an additional four farms. Up to 190 000 chicks are placed per day, and at any one time up to 5 500 000 birds are on the ground. On average, slaughter age is at 37 days at a weight of 1,7 kg per bird.

## Feedmill divisional overview

With the additional expansions at the feedmill, the team, headed up by Roger Parry, recently reached its highest volume of 16 958 tons (January 2010). The feed supply chain includes eight horses and seven trailers which deliver feed to the broiler and breeder operations.

## Processing divisional overview

PJ Fry oversees the Processing Plant which slaughters 3,5 million birds per month. Products are packed according to different retail brands and house brands comprising 60 different lines. Additionally, the division utilises a new breaded plant facility for contractual business, which boasts a state-of-the-art breeding machine using the latest technology.

## Sales, Marketing and Distribution overview

The Group has a national Sales and Marketing Division headed up by Bruce Pringle. In order to enhance our customer satisfaction and excellent service delivery, our refrigerated logistics fleet was outsourced to an external logistics provider in April 2010.



# Corporate governance

## Framework

Sovereign Food Investments Limited prides itself on its reputation of fair dealing, accountability and openness in conducting its business affairs. The Group carries out its business within an ethical framework that gives effect to these principles. At the same time, the Group strives to benefit the community in which it operates, whilst

minimising any possible damaging effects that its operations may have on the environment. The board of directors and management endorse the principles of good corporate governance as set out in the King I and King II reports, especially the need to conduct the enterprise with integrity and accountability. The Group has complied fully with the requirements of the King I and King II reports during the period under review.



## Governance structures

### Board of directors

The Sovereign Food Investments Limited's board currently comprises four executive directors and five non-executive directors, who meet regularly and maintain full and effective control over the Group's affairs. The offices of the Chairman and Chief Executive Officer are held by different directors. The non-executive directors bring an analytical and outside view of performance, strategy and resource planning. Directors have full access to all information within the Group and services of the Company Secretary and, in appropriate circumstances, may, at the Group's expense, seek independent professional advice concerning the Group's affairs.

### Audit Committee

The Audit Committee, whose purpose is to bring influence to bear on accounting, auditing and financial reporting matters, meets three times a year. The Audit Committee comprises non-executive directors LM Nyhonyha (chairman),

MJ Hankinson and CP Davies. The Group's external auditors have unrestricted access to the members and workings of the Audit Committee. The committee monitors proposed changes in accounting policies, reviews the internal audit functions, advises the board on the accounting implications of major transactions and recommends the appointment of the Group external auditors for approval by shareholders.

Committee members reviewed the qualifications, experience and performance of the Group's Chief Financial Officer and confirmed that the appointee had sufficient knowledge of International & Financial Reporting Standards (IFRS) and JSE reporting requirements.

The scope, independence and objectivity of the external auditors was reviewed. The audit firm PKF, and audit partner Mark Daverin, are, in the Committee's opinion, independent of the Company. PKF has been proposed to the shareholders for approval to be the Group's auditor for the 2011 financial year. On an ongoing

basis, the Committee reviews and approves the fees proposed by the external auditors. The appointment of the external auditor complies with the Companies Act, as amended, and with all other legislation relating to the appointment of external auditors. The nature and extent of non-audit services provided by the external auditors has been reviewed to ensure that the fees for such services do not become so significant as to call into question their independence. The nature and extent of future non-audit services have been defined and preapproved. As at the date of this report, no complaints have been received relating to accounting practices and internal audit of the Company or to the content or auditing of the Company's financial statements, or to any related matter.

### HR and Remuneration Committee

The HR and Remuneration Committee meets three times a year to ensure that remuneration

policies within the Group are equitable. The committee comprises non-executive directors CP Davies (chairman), Prof PM Madi and KT Kweyama. A special interest is applied to training and opportunities for empowerment.

### Appointment of directors

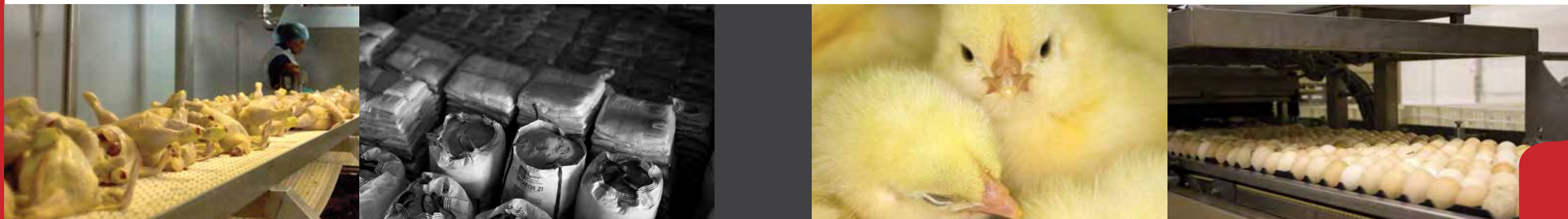
Procedures for appointment to the board are formal and transparent and are a matter for the board. Following the appointment of new directors, visits to the Group's businesses and meetings with senior management, as appropriate, are offered to facilitate their understanding of the Group.

## Internal control and risk management

The directors believe the internal controls in use by the Group are adequate to safeguard the assets from loss or unauthorised use and that the financial records may be relied upon to maintain accountability for Group assets and liabilities.

# Corporate governance

... continued



Internal controls are enhanced by accounting policies and organisational structures providing adequate segregation of duties. The Group has been careful in the selection and training of administrative personnel. The cost of enhancements to internal controls is compared to the benefits to be derived from their implementation. Nothing has come to the attention of the directors to indicate any material breakdown in the functioning of the Group's internal controls, procedures and systems during the year under review.

## Management reporting

The Group has a comprehensive system of management reporting, which includes the preparation of annual budgets at board and divisional level, the comparison of actual results to budgets on a weekly, monthly and annual basis, with some indicators being reviewed on a daily basis. On a weekly and monthly basis, cash flow, working capital and long-term borrowing forecasts are prepared, reviewed and reported on.

## Strategic planning

The strategic focus of the Group is reviewed on a regular basis at both board and divisional level and the long-term strategy is reduced to near-term operational plans and responsibilities.

## Equal opportunities

The directors believe in a policy of equitable employment for members of staff drawn from all sectors of the community. The Group meets the conditions and requirements of the Employment Equity Act.

## Code of ethics

With its mission and value statements in mind, the Group has formalised a code of ethics. The code addresses issues to ensure the future success of the Group and the trust and confidence of all its stakeholders.

## Environment

Environmental awareness is an integral part of the Group's operations. The Group is committed to ensuring that its operations, packaging and products are as

environmentally friendly as possible and also considers the environmental impact of new and existing projects.

## Meeting attendance

	AGM	Special GM	Directors						Audit Committee			Remuneration Committee		
	1 Jul 2009	4 Nov 2009	21 Apr 2009	29 May 2009	1 Jul 2009	28 Sept 2009	19 Nov 2009	21 Jan 2010	21 Apr 2009	29 Sept 2009	21 Jan 2010	3 Aug 2009	14 Oct 2009	21 Jan 2010
CP Davies	★	★	★	★	★	★	★	★	★	★	★	★	★	★
MJB Davis	★	★	★	★	★	★	★	★	●	●	●	★	★	★
C Coombes	★	★	★	★	★	★	★	★	●	●	●	★	★	★
MJ Hankinson	★	–	★	★	★	★	★	★	★	★	★	n/a	n/a	n/a
Ms KT Kweyama	★	–	★	★	★	★	★	★	n/a	n/a	n/a	★	★	★
Prof PM Madi	★	–	★	★	★	★	★	★	n/a	n/a	n/a	★	★	★
LM Nyhonyha	★	–	★	★	★	★	★	★	★	★	★	n/a	n/a	n/a
BJ van Rensburg	★	★	★	★	★	★	–	★	n/a	n/a	n/a	n/a	n/a	n/a
GG Walter	★	★	★	★	★	★	–	★	n/a	n/a	n/a	n/a	n/a	n/a

★ Attendance via conference call.  
● Attendance as an observer.



# Abridged sustainability report

## Introduction

Sovereign Foods Investments Limited ("Sovereign Foods" or "Sovereign" or "the Group") subscribes to the long-term sustainable success of the business as well as that of its surroundings including the environment and the local community.

The Group believes in being consistently fair and honest in its dealings with customers, suppliers and other stakeholders, and highlights these essential areas of importance in this report.

This report comprises the following sections:

- Stakeholder Communication and Relationship Building
- Health and Safety
- Finance
- Empowerment and Training Initiatives
- Employment Review
- Environment
- Sustainability Declaration
- Corporate Social Responsibility

## Stakeholder Communication and Relationship Building

Key stakeholder	Communication channels
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>• Annual general meeting</li> <li>• Investor roadshows</li> <li>• Bi-annual results releases</li> <li>• Bi-annual results booklet</li> <li>• Trading updates</li> <li>• SENS announcements</li> <li>• Annual report</li> <li>• Website updates</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>• Regular meetings</li> <li>• Email</li> <li>• Telephonic contact</li> <li>• Surveys</li> <li>• Events</li> <li>• Roadshows</li> </ul>
<b>Local community</b>	<ul style="list-style-type: none"> <li>• Regular interactions with local municipal representatives</li> </ul>
<b>Government and regulators</b>	<ul style="list-style-type: none"> <li>• Face-to-face meetings</li> <li>• Letters</li> <li>• Open days and workshops</li> </ul>
<b>Industry</b>	<ul style="list-style-type: none"> <li>• Southern African Poultry Association (SAPA)</li> <li>• Consumer Goods Council of South Africa (CGCSA)</li> <li>• Business Women's Association of South Africa (BWA)</li> </ul>
<b>Consumers</b>	<ul style="list-style-type: none"> <li>• Customer Care hotline</li> <li>• Consumer surveys</li> </ul>
<b>Staff</b>	<ul style="list-style-type: none"> <li>• Monthly group-wide meetings</li> <li>• Whistle-blowers hotline</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>• Face-to-face meetings</li> </ul>



## Health and Safety

Prior to 2010 the Group did not include non-permanently employed people in the DIFR calculation. We have commenced with formal external certification of our SHE management systems in 2009, with the Processing Plant awarded a 3-star NOSA rating. The Group is currently rolling out NOSA certification to all other divisions.

## Finance

### Value added statement

Value added is the measure of the wealth the Group has been able to create. This concept has been used within the Group's operations for several years, primarily as a tool to measure productivity, but also as a mechanism for reporting to employees. The following is a statement of how this wealth has been distributed:

	2010		2009	
	R'000	%	R'000	%
Revenue	1 056 203		909 121	
Cost of goods and services	796 947		707 598	
<b>Value added</b>	<b>259 256</b>		201 523	
Non-operating income	6 641		5 630	
<b>Total value added</b>	<b>265 897</b>	<b>100</b>	207 153	100
<b>DISTRIBUTED AS FOLLOWS:</b>				
<i>To remunerate employees</i>				
Salaries, wages and related benefits	132 488	50	110 488	53
<i>To providers of finance</i>				
Interest on borrowings	69 507	26	61 803	30
<i>To the government</i>				
Company and deferred taxation	3 991		(5 034)	
Employees' taxation	22 146		20 024	
<i>To replace assets</i>				
Depreciation	26 696	10	20 364	10
<i>To expand operations</i>				
Attributable income/ (loss)	11 069	4	(492)	(0)
<b>Total wealth created</b>	<b>265 897</b>	<b>100</b>	207 153	100

The payments to government shown above exclude value-added tax of R74 365 322 (2009: R43 855 797).



# Abridged sustainability report

... continued

## Operating results

Turnover increased by 16% compared to the prior year to R1 056,2 million, with operating profit increasing to R77,9 million and operating margins increasing to 7,4%.

## Dividend

The Group has made a substantial investment in production capacity over the last two years, which is expected to enhance earnings in the future, but in the interest of improving the gearing position the directors consider it prudent not to declare a dividend at this time.

## Working capital management

Working capital as a percentage of turnover increased by 12% as per the following table due mainly to higher inventories:

Working capital type	2010	2009
Inventories	138 554	124 423
Trade and other receivables	106 555	113 325
Trade, other payables and provisions	(157 268)	(168 036)
Total	87 841	67 712

## Financing

Net gearing decreased from 163% to 92%. The approach of the Group to the management of financial instrument risk is outlined on page 69. The debt maturity profile of long-term borrowings requires repayment of R77 million (2009: R91 million) in the coming financial year and the balance of R360 million (2009: R458 million) thereafter.

## Inflation

The effect of inflation is monitored and taken into account when considering the group objective of creating wealth in real terms. Inflation is considered when preparing and reviewing cash flows, long-term budgets and new projects. Due to the diverse nature of the factors affecting inflation amongst the group's divisions, including climatic conditions, geographical locations and business cycles, meaningful inflation-adjusted financial statements could not be prepared using a standardised procedure and therefore no inflation-adjusted statements are presented.



## Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including interest-bearing "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position. It is the Group's strategy to maintain the gearing ratio between 40% and 100%. The gearing ratios at 28 February 2010 and 28 February 2009 were as follows:

	2010 R'000	2009 R'000
Total borrowings (note 7)	437 382	548 966
Less: cash and cash equivalents (note 16)	(54 228)	(82 679)
Net debt	383 154	466 287
Total equity	417 896	286 493
Gearing ratio (%)	92%	163%



# Abridged sustainability report

... continued

## Empowerment and Training Initiatives

Sovereign Foods is proud of its BBBEE business partnerships and, as a responsible corporate citizen, fully supports the aims of the Broad-Based Black Economic Empowerment Act and advances its objectives wherever possible.

In particular the Group:

- Applies the provisions of the Act through its policies of employment equity in appointing and managing its human resources; and
- Benefits the communities in the Eastern Cape province where it conducts its business by supporting and funding the development of emerging farmers.

Sovereign Foods practises preferential procurement. The four-year expansion programme recently completed, will further increase the number of BBBEE broiler farms. The first BBBEE unit to be developed has been operational at Loerie since August 2007. The total investment in this project was R23 million, funded by a state grant, a grant by Sovereign Foods and a bank loan. The second BBBEE farming partnership was launched early in 2009 in partnership with the Simile Farmer's Trust. Simile will take occupation of a state-of-the-art broiler farm and will manage the operation in accordance with a service level agreement and with Sovereign as its exclusive customer.

Another major area of focus for Sovereign Foods is the development of local agricultural practices in the Eastern Cape. The Company is actively involved with empowering black farmers by assisting them with setting up agricultural infrastructure as well as empowering them with the necessary farming and enterprise skills. Additionally, Sovereign Foods secures the yield from these farming operations in order to ensure long-term sustainability of the projects.

Sovereign Foods, in conjunction with the Eastern Cape Department of Agriculture, continues to identify agricultural development opportunities in the area as a means to utilise and develop the significant agricultural potential of the province. In addition to its involvement in the community's social and economic upliftment, the Company also places a major focus on not only fair employment practices but also the development of its staff.

## Employment Review

Sovereign Foods takes great care of its employees, believing that they are our greatest asset. We are focused on ensuring that the company recruits, grows and retains highly talented people through excellent people management practices such as:

- Having a development programme that is linked to personal growth;
- Becoming a wonderful place to work where everyone of our staff can fully release their creativity, passion and feel part of a winning team;
- Having a performance-driven culture that focuses on contribution and results;
- Having a well-structured staffing plan in place to ensure that all staffing needs are identified and planned, which contributes to the overall strategic objectives of the Group; and



- Having high levels of communication and engagement that ensures the commitment and participation of all staff.

Sovereign regularly invests in its people by extending education grants to employees who are interested in furthering their education as well as through extensive Group-wide occupational training. The company also promotes healthy living through its onsite clinic and newly launched HIV/Aids Awareness Assistance Programme.

The Company has an extensive human resources policy in place to cover all areas of employment, including harassment protection, arbitration facilitation, employee health and safety, anti-corruption, and the like.

As at 28 February 2010 the Group had 602 (2009: 571) employees. Housing facilities are provided for some farm employees at no or at a nominal cost. Other benefits provided include contributions to provident and medical aid schemes and the provision of several sporting facilities. Three months' paid maternity leave is provided for all female employees.

## Employee demographics

	African		Coloured		Indian		White	
	F	M	F	M	F	M	F	M
Short term contracts	0	41	1	14	0	0	7	13
Semi and unskilled employees	20	108	18	21	2	1	45	61
Junior management	7	29	4	7	2	1	23	51
Middle management	5	14	3	1	0	0	12	41
Senior and top management	1	6	1	0	0	0	3	38
<b>Total</b>	<b>33</b>	<b>198</b>	<b>27</b>	<b>43</b>	<b>4</b>	<b>2</b>	<b>90</b>	<b>205</b>

## Employee training and development

The following inhouse training initiatives are run by Sovereign Foods:

- **Computer Training School:**
  - Dedicated facilitator for tuition in Microsoft Word, Excel, PowerPoint and Outlook training from basic to advanced level.
- **Farm School:**
  - Educating staff on environmental SOPs
- **Apprenticeship Programme**
  - AgriSETA and MerSETA registered
  - 27 apprentices
- **Agricultural Graduate Programme:**
  - Focused on poultry production
- **Grow our Own**
  - 65 graduates on the programme
  - Focused on skills development and transfer
  - This curriculum consists of 25 training modules and related assessments

# Abridged sustainability report

... continued

## Environment

As a socially responsible organisation, Sovereign Foods is committed to conducting its business activities in an environmentally responsible manner whilst making a concerted effort to reduce its carbon and environmental footprint.

As a Company Sovereign Foods is committed to:

- Ensuring our business operates with the aim of achieving long-term sustainability with minimal impact on our environment;
- The prevention of pollution and mitigation of negative impacts on the environment; and
- Communicating awareness of our commitment to interested parties including employees, customers, vendors, suppliers and the general community.

Our commitments are achieved by:

- Managing all aspects of our environmental policy as an integral part of the Company's business and planning processes;
- Implementing a continuous improvement compliance programme through the development and completion of environmental management plans which have measurable outcomes intended to protect the environment;
- Complying with all legislative, industry and any other relevant requirements and guidelines that are related to the Company's environmental obligations and commitments;
- Continuously assessing and mitigating potential environmental impacts when planning, designing and implementing any business operations;
- Supporting initiatives to combat climate change and prevent pollution by effectively managing the impact of effluent, waste, emissions, dust and the use of potentially harmful substances; and
- Promoting the efficient and sustainable use of all resources and technologies and minimising waste, by employing the principles of reduction, recovery, reuse and recycling, wherever practicable, whilst doing so in an environmentally compliant manner.

## Sustainability Declaration

AGRICULTURE	
Area of interest	Sustainability declaration
Bird housing	<ul style="list-style-type: none"><li>• All Sovereign Foods' livestock are kept in environmentally controlled, state-of-the-art chicken houses where temperature, humidity and air quality are controlled and monitored.</li><li>• All houses are equipped with alarm systems to monitor chicken house conditions to identify any deviations from the prescribed specifications for bird comfort.</li><li>• The birds are free to roam within the houses as they wish and have access to 24-hour feed and water.</li></ul>
Animal welfare	<ul style="list-style-type: none"><li>• Sovereign Foods complies with the SAPA Code of Practice which was approved in consultation with the SPCA and Animal Protection Act.</li><li>• Sovereign Foods requires that all its employees bind themselves to the Bird Welfare and Handling Code of Conduct developed by the company in compliance with SAPA regulations.</li><li>• Sovereign Foods conducts regular audits on bird welfare and has onsite veterinarians to ensure the health and welfare of its livestock.</li><li>• In addition, Sovereign Foods subscribes to the British Poultry Council's Assured Chicken Production Programme which ensures the highest standards for the nutrition and welfare of poultry. It covers the rearing, catching, transport and slaughter of poultry to ensure that the birds are handled in the most humane manner possible throughout the supply chain.</li></ul>
Debeaking practice	<ul style="list-style-type: none"><li>• Beak-trimming is not conducted by any division of Sovereign Foods.</li></ul>



# Abridged sustainability report

... continued

PROCESSING	
Packaging	Sustainability declaration
<b>Abattoir</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods ensures that all its birds are handled as humanely as possible prior to and during slaughter.</li> <li>• Automatic equipment and holding areas are darkened and electronically ventilated to reduce stress on the birds.</li> <li>• Slaughter is carried out in line with international practices, and in compliance with Halaal and meat safety requirements.</li> </ul>
<b>Ingredients, packaging and labelling</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods' Processing facility and products are compliant with HACCP and labelled according to the Regulations relating to the Labelling and Advertising of Foodstuffs, specifically regarding QUID (Quantitative Ingredient Declaration).</li> <li>• Carton labels reflect production batch number, case number, production date and sell-by date.</li> <li>• All Sovereign Foods' ingredients and product content are packed according to food legislation (Foodstuffs, Cosmetics and Disinfectants Act, 1972 (Act 54 of 1972)).</li> </ul>
<b>Halaal status</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods has onsite Muslim slaughterers.</li> <li>• Sovereign Foods complies with the Muslim Judicial Council (MJC) requirements for a certified Halaal facility.</li> </ul>
<b>Quality</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods complies with its Quality and Food Safety policy – available on request and displayed at strategic places.</li> </ul>

GROUP SERVICES	
Area of interest	Sustainability declaration
<b>Waste</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods removes all hazardous waste generated on-site and disposes it at suitably licensed hazardous waste disposal facilities.</li> <li>• Appropriate refuse bins are available on all Sovereign Foods sites for disposal of waste generated by workers.</li> </ul>
<b>Protection of natural vegetation</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods respects the natural landscape in which it operates its operation. Vegetation disturbance is kept to a minimum.</li> </ul>
<b>Fire control</b>	<ul style="list-style-type: none"> <li>• Suitable fire-fighting equipment is available on-site at all times. Two fully equipped veld fire trucks and trailers are placed at strategic locations to combat fires on our properties as well as assisting neighbouring farmers.</li> </ul>
<b>Energy</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods complies with the Nelson Mandela Bay municipality by-laws, OHS Act and SANS Codes at all our premises, including labour housing.</li> </ul>
<b>Use of diesel, coal and gas</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods abides by the Air Pollution Prevention Act and Environmental Management Act, outlining preferable use of diesel, coal and gas with the preservation of the environment in mind.</li> </ul>
<b>Carbon emissions</b>	<ul style="list-style-type: none"> <li>• Sovereign Foods is in the process of partnering with KPMG – Sustainable Services, to investigate its carbon footprint (currently voluntary) and reduction strategy.</li> </ul>

# Abridged sustainability report

... continued

## Corporate Social Responsibility

Sovereign Foods is passionately committed to the upliftment of South African society by ensuring opportunities for all people from every cultural group and community. Out of a desire to plough back into the community, Sovereign Foods launched its Hope Alive initiative at the end of 2009. The programme ensures that Sovereign Foods' staff are actively involved in visiting and assisting each of the charities the Company supports. The Hope Alive initiative has provided staff with the opportunity to help the community by building self-sustaining vegetable gardens, handing out soup packs at day-care centres and soup kitchens as well as much needed repairs and maintenance where necessary.

Sovereign Foods currently supports the following organisations:

- Isithembiso Babies Home, a transition care facility for abandoned and abused babies:
  - Sovereign Foods is currently the babies home's biggest financial supporter with a monthly cash donation of R15 000. The haven homes a number of babies all younger than the age of four. The home has helped place close to 40 babies in either permanent or foster homes over the last three years.
- Ilitha Day Care Centre, a township-based care centre for young children of working parents:
  - Sovereign currently donates a sum of R5 000 on a monthly cash basis to Ilitha Day Care Centre to cover the costs of their house mother's salary. The home has over 78 young toddlers who attend the crèche on a daily basis, requiring a staple meal, sometimes the only one they are able to have that day. The children are taught basic learning and discipline techniques such as hygiene and social values.
- The Gogo Trust, a trust that provides aid to Aids-affected members of the community. The trust provides shelter, care and schooling for Aids-orphaned children in its preschool as well as additional support to widows affected by the virus:
  - Sovereign Foods currently supports the Gogo Trust with a R10 000 cash donation on a monthly basis as well as supporting their permanent care-giver with a monthly salary of R5 300. The preschool is operated on Christian principles and provides love and support for the children of this impoverished community.



- Jesus is Lord Ministries, a ministry based in the northern areas of Port Elizabeth and focused on providing both food and life skills training to the region:
  - Sovereign provides almost R25 000 a month to this charity in the form of a monthly cash donation of R10 000 and a donation of soup pack products to the value of R15 000. Sovereign Foods also recently donated a second-hand container to the shelter to store food that is donated.
- Miracle Meals, a food-feeding scheme which ensures assistance to those less fortunate via weekly product donations:
  - Miracle Meals is a food-feeding scheme which ensures assistance to those less fortunate via weekly product donations. Sovereign Foods makes a monthly donation of 200 cases of Country Range soup pack to this organisation to be handed out to as many soup kitchens and crèches in the local community as possible.
- The Healthy Mom and Baby Clinic, a baby's clinic in Jeffrey's Bay which assists with the need of the local community for basic hygiene and health care for new mothers and babies:
  - The Healthy Mom and Baby Clinic was established out of a need for specialised midwife services for pre- and post-natal mothers within the Kouga area. Sovereign Foods has offered financial support to the clinic by paying the monthly salary of R3 500 for the Assistant nurse to the organisation.

Sponsorship donations – Sovereign also donates chicken products on a regular basis to various other worthy causes.

Sovereign Foods recognises the great need for social upliftment and continues to look for and identify suitable development opportunities in the region in an attempt to help improve the lives of the local citizens.



# Annual financial statements

2010



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# Approval of the annual financial statements

The annual financial statements for the year ended 28 February 2010 set out on pages 44 to 75 have been approved by the board of directors and are signed on its behalf by:



**CP Davies**  
Non-executive Chairman

Port Elizabeth  
29 April 2010



**MJB Davis**  
Chief Executive Officer

# Declaration by company secretary

The secretary certifies that the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act of 1973, as amended, and that all such returns are true, correct and up to date.



**C Coombes**  
Secretary

Port Elizabeth  
29 April 2010

# Independent auditors' report

## TO THE MEMBERS OF SOVEREIGN FOOD INVESTMENTS LIMITED

We have audited the Company and Group financial statements of Sovereign Food Investments Limited, which comprise the directors' report, the statement of financial position as at 28 February 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 44 to 75.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sovereign Food Investments Limited as at 28 February 2010 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act in South Africa.



**PKF (PE) Inc**  
Chartered Accountants (SA)  
Registered Auditors

Reg No 2002/004678/21

**Per MC Daverin RA CA(SA)**

Port Elizabeth  
29 April 2010



# Directors' report

for the year ended 28 February 2010

## STATEMENT OF DIRECTORS' RESPONSIBILITY AND APPROVAL

The directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregations of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviours are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, not absolute, assurance against material misstatement or loss.

The directors have reviewed the Company's cash flow forecast for the year to 28 February 2011 and in the light of this review and the current financial position, they are satisfied that the Company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Company's annual financial statements. The annual financial statements have been examined by the Company's external auditors and their report is presented on page 43.

The annual financial statements set out on pages 44 to 75, have been prepared on the going-concern basis.

## NATURE OF BUSINESS

Sovereign Food Investments Limited is the holding company of five principal operations within the broiler industry which cover breeding activities, broiler farming, food processing, animal feed milling and value-added poultry processing and trading. Further details are given in the Group structure on page 6 and in the Chairman's and Chief Executive Officer's reports on pages 8 to 19, as well as below.

## DIVIDEND DECLARED

The board has not proposed a dividend for the year ended 28 February 2010 (2009: nil).

## HOLDING COMPANY

Sovereign Food Investments Limited does not have a holding company. Refer to page 76 for a breakdown of the Company's shareholders.

## PERIOD UNDER REVIEW

The Group performed well during the period under review with a net profit/(loss) after taxation of R11 069 119 (2009: (R492 081)) on revenue of R1 056,2 million (2009: R909,1 million).

Further details on the performance of the Group can be found in the Chairman's and Chief Executive Officer's reports on pages 8 to 19 respectively.

## SUBSIDIARIES' INCOME

The attributable interest of the Company in the aggregate net profit after taxation of its subsidiaries was R10 909 579 (2009: R5 338 919). The Group's interest in subsidiaries as set out on page 58 forms part of this report.

## DIRECTORS AND SECRETARY

The names of the directors and secretary of the Company at the date of this report are listed on pages 20 and 21. In terms of the Articles of Association, Mr CP Davies, Mr LM Nyhonyha and Prof PM Madi retire by rotation. Mr CP Davies, Mr LM Nyhonyha and Prof PM Madi, being eligible, offer themselves for re-election.

## CHANGES TO SHARE CAPITAL

During the year under review a rights offer was undertaken. Further information on this can be found in the Chairmans report and in note 5.

## DIRECTORS' SHAREHOLDING

At the year-end, the directors in aggregate held direct and indirect beneficial interests of 231 754 (2009: 169 952) ordinary shares in the Company.

## DIRECTORS' INTEREST AT 28 FEBRUARY 2010

Director	Direct	Indirect
C Coombes	–	22 725
MJB Davis	151 502	–
CP Davies	7 575	–
PM Madi	49 952	–
<b>Total shares</b>	<b>209 029</b>	<b>22 725</b>

## DIRECTORS' INTEREST AT 28 FEBRUARY 2009

Director	Direct	Indirect
C Coombes	–	15 000
MJB Davis	100 000	–
CP Davies	5 000	–
PM Madi	49 952	–
<b>Total shares</b>	<b>154 952</b>	<b>15 000</b>

There have been no further changes in the direct and indirect interests of the directors in the share capital of the Company between the end of the financial year and 29 April 2010.

# Accounting policies

for the year ended 28 February 2010

The financial statements incorporate the following principle accounting policies which are consistent with those of the previous financial year, except for the first time application of IFRS 8 and IAS 1.

The consolidated financial statements of the Group and Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical-cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed.

## STATEMENT OF COMPLIANCE

The financial statements and Group financial statements are prepared in accordance with the International Financial Reporting Standards, the JSE Listings Requirements and the requirements of the South African Companies Act.

## BASIS FOR CONSOLIDATION

Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control, so as to obtain benefits from their activities.

The Group financial statements incorporate the assets, liabilities and results of the operations of the Company and its subsidiaries. The results of subsidiaries acquired and disposed of during a financial year are included from the effective dates of acquisition and to the effective dates of disposal. Where necessary, the accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

## TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intergroup balances and transactions, and any unrealised gains or losses arising from intergroup transactions, are eliminated in preparing the consolidated financial statements.

## INVESTMENTS IN SUBSIDIARIES

All subsidiaries are 100% owned. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Investments in subsidiaries are recorded at cost in the Company.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recognised at cost. Transaction costs are included in the initial measurement. Subsequent costs are recognised to the extent that it is probable that the future economic benefits that are associated with the asset will flow to the entity, and the cost can be measured reliably. If a replacement part is recognised in the carrying amount of the property, plant and equipment, the carrying amount of the replaced part is derecognised.

Depreciation is provided on the straight-line basis, over the estimated useful lives of the assets. Land is presumed to have an indefinite useful life. Assets are depreciated to their estimated residual values, which are reviewed each year.

The estimated useful lives of buildings is 50 years, 20 years for plant, 10 years for vehicles, office equipment, furniture and fittings, and 5 years for computer equipment.

Surpluses (deficits) on the disposal of property, plant and equipment are credited (charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

Land and buildings are revalued at each statement of financial position date when the difference between the fair value and carrying value becomes significant. Increases in the carrying amount arising on the revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity, all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from "other reserves" to "retained earnings". When revalued assets are sold, the amounts included in "other reserves" are transferred to "retained earnings".

## IMPAIRMENT

The carrying amounts of the Group's assets are reviewed at a minimum at each statement of financial position date, and at any other time where appropriate, to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its estimated fair value less costs to sell and its value in use.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised directly in the statement of comprehensive income.

## LEASED ASSETS

### Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the Group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease. The capital element of the future obligations under the leases is included as a liability in the statement of financial position. Lease payments are allocated using the effective interest method to determine the finance lease cost, which is charged against income, and the capital repayment, which reduces the liability to the lessor. These assets are depreciated on the same basis as categories of fixed assets owned by the Group.

### Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Operating lease payments are charged against the statement of comprehensive income using the straight-line method.

## BIOLOGICAL ASSETS

### Breeding stock, live broiler chickens, hatching eggs and other livestock

Biological assets are measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation method used is to depreciate the layers over their expected useful lives from when they begin producing eggs at week 21 to week 64 when they are disposed of. Broilers are not depreciated.

Biological assets consist of broilers, parent stock layers, hatching eggs and cattle. All broilers and parent stock are mature biological assets.

The nature of the Group's activities regarding the layer stock is to produce day-old chickens. The nature of the Group's activities regarding the broilers is to produce processed poultry.

## INVENTORIES

### Finished product

Finished product is processed poultry which is valued at the lower of cost, determined on a first-in first-out basis, and net realisable value. Costs include all direct production costs and an appropriate portion of overheads.

### Raw materials and consumables

Raw materials and consumables, including feedmill inventories, are valued at the lower of cost, determined on a first-in first-out basis, and net realisable value.

## CURRENT TAXATION

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment of tax payable for previous years.

## DEFERRED TAXATION

Deferred taxation is provided on the comprehensive basis computed as the difference between the tax base and carrying amounts of assets and liabilities. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

## CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in money market instruments, net of bank overdraft, all of which are available for use by the Group unless otherwise stated.

## FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the statement of financial position date. Any foreign exchange difference is dealt with in the statement of comprehensive income in the year in which the difference occurs.

## GOVERNMENT GRANTS

Government grant income is recognised in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the statement of comprehensive income on a



# Accounting policies . . . continued

for the year ended 28 February 2010

systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the statement of comprehensive income as other operating income on a systematic basis over the useful life of the asset.

## REVENUE

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

## BORROWING COSTS

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

## RETIREMENT BENEFITS

The policy of the Group is to provide retirement benefits for all its monthly paid permanent employees. Current contributions to the provident funds operated for employees are charged against income as incurred. The Group only contributes to defined contribution funds. The Group has no further obligations once the contributions have been paid.

## EMPLOYEE ENTITLEMENTS

The provisions for employee entitlements to wages, salaries, annual leave, sick leave and bonus pay represent the amounts which the Group has a present obligation to pay resulting from employees' services provided up to the statement of financial position date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

## FINANCIAL INSTRUMENTS

Financial instruments are initially measured at cost, which includes directly attributable transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

### Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within "Operating expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "Operating expenses" in the statement of comprehensive income.

### Trade payables

Liabilities are initially recognised at fair value. Subsequently, they are measured at amortised cost using the effective interest method. The present value of these liabilities closely resembles the carrying amount and as such these liabilities are carried at their carrying amount. They are recognised for amounts in respect of which the Group has an obligation to make payment for goods or services received, whether or not billed to the Group.

### Cash and cash equivalents

Cash and cash equivalents are carried on the statement of financial position at their fair value, subject to set-off arrangements. Interest expense and interest income are accrued at the contracted rates.

### Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group uses derivative financial instruments and forward exchange contracts to manage its exposure to foreign exchange and commodity price risk arising from its operational and financing activities.

Derivative instruments are measured at fair value.

### Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

Gains and losses from measuring the hedging instruments relating to a fair value hedge at fair value are recognised immediately in net profit or loss.

Gains and losses from remeasuring the hedging instruments relating to a cash flow hedge to fair value are initially recognised directly in equity. If the hedged firm commitment or forecast transaction results in the recognition of an asset or a liability, the cumulative amount recognised in equity up to the transaction date is adjusted against the initial measurement of the asset or liability. For other cash flow hedges, the cumulative amount recognised in equity is included in net profit or loss in the period when the commitment or forecast transaction affects profit or loss.

Where the hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative unrealised gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in the statement of comprehensive income immediately.

### Futures commodity price contracts

The Group uses futures commodity price contracts to manage commodity risks. Gains and losses of existing assets or liabilities are treated in the same manner as gains and losses on the related item. All gains and losses on futures commodity price contracts are taken to the statement of comprehensive income in the periods in which they occur.

### Interest-bearing borrowings

Interest-bearing borrowings are measured at amortised cost using the effective interest method, comprising original debt less principal payments and amortisations.

## SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group is a producer of poultry products. The internal reporting provided to the chief operating decision-maker is the same as that presented in the statement of comprehensive income and statement of financial position.

## SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to employees.

Equity-settled share-based payments are measured at the fair value of the goods or services rendered, or, if not determinable, at the fair value of the equity instruments granted, excluding the effects of market-related vesting conditions.

The fair value determined at grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's best estimate of the number of shares that are expected to vest, including the effects of non-market-related vesting conditions.

Fair value is determined using the Black-Scholes pricing model. The expected life used in this model has been adjusted for the effects of non-transferability, exercise restrictions and behavioural considerations.

## PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Increases and decreases in provisions are credited/(charged) to the statement of comprehensive income.

# Accounting policies . . . continued

for the year ended 28 February 2010

## BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in accordance with IFRS required the use of certain critical accounting estimates. It requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are mainly the following:

### Impairment of trade receivables

A provision for impairment is established when there is evidence of significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments.

### Estimation of useful lives of property, plant and equipment

The assets' residual values and useful lives are reviewed annually and adjusted if appropriate, taking into account technological developments and maintenance programmes. Uniform depreciation and amortisation rates are established based on the straight-line method which may not represent actual usage of the assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

As buildings are constructed for specialised purposes, it is considered that they have no residual value.

### Fair value assessment of biological assets

The determination of fair value is based on active market values, where appropriate, or management's assessment of the fair value based on available data and benchmark statistics.

Biological assets are measured at cost less accumulated depreciation and any accumulated impairment losses as there is no active market for breeding stock, live broiler chickens, hatching eggs and other livestock.

If fair value could be determined, we do not believe it would be significantly different from cost less accumulated depreciation.

### Inventory net realisable value

Inventory net realisable value is based on estimates of future market conditions and the ability to recover the cost of inventory.

### Deferred taxation assets

The recoverability of deferred taxation assets is based on the future profitability of the relevant entity and the ability to generate future taxable income.

### Share-based payments

The fair value of share options granted are based on market conditions, discount rates, share price volatility and estimated future forfeitures. These values may change from time to time and the eventual outcome may differ from the valuations.

All estimates and underlying assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances. The results of these estimates form the basis of judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any affected future periods.

## STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE FINANCIAL YEAR 2010

At the date of authorisation of these financial statements, the followings standards and interpretations had become effective during the course of the financial year:

IAS 1	Revised Presentation of Financial Statements	Annual periods beginning on/after 1 January 2009
IAS 1	Amended Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	Annual periods beginning on/after 1 January 2009
IAS 32	Amended Financial Instruments: Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation	Annual periods beginning on/after 1 January 2009

IFRS 2	Amended Share-based Payment – Vesting Conditions and Cancellations	Annual periods beginning on/after 1 January 2009
IFRS 8	Operating Segments	Annual periods beginning on/after 1 January 2009
Amendments to IFRIC 9	Reassessment of Embedded Derivatives and IAS 39 – Financial Instruments: Recognition and Measurement – Embedded Derivatives	Annual periods ending on/after 30 June 2009
Amendments to IFRS 7	Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments	Annual periods beginning on/after 1 January 2009

### The May 2008 Improvements to IFRS

IFRS 8 Operating Segments requires the amount reported for each operating segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. The adoption of IFRS 8 resulted in a change to the accounting policy but did not have any impact on the financial position or performance of the company.

The following presentational changes were introduced upon adoption of the Revised IAS 1:

- The Income Statement has been replaced with a Statement of Comprehensive Income, presenting all items of recognised income and expense in one statement.
- The Balance Sheet has been renamed a Statement of Financial Position.
- The Cash Flow Statement has been renamed a Statement of Cash Flows.

## STANDARDS AND INTERPRETATIONS IN ISSUE, NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the following standards and interpretations had been adopted, although they were not yet effective:

IAS 24	Revised Related-party Disclosure	Annual periods beginning on/after 1 January 2011
IAS 27	Amended Consolidated and Separate Financial Statements	Annual periods beginning on/after 1 July 2009
IAS 39	Amended Financial Instruments: Recognition and Measurement – Eligible Hedged Items	Annual periods beginning on/after 1 July 2009
IFRS 3	Revised Business Combinations	Annual periods beginning on/after 1 July 2009
IFRS 5	Amended Non-current Assets Held for Sale and Discontinued Operations	Annual periods beginning on/after 1 July 2009
IFRS 9	Financial Instruments	Annual periods beginning on/after 1 January 2013
IFRIC 17	Distribution of Non-cash Assets to Owners	Annual periods beginning on/after 1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Annual periods beginning on/after 1 July 2010
Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions		Annual periods beginning on/after 1 January 2010
Amendments to IAS 32 – Classification of Rights Issues		Annual periods beginning on/after 1 February 2010
Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement		Annual periods beginning on/after 1 January 2011
AC 504: IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in a South African Pension Fund Environment	Annual periods beginning on/after 1 April 2009

### The April 2009 Improvements to IFRS

Management is of the opinion that all of the above standards and interpretations will have a minimal or nil effect on the format and disclosure of notes disclosed.



# Statement of financial position

as at 28 February 2010

		Group		Company	
	Note	2010 R'000	2009 R'000	2010 R'000	2009 R'000
ASSETS					
Non-current assets					
Property, plant and equipment	1	814 262	780 130	–	–
Loans to subsidiaries	2	–	–	99 211	9 114
Investment in subsidiaries	2	–	–	29 746	29 746
		814 262	780 130	128 957	38 860
Current assets					
		299 337	320 427	265	7
Inventories	3	43 967	39 081	–	–
Biological assets	3	94 587	85 342	–	–
Trade and other receivables	4	106 555	113 325	–	–
Cash and cash equivalents	15	54 228	82 679	265	7
Total assets		1 113 599	1 100 557	129 222	38 867
EQUITY AND LIABILITIES					
Share capital	5	478	330	478	330
Share premium	6	133 897	14 305	133 897	14 305
Non-distributable reserve		28 848	28 848	–	–
Share options	5, 28	895	301	895	301
Retained earnings/(loss)		253 778	242 709	(10 955)	(11 114)
Equity		417 896	286 493	124 315	3 822
Non-current liabilities					
Interest-bearing borrowings	7	360 673	457 981	–	–
Loans from subsidiaries	2	–	–	638	30 641
Deferred taxation	8	101 053	97 062	–	–
Current liabilities		233 977	259 021	4 269	4 404
Trade and other payables	9	152 087	160 752	3 882	4 039
Provisions	26	5 181	7 284	387	365
Current portion of interest-bearing borrowings	7	76 709	90 985	–	–
Total equity and liabilities		1 113 599	1 100 557	129 222	38 867

# Statement of comprehensive income

for the year ended 28 February 2010

	Note	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>Revenue</b>		<b>1 056 203</b>	<b>909 121</b>	<b>19 769</b>	<b>12 274</b>
Cost of sales		601 297	596 586	–	–
<b>Gross profit</b>		<b>454 906</b>	<b>312 535</b>	<b>19 769</b>	<b>12 274</b>
Operating expenses		376 980	261 888	20 396	18 100
<b>Profit/(loss) before finance costs</b>	10	<b>77 926</b>	<b>50 647</b>	<b>(627)</b>	<b>(5 826)</b>
Finance costs	11	69 507	61 803	5	7
Interest received	11	(6 641)	(5 630)	(791)	(2)
<b>Profit/(loss) before taxation</b>		<b>15 060</b>	<b>(5 526)</b>	<b>159</b>	<b>(5 831)</b>
Taxation	12	3 991	(5 034)	–	–
<b>Total comprehensive income/(loss) for the year</b>		<b>11 069</b>	<b>(492)</b>	<b>159</b>	<b>(5 831)</b>
Earnings/(loss) per ordinary share (cents)	17	30,7	(1,5)	–	–
Diluted earnings/(loss) per ordinary share (cents)	17	30,3	(1,5)	–	–

# Statement of cash flows

for the year ended 28 February 2010

Note	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Cash generated from/(used in) operations before working capital changes	105 940	71 055	(33)	(5 782)
Changes in working capital	(18 129)	(45 011)	(120 235)	5 977
<b>Cash generated from/(used in) operating activities</b>	<b>14</b>	<b>87 811</b>	<b>26 044</b>	<b>(120 268)</b>
Net interest (paid)/received	(62 866)	(56 173)	786	(5)
Taxation received	–	3 476	–	–
<b>Net cash flow from operating activities</b>	<b>24 945</b>	<b>(26 653)</b>	<b>(119 482)</b>	<b>190</b>
Net cash flow from investing in property, plant and equipment	(61 552)	(248 048)	–	–
<b>Net cash flow from investing activities</b>	<b>(61 552)</b>	<b>(248 048)</b>	<b>–</b>	<b>–</b>
Net cash flows from share issues	119 740	–	119 740	–
Net cash flow from debt (repaid)/raised	(111 584)	232 226	–	(250)
<b>Net cash flow from financing activities</b>	<b>8 156</b>	<b>232 226</b>	<b>119 740</b>	<b>(250)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(28 451)</b>	<b>(42 475)</b>	<b>258</b>	<b>(60)</b>
Cash and cash equivalents at beginning of year	15	82 679	125 154	67
<b>Cash and cash equivalents at end of year</b>	<b>15</b>	<b>54 228</b>	<b>82 679</b>	<b>265</b>

# Statement of changes in equity

for the year ended 28 February 2010

## GROUP

2010 R'000	Share capital	Share premium	Share options	Retained earnings	Revaluation reserve	Total
Balance at beginning of year	330	14 305	301	242 709	28 848	286 493
<b>Total comprehensive income for the year</b>	–	–	–	11 069	–	11 069
Ordinary shares issued	148	119 592	–	–	–	119 740
Net value of employee services	–	–	594	–	–	594
<b>Balance at end of year</b>	<b>478</b>	<b>133 897</b>	<b>895</b>	<b>253 778</b>	<b>28 848</b>	<b>417 896</b>

2009 R'000	Share capital	Share premium	Share options	Retained earnings	Revaluation reserve	Total
Balance at beginning of year	330	14 305	257	243 201	28 848	286 941
<b>Total comprehensive loss for the year</b>	–	–	–	(492)	–	(492)
Net value of employee services	–	–	44	–	–	44
<b>Balance at end of year</b>	<b>330</b>	<b>14 305</b>	<b>301</b>	<b>242 709</b>	<b>28 848</b>	<b>286 493</b>

## COMPANY

2010 R'000	Share capital	Share premium	Share options	Retained loss	Total
Balance at beginning of year	330	14 305	301	(11 114)	3 822
<b>Total comprehensive income for the year</b>	–	–	–	159	159
Ordinary shares issued	148	119 592	–	–	119 740
Net value of employee services	–	–	594	–	594
<b>Balance at end of year</b>	<b>478</b>	<b>133 897</b>	<b>895</b>	<b>(10 955)</b>	<b>124 315</b>

2009 R'000	Share capital	Share premium	Share options	Retained loss	Total
Balance at beginning of year	330	14 305	257	(5 283)	9 609
<b>Total comprehensive loss for the year</b>	–	–	–	(5 831)	(5 831)
Net value of employee services	–	–	44	–	44
<b>Balance at end of year</b>	<b>330</b>	<b>14 305</b>	<b>301</b>	<b>(11 114)</b>	<b>3 822</b>



# Notes to the annual financial statements

for the year ended 28 February 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>1. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Cost/valuation</b>				
Land	56 715	58 415	–	–
Buildings	385 673	323 758	–	–
Assets in the course of construction	36 170	130 138	–	–
Plant	416 892	315 036	–	–
Vehicles	14 004	16 109	–	–
Office equipment, furniture and fittings	1 771	2 124	–	–
Computer equipment	6 705	9 924	–	–
	<b>917 930</b>	<b>855 504</b>	<b>–</b>	<b>–</b>
<b>Accumulated depreciation</b>				
Land	–	–	–	–
Buildings	29 015	21 565	–	–
Assets in the course of construction	–	–	–	–
Plant	65 648	39 226	–	–
Vehicles	5 331	7 207	–	–
Office equipment, furniture and fittings	823	1 209	–	–
Computer equipment	2 851	6 167	–	–
	<b>103 668</b>	<b>75 374</b>	<b>–</b>	<b>–</b>
<b>Net carrying value</b>				
Land	56 715	58 415	–	–
Buildings	356 658	302 193	–	–
Assets in the course of construction	36 170	130 138	–	–
Plant	351 244	275 810	–	–
Vehicles	8 673	8 902	–	–
Office equipment, furniture and fittings	948	915	–	–
Computer equipment	3 854	3 757	–	–
	<b>814 262</b>	<b>780 130</b>	<b>–</b>	<b>–</b>

	Land R'000	Buildings R'000	Assets in the course of construc- tion R'000	Plant R'000	Vehicles R'000	Office equipment, furniture and fittings R'000	Computer equipment R'000	Total R'000
<b>1. PROPERTY, PLANT AND EQUIPMENT continued</b>								
<b>2010</b>								
Net carrying value at beginning of year	58 415	302 193	130 138	275 810	8 902	915	3 757	780 130
Additions	3 062	16 949	–	41 135	221	191	1 559	63 117
Reallocations	(3 062)	44 966	(93 621)	58 581	(1 526)	(544)	(4 794)	–
Disposals	(1 700)	–	(347)	–	(242)	–	–	(2 289)
Depreciation	–	(7 450)	–	(24 282)	1 318	386	3 332	(26 696)
Net carrying value at end of year	<b>56 715</b>	<b>356 658</b>	<b>36 170</b>	<b>351 244</b>	<b>8 673</b>	<b>948</b>	<b>3 854</b>	<b>814 262</b>
<b>2009</b>								
Net carrying value at beginning of year	39 359	223 757	151 357	129 111	4 967	893	3 002	552 446
Additions	19 056	83 713	–	159 642	4 871	189	1 796	269 267
Transfers out	–	–	(21 219)	–	–	–	–	(21 219)
Depreciation	–	(5 277)	–	(12 943)	(936)	(167)	(1 041)	(20 364)
Net carrying value at end of year	<b>58 415</b>	<b>302 193</b>	<b>130 138</b>	<b>275 810</b>	<b>8 902</b>	<b>915</b>	<b>3 757</b>	<b>780 130</b>

Details of land and buildings are contained in a register, setting out the information required by P22(3) of the 4<sup>th</sup> Schedule of the Companies Act, which is available for inspection by members or their duly authorised agents at the registered office of the Company. A copy of the register will be posted on request to members of the public. Certain items of property, plant and equipment are encumbered as stated in note 7.

The Group's land and buildings were last revalued by independent valuers on 29 February 2008. Valuations were made on the basis of recent market transactions on arm's length terms. The revaluation surplus net of applicable deferred income taxes was credited to "revaluation reserve in shareholder's equity". This reserve is non-distributable.

During the year ended 28 February 2010, the Group was of the opinion that the land and buildings were fairly valued and no independent valuation was performed.

The Group assessed the useful lives and residual values of all assets on hand at year-end and is of the opinion that these are correctly estimated, thus no adjustments to the useful lives and residual values of the assets have been made in the current year.

If land and buildings were stated on the historical-cost basis, the amounts would be as follows:

	2010 R'000	2009 R'000
Cost	<b>398 516</b>	338 301
Accumulated depreciation	<b>(28 675)</b>	(21 905)
<b>Net carrying amount</b>	<b>369 841</b>	316 396

# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

## 1. PROPERTY, PLANT AND EQUIPMENT continued

The valuation was performed by A van Rensburg, Hons BCom BSc Agric, using standard valuation techniques.

Borrowing costs of R1 084 228 (2009: R11 541 432) arising on financing specifically entered into for the construction of new farms and equipment were capitalised during the year and are included in "Additions" in property, plant and equipment.

A capitalisation rate of 9,75% (2009: 14,4%) was used, representing the borrowing cost of the loans used to finance the project.

	Issued share capital		Group's effective holding		Book value of holding company's interest Investment at cost		Loans to/(from) subsidiaries	
	2010 R'000	2009 R'000	2010 %	2009 %	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>2. INTEREST IN SUBSIDIARIES</b>								
<b>Subsidiary companies</b>								
<b>Directly owned</b>								
Sovereign Food Industries (Pty) Limited	36	36	100	100	29 746	29 746	5 451	5 451
<b>Indirectly owned</b>								
Crown Chickens (Pty) Limited	5 005	5 005	100	100	—	—	89 252	(30 003)
United Chix (Pty) Limited	1 000	1 000	100	100	—	—	4 366	3 520
Country Range Farm Products (Pty) Limited	1 000	1 000	100	100	—	—	(638)	(638)
Rocklands Fine Foods (Pty) Limited	100	100	100	100	—	—	—	—
Rocklands Processed Foods (Pty) Limited	100	100	100	100	—	—	—	—
Rocklands Organics (Pty) Limited	100	100	100	100	—	—	—	—
Chelsea Poultry Farm (Pty) Limited	100	100	100	100	—	—	—	—
Rocklands By-Products (Pty) Limited	100	100	100	100	—	—	—	—
Jeffreys Bay Poultry Farm (Pty) Limited	100	100	100	100	—	—	—	—
Gedults Farm (Pty) Limited	100	100	100	100	—	—	—	—
Pashia Farm (Pty) Limited	100	100	100	100	—	—	—	—
Chicken Barn Holdings (Pty) Limited	100	100	100	100	—	—	54	54
Chicken Barn Korsten (Pty) Limited	100	100	100	100	—	—	5	5
Chicken Barn Kwadwesi (Pty) Limited	100	100	100	100	—	—	—	—
Chicken Barn Uitenhage (Pty) Limited	100	100	100	100	—	—	40	40
Chicken Barn Walmer (Pty) Limited	100	100	100	100	—	—	43	44
					29 746	29 746	98 573	(21 527)

These loans are unsecured, have no fixed terms of repayment and bear nil (2009: nil) interest.

All subsidiaries of the Group were incorporated in South Africa.

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>3. INVENTORIES AND BIOLOGICAL ASSETS</b>				
<b>Inventories</b>				
Raw materials and consumables	37 535	31 880	—	—
Finished products	6 432	7 201	—	—
	43 967	39 081	—	—
<b>Biological assets</b>				
Balance at beginning of year	85 342	63 198	—	—
Purchases	92 939	81 430	—	—
Increase due to biological growth	432 481	384 636	—	—
Decrease due to slaughter	(516 175)	(443 922)	—	—
Balance at end of year	94 587	85 342	—	—

As at 28 February 2010, the Group had approximately 4 882 353 (2009: 4 542 378) broilers on hand and approximately 463 501 (2009: 462 409) female laying stock on hand.

Certain items of inventory have been encumbered as stated in note 7.

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>4. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	103 490	112 976	—	—
Less: provision for impairment of trade receivables	(2 337)	(2 475)	—	—
Trade receivables – net	101 153	110 501	—	—
Prepayments	3 106	1 919	—	—
Sundry receivables	2 296	905	—	—
	106 555	113 325	—	—
The fair values of trade and other receivables are as follows:				
Trade receivables	101 153	110 501	—	—
Prepayments	3 106	1 919	—	—
Sundry receivables	2 296	905	—	—
	106 555	113 325	—	—
Movement on the provision for impairment of trade receivables is as follows:				
Balance at beginning of year	2 475	1 281	—	—
Provision for receivables impairment	1 461	1 980	—	—
Receivables written off during the year as uncollectable	(1 599)	(786)	—	—
<b>Balance at end of year</b>	<b>2 337</b>	<b>2 475</b>	<b>—</b>	<b>—</b>
The creation and release of provision for impaired receivables has been included in operating expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.				
The other classes within trade and other receivables do not contain impaired assets.				
The maximum exposure to credit risk at the reporting date is the gross value of each class of receivable mentioned above.				



# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>4. TRADE AND OTHER RECEIVABLES continued</b>				
The Group carries credit insurance against possible default. As at the reporting date R39 676 402 (2009: Rnil) of trade receivables was covered under credit insurance.				
<b>Ageing profile of trade receivables:</b>				
Up to 3 months	95 908	105 265	–	–
3 to 5 months	3 419	2 263	–	–
Greater than 5 months	4 163	5 448	–	–
<b>Total</b>	<b>103 490</b>	<b>112 976</b>	<b>–</b>	<b>–</b>
Trade receivables that are less than three months past due are not considered impaired. As at 28 February 2010, R5 245 530 (2009: R5 235 904) were past due but not impaired. These relate to customers for whom no default is expected.				
As at 28 February 2010, trade receivables to the value of R94 105 493 (2009: R102 781 307) of a subsidiary were ceded as security to a financial institution for a loan (see note 7). Further to this, the same trade receivables are subject to a revisionary cession to another financial institution (see note 7).				
<b>5. SHARE CAPITAL</b>				
<b>Authorised</b>				
50 000 000 ordinary shares of 1 cent each	500	500	500	500
<b>Issued</b>				
47 816 787 ordinary shares of 1 cent each (2009: 33 002 930 shares)	478	330	478	330
<b>Number of shares ('000)</b>				
Balance at beginning of year	33 003	33 003	33 003	33 003
Issued during the year	14 814	–	14 814	–
<b>Balance at end of year</b>	<b>47 817</b>	<b>33 003</b>	<b>47 817</b>	<b>33 003</b>
	<b>Number of shares</b>	<b>Number of shares</b>	<b>Number of shares</b>	<b>Number of shares</b>
<b>Number of shares ('000)</b>				
Under option in terms of the Company's share incentive scheme at 125 cents per share exercisable until 19 September 2010	206	412	206	412
Under control of the trustees for the purpose of the Sovereign Food Investment Share Incentive Scheme	–	755	–	755
Under the control of the directors until the next annual general meeting	1 977	15 830	1 977	15 830
Ordinary shares in issue	47 817	33 003	47 817	33 003
<b>Authorised ordinary shares</b>	<b>50 000</b>	<b>50 000</b>	<b>50 000</b>	<b>50 000</b>

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>6. SHARE PREMIUM</b>				
Balance at beginning of year	14 305	14 305	14 305	14 305
Rights offer	119 592	–	119 592	–
<b>Balance at end of year</b>	<b>133 897</b>	<b>14 305</b>	<b>133 897</b>	<b>14 305</b>
<b>7. INTEREST-BEARING BORROWINGS</b>				
<b>Secured</b>				
<b>Loan 1</b>				
Secured cash credit facility to the value of R30 000 000 (2009: R30 000 000) with no fixed terms of repayment. Interest is charged at a rate that fluctuates with prime lending rates less 1%. Trade receivables of R94 105 493 (2009: R102 781 307) and inventory of R6 432 000 (2009: R7 200 681) of a subsidiary of the Group have been ceded as security for this facility.	29 972	30 000	–	–
<b>Loan 2</b>				
Secured loan repayable in monthly instalments of R602 964 (2009: R715 448). Interest is charged at a rate that fluctuates with prime lending rates. Secured by first mortgage bond over certain land and buildings with a carrying value of R214 718 704 (2009: R194 357 073).	57 281	65 134	–	–
<b>Loan 3</b>				
Secured loan repayable in monthly instalments of R82 013 (2009: R83 333). Interest is charged at 13,05% (2009: 13,05%) per annum. Secured by first mortgage bond over certain land and buildings with a carrying value of R214 718 704 (2009: R194 357 073).	6 889	7 957	–	–
<b>Loan 4</b>				
Secured loan repayable in monthly instalments of R516 500 (2009: R789 559). Interest is charged at a rate that fluctuates with prime lending rates. Secured by first mortgage bond over certain land and buildings with a carrying value of R214 718 704 (2009: R194 357 073).	50 616	57 344	–	–
<b>Loan 5</b>				
Secured loan repayable in monthly instalments of R249 945 (2009: R565 328). Interest is charged at a rate that fluctuates with prime lending rates. Secured by first mortgage bond over certain land and buildings with a carrying value of R214 718 704 (2009: R194 357 073).	26 744	30 358	–	–
<b>Loan 6</b>				
Secured loan repayable in monthly instalments of R499 826 (2009: R570 305). Interest is charged at 10,9% (2009: 10,9%) per annum. Secured by first mortgage bond over certain land and buildings with a carrying value of R214 718 704 (2009: R194 357 073).	37 737	44 237	–	–
<b>Loan 7</b>				
Secured loan repayable in monthly instalments of R596 000 (2009: R596 000). Interest is charged at a rate that fluctuates with prime lending rates less 0,75%. Secured by first mortgage bond over certain land with a carrying value of R45 905 285 (2009: R48 936 447).	31 373	34 844	–	–
<b>Loan 8</b>				
Secured loan repayable in monthly instalments of R440 101 (2009: R315 967). Interest is charged at a rate that fluctuates with prime lending rates less 0,75%. Secured by first mortgage bond over certain land and buildings with a carrying value of R31 601 827 (2009: R31 965 137).	24 446	24 827	–	–

# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>7. INTEREST-BEARING BORROWINGS continued</b>				
<b>Loan 9</b> Secured loan repayable in quarterly instalments of R424 796 (2009: R450 883). Interest is charged at a rate that fluctuates with prime lending rates less 0,75%. Secured by first mortgage bond over certain land and buildings with a carrying value of R37 147 269 (2009: R20 280 799).	5 315	6 411	–	–
<b>Loan 10</b> Secured loan repayable in monthly instalments of R684 669 (2009: Rnil). Interest is charged at a rate that fluctuates with prime lending rates less 0,75%. Secured by first mortgage bond over certain land and buildings with a carrying value of R58 718 936 (2009: Rnil).	47 681	–	–	–
<b>Loan 11</b> Secured loan repayable in monthly instalments of R418 944 (2009: Rnil). Interest is charged at a rate that fluctuates with prime lending rates less 0,75%. Secured by first mortgage bond over certain land and buildings with a carrying value of R44 513 276 (2009: Rnil).	29 970	–	–	–
<b>Loan 12</b> Secured loans with no fixed terms of repayment. Interest is charged at a rate that fluctuates with prime lending rates. Secured by first mortgage bond over certain land with a carrying value of Rnil (2009: R137 026 454).	–	86 770	–	–
<b>Loan 13</b> Secured loan repayable in monthly instalments of R403 620 (2009: Rnil). Interest is charged at a rate that fluctuates with prime lending rates less 1,7%. Secured by first mortgage bond over certain land and buildings with a carrying value of R24 417 003 (2009: Rnil).	30 887	–	–	–
<b>Loan 14</b> Secured loan repayable in monthly instalments of R218 614 (2009: Rnil). Interest is charged at a rate that fluctuates with prime lending rates less 1,7%. Secured by first mortgage bond over certain land and buildings with a carrying value of R24 563 125 (2009: Rnil).	17 383	–	–	–
<b>Loan 15</b> Secured loan repayable in monthly instalments of R297 236 (2009: Rnil). Interest is charged at a rate that fluctuates with prime lending rates less 1,7%. Secured by first mortgage bond over certain land and buildings with a carrying value of R29 114 871 (2009: Rnil).	23 633	–	–	–

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>7. INTEREST-BEARING BORROWINGS continued</b>				
<b>Loan 16</b> Secured loan repayable in monthly instalments of R51 587 (2009: Rnil). Interest is charged at a rate that fluctuates with prime lending rates less 1,7%. Secured by first mortgage bond over certain land and buildings with a carrying value of R2 280 918 (2009: Rnil).	4 102	–	–	–
<b>Loan 17</b> Secured loans with no fixed terms of repayment. Interest is charged at a rate that fluctuates with prime lending rates. Secured by first mortgage bond over certain land and buildings with a cost of Rnil (2009: R53 510 385) and a revisionary cession of trade receivables with a carrying value of Rnil (2009: R102 781 307). Interest rates are charged at rates that fluctuate with prime rates on these agreements.	–	49 885	–	–
<b>Loan 18</b> Instalment sale creditors payable in monthly instalments totalling R659 396 (2009: R2 930 276). These liabilities are secured over assets with a carrying value of R113 994 309 (2009: R93 249 547). Interest is charged at a rate that fluctuates with prime lending rates.	12 554	102 480	–	–
<b>Loan 19</b> Secured loan repayable in bi-monthly instalments of R53 333 (2009: R53 333). Interest is charged at a rate that fluctuates with prime lending rates less 1,75%. Secured by first mortgage bond over certain land and buildings with a carrying value of R8 516 845 (2009: R8 606 149).	799	1 119	–	–
<b>Loan 20</b> Secured loan repayable in bi-monthly instalments of nil (2009: R100 000). Interest is charged at a rate that fluctuates with prime lending rates less 1,25%. Secured by first mortgage bond over certain land and buildings with a carrying value of Rnil (2009: R6 000 000).	–	2 600	–	–
	437 382	543 966	–	–
<b>Unsecured</b> Unsecured cash credit facility to the value of Rnil (2009: R5 000 000) with no fixed terms of repayment. Interest is charged at prime less 3% (2009: prime less 3%).	–	5 000	–	–
	–	5 000	–	–
<b>Total liabilities</b>	437 382	548 966	–	–
Less: current portion included in current liabilities	76 709	90 985	–	–
	360 673	457 981	–	–

Details of land and building mortgages are contained in a register, setting out the information required by P22(3) of the 4<sup>th</sup> Schedule of the Companies Act, which is available for inspection by members or their duly authorised agents at the registered office of the Company. A copy of the register will be posted on request to members of the public.



# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>7. INTEREST-BEARING BORROWINGS continued</b>				
<b>Group instalment sale liabilities – minimum lease payments:</b>				
Less than one year	6 414	34 860	–	–
Later than one year and no later than five years	7 371	86 632	–	–
Later than five years	–	–	–	–
	<b>13 785</b>	<b>121 492</b>	<b>–</b>	<b>–</b>
Future finance charges on instalment sales	1 231	19 012	–	–
<b>Present value of instalment sale liabilities</b>	<b>12 554</b>	<b>102 480</b>	<b>–</b>	<b>–</b>
<b>The present value of instalment sale liabilities is as follows:</b>				
Less than one year	5 805	24 361	–	–
Later than one year and no later than five years	6 749	78 119	–	–
Later than five years	–	–	–	–
	<b>12 554</b>	<b>102 480</b>	<b>–</b>	<b>–</b>
<b>8. DEFERRED TAXATION</b>				
<b>Deferred taxation comprises:</b>				
Capital allowances	66 343	72 815	–	–
Revaluation	7 454	7 454	–	–
Livestock	32 320	28 465	–	–
Provisions and other temporary differences	(1 127)	(1 241)	–	–
Tax losses	(3 937)	(10 431)	–	–
	<b>101 053</b>	<b>97 062</b>	<b>–</b>	<b>–</b>
<b>The movement in deferred taxation was as follows:</b>				
Balance at beginning of year	97 062	98 619	–	–
Current charge/(reversal)	3 991	(1 557)	–	–
Temporary differences	(2 503)	5 936	–	–
Decrease/(increase) in tax loss	6 494	(7 493)	–	–
Balance at end of year	<b>101 053</b>	<b>97 062</b>	<b>–</b>	<b>–</b>
Deferred tax assets amounting to R3 157 231 (2009: R3 112 560) relating to one of the Group companies has not been raised as it is not probable this company will make future taxable profits.				
<b>9. TRADE AND OTHER PAYABLES</b>				
Trade payables	139 836	133 720	1 032	138
Accruals	12 251	27 032	2 850	3 901
Payroll and government levies	6 845	8 086	2 505	984
Discounts	2 533	3 933	–	–
Interest	1 533	3 916	–	–
Other	1 340	11 097	345	2 917
	<b>152 087</b>	<b>160 752</b>	<b>3 882</b>	<b>4 039</b>

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>10. INCOME BEFORE FINANCE COSTS</b>				
Income before finance costs is arrived at after taking into account:				
<b>Expense items</b>				
<i>Auditors' remuneration</i>				
Audit fees	324	286	7	11
Share-based payments	594	44	594	44
Depreciation of property, plant and equipment	26 696	20 364	–	–
Property rentals	983	623	120	120
Operating leases of office and other equipment	4 117	5 632	–	–
Staff costs and contract workers	183 730	159 216	12 719	10 874
Loss on derivative instruments	141	63	–	–
Loss on sale of property, plant and equipment	724	–	–	–
<b>11. NET FINANCE COSTS</b>				
Interest on debt (bank borrowings)	69 507	61 803	5	7
Interest received (short-term bank deposit)	(6 641)	(5 630)	(791)	(2)
	<b>62 866</b>	<b>56 173</b>	<b>(786)</b>	<b>5</b>
<b>12. TAXATION</b>				
Current taxation				
SA normal taxation	–	(3 477)	–	–
– current year	–	–	–	–
– prior year under/(over) provision	–	(3 477)	–	–
Deferred taxation	3 991	(1 557)	–	–
– current year	3 991	(1 557)	–	–
Taxation (credit)/charge	3 991	(5 034)	–	–
The estimated taxation losses of certain subsidiaries available for set-off against future taxable income amounts to R223 337 952 (2009: R123 602 784).				
In addition to the above, the Group has future capital allowances available for set-off against future taxable income to the value of R171 305 949 (2009: R220 440 227).				
<b>Reconciliation of taxation rate</b>	%	%	%	%
Normal rate of Company taxation	28,0	28,0	28,0	28,0
Overprovision from prior year	–	63,1	–	–
Permanent differences	2,8	–	–	–
Tax loss utilised	(4,3)	–	(28,0)	(28,0)
Effective taxation rate	<b>26,5</b>	<b>91,1</b>	<b>–</b>	<b>–</b>
<b>13. RETIREMENT BENEFIT INFORMATION</b>				
The Company provides, through a Group Provident fund scheme, retirement benefits for most employees. These funds are subject to the Pension Funds Act, 1956, as amended. All new members pay their own contributions to the funds. Contributions are at the rate of between 15,5% and 16,0% of pensionable emoluments, of which members pay between 6,0% and 6,5%.				
Total value of current service contributions to the schemes	7 398	6 156	834	801
Proportion of total employees covered	<b>94,0%</b>	<b>86,5%</b>	<b>100%</b>	<b>100%</b>

# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>14. CASH GENERATED FROM (USED IN) OPERATIONS</b>				
Profit/(loss) before taxation	15 060	(5 526)	159	(5 831)
Interest received	(6 641)	(5 630)	(791)	(2)
Interest paid	69 507	61 803	5	7
Depreciation	26 696	20 364	–	–
Loss on sale of property, plant and equipment	724	–	–	–
Movement on share option schemes	594	44	594	44
<b>Operating profit/(loss) before working capital changes</b>	<b>105 940</b>	<b>71 055</b>	<b>(33)</b>	<b>(5 782)</b>
<b>Working capital changes</b>				
Increase in inventories	(4 886)	(12 821)	–	–
Increase in biological assets	(9 245)	(22 144)	–	–
Decrease/(increase) in accounts receivable	6 770	(68 697)	–	241
(Decrease)/increase in accounts payable and provisions	(10 768)	58 651	(135)	995
Increase in amounts owing from subsidiaries	–	–	(30 003)	(401)
(Decrease)/increase in amounts owing to subsidiaries	–	–	(90 097)	5 142
	<b>(18 129)</b>	<b>(45 011)</b>	<b>(120 235)</b>	<b>5 977</b>
Cash generated from/(used in) operating activities	<b>87 811</b>	<b>26 044</b>	<b>(120 268)</b>	<b>195</b>
<b>15. CASH AND CASH EQUIVALENTS</b>				
Bank balances and cash on hand	<b>54 228</b>	<b>82 679</b>	<b>265</b>	<b>7</b>
<b>16. CAPITAL COMMITMENTS</b>				
<b>Authorised</b>				
Contracted	–	2 802	–	–
Not contracted for	25 000	56 241	–	–
To be expended within one year	25 000	59 043	–	–
This capital expenditure will be financed as follows:				
Cash generated from current operations	25 000	49 043	–	–
Long-term finance	–	10 000	–	–
	<b>25 000</b>	<b>59 043</b>	<b>–</b>	<b>–</b>

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>17. EARNINGS/(LOSS) PER SHARE</b>				
17.1 Earnings/(loss) per share				
The calculation of earnings per ordinary share is based on earnings attributable to ordinary shareholders of R11 069 119 (2009: R492 081) and a weighted average of 36 087 459 (2009: 33 002 930) ordinary shares in issue.				
Earnings/(loss) per share	<b>30,7</b>	<b>(1,5)</b>		
17.2 Diluted earnings/(loss) per share				
The calculation of diluted earnings per ordinary share is based on earnings attributable to ordinary shareholders of R11 069 119 (2009: R492 081) and a weighted average of 36 550 389 (2009: 33 341 513) diluted ordinary shares in issue.				
Diluted earnings/(loss) per share	<b>30,3</b>	<b>(1,5)</b>		
17.3 Headline earnings/(loss) per share				
The calculation of headline earnings per share is based on net profit attributable to ordinary shareholders of R11 657 856 (2009: R492 081) and a weighted average of 36 087 459 (2009: 33 002 930) ordinary shares in issue.				
Headline earnings/(loss) per share	<b>32,3</b>	<b>(1,5)</b>		
17.4 Diluted headline earnings/(loss) per share				
The calculation of diluted headline earnings per share is based on net profit attributable to ordinary shareholders of R11 657 856 (2009: R492 081) and a weighted average of 36 550 389 (2009: 33 341 513) diluted ordinary shares in issue.				
Diluted headline earnings/(loss) per share	<b>31,9</b>	<b>(1,5)</b>		
17.5 Reconciliation between earnings and headline earnings				
For the year ended 28 February 2010				
	Profit from ordinary activities	Taxation	Net profit	
As per annual financial statements	15 060	(3 991)	11 069	
Loss on the sale of fixed assets	724	(135)	589	
<b>Headline profit</b>	<b>15 784</b>	<b>(4 126)</b>	<b>11 658</b>	
For the year ended 28 February 2009				
	Loss from ordinary activities	Taxation	Net loss	
As per annual financial statements	(5 526)	5 034	(492)	
Loss on the sale of fixed assets	–	–	–	
<b>Headline loss</b>	<b>(5 526)</b>	<b>5 034</b>	<b>(492)</b>	



# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

## 17. EARNINGS/(LOSS) PER SHARE continued

### 17.6 Diluted weighted average number of shares

The Company has two categories of potentially dilutive ordinary shares, the Sovereign Food Investments Share Incentive Scheme and the Sovereign Foods Investments Limited 2007 Share Plan.

The Sovereign Food Investments Share Incentive Scheme has been taken into account in relation to the calculation of the possible dilution.

Although a charge has been taken against income in relation to the Sovereign Foods Investments Limited 2007 Share Plan, the Sovereign Foods Investments Limited 2007 Share Plan has not been taken into account in relation to the calculation of the possible dilution due to the uncertainty concerning the achievement of the vesting criteria relating to the scheme.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Reconciliation of the weighted number of ordinary shares for diluted earnings per share

	2010	2009
Weighted average number of ordinary shares	36 087 459	33 002 930
Bonus element of share options issued	462 930	338 583
Weighted average number of diluted ordinary shares	36 550 389	33 341 513

## 18. RELATED PARTIES

### 18.1 Holding company

Sovereign Food Investments Limited does not have a holding company.

### 18.2 Identity of related parties with whom material transactions have taken place

The subsidiaries of the Group are identified in the Group structure on page 6 and in the Group's interest in subsidiaries as set out in note 2. All of these entities are related parties of the Company. Other than subsidiaries and directors, there are no related parties with whom material transactions have taken place.

### 18.3 Types of related-party transactions

Sovereign Food Investments Limited has made loans and received advances from certain subsidiaries (refer to note 2). The Group entered into transactions involving goods and services with entities in which the directors are either directors, trustees or have a direct or indirect interest.

### 18.4 Related-party transactions

#### Material transactions with the company

Loans to and from related parties	Refer to note 2
Management fees from subsidiaries	R19 768 817 (2009: R12 274 215)
Directors' and key management's remuneration	Refer to note 21

#### Material transactions with the Group

- Goods and services to the value of R278 227 422 (2009: R97 266 377) were sold to The Spar Group Limited of which MJ Hankinson is chairman of the board and Prof PM Madi is a non-executive director. At year-end R29 708 850 (2009: R41 832 884) was still outstanding. All sales are on commercial terms.
- Cattle and rentals to the value of R750 000 (2009: Rnil) was sold to the Davis Farming Trust of which MJB Davis is a trustee. At year-end Rnil (2009: Rnil) was outstanding. All sales are on commercial terms.

## 19. BORROWING POWERS

The Articles of Association of the Company and its subsidiaries state that the directors may borrow such sums as they deem fit. The directors have exercised due diligence in affecting these borrowing powers and, as such, the directors have not exceeded their borrowing powers as authorised by the Articles of Association.

## 20. RISK MANAGEMENT

### 20.1 Capital risk management

The Group's policy is to maintain a strong capital base so as to maintain shareholder, creditor and market confidence and to sustain future development needs of the business. The Group monitors both the spread of shareholders and return on equity (defined as attributable profit expressed as a percentage of the average total equity) and the level of dividends paid to shareholders.

The capital structure of the Group comprises equity attributable to equity holders of Sovereign Food Investments Limited consisting of issued ordinary share capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity, and cash and cash equivalents as disclosed in note 15, and borrowings as disclosed in note 7.

There were no changes to the Group's approach to capital management during the year.

Certain requirements in the form of covenants are imposed by the Group's bankers. At the year-end, the Group had met all stipulations required of them.

### 20.2 Interest rate risk

The Group borrows at both fixed and floating rates of interest. The Group's policy is to keep between 15% and 40% of its borrowings at fixed rates of interest. Based on simulations performed, the impact on post-tax profit and equity of a 100 bps adjustment to the interest rate would be a maximum of R314 910 (2009: R395 000). The simulation has been run for all liabilities that represent major interest-bearing portions. These simulations are performed on a quarterly basis to verify that the maximum loss potential is within the thresholds set by senior management.

### 20.3 Credit risk

No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Reputable financial institutions are used for investing and cash-handling purposes. At statement of financial position date, there was one significant concentration of credit risk, namely, The Spar Group Limited, which accounted for 29% of the outstanding trade receivables.

The Group has a policy of insuring specific trade receivables with reputable insurance companies. At statement of financial position date, R39 676 402 (2009: Rnil) was covered under such policies.

### 20.4 Price risk

The Group is exposed to commodity price risk. To manage its price risk, the Group enters into commodity futures to hedge changes in the market prices. Based on simulations performed, the impact on post-tax profit and equity of a 5% variation in the net sales value (NSV) would be R38 025 308 (2009: R32 588 000). The simulations are performed on a monthly basis to determine the impact of the NSV on Group consolidated results.

### 20.5 Commodity futures

Certain derivative instruments are utilised with the intention of managing a portion of the Group's future strategic raw material purchases. As at 28 February 2010, the Group held nil (2009: nil) futures contracts.

### 20.6 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and access to cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines. The Group's policy has throughout the year been that, to ensure continuity of funding, at least 10% of its borrowings should mature in more than five years. At the year-end, 41% (2009: 36%) of the Group's borrowings were due to mature in more than five years.

Short-term flexibility is achieved by overdraft facilities.

# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

## 20. RISK MANAGEMENT continued

### 20.6 Liquidity risk continued

The maturity profile of the financial liabilities is analysed below:

#### Group 2010

	Within one year R'000	Between two to five years R'000	More than five years R'000	Total R'000
Borrowings	76 709	183 468	177 205	437 382
Trade and other payables	157 268	–	–	157 268
<b>Total</b>	<b>233 977</b>	<b>183 468</b>	<b>177 205</b>	<b>594 650</b>
2009				
Borrowings	90 985	260 531	197 450	548 966
Trade and other payables	160 752	–	–	160 752
<b>Total</b>	<b>251 737</b>	<b>260 531</b>	<b>197 450</b>	<b>709 718</b>

	Within one year R'000	Between two to five years R'000	More than five years R'000	Total R'000
<b>Company 2010</b>				
Trade and other payables	3 882	–	–	3 882
Loans from subsidiaries	–	–	638	638
<b>Total</b>	<b>3 882</b>	<b>–</b>	<b>638</b>	<b>4 520</b>
2009				
Trade and other payables	4 039	–	–	4 039
Loans from subsidiaries	–	–	30 641	30 641
<b>Total</b>	<b>4 039</b>	<b>–</b>	<b>30 641</b>	<b>34 680</b>

### 20.7 Fair values

The fair values of all financial instruments are substantially identical to the carrying values reflected in the statement of financial position, except for loans which are carried at amortised cost.

### 20.8 Exchange rate risk

The Group limits exposure to fluctuations in exchange rates through the implementation of an effective hedging policy. The financial instruments most commonly utilised to limit exposure to exchange rate risk are forward exchange cover contracts. At year-end there were no open forward exchange positions.

The notional principal amounts of outstanding forward foreign exchange contracts at 28 February 2010 were USD nil (2009: USD 4 497) and Euro nil (2009: Euro 38 427). The forward foreign exchange contracts are raised in respect of liabilities to the value of Rnil (2009: R533 750) at year-end, which are included in trade creditors.

## 21. DIRECTORS' AND KEY MANAGEMENT REMUNERATION

### Executive directors

	Salary R'000	Performance-related bonus R'000	Provident fund contributions R'000	Travel, car and entertainment allowances R'000	Medical benefits R'000	2010 Total R'000	2009 Total R'000
MJB Davis	2 622	377	372	211	142	3 724	3 251
C Coombes	1 986	260	276	194	77	2 793	2 486
BJ van Rensburg	1 327	153	78	106	28	1 692	1 530
GG Walter	2 068	77	108	–	–	2 253	1 686
<b>Total</b>	<b>8 003</b>	<b>867</b>	<b>834</b>	<b>511</b>	<b>247</b>	<b>10 462</b>	<b>8 953</b>

	Fees R'000	Performance-related bonus R'000	Provident fund contributions R'000	Travel, car and entertainment allowances R'000	Medical benefits R'000	2010 Total R'000	2009 Total R'000
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### Non-executive directors

CP Davies	1 060	–	–	–	–	1 060	979
MJ Hankinson	294	–	–	–	–	294	263
KT Kweyama	278	–	–	–	–	278	218
PM Madi	294	–	–	–	–	294	248
LM Nyhonyha	371	–	–	–	–	371	336
<b>Total</b>	<b>2 297</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2 297</b>	<b>2 044</b>

All emoluments received by executive directors are for managerial services. Executive directors do not have service contracts. All emoluments received by non-executive directors are for services as directors.

Directors' interest in share incentive scheme options	Date option granted	Type	Option price per share	Number of options outstanding at 28 February 2010	Number of options outstanding at 29 February 2009
<b>Executive directors</b>					
MJB Davis	1 March 2008	PS	n/a	1 200 000	1 200 000
MJB Davis	1 March 2008	SAR	1 191c	647 500	647 500
MJB Davis	1 March 2009	PS	n/a	440 000	–
MJB Davis	1 March 2009	SAR	450c	96 250	–
C Coombes	1 March 2008	PS	n/a	900 000	900 000
C Coombes	1 March 2008	SAR	1 191c	478 333	478 333
C Coombes	1 March 2009	PS	n/a	330 000	–
C Coombes	1 March 2009	SAR	450c	64 166	–
BJ van Rensburg	1 March 2008	PS	n/a	275 000	275 000
BJ van Rensburg	1 March 2008	SAR	1 191c	175 000	175 000
BJ van Rensburg	19 September 2003	n/a	125c	41 667	83 333
BJ van Rensburg	1 March 2009	PS	n/a	82 500	–
BJ van Rensburg	1 March 2009	SAR	450c	82 500	–
GG Walter	1 March 2008	PS	n/a	75 000	75 000
GG Walter	1 March 2008	SAR	1 191c	75 000	75 000
GG Walter	1 March 2009	PS	n/a	82 500	–
GG Walter	1 March 2009	SAR	450c	82 500	–
<b>Total</b>				<b>5 127 916</b>	<b>3 909 166</b>

Refer to note 28 for an explanation of the PS/SAR share option scheme.

# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

## 22. OPERATING LEASES

### Operating lease commitments

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms vary according to the relevant contracts, and the majority of lease agreements are renewable at the end of the lease period at a market rate.

The Group also leases various plant and machinery under cancellable operating lease agreements. The Group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 10.

The future aggregate minimum lease payments under cancellable and non-cancellable operating leases are as follows:

	Up to one year R'000	Two to five years R'000	More than five years R'000	Total R'000
<b>For the year ended 28 February 2010</b>				
Future minimum lease payments	37 930	52 028	75	90 033
<b>For the year ended 28 February 2009</b>				
Future minimum lease payments	30 839	63 529	41 117	135 485

## 23. PURCHASING CONTRACTS

At 28 February 2010, the Group had entered into negotiations to enter into maize contracts for the coming year. The value of these contracts is R178 200 000 (2009: R166 500 000). Two banks will issue guarantees to the value of R22 000 000 (2009: R19 000 000) in favour of these maize purchases.

## 24. CONTINGENT ASSETS AND LIABILITIES

A contractor for the local electrical authority has brought legal action against the Group, the local electrical authority and several other persons for damages relating to injuries sustained. The total claim is for R4 600 000 (the effect of which would be R3 266 000 after taxation). During the period, the legal action went to the High Court and was dismissed. However, the contractor has appealed this dismissal. The Group is therefore of the opinion that the claim is unlikely to be successful and accordingly no provision has been made.

## 25. RESOLUTIONS PASSED

No subsidiaries passed any special resolutions during the year relating to the capital structure, borrowing powers, the object clause in the Memorandum of Association or any other material matter that may affect the understanding of the Company and its subsidiaries.

	Carrying amount at the beginning of the year R'000	Additional provisions R'000	Used/ reversed during the year R'000	Carrying amount at the end of of the year R'000
<b>26. PROVISIONS</b>				
<b>Group</b>				
Leave pay	4 513	627	–	5 140
Provision for onerous contracts	759	–	718	41
Provision for water and electricity	2 012	–	2 012	–
	7 284	627	2 730	5 181

<b>Analysis of total provisions</b>	2010 R'000	2009 R'000
Non-current	–	153
Current	5 181	7 131
<b>Total</b>	<b>5 181</b>	<b>7 284</b>

	Carrying amount at the beginning of the year R'000	Additional provisions R'000	Used during the year R'000	Carrying amount at the end of of the year R'000
<b>Company</b>				
Leave pay	365	22	–	387
<b>Total</b>	<b>365</b>	<b>22</b>	<b>–</b>	<b>387</b>

<b>Analysis of total provisions</b>	2010 R'000	2009 R'000
Current	387	365

### Leave pay

The Company provides for leave pay on leave outstanding at year-end. This provision is based on the number of leave days due to employees multiplied by their daily rate of remuneration.

### Onerous contracts

Certain subsidiaries of the Group have entered into long-term lease contracts for the premises that they occupy. These subsidiaries have, however, scaled down operations and therefore the contracts have become onerous as the benefits of having the contracts in place are exceeded by the obligation to pay the lease rentals. A provision is therefore required by the accounting standards and such a provision has been raised in the prior years. The provision raised is the lesser of cost to cancel/complete the contracts and the present value of the payments still to be made.

## 27. SUBSEQUENT EVENTS

Post year-end, the Group outsourced the transport of its frozen product to Hestony Transport (Pty) Limited. This took effect on 12 April 2010. There are no onerous or outstanding contracts related to this which would have a negative impact on the Group's annual financial statements.



# Notes to the annual financial statements . . . continued

for the year ended 28 February 2010

## 28. SHARE-BASED PAYMENTS

The Group operates three equity-settled share-based payment arrangements, namely the performance share plan, the share-appreciation rights plan and the Sovereign Food Investments Share Incentive Scheme.

### 28.1 Performance share plan:

The Group operates a performance share plan (PS) under which executive directors and selected employees are granted conditional awards of ordinary shares in the Group, which are exercisable on the third anniversary of the date of the award. These awards will only vest to the extent that performance targets are met over a three-year performance period. On 1 March 2009, a maximum of 1 173 920 (2009: 2 662 000) conditional shares were awarded.

50% of the award vest based on performance in comparison with "The Small Cap Index" (JSE Code J202). The other 50% vest based on targeted growth in HEPS over inflation. The targeted growth rate is inflation plus 2%.

The information in relation to the performance share awards are:

	Performance shares	
	2010	2009
Outstanding at beginning of year	2 608 300	–
Granted during year	1 173 920	2 662 000
Forfeited during year	(1 200)	(53 700)
Exercised during year	–	–
Expired during year	–	–
Outstanding at end of year	3 781 020	2 608 300
Exercisable at end of year	–	–

The Group has taken a charge of R656 765 (2009: Rnil) in the current year in respect of expected future vestings.

### 28.2 Share-appreciation rights plan

The Group operates a share-appreciation rights plan (SAR) under which executive directors and selected employees are granted options to purchase ordinary shares in the Group, which are exercisable between three to five years after the date of grant. Certain performance criteria have to be met for the options to vest. On 1 March 2009, a maximum of 823 166 (2009: 1 799 083) were granted.

The initial strike price of the options on 1 March 2009 was R4,50 (2009: R11,91) per share. A hurdle rate of 2% over inflation year-on-year has been set in order for the options to vest.

The information in relation to the share-appreciation rights are:

	Share-appreciation rights	
	2010	2009
Outstanding at beginning of year	1 715 333	–
Granted during year	823 166	1 799 083
Forfeited during year	(6 000)	(83 750)
Exercised during year	–	–
Expired during year	–	–
Outstanding at end of year	2 532 499	1 715 333
Exercisable at end of year	–	–

The Group has taken a charge of R176 642 (2009: Rnil) in the current year in respect of expected future vestings.

## 28. SHARE-BASED PAYMENTS continued

### 28.3 Sovereign Food Investments Share Incentive Scheme

The Group has not granted any options per this plan in 2010, but has continued to operate the scheme under which employees were granted options to purchase ordinary shares in the Group. All vesting and performance conditions relating to this plan were met in prior periods.

The information in relation to the Sovereign Food Investments Share Incentive Scheme are:

	Options	
	2010	2009
Outstanding at beginning of year	412 000	412 000
Granted during year	–	–
Forfeited during year	–	–
Exercised during year	–	–
Expired during year	(206 000)	–
Outstanding at end of year	206 000	412 000
Exercisable at the end of the year	206 000	206 000
The weighted average share price at the date of exercise for those options exercised during the year was nil (2009: nil). At year-end, the options have a weighted average useful life of 0,5 years (2009: 1,5 years).		

	Group		Company	
	Loans and receivables at amortised cost R'000	Financial liabilities at amortised cost R'000	Loans and receivables at amortised cost R'000	Financial liabilities at amortised cost R'000
<b>29. FINANCIAL INSTRUMENTS BY CATEGORY</b>				
<b>2010</b>				
<b>Assets per the statement of financial position:</b>				
Trade and other receivables	103 449	–	–	–
Cash and cash equivalents	54 228	–	265	–
Loans to subsidiary	–	–	99 211	–
<b>Total</b>	<b>157 677</b>	<b>–</b>	<b>99 476</b>	<b>–</b>
<b>Liabilities per the statement of financial position:</b>				
Trade and other payables	–	152 087	–	3 882
Borrowings	–	437 382	–	–
Loans from subsidiaries	–	–	–	638
<b>Total</b>	<b>–</b>	<b>589 469</b>	<b>–</b>	<b>4 520</b>
<b>2009</b>				
<b>Assets per the statement of financial position:</b>				
Trade and other receivables	113 325	–	–	–
Cash and cash equivalents	82 679	–	7	–
Loans to subsidiary	–	–	9 114	–
<b>Total</b>	<b>196 004</b>	<b>–</b>	<b>9 121</b>	<b>–</b>
<b>Liabilities per the statement of financial position:</b>				
Trade and other payables	–	160 752	–	4 039
Borrowings	–	548 966	–	–
Loans from subsidiaries	–	–	–	30 641

## Shareholders' spread analysis

	Number of shareholders	Number of shares	% of shares issued
<b>Type of shareholders</b>			
Public	656	20 794 957	43,4
Non-public	6	27 021 830	56,6
<b>Total</b>	<b>662</b>	<b>47 816 787</b>	<b>100,0</b>
<b>Analysis of non-public shareholders</b>			
1. Directors of the Company or any of its subsidiaries (see page 71 for directors' individual shareholdings)	3	209 029	0,4
2. Any associate of the above	1	22 725	0,1
3. The trustee of any employee share scheme or pension fund established for the benefit of any director or employees of the Company and its subsidiaries	—	—	—
4. Any person who, by virtue of any agreement, has a right to nominate a person to the board of directors of the applicant	—	—	—
5. Any person that is interested in 10% or more of the securities of the relevant class unless the JSE determines that, in all the circumstances, such person can be included in the public for the purposes of paragraphs 4.28 (e) and (f), 4.29 (d), (e), (f) (iv) and (v), 4.30 (c) (iv) and (v), and 4.31 (g) (iv) and (v). (See list of major shareholders below)	2	26 790 076	56,1
6. Employees of the issuer, where restrictions on trading in the issuer's listed securities, in any manner or form, are imposed by the issuer on such employee	—	—	—
<b>Total</b>	<b>6</b>	<b>27 021 830</b>	<b>56,6</b>
<b>Major shareholders and/or fund managers</b>			
Old Mutual Investment Group		17 859 089	37,4
Prudential Portfolio Management		8 930 987	18,7
<b>Total</b>		<b>26 790 076</b>	<b>56,1</b>

## Share statistics performance

	2010	2009	2008	2007	2005	2004
Share price (cents)						
High	1 300	1 275	2 100	1 500	1 200	740
Low	450	380	1 190	940	680	140
Average	850	681	1 645	1 179	881	371
Closing	850	451	1 250	1 245	1 050	700
Ordinary shares in issue at year-end	47 816 787	33 002 930	33 002 930	33 002 930	32 426 598	29 421 264
Number of shares traded	29 599 884	14 607 147	19 892 913	19 885 590	18 399 127	11 405 301
Value of shares traded (R'000)	251 843	99 497	311 371	242 702	162 061	69 798
Number of shares traded as a percentage of shares issued	61,9%	44,3%	60,3%	60,3%	56,7%	38,8%
Earnings yield	0,4	(0,3)	11,4	16,6	17,4	17,6

## Shareholders' diary

Financial year-end	February
Annual general meeting	Tuesday, 13 July 2010
Announcement of interim results	October 2010
Announcement of final results	April 2011

# Annual general meeting

## NOTICE OF THE ELEVENTH ANNUAL GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY

SOVEREIGN FOOD INVESTMENTS LIMITED

Incorporated in the Republic of South Africa

Registration number 1995/003990/06

JSE code: SOV

ISIN: ZAE 000009221

("the Company")

Notice is hereby given that the eleventh annual general meeting of shareholders of the Company will be held in the Company's boardroom at First Floor, Block B, Aeropark, Port Elizabeth, on Tuesday, 13 July 2010 at 09:00 for the purpose of considering and, if deemed fit, passing, with or without modification, the following resolutions:

### ORDINARY RESOLUTIONS

#### Ordinary Resolution 1

To receive, approve and adopt the annual financial statements for the year ended 28 February 2010.

#### Ordinary Resolution 2

To re-elect CP Davies who is due to retire as a director of the Company by way of rotation of directors in terms of the Company's Articles of Association. CP Davies is currently a non-executive director of the Company and Chairman of the board.

#### Ordinary Resolution 3

To re-elect LM Nyhonyha who is due to retire as a director of the Company by way of rotation of directors in terms of the Company's Articles of Association. LM Nyhonyha is currently a non-executive director of the Company.

#### Ordinary Resolution 4

To re-elect Prof PM Madi who is due to retire as a director of the Company by way of rotation of directors in terms of the Company's Articles of Association. Prof PM Madi is currently a non-executive director of the Company.

#### Ordinary Resolution 5

To confirm the appointment of PKF (PE) Inc to serve as the external auditors of the Company until the next annual general meeting.

#### Ordinary Resolution 6

To authorise the directors to establish their remuneration for the past year.

#### Ordinary Resolution 7

To resolve as an ordinary resolution that such number of the ordinary shares in the authorised but unissued capital of the Company required for the purpose of satisfying the obligations of The Sovereign Food Investments Share Incentive Scheme and The Sovereign Food Investment Ltd 2007 Share Plan are hereby placed under the control of the directors, who are hereby, as a specific authority, authorised to allot and issue those shares in terms of the share plan deed.

The reason for, and the effect of, ordinary resolution number 7 will be to grant the directors the authority in accordance with the Companies Act (No 61 of 1973) to issue shares to share option holders as and when such option holders exercise their option rights.

### LITIGATION STATEMENT

The directors of the Company, whose names are given on pages 20 and 21 of this annual report, are not aware of any legal or arbitration proceedings, pending or threatened against the Group, which may have or have had, in the 12 months preceding the date of this notice, a material effect on the Group's financial position.

### DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are given on pages 20 and 21 of this annual report, collectively and individually, accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the annual report contains all the information required by law and the Listings Requirements of the JSE Limited.

### MATERIAL CHANGE

Other than the facts and developments reported on in this annual report, there have been no material changes in the affairs, financial or trading position of the Group since the signature date of this annual report and the posting date hereof.

### DIRECTORS' CURRICULUM VITAE

A brief CV of each director standing for election or re-election at the annual general meeting is provided on pages 20 and 21 of this annual report.

### OTHER BUSINESS

To transact such other business as may be transacted at an annual general meeting.

Any shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and, on a poll, vote in his/her stead. The person so appointed need not be a shareholder. Forms of proxy must be completed and delivered to the Company's transfer secretaries, Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received not later than 09:00 on 9 July 2010.

Equity securities held by The Sovereign Food Investments Share Incentive Scheme and The Sovereign Food Investment Limited 2007 Share Plan will not have their votes taken into account for the purposes of resolutions proposed in terms of the Listings Requirements of the JSE Limited.

Certificated shareholders and dematerialised shareholders with "own name" registration who are unable to attend the annual general meeting and wish to be represented thereat should complete and return the attached form of proxy.

Dematerialised shareholders other than dematerialised shareholders with "own name" registration who:

- are unable to attend the annual general meeting and wish to be represented thereat must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between themselves and the CSDP or broker in the manner and within the time stipulated therein;
- wish to attend the annual general meeting must instruct their CSDP or broker to issue them with the necessary authority to attend; and
- must not complete forms of proxy.

*By order of the board*

### C Coombes

Company Secretary

Port Elizabeth

7 June 2010



# Administration

SOVEREIGN FOOD INVESTMENTS LIMITED

Registration number 1995/003990/06  
Website: <http://www.sovereignfoods.co.za>  
Email: [info@sovfoods.co.za](mailto:info@sovfoods.co.za)

REGISTERED OFFICE/POSTAL ADDRESS

Kruis River Road  
Uitenhage, 6230  
PO Box 1386  
Uitenhage, 6230  
Eastern Cape

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Limited  
PO Box 61051  
Marshalltown, 2107  
Gauteng

COMPANY SECRETARY

C Coombes

AUDITORS

PKF (PE) Inc  
Chartered Accountants and Registered Auditors

PRINCIPAL BANKERS

Nedbank Group Limited  
Standard Bank of SA Limited

PRINCIPAL ATTORNEYS

Pagdens Inc

# Proxy

SOVEREIGN FOOD INVESTMENTS LIMITED  
Incorporated in the Republic of South Africa  
Registration number 1995/003990/06  
JSE code: SOV ISIN: ZAE 000009221  
("the Company")

For the sole use by the following holders of ordinary shares in the Company at the eleventh annual general meeting (the annual general meeting) of the Company, to be held in the Company's boardroom at First floor, Block B, Aeropark, Port Elizabeth, at 09:00 on Tuesday, 13 July 2010, namely:

- certificated shareholders; and
- CSDP nominee companies, brokers' nominee companies and dematerialised shareholders who have elected "own name" registration.

Forms of proxy must be completed and delivered to the Company's transfer secretaries, Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received not later than 09:00 on Friday, 9 July 2010.

I/We \_\_\_\_\_  
being the holder/s of \_\_\_\_\_ordinary shares in the Company, hereby appoint (see note 1)  
1. \_\_\_\_\_or, failing him/her  
2. \_\_\_\_\_or, failing him/her  
3. \_\_\_\_\_the chairman of the meeting,

as my/our proxy to attend and speak and vote for me/us on my/our behalf at the annual general meeting (and at any adjournment thereof) to be held at 09:00 on Tuesday, 13 July 2010, in the Company's boardroom at First floor, Block B, Aeropark, Port Elizabeth, for the purpose of considering and, if deemed fit, passing, with or without modification, the following resolutions to be considered at that annual general meeting, in accordance with the following instructions (see note 2):

	Number of votes (one vote per share)		
	For	Against	Abstain
As per notice of annual general meeting			
<b>Ordinary Resolution 1</b> To receive, approve and adopt the Company's annual financial statements for the year ended 28 February 2010.			
<b>Ordinary Resolution 2</b> To re-elect CP Davies who is due to retire as a director of the Company by way of rotation of directors in terms of the Company's Articles of Association. CP Davies is currently a non-executive director of the Company and Chairman of the board.			
<b>Ordinary Resolution 3</b> To re-elect LM Nyhonyha who is due to retire as a director of the Company by way of rotation of directors in terms of the Company's Articles of Association. LM Nyhonyha is currently a non-executive director of the Company.			
<b>Ordinary Resolution 4</b> To re-elect Prof PM Madi who is due to retire as a director of the Company by way of rotation of directors in terms of the Company's Articles of Association. Prof PM Madi is currently a non-executive director of the Company.			
<b>Ordinary Resolution 5</b> To confirm the appointment of PKF (PE) Inc to serve as the auditors of the Company until the next annual general meeting.			
<b>Ordinary Resolution 6</b> To authorise the directors to establish their remuneration for the past year.			
<b>Ordinary Resolution 7</b> To resolve as an ordinary resolution that such number of the ordinary shares in the authorised but unissued capital of the Company required for the purpose of satisfying the obligations of The Sovereign Food Investments Share Incentive Scheme and The Sovereign Food Investment Limited 2007 Share Plan are hereby placed under the control of the directors, who are hereby, as a specific authority, authorised to allot and issue those shares in terms of the share plan deed.			

If no indication is given, the proxy will vote as he/she deems fit.

Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies (who need not be a shareholder of the Company) to attend, speak and, on a poll, vote in his/her stead.

Please read the notes on the reverse side hereof.

Signed at \_\_\_\_\_on \_\_\_\_\_2010

Signatures\_\_\_\_\_

Assisted by me (where applicable)\_\_\_\_\_

# Notes

1. Shareholders who have dematerialised their ordinary shares with a CSDP or broker, other than “own name” registrations, must arrange with the CSDP or broker concerned to provide them with the necessary authorisation to attend the annual general meeting or the shareholders concerned must instruct them as to how they wish to vote. This must be done in terms of the agreement entered into between the shareholders and the CSDP or broker concerned.
2. A shareholder may insert the name of the proxy or the names of two alternative proxies of the shareholder’s choice in the space provided with or without deleting “the chairman of the meeting”, but any such deletion must be initialled by the shareholder. The person whose name appears first on the form of proxy and has not been deleted shall be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder’s instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box/es provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder’s votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by him/her, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
4. Where there are joint holders of shares and if more than one of such joint holders is present or represented, then the person whose name appears first in the register in respect of such shares or the proxy, as the case may be, shall alone be entitled to vote in respect thereof.
5. Proxies will only be valid for the purpose of the annual general meeting if lodged with or posted to the Company’s transfer secretaries, Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received not later than 09:00 on 9 July 2010. Shareholders who are unable to attend any adjourned meeting may lodge their form of proxy for such adjourned meeting not less than 24 hours prior to the holding of the adjourned meeting.
6. Any alteration, deletion or correction made to this form or proxy must be signed and not merely initialled by the signatory/ies. The completion of any blank spaces need not be signed or initialled.
7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Company’s transfer secretaries or waived by the chairman of the annual general meeting.
8. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
9. The chairman of the annual general meeting may reject or accept a proxy form which is completed and/or received other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.
10. A minor must be assisted by a parent or guardian.