

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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## 1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### 1.1 IMPAIRMENT OF TRADE RECEIVABLES

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. 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.

Management considers the following when estimating the provision to be recognised in the income statement:

– **Identification of specific non-performing trade receivables**

The provision for individual trade receivables only takes the difference between total debt less security available into account. Security required was initially established as part of the credit granting policy and the risk profile of the debtor.

– **Time value of security available from specific non-performing trade receivables**

The recovery period after identifying a specific non-performing debt is assessed. Based on experience, management discounts the security that will eventually be obtained to its current value. As a result, the value of the security is reduced. These in turn result in a top-up portion being provided for to accrue for the time value shortfall.

– **Review of the recovery history of securities**

Management assesses the recoverability of securities based on past experience and may adjust the security downward. The shortfall would result in an increase in the provision required.

## 2 TRANSITION TO IFRS

### 2.1 BASIS OF TRANSITIONS TO IFRS

#### 2.1.1 Application of IFRS 1

The Group's financial statements for the year ended 28 February 2006 are the first annual financial statements that comply with IFRS. These annual financial statements have been prepared as described in the section "Accounting policies".

The Group has applied IFRS 1 in preparing these consolidated annual financial statements.

AFGRI's transition date is 1 March 2004. The Group prepared its opening IFRS Balance sheet at that date. The Group's adoption date is 1 March 2005.

#### 2.1.2 Exemptions from full retrospective application elected by the Group

The Group has elected to apply the following optional exemptions from full retrospective application.

(a) *Business combinations exemption*

The Group has applied the business combinations exemption in IFRS 3. It has not restated business combinations that took place prior to the 1 March 2004 transition date.

(b) *Fair value as deemed cost exemption*

The Group has in general not utilised the exemption and has elected to apply the cost model for property, plant and equipment and investment property and intangible assets. The exemption has been applied for selected items of property, plant and equipment only.

(c) *Employee benefit exemption*

The exemption is not applicable as there are no defined benefit pension funds or past retirement medical aid liabilities.

(d) *Cumulative translation differences exemption*

The Group has elected to set the previously accumulated foreign currency translation reserve to zero at 1 March 2004. This exemption has been applied to all subsidiaries in accordance with IFRS 1. The application of this exemption is detailed in Note 2.2.2 (b).

(e) *Compound financial instruments exemption*

The exemption is not applicable.

(f) *Assets and liabilities of subsidiaries, associates and joint ventures exemption*

The exemption is not applicable.

(g) *Exemption of restatement of comparatives for IAS 32 and IAS 39*

The exemption is not applicable.

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*(h) Designation of previously recognised financial instruments exemption*

In general the exemption was not applied. In terms of the transitional arrangements, the Group elected to reclassify certain financial assets and liabilities on 1 March 2005.

*(i) Share-based payment transaction exemption*

The exemption is not applicable to equity-settled awards granted on or after 7 November 2002 or to awards granted after that date, but which had vested prior to 1 January 2005. Liabilities arising on cash-settled share-based payments settled after 1 January 2005 are subject to IFRS 2.

*(j) Insurance contracts exemption*

The exemption is not applicable.

*(k) Decommissioning liabilities included in the cost of property, plant and equipment exemption*

The exemption is not applicable as no decommissioning liabilities were identified within the Group.

*(l) Fair value measurement of financial assets or liabilities at initial recognition*

The exemption is not applicable.

**2.1.3 Exception from full retrospective application followed by the Group**

The Group has applied the following mandatory exceptions from retrospective application.

*(a) Derecognition of financial assets and liabilities exception*

The exception is not applicable.

*(b) Hedge accounting exception*

The Group previously hedge accounted in accordance with SA GAAP (AC 133) for which the hedge accounting criteria are the same as IAS 39. Hedge accounting has therefore been applied consistently.

*(c) Estimates exception*

Estimates under IFRS at 1 March 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

*(d) Assets held-for-sale and discontinued operations exception*

The Group applies IFRS 5 prospectively from 1 March 2004. Any assets held-for-sale or discontinued operations are only recognised in accordance with IFRS 5 from 1 March 2004.

## 2.2 RECONCILIATIONS BETWEEN IFRS AND GAAP

The following reconciliations provide quantification of the effect of the transition to IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 1 March 2004 and 28 February 2005.

The following three reconciliations provide details of the impact of the transition on:

- equity at 1 March 2004 (Note 2.2.2);
- equity at 28 February 2005 (Note 2.2.3); and
- net income for the year ended 28 February 2005 (Note 2.2.4).

	1 March 2004	28 February 2005
<b>2.2.1 Summary of impact on equity</b>		
Total equity under local GAAP	1 338	1 463
Restatement of accumulated depreciation to reflect PPE's useful lives and recognition of residual values	141	166
Impairment of goodwill from business combinations	–	(12)
Cumulative impact of other non-material items	(1)	(5)
Deferred tax adjustments	(46)	(54)
<b>Total equity under IFRS</b>	<b>1 432</b>	<b>1 558</b>

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for the year ended 28 February 2006

(all amounts in Rand millions)

	Note	GAAP	Effect of transition to IFRS	IFRS
<b>2.2.2 Reconciliation of equity at 1 March 2004</b>				
<b>ASSETS</b>				
<b>Non-current assets</b>				
		707	141	848
Property, plant and equipment	a	517	141	658
Intangible assets		65	-	65
Investments in associates		4	-	4
Available-for-sale financial assets		17	-	17
Financial receivables		22	-	22
Deferred income tax assets		82	-	82
<b>Current assets</b>				
		2 092	-	2 092
Inventories		588	-	588
Biological assets		37	-	37
Trade and other receivables		819	-	819
Derivative financial instruments		22	-	22
Current income tax assets		86	-	86
Cash and cash equivalents and cash collateral deposits		540	-	540
Cash collateral deposits		299	-	299
Cash and cash equivalents		241	-	241
<b>Total assets</b>				
		2 799	141	2 940
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
		1 338	94	1 432
Share capital		-	-	-
Share premium		89	-	89
Treasury shares		(122)	-	(122)
Incentive trust shares		(93)	-	(93)
Fair value and other reserves	b	(129)	128	(1)
Retained earnings	e	1 593	(34)	1 559
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
		87	46	133
Borrowings		9	-	9
Deferred income tax liabilities	c	55	46	101
Provisions for other liabilities and charges		23	-	23
<b>Current liabilities</b>				
		1 374	1	1 375
Trade and other payables	d	1 009	1	1 010
Derivative financial instruments		22	-	22
Current income tax liabilities		38	-	38
Short-term borrowings and bank overdrafts		305	-	305
<b>Total liabilities</b>				
		1 461	47	1 508
<b>Total equity and liabilities</b>				
		2 799	141	2 940

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## Explanation of the effect of the transition to IFRS

The following explains the material adjustments to the balance sheet:

### (a) Property, plant and equipment (PPE)

(i) Adjustment to economic useful lives of assets and recognition of residual values	154
(ii) Recognition of impairment provisions against PPE using guidance as set out in IAS 36	(13)
<b>Total impact – increase in PPE</b>	<b>141</b>

(i) In general the Group did not utilise the exception available under IFRS 1 and applied the cost model for PPE. The total adjustment represents retrospective restatement of accumulated depreciation to reflect the PPE's useful lives and recognition of residual values.

(ii) Recognition of impairment provisions against PPE using guidance set out in IAS 36 relates to asset impairment of:

- The Fresh Cut business previously included in the Products segment that was closed and reported as a discontinued operation. Impairment of immovable property improvements of R2,1 million.
- Certain assets included in the Products segment with a value of R6,8 million were impaired based on external offers received for the assets.
- Properties whose net realisable value is less than the book value and amounting to R4,0 million.

### (b) Fair value and other reserves

(i) Resetting of cumulative foreign currency translation reserves to zero	127
(ii) Recognition of share options issued after 7 November 2002 and not vested on 1 January 2005	1

<b>Total impact – increase in fair value and other reserves</b>	<b>128</b>
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### (c) Deferred income tax liabilities

<b>Total impact – increase in deferred income tax liabilities</b>	<b>46</b>
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The Group recalculated deferred income tax in accordance with IAS 12. IAS 12 allows a net presentation of deferred income tax assets and liabilities only when certain criteria are met. This adjustment recognises the gross presentation required by IAS 12.

### (d) Trade and other payables (current)

Recognising operating leases on a straight-line bases over the term of the lease in accordance with IAS 17	1
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### (e) Retained earnings

The cumulative effect of all the above adjustments resulted in a decrease in retained earnings at 1 March 2004	<b>(34)</b>
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for the year ended 28 February 2006

(all amounts in Rand millions)

	Note	GAAP	Effect of transition to IFRS	IFRS
<b>2.2.3 Reconciliation of equity at 28 February 2005</b>				
<b>ASSETS</b>				
<b>Non-current assets</b>		941	155	1 096
Property, plant and equipment	a	517	166	683
Intangible assets	b	90	(12)	78
Investments in associates		20	–	20
Available-for-sale financial assets		96	–	96
Financial receivables		100	–	100
Deferred income tax assets	c	118	1	119
<b>Current assets</b>		2 791	–	2 791
Inventories		1 081	–	1 081
Trade and other receivables		907	–	907
Derivative financial instruments		68	–	68
Current income tax assets		121	–	121
Cash and cash equivalents and cash collateral deposits		614	–	614
Cash collateral deposits		343	–	343
Cash and cash equivalents		271	–	271
<b>Total assets</b>		3 732	155	3 887
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
		949	95	1 044
Share capital		–	–	–
Share premium		–	–	–
Treasury shares		(155)	–	(155)
Incentive trust shares		(59)	–	(59)
Fair value and other reserves	d	(171)	129	(42)
Retained earnings	g	1 334	(34)	1 300
<b>Minority interest</b>		514	–	514
<b>Total equity</b>		1 463	95	1 558
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
		76	54	130
Borrowings		13	–	13
Deferred income tax liabilities	e	40	54	94
Provisions for other liabilities and charges		23	–	23
<b>Current liabilities</b>		2 193	6	2 199
Trade and other payables	f	1 736	6	1 742
Derivative financial instruments		24	–	24
Current income tax liabilities		8	–	8
Short-term borrowings and bank overdrafts		425	–	425
<b>Total liabilities</b>		2 269	60	2 329
<b>Total equity and liabilities</b>		3 732	155	3 887

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

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## Explanation of the effect of the transition to IFRS

The following explains the material adjustments to the balance sheet and income statement:

### (a) Property, plant and equipment (PPE)

(i) Adjustment to economic useful lives of assets and recognition of residual values.	179
(ii) Recognition of impairment provisions against PPE using guidance set out in IAS 36	(13)
<b>Total impact – increase in PPE</b>	<b>166</b>

(i) In general the Group did not utilise the exception available under IFRS 1 and applied the cost model for PPE. The total adjustment represents the retrospective restatement of accumulated depreciation to reflect the PPE's useful lives and recognition of residual values.

(ii) Recognition of impairment provisions against PPE using guidance set out in IAS 36 relates to the impairment of:

- The Fresh Cut business previously included in the Products segment that was closed and reported as a discontinued operation. Impairment of immovable property improvements of R2,1 million.
- Certain assets included in the Products segment with a value of R6,8 million were impaired based on external offers received for the assets.
- Properties whose net realisable value is less than the book value and amounting to R4,0 million.

### (b) Goodwill

(i) Business combinations	(17)
(ii) Reversal of goodwill amortised under GAAP	5
<b>Total impact – decrease in goodwill</b>	<b>(12)</b>

Goodwill is tested annually for impairments and is allocated to the Group's cash-generating units identified according to business segment.

### (c) Deferred income tax asset

<b>Total impact – increase in deferred income tax asset</b>	<b>1</b>
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The Group has recalculated deferred income tax in accordance with IAS 12. IAS 12 allows a net presentation of deferred income tax assets and liabilities only when certain criteria are met. This adjustment recognises the gross presentation required by IAS 12.

### (d) Fair value and other reserves

(i) Resetting of cumulative foreign currency translation reserves to zero	127
(ii) Recognition of share options issued after 7 November 2002 and not vested on 1 January 2005	3
Total impact of other items	(1)

<b>Total impact – increase in fair value and other reserves</b>	<b>129</b>
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### (e) Deferred income tax liabilities

<b>Total impact – Increase in deferred income tax liabilities</b>	<b>54</b>
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The Group has recalculated deferred income tax in accordance with IAS 12. IAS 12 allows a net presentation of deferred income tax assets and liabilities only when certain criteria are met. This adjustment recognises the gross presentation required by IAS 12.

### (f) Trade and other payables

(i) Contingent insurance claim liability out of acquisition of Natalagri moved to pre-acquisition profits on calculation of goodwill in accordance with IFRS 5	4
(ii) Recognising operating leases on a straight-line basis over the term of the lease in accordance with IAS 17	2

<b>Total impact – increase in trade and other payables</b>	<b>6</b>
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### (g) Retained earnings

(i) The cumulative effect of all the above adjustments has resulted in a decrease in retained earnings at 28 February 2005	<b>(34)</b>
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# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

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(all amounts in Rand millions)

## 2.2.4 Reconciliation of net income for the year ended 28 February 2005

	Note	GAAP	Effect of transition to IFRS	IFRS
Sales		6 247	–	6 247
Cost of sales		(5 316)	–	(5 316)
Gross profit		931	–	931
Other operating income		75	–	75
Other operating expenses	a	(702)	4	(698)
Operating profit		304	4	308
Finance costs		(80)	–	(80)
Share of profit of associates		3	–	3
Profit before income tax		227	4	231
Income tax expense		(65)	(4)	(69)
Profit for the year		162	–	162

### (a) Other operating expenses

(i) Business combinations				(2)
(ii) Property, plant and equipment				20
(iii) Share-based payments				(2)
(iv) Goodwill				(12)
				4

(i) Total impact of the adjustment for business combinations relate to the impairment of intangible assets.

(ii) Property, plant and equipment adjustment relates to the restatement of depreciation to reflect the assets useful lives and the recognition of residual values.

(iii) Recognition of expense component of share options issued after 7 November 2002 and not vested on 1 January 2005.

(iv) Recognition of goodwill expensed after calculating value in use of the underlying cash-generating unit and reversal of goodwill amortisation under GAAP.

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	2006 R000	2005 R000
<b>3 PROPERTY, PLANT AND EQUIPMENT</b>		
<b>3.1 Cost or valuation</b>	<b>1 056 401</b>	980 482
Land	23 423	30 034
Buildings and improvements	390 434	397 425
Machinery and equipment	561 153	467 289
Vehicles	81 391	85 734
<b>3.2 Accumulated depreciation and impairments</b>	<b>(346 336)</b>	(297 494)
Buildings and improvements	(90 241)	(98 256)
Machinery and equipment	(213 193)	(157 169)
Vehicles	(42 902)	(42 069)
<b>3.3 Net carrying value</b>	<b>710 065</b>	682 988
Land	23 423	30 034
Buildings and improvements	300 193	299 169
Machinery and equipment	347 960	310 120
Vehicles	38 489	43 665
<b>3.4</b> The registers of land and buildings are available for inspection at the registered offices of the respective Companies.		
<b>3.5</b> Included in buildings and improvements are silo facilities with a book value of R203,1 million (2005: R203,2 million). These silo facilities are a major income generating asset of the Group. The replacement value of these facilities is estimated at R2 554,9 million (2005: R2 528,3 million).		
<b>3.6</b> Refer to Note 31.1 for the Group's commitments for the acquisition of property, plant and equipment.		
<b>3.7</b> Included in machinery and equipment are lease assets to the value of R6,6 million (2005: R6,6 million). These assets serve as security for finance leases (refer Note 18.3).		

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	2006 R000	2005 R000
<b>3 PROPERTY, PLANT AND EQUIPMENT (continued)</b>		
<b>3.8 Movements for the year</b>		
<i>Opening carrying value</i>	<b>682 988</b>	659 133
Land	<b>30 034</b>	29 830
Buildings and improvements	<b>299 169</b>	281 317
Machinery and equipment	<b>310 120</b>	312 248
Vehicles	<b>43 665</b>	35 738
<i>Additions at cost</i>	<b>105 502</b>	123 839
Land	<b>1 328</b>	2 115
Buildings and improvements	<b>14 801</b>	28 385
Machinery and equipment	<b>75 484</b>	79 550
Vehicles	<b>13 889</b>	13 789
<i>Acquisition of subsidiaries and joint ventures</i>	<b>42 325</b>	141 102
Land	<b>335</b>	3 654
Buildings and improvements	<b>5 628</b>	88 557
Machinery and equipment	<b>32 976</b>	44 633
Vehicles	<b>3 386</b>	4 258
<i>Transfers</i>	-	-
Land	<b>(1 420)</b>	421
Buildings and improvements	<b>1 420</b>	(903)
Machinery and equipment	<b>(7)</b>	(33)
Vehicles	<b>7</b>	515
<i>Exchange differences</i>	<b>14 467</b>	(9 325)
Land	<b>(3 664)</b>	3 790
Buildings and improvements	<b>5 267</b>	(6 979)
Machinery and equipment	<b>13 134</b>	(5 149)
Vehicles	<b>(270)</b>	(987)
<i>Disposals at book value</i>	<b>(17 861)</b>	(53 284)
Land	<b>(2 964)</b>	(6 074)
Buildings and improvements	<b>(9 564)</b>	(34 314)
Machinery and equipment	<b>(2 438)</b>	(11 679)
Vehicles	<b>(2 895)</b>	(1 217)
<i>Depreciation charge</i>	<b>(48 314)</b>	(41 959)
Buildings and improvements	<b>(6 718)</b>	(7 058)
Machinery and equipment	<b>(32 161)</b>	(28 642)
Vehicles	<b>(9 435)</b>	(6 259)
<i>Disposals of subsidiaries and joint ventures</i>	-	(127 511)
Land	-	(3 702)
Buildings and improvements	-	(49 084)
Machinery and equipment	-	(72 553)
Vehicles	-	(2 172)
<i>Assets classified as held-for-sale</i>	<b>(67 782)</b>	-
Land	<b>(226)</b>	-
Buildings and improvements	<b>(9 810)</b>	-
Machinery and equipment	<b>(47 888)</b>	-
Vehicles	<b>(9 858)</b>	-

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	2006 R000	2005 R000
<b>3 PROPERTY, PLANT AND EQUIPMENT (continued)</b>		
<b>3.8 Movements for the year (continued)</b>		
<i>Impairment charge</i>	(1 260)	(9 007)
Buildings and improvements	-	(752)
Machinery and equipment	(1 260)	(8 255)
<i>Closing carrying value</i>	710 065	682 988
Land	23 423	30 034
Buildings and improvements	300 193	299 169
Machinery and equipment	347 960	310 120
Vehicles	38 489	43 665
<b>4 INTANGIBLE ASSETS</b>		
<b>4.1 Cost</b>	150 445	140 012
Goodwill	41 193	50 051
Trademarks and patents	20 308	31 977
Other	88 944	57 984
<b>4.2 Accumulated amortisation and impairments</b>	(45 502)	(61 655)
Goodwill	(17 363)	(26 919)
Trademarks and patents	(4 112)	(21 892)
Other	(24 027)	(12 844)
<b>4.3 Net carrying value</b>	104 943	78 357
Goodwill	23 830	23 132
Trademarks and patents	16 196	10 085
Other	64 917	45 140
<b>4.4 Movements for the year</b>		
<i>Opening carrying value</i>	78 357	64 365
Goodwill	23 132	29 787
Trademarks and patents	10 085	14 167
Other	45 140	20 411
<i>Additions at cost</i>	47 733	43 033
Goodwill	720	4 575
Trademarks and patents	16 053	885
Other	30 960	37 573
<i>Acquisition of subsidiaries</i>	12 990	9 097
Goodwill	12 990	9 097
<i>Amortisation charge</i>	(15 483)	(4 228)
Trademarks and patents	(4 300)	(2 821)
Other	(11 183)	(1 407)

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	2006 R000	2005 R000
<b>4 INTANGIBLE ASSETS (continued)</b>		
<b>4.4 Movements for the year (continued)</b>		
<i>Impairment charge</i>	-	(33 910)
Goodwill	-	(20 327)
Trademarks and patents	-	(2 146)
Other	-	(11 437)
<i>Assets classified as held-for-sale</i>	<b>(18 632)</b>	-
Goodwill	<b>(12 990)</b>	-
Trademarks and patents	<b>(5 642)</b>	-
<i>Exchange differences</i>	<b>(22)</b>	-
Goodwill	<b>(22)</b>	-
<i>Closing carrying value</i>	<b>104 943</b>	78 357
Goodwill	<b>23 830</b>	23 132
Trademarks and patents	<b>16 196</b>	10 085
Other	<b>64 917</b>	45 140
<b>4.5 Included under trademarks and patents are the following:</b>		
• Chemical trademark registrations with a carrying value of R15,0 million (2005: Nil) and remaining useful lives of 10 years.		
<b>4.6 Included under other is the following:</b>		
• Group internally developed computer software with a carrying value of R32,9 million (2005: R35,6 million) and assets brought into use have remaining useful lives of 4,5 years.		
• Internally developed computer software for the Animal Feeds division with a carrying value of R8,5 million (2005: Nil) and a remaining useful life of 3 years.		
• Internally developed intellectual capital within the Financial Services segment with a carrying value of R4,0 million (2005: Nil) and a remaining useful life of 5 years.		
• AFGRI Seed hybrids development cost with a carrying value of R12,4 million (2005: R8,0 million) and a remaining useful life of 5 years.		

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## 4 INTANGIBLE ASSETS (continued)

### 4.7 Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units identified according to business segments.

4.7.1 A segment-level summary of the goodwill allocation is presented below.

Services

14 498

13 800

    Producer

14 498

13 800

Products

22 322

9 332

    Cotton\*

12 990

—

    Foods

5 133

5 133

    Protein

4 199

4 199

Group

36 820

23 132

The recoverable amount of a business unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business segment in which the business unit operates.

\*Classified as held-for-sale

4.7.2 Key assumptions used for value-in-use-calculations

Producer

22,5%

4,5%

16,2%

Cotton and Foods

25,2%

4,0%

16,2%

Protein

30,0%

15,0%

16,2%

These assumptions have been used for the analysis of each cash-generating unit within the business segments.

<sup>1</sup> Budgeted gross margin

<sup>2</sup> Weighted average growth rate used to extrapolate cash flows beyond the budget period

<sup>3</sup> Pre-tax discount rate applied to the cash flow projections

Management determined the budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Gross margin <sup>1</sup>	Growth rate <sup>2</sup>	Discount rate <sup>3</sup>
22,5%	4,5%	16,2%
25,2%	4,0%	16,2%
30,0%	15,0%	16,2%

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	2006 R000	2005 R000
<b>5 INVESTMENTS IN ASSOCIATES</b>		
<b>5.1 Interest in unlisted associates</b> (refer Appendix C)		
Opening carrying amount	20 046	4 152
Purchased during the year	1 014	8 285
Sold during the year	(11 734)	(378)
Share of (loss)/profit after income tax and minority interest	(638)	7 987
Closing carrying amount	8 688	20 046
Directors' valuation	8 688	20 046
The directors' valuation is based on the net asset value of the various associates.		
<b>5.2 The summarised financial information of associates all of which are unlisted, is as follows:</b>		
Assets	23 958	86 312
Liabilities	8 511	62 941
Sales	17 517	304 936
(Loss)/profit	(3 470)	10 792
There are no contingent liabilities relating to the Group's and Company's interest in the associates.		
<b>6 AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>		
<b>6.1 Interest in unlisted investments</b> (refer Appendix D)		
Cost	3 790	21 920
Fair value gain	-	74 777
Impairment	(580)	(580)
Fair value	3 210	96 117
Directors' valuation	3 210	96 117
The directors' valuation is based on the investments' fair value and net asset values.		
<b>6.2</b> The registers of investments are available for inspection at the registered offices of the respective Companies.		
<b>7 FINANCIAL RECEIVABLES</b>		
Loans to unlisted joint ventures	10 906	7 470
Loans to unlisted associates (refer Appendix C)	2 842	1 601
Other loans to unlisted investments (refer Appendix D)	13 358	11 879
Held-to-maturity investments	262 151	100 000
Non-current portion of trade and other receivables	7 758	-
	297 015	120 950
Impairment of loans to unlisted investments	(1 225)	(326)
Short-term portion of interest free loans (refer Note 9)	(27 106)	(20 950)
	268 684	99 674

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>7 FINANCIAL RECEIVABLES (continued)</b>		
<b>7.1</b> The loans included in unlisted joint ventures, associates and investments have no fixed terms of repayment and are interest free.		
<b>7.2</b> The held-to-maturity investments are:		
<b>7.2.1</b> A preference share investment at Depfin Investments (Pty) Ltd of R100 million. The preference shares earn dividends at a variable rate of 65% of prime payable semi-annually. The final redemption date is 24 December 2007. These preference shares have been ceded to the Land and Agricultural Development Bank in terms of the BEE transaction. The dividends received of R5,5 million are in turn placed with the Land and Agricultural Development Bank as additional security.		
<b>7.2.2</b> Preference share investments at Premier Foods Limited of R100 million and R50 million. The preference shares earn dividends at variable rates linked to prime bank rate and payable quarterly. The final redemption date for the R100 million investment is on 9 July 2010 and the R50 million investment has no fixed redemption date.		
<b>7.2.3</b> An option purchased in the current year for Daybreak Farms. Cost and fair value is R6,6 million. Subsequent to year end this option was exercised		
<b>8 INVENTORIES</b>		
Merchandise	579 175	713 324
Raw materials	127 409	111 362
Finished goods	272 610	220 957
Consumable goods	58 328	35 356
	<b>1 037 522</b>	<b>1 080 999</b>
<b>8.1</b> Included in merchandise is R57,5 million (2005: R165,3 million) for purchases financed on a floor plan basis, which serve as security for such trade payables (refer Note 20.1).		
<b>8.2</b> Included in merchandise is seed stock with a value of R22 million (2005: R50 million) with an expected liquidity period of longer than 12 months.		
<b>8.3</b> The following inventory is valued at net realisable value:		
Merchandise	43 042	107 175
Finished goods	112 245	1 970
Consumable goods	-	76
	<b>155 287</b>	<b>109 221</b>

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000
<b>9 TRADE AND OTHER RECEIVABLES</b>		
Total trade receivables	741 955	872 373
– Current	571 456	693 848
– Season	143 747	151 501
– Capital goods	26 752	27 024
Prepayments	6 785	13 704
Short-term portion of interest free loans (refer Note 7)	27 106	20 950
	<b>775 846</b>	<b>907 027</b>
<b>9.1</b> Accounts for the financing of capital goods can be paid over periods of more than 12 months. The underlying capital goods serve as security for the debt.		
<b>9.2</b> Season and capital goods accounts bear interest at rates varying between prime bank rate and prime bank rate plus 5%.		
<b>9.3</b> Included in Trade and other receivables are the following receivables which have been financed through the Land and Agricultural Development Bank.		
Liability – Land and Agricultural Development Bank	(2 228 798)	(2 513 368)
Asset – Trade receivables	2 323 275	2 487 968
Net	<b>94 477</b>	<b>(25 400)</b>
The above asset and liability have been offset and the net amount disclosed in the balance sheet as there is a legally enforceable right to set off the recognised amounts and the intention is to realise the asset and settle the liability simultaneously. The Group's liability for bad debts is limited to a maximum of 10% of the gross trade receivables. The net interest income from this structure is included in the operating profit of AFGRI Financial Services.		
<b>10 DERIVATIVE FINANCIAL INSTRUMENTS</b>		
The net fair values of derivative financial instruments, interest rate swaps and cash flow hedges at the balance sheet date are:		
<b>10.1 Derivative financial instruments</b>		
Assets		
– Forward purchase contracts	15 804	30 668
– Forward sale contracts	19 073	172
– Net options	–	–
– Net futures	–	5 222
– Interest rate swaps – fair value hedge	25 914	32 081
	<b>60 791</b>	<b>68 143</b>
Liabilities		
– Forward sale contracts	954	23 376
– Forward purchase contracts	8 159	840
– Net futures	494	–
– Net options	10	83
	<b>9 617</b>	<b>24 299</b>

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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## 10 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### 10.2 Interest rate swaps

The notional principal amount of the outstanding interest-rate swap contracts on 28 February 2006 was R25 816 876 (2005: R32 582 564). The Group is not exposed to any risk on these swaps as they have been fully hedged.

At year end the fixed interest rate was 11,85% (2005: 11,85%) and the main floating rate was ZAR prime rate less 1%.

### 10.3 Foreign currency cash flow hedges

The fair value adjustment on foreign currency cash flow hedges is included in equity (refer note 14.3).

Foreign currency cash flow hedges consist of:

	2006			2005		
	Contract value	Market value	Fair value	Contract value	Market value	Fair value
<b>Sold</b>						
Euro	407	405	(2)	-	-	-
Pound Sterling	187	185	(2)	-	-	-
Japanese Yen	811	810	(1)	-	-	-
US Dollar	25 007	24 023	(984)	1 250	1 211	(39)
	<b>26 412</b>	<b>25 423</b>	<b>(989)</b>	1 250	1 211	(39)
<b>Purchased</b>						
Euro	6 156	5 902	254	2 553	2 547	6
Japanese Yen	9 077	8 726	351	-	-	-
US Dollar	19 780	19 740	40	5 652	4 856	796
	<b>35 013</b>	<b>34 368</b>	<b>645</b>	8 205	7 403	802
<b>Net fair value</b>			<b>(344)</b>			763

	2006	2005
	R000	R000
<b>11 CASH AND CASH EQUIVALENTS AND CASH COLLATERAL DEPOSITS</b>		
Cash on hand	45 510	70 558
Bank balances	149 231	200 738
	<b>194 741</b>	271 296
Short-term borrowings and bank overdrafts	(492 432)	(425 169)
Short-term borrowings	(460 900)	(408 700)
Bank overdrafts	(31 532)	(16 469)
	<b>(297 691)</b>	(153 873)
Cash and cash equivalents	382 080	342 343
Cash collateral deposits		
<b>Balance end of year</b>	<b>84 389</b>	188 470

11.1 Cash and cash equivalents are the same for cash flow statement purposes.

11.2 The cash collateral deposits consists of cash deposits at financial institutions and serve as security for bad debts, up to a maximum of 10% of the debtors administered on behalf of third parties by AFGRI or debtors financed by the Land and Agricultural Development Bank (refer Note 9.3). The deposits bear interest at market related cash deposit rates.

11.3 The short-term borrowings and bank overdrafts bear interest at rates varying from 7% to 10,5% (2005: 7,6% to 11%). All amounts are repayable within the next twelve months.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

<b>12 SHARE CAPITAL</b>	<b>Number of shares</b>	<b>Ordinary shares</b>	<b>Treasury shares</b>	<b>Total</b>
At 1 March 2004	<b>333 100 796</b>	4	–	4
Treasury shares acquired	<b>(6 194 431)</b>	–	–	–
Balance at 28 February 2005	<b>326 906 365</b>	4	–	4
Shares issued to share incentive trust	<b>14 279 000</b>	–	–	–
<b>Balance at 28 February 2006</b>	<b>341 185 365</b>	4	–	4
<b>12.1</b> The total authorised number of ordinary shares is 515 million shares with a par value of 0,001 cents per share. All issued shares are fully paid.				
<b>12.2</b> The Company acquired Nil (2005: 6 194 431) of its own shares through purchases on the JSE (refer Note 16).				
<b>12.3</b> The Company issued 6 300 000 during August 2005 and 7 979 000 during February 2006 to the AFGRI Limited Trust in terms of the share incentive scheme rules (refer Note 17).				
		<b>2006</b>		2005
		<b>R000</b>		R000
<b>13 SHARE PREMIUM</b>				
Balance beginning of year		–		88 555
Premium on shares issued to share incentive trust		<b>72 663</b>		–
Allotment duty on issue of shares		<b>(74)</b>		(7)
Special capital distribution		–		(88 548)
<b>Balance end of year</b>		<b>72 589</b>		–
<b>14 FAIR VALUE AND OTHER RESERVES</b>				
<b>14.1 Share-based equity valuation reserve</b>				
Opening balance		<b>2 714</b>		638
Movement for the year		<b>6 256</b>		2 076
Balance end of year		<b>8 970</b>		2 714
The fair value of options granted during the year determined using the Black-Scholes valuation model was R6,3 million (2005: R2,1 million). The significant inputs into the model were share prices of R4,72 and R5,38 (2005: R5,10), respectively, at the grant dates, standard deviation of expected share price returns of 43% (2005: 43%), dividend yield of 6% (2005: 6%), option life of 2 – 5 years and annual risk-free interest rate of 7,7% (2005: 7,7%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.				

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>14 FAIR VALUE AND OTHER RESERVES (continued)</b>		
<b>14.2 Foreign currency translation reserve</b>		
Opening balance	(43 891)	(803)
Movement for the year	42 399	(43 088)
Balance end of year	(1 492)	(43 891)
<b>14.3 Revaluation reserve of cash flow hedges (refer note 10.3)</b>		
Opening balance	(763)	(432)
Movement for the year	1 107	(331)
Balance of end of year	344	(763)
<b>Total fair value and other reserves</b>	<b>7 822</b>	<b>(41 940)</b>
<b>15 RETAINED EARNINGS</b>		
Comprising:		
Company	149 915	134 873
Subsidiaries	1 223 896	1 153 087
Joint ventures	(4 334)	(2 547)
Associates	208	12 940
Balance end of year	<b>1 369 685</b>	<b>1 298 353</b>
An amount of R458,9 million in respect of general and self-insurance reserves have been reclassified to retained earnings as they are distributable. The effect of this reclassification is presented in the Groups Statement of Changes in Equity.		
<b>16 TREASURY SHARES</b>		
The treasury shares are purchased by a subsidiary, OTK Investment House (Pty) Ltd. Treasury shares are disclosed as a reduction of equity in the Statement of Changes in Equity.		
The following shares were purchased in terms of a general authorisation:		
	<b>Number</b>	
Beginning of year	32 608 635	26 414 204
During the year	-	6 194 431
Balance end of year	<b>32 608 635</b>	<b>32 608 635</b>
Average price of shares purchased during the year	-	R5,44
Average purchase price of all shares	<b>R4,62</b>	R4,62
Total number purchased as a percentage of total issued shares	<b>8,7%</b>	9,1%

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000
<b>17 INCENTIVE TRUST SHARES</b>		
In terms of the AFGRI Limited incentive scheme, a maximum of 15% of the issued share capital can be issued to the deferred delivery scheme.		
The shares for deferred options exercised have been issued to AFGRI Limited Trust, which administers the incentive scheme. Registration in the name of the employee is deferred until future dates and will be transferred after payment of the subscription price. At 28 February 2006 a total number of 24 806 788 – 6,6% (2005: 16 688 690 – 4,6%) shares are held in trust for the incentive scheme. The 31 262 312 (2005: 37 238 560) unissued shares which have been reserved for the AFGRI Limited incentive scheme are under the control of the Directors.		
<b>18 BORROWINGS</b>		
<b>18.1 Interest bearing loans</b>	<b>110 373</b>	<b>10 173</b>
<i>Depfin Investments (Pty) Ltd</i>	<b>100 000</b>	–
Balance	100 000	–
Short-term portion	–	–
<i>Nedbank</i>	–	2 866
Balance	–	3 324
Short-term portion	–	(458)
<i>Bank West</i>	<b>1 677</b>	1 917
Balance	1 820	2 076
Short-term portion	(143)	(159)
<i>Wesbank</i>	–	959
Balance	–	1 128
Short-term portion	–	(169)
<i>Toyota Financial Services</i>	–	442
Balance	–	554
Short-term portion	–	(112)
<i>Land and Agricultural Development Bank</i>	<b>938</b>	1 259
Balance	4 248	4 629
Short-term portion	(3 310)	(3 370)
<i>Standard Bank</i>	–	2 730
Balance	–	3 120
Short-term portion	–	(390)
<i>Rand Merchant Bank</i>	<b>7 758</b>	–
Balance	15 516	–
Short-term portion	(7 758)	–

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>18 BORROWINGS (continued)</b>		
<b>18.1.1 Present value of interest bearing loans</b>		
– Not later than 1 year	11 211	4 658
– Later than 1 year and not later than 5 years	109 268	6 411
– Later than 5 years	1 105	3 762
	<b>121 584</b>	<b>14 831</b>
<b>18.1.2</b> The Depfin preference share borrowing is cumulative non-convertible and redeemable on 9 July 2010 and bears interest at a variable rate of 75% of prime bank rate payable quarterly.		
<b>18.1.3</b> The Nedbank loan was repayable in monthly instalments of R65 142 and beared interest at a rate of 10,0% per annum. The loan was secured by land and buildings with a carrying value of R8,7 million. The loan was repaid in full in the current year.		
<b>18.1.4</b> The Bank West loan is denominated in Australian Dollars and is not hedged. The loan is repayable in monthly instalments of R35 020. The last payment is due in October 2013. Interest is charged at a rate of 7,15% per annum. The loan is secured by land and buildings with a carrying value of R25 million.		
<b>18.1.5</b> The Wesbank loan was repayable in monthly instalments of R31 970 and beared interest at a rate of 9% per annum. The loan was secured by vehicles with a carrying value of R913 773. The loan was repaid in full in the current year.		
<b>18.1.6</b> The Toyota Financial Services loan was repayable in monthly instalments of R19 959 and beared interest at a rate of 9% per annum. The loan was secured by vehicles with a carrying value of R428 300. The loan was repaid in full in the current financial year.		
<b>18.1.7</b> The Land and Agricultural Development Bank loan of R1,248 million (2005: R1,569 million) is repayable in annual instalments of R310 000 and bears interest at a rate of 9,5% per annum. The loan is secured by the total debtors book, inventory and machinery and equipment with a carrying value of R14 million (2005: R11,3 million).		
The Land and Agricultural Development Bank loan of R3,000 million bears interest at a rate of 9,25% per annum and is fully repayable in the next financial year.		

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000
<b>18 BORROWINGS (continued)</b>		
<b>18.1.8</b> The Standard Bank loan was repayable in monthly instalments of R32 900 and beared interest at a rate of 10,25% per annum. The loan was secured by land and buildings with a carrying value of R4,8 million. The loan was repaid in full in the current financial year.		
<b>18.1.9</b> The Rand Merchant Bank loan is denominated in US Dollars. The loan is repayable in annual instalments of R6 611 469. Interest is charged at 4,3% per annum. The loan is secured by equipment held by Mpongwe Development Company, Wangwa and Cropmasters, with a carrying value of R24,7 million under a Zambian fixed charge. The last payment is due in February 2008.		
<b>18.2 Interest free loans</b>		
Other loans	10 550	3 643
Held-for-sale	(2 668)	-
Short-term portion of interest free loans	(7 882)	(3 643)
	-	-
These loans are unsecured and have no specific terms of repayment.		
<b>18.3 Finance leases</b>		
<b>18.3.1</b> Hewlett Packard	5 355	3 190
Minimum lease payments		
Not later than 1 year	3 945	2 440
Later than 1 year and not later than 5 years	6 238	3 363
	10 183	5 803
Future finance charges on finance leases	(1 429)	(491)
Present value of finance lease liabilities	8 754	5 312
Short-term portion of finance leases	(3 399)	(2 122)
<b>18.3.2</b> Present value of finance lease liabilities		
Not later than 1 year	3 399	2 122
Later than 1 year and not later than 5 years	5 355	3 190
	8 754	5 312
<b>18.3.3</b> The finance leases are repayable in monthly instalments varying from R3 700 to R147 691 and bear interest at rates varying between 5% and 12,5%. Finance leases are secured by machinery and equipment and vehicles with a carrying value of R6,6 million (2005: R6,6 million) and debtors of R2,5 million (refer Note 3.7).		
<b>Total borrowings</b>	<b>115 728</b>	<b>13 363</b>

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>19 DEFERRED INCOME TAX</b>		
<b>19.1 Movement in deferred income tax</b>		
Balance beginning of year	(25 098)	19 319
Disposal of joint ventures	-	(34 822)
Purchase of subsidiaries	(9 176)	571
Income statement debit	(16 636)	(10 166)
Foreign currency differences	(4 292)	-
Other	(5 517)	-
<b>End of year</b>	<b>(60 719)</b>	<b>(25 098)</b>
<b>19.2 Analysis of deferred income tax</b>		
<b>Deferred income tax liabilities</b>		
Property, plant and equipment	98 178	84 225
Trade and other receivables	1 370	10 097
<b>Total</b>	<b>99 548</b>	<b>94 322</b>
<b>Deferred income tax assets</b>		
Property, plant and equipment	9 601	9 741
Provisions	30 794	37 438
Trade and other receivables	-	14 745
Income tax losses	107 861	54 537
Other	12 011	2 959
<b>Total</b>	<b>160 267</b>	<b>119 420</b>
<b>20 TRADE AND OTHER PAYABLES</b>		
Trade accounts payable	764 816	1 004 548
Other payables and accruals	672 974	728 206
Short-term portion of borrowings		
- interest bearing loans	11 211	4 658
- finance leases	3 399	2 122
- interest free loans	7 882	3 643
	<b>1 460 282</b>	<b>1 743 177</b>
<b>20.1</b> Included in trade accounts payable is R57,5 million (2005: R165,3 million) for purchases financed on a floor plan basis. These payables are secured by merchandise included in Note 8.1		

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000
<b>21 PROVISIONS FOR OTHER LIABILITIES AND CHARGES</b>		
<b>21.1 Grain industry risk</b>		
Beginning of year	19 419	23 061
Utilised during the year	(6 297)	(8 696)
Charged to income statement	-	5 054
Balance end of year	13 122	19 419
Provision for grain industry risks is made for the risks inherent in the handling and storage of grain. The decrease in this provision is due to the successful implementation of the SIMS stock management system, which led to more accurate stock levels with smaller deviations.		
<b>21.2 Onerous contracts</b>		
Beginning of year	3 463	-
Charged to income statement	5 571	3 463
Utilised during the year	(4 483)	-
Balance end of year	4 551	3 463
Provision is made for the full term of contractual leases that are payable for vacated offices where the lease term has not expired.		
<b>Total provisions for other liabilities and charges</b>	<b>17 673</b>	<b>22 882</b>
<b>22 SALES</b>		
Sales from continuing operations	5 431 168	5 357 912
Sale of goods	4 722 905	4 714 060
Services rendered	419 441	412 587
Debtor financing	288 822	231 265
Sales from discontinued operations		
Sale of goods	356 813	888 973
<b>Gross sales from operations</b>	<b>5 787 981</b>	<b>6 246 885</b>

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>23 OPERATING PROFIT</b>		
The operating profit is stated after taking into account the following:		
<b>23.1 Net profit on disposal of property, plant and equipment</b>	<b>3 840</b>	1 820
<b>23.2 Payments to non-employees</b>		
Managerial, technical, administrative and secretarial fees	(18 463)	(28 520)
Outsourcing of IT, personnel and internal audit functions	(61 376)	(58 828)
	<b>(79 839)</b>	(87 348)
<b>23.3 Fair value adjustments to trade and other receivables</b>	<b>(10 094)</b>	(21 997)
<b>23.4 Fair value losses on financial instruments</b>		
On forward contracts: transactions not qualifying as hedges	(1 361)	(8 472)
– Gains	3 194	6 346
– Losses	(4 555)	(14 818)
<b>23.5 Depreciation</b>		
Buildings and improvements	(6 718)	(7 058)
Machinery and equipment	(32 161)	(28 642)
Vehicles	(9 435)	(6 259)
	<b>(48 314)</b>	(41 959)
<b>23.6 Impairments of assets</b>		
Buildings and improvements	–	(752)
Machinery and equipment	(1 260)	(8 255)
Goodwill	–	(20 327)
Trademarks and patents	–	(2 146)
Other	–	(11 437)
	<b>(1 260)</b>	(42 917)
<b>23.7 Amortisation of intangible assets</b>		
Trademarks	(4 300)	(2 821)
Other	(11 183)	(1 407)
	<b>(15 483)</b>	(4 228)
<b>23.8 Finance costs</b>		
Interest paid	(101 862)	(92 675)
Interest paid on leases	(890)	(278)
	<b>(102 752)</b>	(92 953)
<b>23.9 Foreign currency profits/(losses)</b>	<b>8 743</b>	(11 993)
<b>23.10 Interest paid to Land and Agricultural Development Bank legal right of set-off (refer Note 9.3)</b>	<b>(184 048)</b>	(167 313)

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000
<b>23 OPERATING PROFIT (continued)</b>		
<b>23.11 Auditors' remuneration</b>		
Audit remuneration		
– current year	(4 917)	(4 650)
– previous year	(938)	(469)
Other services and expenses	(1 483)	(888)
	<b>(7 338)</b>	<b>(6 007)</b>
<b>23.12 Profit on disposal of available-for-sale investments</b>	<b>1 788</b>	<b>616</b>
<b>23.13 Movement in provisions</b>		
– Utilisation of grain industry risk provision	6 297	3 642
– Increase in onerous contract	(1 088)	(3 463)
	<b>5 209</b>	<b>179</b>
<b>23.14 Operating lease payments</b>		
– Buildings	(29 405)	(26 289)
– Plant and machinery	(3 847)	(617)
– Motor vehicles	(4 214)	(699)
– Equipment	(20 368)	(25 892)
	<b>(57 834)</b>	<b>(53 497)</b>
<b>23.15 Fair value adjustment to available-for-sale investments</b>	–	74 777
<b>23.16 Fair value adjustments to share-based reserves</b>	<b>(6 256)</b>	<b>(2 076)</b>
<b>24 STAFF COSTS</b>		
Salaries and wages	557 437	541 356
Pension costs – defined contribution plans	29 161	26 174
Termination benefits	7 053	3 207
	<b>593 651</b>	<b>570 737</b>
Average monthly number of employees employed by the Group during the year:		
		<b>Number</b>
Full-time	4 390	4 587
Part-time	1 368	1 288
	<b>5 758</b>	<b>5 875</b>
South Africa	4 228	4 973
Other African countries	1 433	803
Australia	97	99
	<b>5 758</b>	<b>5 875</b>

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

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## 25 HELD-FOR-SALE AND DISCONTINUED OPERATIONS

### 25.1 Non-current assets and liabilities classified as held-for-sale

AFGRI's cotton ginning interests of Clark Cotton (Pty) Ltd were sold to Cargill subsequent to the year end. The non-current assets and liabilities have therefore been disclosed as held-for-sale.

#### Assets

#### Non-current assets classified as held-for-sale

Property, plant and equipment

Intangible assets

#### Total assets

#### Non-current liabilities classified as held-for-sale

#### Minority interest

#### Non-current liabilities

Borrowings

#### Total liabilities

Sales

Cost of sales

Gross profit

Other operating income

Finance costs

Other operating expenses

Loss before income tax

Income tax expense

Loss for the year

	2006 R000	2005 R000
	86 414	—
	67 782	—
	18 632	—
	86 414	—
	256	—
	2 668	—
	2 924	—
	301 276	269 454
	(227 604)	(232 776)
	73 672	36 678
	1 631	565
	(11 931)	(4 831)
	(72 640)	(68 111)
	(9 268)	(35 699)
	1 968	9 909
	(7 300)	(25 790)

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

## 25 HELD-FOR-SALE AND DISCONTINUED OPERATIONS (continued)

### 25.2 Discontinued operations

The loss from discontinued operations of R22,4 million (2005: R138,9 million profit), resulted from the closure of the Western Free State and North West retail branches and the retail distribution centre. The profit in the previous year resulted from the disposal of Earlybird Farm, Pioneer, Bester Voer and Graanbeurs, ANB Vet and the closure of the AFGRI Fresh Cut business.

#### Assets

##### Non-current assets

Property, plant and equipment  
Intangible assets

##### Current assets

Inventories  
Trade and other receivables  
Cash and cash equivalents

#### Total assets

#### Equity and liabilities

##### Capital and reserves

Share capital  
Retained earnings

##### Non-current liabilities

Borrowings

##### Current liabilities

Trade and other payables

#### Total equity and liabilities

Sales

Cost of sales

Gross (loss)/profit

Other operating income

Finance costs

Other operating expenses

(Loss)/profit before income tax

Income tax expense

(Loss)/profit for the year

	2006 R000	2005 R000
	1 023	6 136
	1 023	6 129
	-	7
	35 719	62 802
	32 664	58 458
	2 721	1 659
	334	2 685
	36 742	68 938
	(82 067)	(51 716)
	-	1
	(82 067)	(51 717)
	111 713	75 218
	7 096	45 436
	7 096	45 436
	36 742	68 938
	55 537	619 519
	(57 202)	(513 204)
	(1 665)	106 315
	-	120 690
	-	(659)
	(26 415)	(91 177)
	(28 080)	135 169
	5 641	3 708
	(22 439)	138 877

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>26 INCOME TAX EXPENSE</b>		
<b>26.1 Income tax expense</b>		
South African normal income tax	25 119	36 638
Current year	25 553	37 604
Previous year overprovision	(434)	(966)
Deferred income tax	(16 585)	(10 166)
Current year	(15 155)	(14 722)
Previous year (over)/under provision	(1 430)	4 556
Change in income tax rate	(51)	-
Secondary tax on companies	4 130	40 994
Capital gains tax	1 819	1 425
Income tax charge	14 432	68 891
Continuing operations	22 042	82 508
Discontinued operations	(7 610)	(13 617)
Income tax charge	14 432	68 891
<b>26.2 Reconciliation of income tax rate</b>		
Income tax for the year as a percentage of income before income tax	10	31
Income tax effect of:		
Non-deductible expenditure	(4)	(3)
Capital profits	3	14
Dividends received	22	8
Secondary tax on companies	(3)	(20)
Capital gains tax	(1)	(1)
Prior year overprovision	1	2
Income tax losses not provided	1	(1)
Standard rate	29	30
<b>27 DIVIDENDS</b>		
Final normal and special of 9,7 cents per share for 2005 year (2004: 26,1 cents per share)	30 390	80 226
Interim of 9,05 cents per share for 2006 year (2005: 18,3 cents per share)	28 517	56 677
	58 907	136 903

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000																																																											
<b>28 EARNINGS PER SHARE</b>																																																													
Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.																																																													
Net profit	129 073	149 167																																																											
Weighted average number of ordinary shares in issue (thousands)	330 640	331 104																																																											
Basic earnings per share (cents)	39,0	45,1																																																											
The earnings of the prior year have been adjusted to take into account the effect of the BEE transaction and the once off STC		(12,5)																																																											
Basic earnings per share (cents)		32,6																																																											
<b>29 HEADLINE EARNINGS PER SHARE</b>																																																													
<b>29.1 Headline earnings</b>																																																													
The headline earnings per share has been calculated on profit of R122,910 million (2005: R113,379 million) and weighted average issued shares of 330 640 234 (2005: 331 103 785) at 28 February.																																																													
	<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Profit before</th> <th colspan="2">Headline earnings</th> </tr> <tr> <th>income tax</th> <th>Income tax</th> <th>Actual 2006</th> <th>Pro forma 2005</th> </tr> </thead> <tbody> <tr> <td>Profit per financial statements</td> <td style="text-align: right;">143 506</td> <td style="text-align: right;">(14 433)</td> <td style="text-align: right;">129 073</td> <td style="text-align: right;">107 959</td> </tr> <tr> <td>Net profit on disposal of business assets</td> <td style="text-align: right;">(4 165)</td> <td style="text-align: right;">720</td> <td style="text-align: right;">(3 445)</td> <td style="text-align: right;">(44 891)</td> </tr> <tr> <td>Amortisation/impairment of goodwill</td> <td style="text-align: right;">(10 131)</td> <td style="text-align: right;">-</td> <td style="text-align: right;">(10 131)</td> <td style="text-align: right;">16 686</td> </tr> <tr> <td>Loss on discontinued operations</td> <td style="text-align: right;">9 791</td> <td style="text-align: right;">(2 378)</td> <td style="text-align: right;">7 413</td> <td style="text-align: right;">19 803</td> </tr> <tr> <td>Impairment of assets</td> <td style="text-align: right;">-</td> <td style="text-align: right;">-</td> <td style="text-align: right;">-</td> <td style="text-align: right;">13 822</td> </tr> <tr> <td>Headline earnings</td> <td style="text-align: right;">139 001</td> <td style="text-align: right;">(16 091)</td> <td style="text-align: right;">122 910</td> <td style="text-align: right;">113 379</td> </tr> <tr> <td>Headline earnings per share (cents)</td> <td></td> <td></td> <td style="text-align: right;">37,2</td> <td style="text-align: right;">34,2</td> </tr> <tr> <td>The headline earnings of the prior year have been adjusted taking into account the BEE effect and the once off STC charge.</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Headline earnings previously reported (cents) BEE and STC effect</td> <td></td> <td></td> <td></td> <td style="text-align: right;">46,9 (12,7)</td> </tr> <tr> <td>Adjusted headline earnings for 2005 (cents)</td> <td></td> <td></td> <td></td> <td style="text-align: right;">34,2</td> </tr> </tbody> </table>		Profit before		Headline earnings		income tax	Income tax	Actual 2006	Pro forma 2005	Profit per financial statements	143 506	(14 433)	129 073	107 959	Net profit on disposal of business assets	(4 165)	720	(3 445)	(44 891)	Amortisation/impairment of goodwill	(10 131)	-	(10 131)	16 686	Loss on discontinued operations	9 791	(2 378)	7 413	19 803	Impairment of assets	-	-	-	13 822	Headline earnings	139 001	(16 091)	122 910	113 379	Headline earnings per share (cents)			37,2	34,2	The headline earnings of the prior year have been adjusted taking into account the BEE effect and the once off STC charge.					Headline earnings previously reported (cents) BEE and STC effect				46,9 (12,7)	Adjusted headline earnings for 2005 (cents)				34,2	
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Adjusted headline earnings for 2005 (cents)				34,2																																																									
<b>29.2 Diluted earnings per share</b>																																																													
There is no dilution as all the shares under the deferred delivery scheme have been issued to the AFGRI Limited Trust and are included in the weighted average number of ordinary shares in issue.																																																													

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>30 NOTES TO THE CASH FLOW STATEMENT</b>		
<b>30.1 Cash generated from operations</b>		
Profit before income tax	160 192	230 724
Adjusted for:		
Depreciation	48 314	41 959
Impairment of property, plant and equipment	1 260	9 007
Amortisation of intangible assets	15 483	4 228
Impairment of intangible assets	–	33 910
Dividends from investments	(26 511)	(26 118)
Interest received	(9 151)	(22 613)
Finance costs	102 752	92 953
Net profit on disposal of property, plant and equipment	(3 840)	(1 820)
Adjustment for other non-cash items	(5 501)	(131 004)
Working capital changes		
Inventories	97 581	(396 809)
Biological assets	–	(36 775)
Trade, other receivables and financial assets	181 078	(324 660)
Trade, other payables and financial liabilities	(423 716)	732 286
	<b>137 941</b>	<b>205 268</b>
<b>30.2 Dividends paid</b>		
Prior year final dividend paid	(30 390)	(80 226)
Interim dividend paid	(28 517)	(56 677)
	<b>(58 907)</b>	<b>(136 903)</b>
<b>30.3 Income tax paid</b>		
Unpaid amounts beginning of year	113 270	48 763
Normal income tax charged for year	(25 119)	(36 638)
Secondary tax on Companies charged for year	(4 130)	(6 529)
Capital gains tax charged for year	(1 819)	(1 425)
Tax realised on disposal of joint venture	–	16 719
Unpaid amounts end of year	(108 685)	(113 270)
	<b>(26 483)</b>	<b>(92 380)</b>
<b>30.4 Purchase of property, plant and equipment</b>		
Land	(1 328)	(2 115)
Buildings and improvements	(14 801)	(28 385)
Machinery and equipment	(75 484)	(79 550)
Vehicles	(13 889)	(13 789)
	<b>(105 502)</b>	<b>(123 839)</b>

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000
<b>30 NOTES TO THE CASH FLOW STATEMENT (continued)</b>		
<b>30.5 Proceeds from disposal of property, plant and equipment</b>		
Book value	17 861	53 284
Profit on disposal	3 840	1 820
	<b>21 701</b>	<b>55 104</b>
<b>30.6 Acquisition of subsidiaries – net of cash acquired</b>		
Property, plant and equipment	(42 325)	(141 102)
Available-for-sale investments	11 734	(1 378)
Intangible assets	–	(5 821)
Inventories	(41 126)	(100 569)
Trade and other receivables	(39 658)	47 534
Trade and other payables	124 529	106 958
Goodwill	840	(3 276)
Deferred income tax	(9 176)	571
Borrowings	–	11 066
Cash and cash equivalents	(28 102)	58 299
Minority interest	256	–
Total purchase consideration	(23 028)	(27 718)
Cash and cash equivalents acquired	28 102	(58 299)
<b>Net cash flow on acquisition</b>	<b>5 074</b>	<b>(86 017)</b>
<b>30.6.1</b> The remaining 73% of Nedan Oil Mills (Pty) Ltd was acquired on 1 March 2005 for a consideration of R18,5 million. The purchase consideration was allocated to all identifiable assets and liabilities with an amount of R13,8 million recognised as negative goodwill. Earnings to the value of R9,5 million after tax are recognised in the Group earnings for the year.		
<b>30.6.2</b> 51% interest in Clark Cotton Malawi Limited was acquired on 1 March 2005 for a consideration of R4,6 million. The purchase consideration was allocated to all identifiable assets and liabilities with an amount of R13,0 million recognised as positive goodwill. Losses to the value of R3,4 million after tax are recognised in the Group earnings for the year.		

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>30 NOTES TO THE CASH FLOW STATEMENT (continued)</b>		
<b>30.7 Proceeds from disposal of shares in joint venture – net of cash disposed</b>		
Property, plant and equipment	–	127 511
Inventories	–	67 152
Trade and other receivables	–	142 303
Trade and other payables	–	(115 892)
Income tax	–	(16 719)
Deferred income tax	–	(34 822)
Profit on disposal	–	46 222
Cash and cash equivalents disposed	–	9 245
Total proceeds on disposal	–	225 000
Cash and cash equivalents	–	(9 245)
<b>Net proceeds on disposal</b>	–	215 755
<b>31 COMMITMENTS</b>		
<b>31.1 Capital commitments</b>		
Contracted for additions to property, plant and equipment	<b>35 426</b>	24 878
Authorised but not contracted for additions to property, plant and equipment	<b>23 208</b>	82 701
	<b>58 634</b>	107 579
The abovementioned capital commitments will be financed by net cash flow from operations and the utilisation of cash and borrowings within the accepted gearing profile of the Group.		
The Group's proportionate share of the capital expenditure commitments of joint ventures is included in the above commitments is Rnil (2005: R11,8 million).		
<b>31.2 Operating lease commitments</b>		
The future minimum lease payments under non-cancellable operating vehicle and equipment leases are as follows:		
Not later than 1 year	<b>11 098</b>	15 133
Later than 1 year and not later than 5 years	<b>9 040</b>	27 339
Later than 5 years	<b>921</b>	811
	<b>21 059</b>	43 283

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000
<b>32 GROUP BORROWING FACILITIES</b>		
<b>32.1 Borrowing facilities</b>		
General banking facilities	1 164 900	1 147 400
Term facilities, including foreign facilities	654 500	326 800
	<b>1 819 400</b>	<b>1 474 200</b>
In terms of the Company's Articles of Association, the Group borrowings are unlimited, but certain limits on borrowing levels have been fixed by the Board of Directors.		
<b>32.2 Unutilised borrowing facilities</b>		
Total facilities	1 819 400	1 474 200
Utilisation – Short term borrowings	(460 900)	(408 700)
– Guarantees	(143 500)	(60 700)
	<b>1 215 000</b>	<b>1 004 800</b>
<b>33 AGENCY AGREEMENTS</b>		
The following financial assets are administered on behalf of third parties:		
<b>33.1 Debtors</b>		
The Group manages agri debtors on behalf of the following third parties:		
Wesbank	486 125	376 467
Rand Merchant Bank	–	165 944
Stanbic	36 698	20 139
	<b>522 823</b>	<b>562 550</b>
Management fees are paid by these third parties and the Group is liable for bad debts up to a maximum of between 10% and 15% of the value of debtors administered.		
<b>33.2 Commodities</b>		
The following value of commodities were handled, stored and managed on behalf of third parties:		
Rand Merchant Bank	229 722	41 080
ABSA Bank	–	257 705
Other commodity users	1 676 612	818 946
Producers	143 964	91 975
	<b>2 050 298</b>	<b>1 209 706</b>
AFGRI receives a fee for the handling, grading, storing and administration of these commodities. AFGRI has a contractual right of first refusal to purchase R253,9 million (2005: R299 million) of the commodities at market value.		

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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	2006 R000	2005 R000
<b>34 RETIREMENT BENEFITS</b>		
<p>The Group provides retirement fixed contribution plans to all permanent employees through the AFGRI Personnel Pension Contribution Plan, AFGRI Provident Plan and other contribution plans. These funds are governed by the Pension Fund Act of 1956 and no actuarial valuations are required.</p> <p>The funds are administered by several service providers. The assets of the funds always equal or exceed the liabilities and all death and disability benefits are fully reinsured.</p> <p>The AFGRI Personnel Pension Contribution Plan has a surplus. In terms of new legislation governing pension fund surpluses, contribution holidays have been discontinued until investigations and recalculations by independent actuaries are finalised.</p> <p>The contributions of the other funds, as well as the future contributions of the AFGRI Personnel Pension Plan, are and will be charged against the Income Statement as and when incurred.</p>		
<b>35 RELATED PARTY TRANSACTIONS</b>		
<p>During the year the Company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with joint ventures. These transactions occurred on an arm's length and commercial basis.</p> <p><b>Associates and joint ventures</b></p> <p>Details of investments in joint ventures and associates are disclosed in Appendix B and C, whilst the Group's share of income and expenses is included in the Income Statement.</p> <p>Details of transactions with joint ventures are as follows:</p>		
Interest income	62	27
Goods purchased	35 606	42 484
Goods sold	-	182 122
The outstanding balances at year end are as follows:		
Trade and other receivables (Note 9)	-	4 908
Trade and other payables (Note 20)	10 351	1 276

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

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## 35 RELATED PARTY TRANSACTIONS (continued)

### Subsidiaries

Investments in subsidiaries are disclosed in Appendix A and on page 106 Note 3.

### Directors

Details relating to Directors' emoluments are disclosed on pages 108 to 110, Note 8. All Executive Directors are eligible for an annual performance-related bonus payment linked to appropriate Group and business sector targets.

The structure of the individual bonus plans and awards is decided by the Remuneration Committee and is EVA based.

The aggregate number of share options granted to and exercised by executive Directors of the Company during the year was 7 234 000 (2005: 4 500 000). The total Directors' interests in the issued shares of the Company are disclosed on page 37, Directors' report.

The total value of turnover from Directors is R48,6 million (2005: R57,5 million) and the total amount of debt owed by Directors is R55,3 million (2005: R49,9 million). These transactions arise from normal trading activities at an arm's length basis. The debts are repayable on normal terms.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2006

	2006 R000	2005 R000
<b>35 RELATED PARTY TRANSACTIONS (continued)</b>		
<p><b>Salaries of key personnel</b> The salary costs of key personnel as identified by Management are as follows:</p> <ul style="list-style-type: none"> <li>– Cost to Company <span style="float: right;">56 803</span></li> <li>– Share-based payments <span style="float: right;">6 256</span></li> </ul>		52 465 2 076
<p><b>Shareholders</b> The principal shareholders of the Company are detailed in the "Shareholder spread analysis" on page 111.</p> <p><b>Capital commitments</b> Details are disclosed in Note 31.1.</p>		
<b>36 GUARANTEES AND CONTINGENT LIABILITY</b>		
<p><b>36.1 Guarantees</b> Performance guarantees given to banks and other third parties</p>	31 237	35 340
<p><b>36.2 Contingent liability</b> <b>Income tax</b> The Company and SARS are in disagreement over the treatment of certain trading losses, which could result in an income tax liability. The Board will oppose any claim that may arise.</p>		