

# GROUP ANNUAL FINANCIAL STATEMENTS 2006

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# DIRECTORS' RESPONSIBILITY AND APPROVAL

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The Directors are responsible for the preparation, integrity and fair presentation of the financial statements of AFGRI Limited and its subsidiaries. The financial statements presented on pages 37 to 110 have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgements and estimates made by management. The Directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

The going concern basis has been adopted in preparing the financial statements. The Directors have no reason to believe that the Group or any Company within the Group will not be going concerns in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the Company and the Group.

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers Incorporated, who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and Committees of the Board. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate. PricewaterhouseCoopers Incorporated's audit report is presented on page 36.

The financial statements were approved by the Board of Directors on 16 May 2006 and are signed on its behalf by:



**PF ERASMUS**

Chairman



**JD WRIGHT**

Managing Director

JOHANNESBURG

16 May 2006

# CERTIFICATE BY COMPANY SECRETARY

In my capacity as Company Secretary, I hereby confirm that the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of Section 268 G(d) of the Companies Act, 1973, as amended and that such returns are true, correct and up to date.



**SL REYNOLDS (Ms)**

Company Secretary

JOHANNESBURG

16 May 2006

# REPORT OF THE INDEPENDENT AUDITORS

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We have audited the annual financial statements and Group annual financial statements of AFGRI Limited, set out on pages 102 to 110 and pages 37 to 100 (excluding page 54) for the year ended 28 February 2006. These financial statements are the responsibility of the Company's Directors. 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. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and of the Group at 28 February 2006, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



**PRICEWATERHOUSECOOPERS INC**

Registered Accountants and Auditors

JOHANNESBURG

16 May 2006

# DIRECTORS' REPORT

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## DIRECTORS

### BOARD COMPOSITION

The names of the Directors appear on page 6.

The following changes were made to the Board during the year:

On 1 April 2005 Mr CA Apsey was appointed as an independent Non-executive Director on the Board and Mr DM Sewela was appointed as an alternate Director to Mr I De W Goosen.

Mr MM Moloele was appointed Joint Deputy Chairman with effect from 16 May 2005.

Mr DM Sewela was appointed a full Executive Director with effect from 7 April 2006.

In terms of the Articles of Association, Messrs Claassen, Ferreira, Jansen van Rensburg and Van der Merwe retire by rotation at the Annual General Meeting. All of the Directors, except Mr Jansen van Rensburg, offer themselves for re-election.

In terms of the Articles of Association, Mr Davies is required to resign, having reached the age of 70 years and is not available for re-election.

### DIRECTORS' INTERESTS

The interests of Directors in the issued shares of the Company were as follows and did not individually exceed one percent of the issued share capital or voting control of the Company:

	Number	
	2006 '000	2005 '000
Beneficial		
– Direct		
JJ Claassen	–	20
JD Wright	700	–
I De W Goosen	525	–
JTJ v Rensburg	700	943
JJ Ferreira	–	78
	<b>1 925</b>	<b>1 041</b>

There are no indirect and non-beneficial interests.

### SHARE OPTIONS

The share options of Executive and former Executive Directors of the Company are as follows:

	Number	
	2006 '000	2005 '000
– Total share options exercised cumulatively from date of appointment	<b>28 087</b>	20 483
– Total contracts not implemented (refer Note 8.3, page 110)	<b>11 484</b>	7 098

### DIRECTORS' SERVICE CONTRACTS AND RESTRAINT OF TRADE

JD Wright, I De W Goosen and DM Sewela are Executive Directors of the Company and are subject to written employment agreements. The employment agreements regulate the duties, remuneration, allowances, restraints, leave and notice periods of these Executive Directors. The employment agreement of JD Wright shall run up to September 2006 and thereafter shall run indefinitely with a six months' notice period. The employment agreement of I De W Goosen was renewed during the year and shall run up to 1 June 2008. An employment agreement has also been entered into with DM Sewela and shall run up to 30 June 2008. The Company has entered into agreements with GAL Ebedes and MM Moloele to retain their expertise and to attend to the Company's public relations and other strategic projects. Mr Ebedes' agreement shall terminate on 28 February 2007 and Mr Moloele's agreement shall terminate on 31 October 2006.

JD Wright and I De W Goosen are restrained from competing with the Company and any of the businesses within the AFGRI Group for a period of 24 months after termination of employment with the Company. DM Sewela has been restrained for a period of 12 months after termination of employment.

### DIRECTORS' REMUNERATION

The Directors' remuneration for the year under review is set out on pages 108 to 110, Note 8.

# DIRECTORS' REPORT (continued)

## SHARE CAPITAL

### AUTHORISED AND ISSUED CAPITAL

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The authorised share capital remained unchanged from the prior year. During the year 14 279 000 shares were issued to the share incentive trust as detailed below.

### AFGRI SHARE INCENTIVE TRUST

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At 28 February 2006 the AFGRI Limited Trust held 24 806 788 allocated shares. Employees have implemented 6 033 422 contracts and 14 279 000 (2005: Nil) shares have been allocated to employees during the year.

## FINANCIAL MATTERS

### DIVIDENDS AND CAPITAL DISTRIBUTION

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An interim dividend of 9,05 cents per share was paid on 19 December 2005. The Directors have declared a capital distribution, out of share premium in lieu of a dividend, of 21,18 cents per share for the year ended 28 February 2006, subject to shareholders' approval at the Annual General Meeting. No provision for the capital distribution is recognised.

### CAPITAL EXPENDITURE

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Capital expenditure for the year amounted to R153,2 million (2005: R166,9 million). The estimated R157 million expenditure envisaged by the Group for the 2007 financial year, will be funded from internal resources and, if appropriate, by borrowings.

### FINANCIAL RESULTS

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The results of the Group are presented in detail in the financial statements and further information is provided in the income statements on pages 53 and 54 and the segment information on pages 57 to 60.

### POST BALANCE SHEET EVENTS

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No material events, except for those mentioned in the following paragraph, have occurred since the date of these financial statements and the date of approval thereof, the knowledge of which would affect the ability of the users of these statements to make proper evaluations and decisions.

The acquisition of a 100% interest in Daybreak for a consideration of R120 million marks the Group's re-entry into the broiler industry. All of the suspensive conditions relating to this acquisition were fulfilled during March 2006. No additional disclosure can be provided, as at the date of this report, as the purchase consideration is still being allocated to the acquirees' assets, liabilities and contingent liabilities.

Subsequent to the financial year end, the cotton ginning interests within Clark Cotton were sold to Cargill, the total proceeds of the sale of the cotton ginning interests is approximately R259 million.

### JOINT VENTURES, ASSOCIATES AND SUBSIDIARY COMPANIES

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Information regarding the subsidiaries, associates and joint ventures is given in Appendix A, B and C to the financial statements.

### SECRETARY

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SL Reynolds is the Group Company Secretary. The business and postal addresses of the Secretary are set out on page 118.

### PUBLIC OFFICER

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PFR Swanepoel is the public officer for the Group.

### AUDITORS

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PricewaterhouseCoopers Inc has expressed their willingness to continue in office and resolutions proposing their re-appointment will be submitted to the forthcoming Annual General Meeting.

# ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated annual financial statements are set out below and are consistent with those of the previous year, except where indicated otherwise.

## 1 BASIS OF PREPARATION

These consolidated financial statements of AFGRI have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied in preparing these financial statements. These consolidated financial statements are the first AFGRI financial statements to be prepared in accordance with IFRS.

The accounting policies set out below have been consistently applied to all the years presented.

Reconciliations and descriptions of the effect of the transition from Generally Accepted Accounting Practice ("GAAP") to IFRS on the Group's equity and its net income are given in Note 2 of the notes to the Group annual financial statements.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or 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 in Note 1 (Critical accounting estimates and judgments).

### *Interpretations and amendments to published standards effective in 2005*

The following amendments and interpretations to standards are mandatory for the Group's accounting periods beginning on or after 1 March 2005:

- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
- SIC 12 (Amendment), Consolidation – Special Purpose Entities (effective from 1 January 2005); and
- IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

### *Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later, but which the Group has not early adopted. These standards, amendments and interpretations are not necessarily applicable and management have decided not to early adopt. The effect of these amendments on the Group is still to be evaluated.

## 2 CONSOLIDATION

### 2.1 SUBSIDIARIES

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies as generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date,

# ACCOUNTING POLICIES (continued)

irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2.2 ASSOCIATES

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2.3 JOINT VENTURES

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures, individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 3 PROPERTY, PLANT AND EQUIPMENT

Land and buildings comprise mainly factories and offices. All property, plant and equipment is shown at cost, less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Certain items of property, plant and equipment are carried at revalued amounts, which are broadly comparable to their fair value. This is their deemed cost at the transition date to IFRS. All other repairs and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

- Buildings 25 – 100 years
- Plant and machinery 5 – 100 years
- Equipment and motor vehicles 5 – 50 years
- Land is not depreciated

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is the earlier.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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.

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. Other borrowing costs are expensed.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

## 4 INTANGIBLE ASSETS

### 4.1 GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which goodwill arose. AFGRI allocates goodwill to each business segment in each country in which it operates.

### 4.2 RESEARCH AND DEVELOPMENT

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a definite useful life and have been capitalised are amortised from the commencement of commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

### 4.3 COMPUTER SOFTWARE

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives (not exceeding five years).

# ACCOUNTING POLICIES (continued)

## 4.4 TRADEMARKS AND LICENCES

Trademarks and licences are shown at historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (not exceeding twenty years).

## 5 IMPAIRMENTS OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 6 FINANCIAL ASSETS

### *From 1 March 2004 to 28 February 2005:*

Financial assets include investments in companies other than subsidiaries and associates, financial receivables held for investment purposes, treasury stock and other securities. Financial assets are recorded at cost, including additional direct charges. A permanent impairment is provided as a direct reduction of the securities account.

Current assets also include investments and securities acquired as a temporary investment, which are valued at the lower of cost and market, cost being determined on a last-in-first-out (LIFO) basis.

### *From 1 March 2005:*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

### *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

The Group enters into various OTC (over the counter) forward purchases and sales contracts for the purchase and sale of commodities. Although certain of the contracts are settled by taking or making physical delivery in the normal course of business, the OTC contracts are regarded as financial instruments and are accounted for at fair value under IAS 39, where the Group has a substantive past practice of net settlement (either with the counterparty or by entering into off-setting contracts).

Such contracts are initially recognised in the balance sheet at cost and are subsequently remeasured to their fair value. These derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement.

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are in

determinable monetary amounts and the Group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

#### ***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

#### ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date of which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the "fair value of the

financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## **7 INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

# ACCOUNTING POLICIES (continued)

Costs of inventories include the transfer from equity of gains/losses on qualifying cash flow hedges relating to inventory purchases.

## 8 BIOLOGICAL ASSETS

Biological assets are stated at fair value less estimated point-of-sale cost. Fair value changes are recognised in the income statement. All the expenses incurred in establishing and maintaining the assets are recognised in the income statement. All costs incurred in acquiring biological assets are capitalised. Finance charges are not capitalised.

Livestock, consisting of broilers, is initially shown at fair value less estimated point-of-sale costs.

## 9 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 receivables. 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 effective interest rate. The amount of the provision is recognised in the income statement.

Included in trade receivables are payments made on behalf of third parties in respect of agricultural produce, which is repayable on delivery of such agricultural produce. The amounts owed are secured by physical grain and other securities under the control of the Group.

## 10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

## 11 SHARE CAPITAL

Ordinary shares are classified as equity. Mandatory redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Shares in the Company are held by the AFGRI Ltd Trust. The cost price of these shares is deducted from the Group's equity. The AFGRI Ltd Trust is consolidated.

## 12 BLACK ECONOMIC EMPOWERMENT TRANSACTION

AFGRI's black economic empowerment transaction includes the following:

- Disposal of a 26,77% undivided interest in the business of AFGRI Operations to the Trust.
- AFGRI Operations and the Trust will be co-owners of the entire business undertaking conducted as a going concern by AFGRI Operations.
- AFGRI Operations will continue to manage the entire business undertaking in a partnership.

The transaction is not treated as a disposal of assets. The partnership is consolidated as a whole and the BEE share is disclosed as minority interest on the balance sheet. The portion of the income before tax is disclosed as minority interest in the income statement and credited to minority interest on the balance sheet.

AFGRI Operations has the right to call on the Trust to sell to AFGRI Operations its undivided interest in the entire business of AFGRI Operations. The call option price will be settled in cash or by allotting and issuing of new AFGRI Operations shares or new AFGRI shares.

## 13 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement 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 balance sheet date.

## 14 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 15 FOREIGN CURRENCY TRANSLATION

### 15.1 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Rands, which is the Company's functional and presentation currency.

# ACCOUNTING POLICIES (continued)

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## 15.2 TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

## 15.3 GROUP COMPANIES

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- 1 assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 2 income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- 3 all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences

are recognised in the income statement as part of the gain or loss on sale.

## 16 LEASES

### 16.1 A GROUP COMPANY IS THE LESSEE

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### 16.2 A GROUP COMPANY IS THE LESSOR

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis

consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

## 17 EMPLOYEE BENEFITS

### 17.1 PENSION OBLIGATIONS

Group companies operate various pension schemes. The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### 17.2 SHARE-BASED COMPENSATION

*Share options granted before 7 November 2002 and vested before 1 January 2005.*

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated between share capital and share premium.

*Share options granted after 7 November 2002 and vested after 1 January 2005.*

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable.

It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 17.3 TERMINATION BENEFITS

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

### 17.4 PROFIT-SHARING AND BONUS PLANS

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 18 PROVISIONS

Provisions are recognised when:

- The Group has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation; and
- The amount has been reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

# ACCOUNTING POLICIES (continued)

Where there are a number of similar obligations – for example, in the case of product warranties – 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 be required to settle the obligation using a pre-tax 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.

## 19 REVENUE RECOGNITION

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

### 19.1 SALES OF GOODS

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

### 19.2 SALES OF SERVICES

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

### 19.3 INTEREST INCOME

Interest income is recognised on a time-proportion basis using the effective method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount – being the estimated future cash flow discounted at original

effective interest rate of the instrument – and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

### 19.4 ROYALTY INCOME

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

### 19.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

## 20 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 21 CAPITAL DISTRIBUTION

The gross cash capital distributions are charged against share premium when paid and are disclosed as capital distribution to shareholders in the statement of changes in equity.

## 22 SEGMENTAL ANALYSIS

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments.

Head office expenses are allocated based on a combination of sales, operating profit and time spent by executive management except where information technology costs can be directly allocated.

## 23 FINANCIAL RISK MANAGEMENT

### 23.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks:

- (a) Market risk (including foreign exchange risk and price risk);
- (b) Cash flow and fair value interest rate risk;
- (c) Credit risk; and
- (d) Liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

#### **(a) Market risk**

##### *(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Group treasury is

responsible for managing the net position in each foreign currency by using external forward currency contracts.

For segment reporting purposes, each subsidiary designates contracts with Group treasury as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions, on a gross basis.

The Group's risk management policy is to hedge 100% of anticipated transactions in each major currency for the subsequent 12 months.

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposures arising from the net assets of the Group's foreign operations in Africa and Australia are managed primarily through borrowings denominated in the relevant foreign currencies.

##### *(ii) Price risk*

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

#### **(b) Cash flow and fair value interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of finance leases to which the Group is lessor are fixed at inception of the lease. These leases expose the Group to fair value interest rate risk.

The Group's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain approximately 60% of its borrowings in fixed rate instruments. At the year-end, 65% of borrowings were at fixed rates.

# ACCOUNTING POLICIES (continued)

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

#### *(c) Credit risk*

The Group is exposed to the agricultural industry and has significant concentrations of credit risk in this regard. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

#### *(d) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, 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 aims to maintain flexibility in funding by keeping committed credit lines available.

### **23.2 FAIR VALUE ESTIMATION**

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## **24 ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

Derivatives are initially recognised at fair value on the date on which 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: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10.1 ('Derivative financial instruments'). Movements on the hedging reserve in shareholders' equity are shown in Note 14 ('Fair value and other reserves').

**(a) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

**(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any

cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**(c) Net investment hedge**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

**(d) Derivatives that do not qualify for hedge accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

## 25 GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs for which they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.