



**KAAP**  **AGRI**

**ANNUAL REPORT 2010**



**KAAP AGRI IS AN AGRICULTURAL SERVICES GROUP WHICH SUPPLIES A VARIETY OF PRODUCTS AND SERVICES MAINLY TO THE AGRICULTURAL SECTOR, BUT ALSO THE GENERAL PUBLIC.**

**Kaap Agri has 126 operating points that stretch over 78 cities, towns and places and include areas such as the Swartland, Boland, Winelands, Overberg, Langkloof, Namaqualand, Orange River, Namibia and adjacent areas as well as Limpopo, Mpumalanga and Gauteng.**

**Kaap Agri is also the largest shareholder in Pioneer Food Group Limited.**

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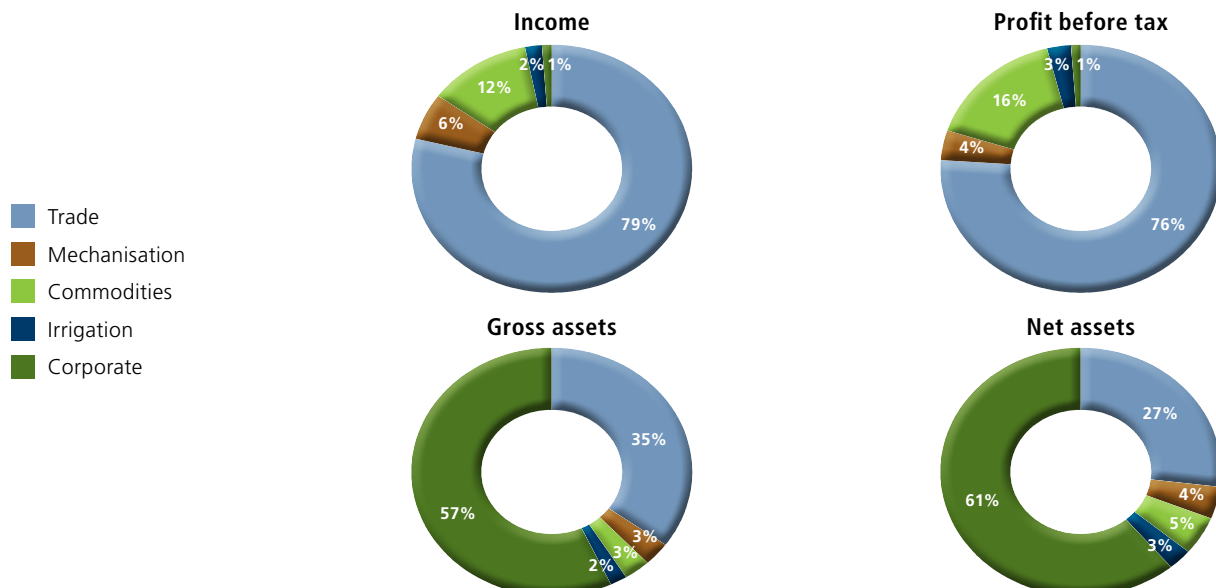
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## BUSINESS PROFILE

	TRADE		MECHANISATION	
<b>Services</b>	<ul style="list-style-type: none"> <li>• Production inputs</li> <li>• Packing material</li> <li>• Hardware</li> <li>• Fuel</li> <li>• Outdoor life</li> </ul>		<ul style="list-style-type: none"> <li>• Tractors</li> <li>• Combine harvesters</li> <li>• Tillage</li> <li>• Parts</li> <li>• Workshops</li> </ul>	
<b>Purpose</b>	Providing a complete range of production inputs and other goods to agricultural producers as well as the general public.		Providing a complete range of mechanisation equipment and services.	
<b>Operations</b>	<ul style="list-style-type: none"> <li>• 57 Agrimark shops</li> <li>• 18 Pakmark shops</li> <li>• 2 Villagemart shops</li> <li>• 5 Liquormark shops</li> <li>• 2 Agrimark depots</li> <li>• Western Cape</li> <li>• Northern Cape</li> <li>• Limpopo</li> <li>• Mpumalanga</li> <li>• Namibia</li> </ul>		<ul style="list-style-type: none"> <li>• 9 Workshops</li> <li>• 8 Parts outlets</li> <li>• 5 Fuel depots</li> <li>• Western Cape</li> </ul>	
<b>Financial</b>	<b>2010</b> R'000	2009 R'000	<b>2010</b> R'000	2009 R'000
Income	<b>1 927 949</b>	1 792 764	<b>159 124</b>	120 375
Profit before tax	<b>81 062</b>	90 057	<b>4 185</b>	1 525
Gross assets	<b>503 510</b>	459 899	<b>42 381</b>	48 932
Net assets	<b>189 327</b>	185 448	<b>30 029</b>	40 259

### AS PERCENTAGE OF TOTAL



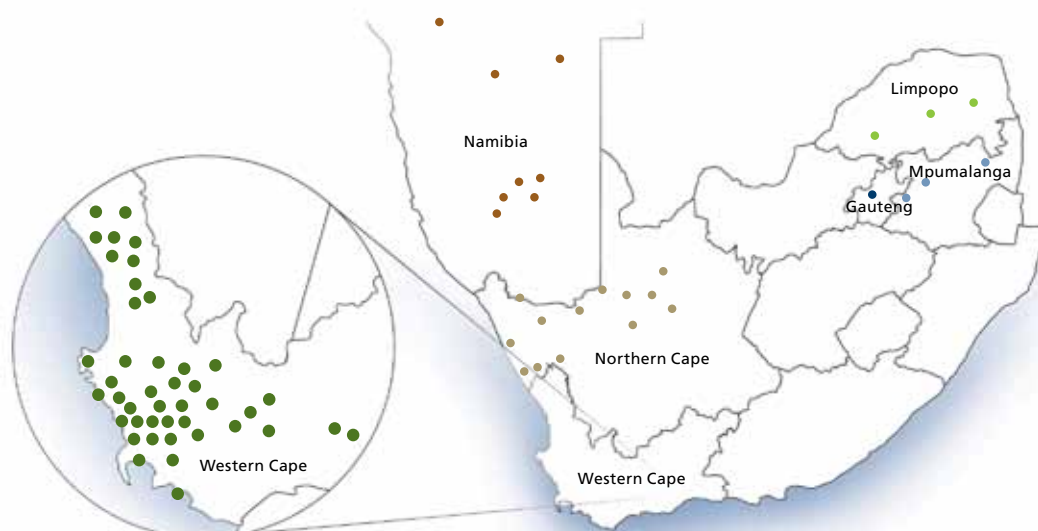
## COMMODITIES

## IRRIGATION

## CORPORATE AND FINANCING

<ul style="list-style-type: none"> <li>• Grain receiving and grading</li> <li>• Grain marketing</li> <li>• Grain storage</li> <li>• Seed processing</li> <li>• Seed potatoes</li> </ul>		<ul style="list-style-type: none"> <li>• Dripper pipe</li> <li>• Pumps</li> <li>• Irrigation equipment</li> <li>• Filters</li> <li>• Automation</li> </ul>		<ul style="list-style-type: none"> <li>• Financing</li> <li>• Finances</li> <li>• Human resources and Communication</li> <li>• Internal audit</li> <li>• IT services</li> </ul>	
Providing a complete range of marketing and hedging options as well as handling grain products between producer and buyer.		Manufacturing of dripper pipe and other irrigation equipment, as well as distribution of franchise and other irrigation parts.		Providing support services for the group's activities. Providing tailor-made financing for producers.	
<ul style="list-style-type: none"> <li>• 14 Silo complexes</li> <li>• 350 000 ton capacity</li> <li>• 2 Seed-processing plants</li> <li>• Western Cape</li> </ul>		<ul style="list-style-type: none"> <li>• 1 Factory</li> <li>• 6 Distribution points</li> <li>• Western Cape</li> <li>• Gauteng</li> <li>• Mpumalanga</li> </ul>		<ul style="list-style-type: none"> <li>• Head office Malmesbury</li> <li>• 12 Regional credit offices</li> <li>• Western Cape</li> <li>• Northern Cape</li> <li>• Mpumalanga</li> <li>• Namibia</li> </ul>	
<b>2010</b> <b>R'000</b>	2009 R'000	<b>2010</b> <b>R'000</b>	2009 R'000	<b>2010</b> <b>R'000</b>	2009 R'000
<b>284 709</b>	279 406	<b>70 037</b>	74 756	<b>7 737</b>	6 790
<b>17 175</b>	29 793	<b>3 584</b>	3 074	<b>1 110</b>	9 928
<b>48 627</b>	42 110	<b>23 927</b>	28 164	<b>823 341</b>	791 321
<b>33 852</b>	31 368	<b>18 247</b>	19 338	<b>419 216</b>	344 405

## GEOGRAPHICAL REPRESENTATION



## BOARD OF DIRECTORS

### CHAIRMAN

GD (George) Eksteen ■ ★

### VICE-CHAIRMAN

ASM (Mohammad) Karaan ■ ★

### NON-EXECUTIVE

FA (Fran) du Plessis ■

BS (Bernhardt) du Toit ■

CJ (Chris) du Toit (Retired: 11 February 2010)

IJ (Sakkie) Hugo (Retired: 11 February 2010)

NC (Niko) Loubser ●

HS (Stanley) Louw ●

JF (Jannie) Mouton (Resigned: 11 February 2010)

CA (Chris) Otto ■ ■ ★

HM (Helgard) Smit ●

JH (Kosie) van Niekerk ■ ●

### EXECUTIVE

CA (Corwyn) Botha (Managing) ■

JJ (James) Matthee (Financial) ●

S (Sean) Walsh (Operational)

■ Audit Committee

■ Human Resources Committee

● Finance Committee

★ Nomination Committee

# EXECUTIVE MANAGEMENT

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<b>Wian Beukes</b>	General Manager: Trade – Inland
<b>Corwyn Botha</b>	Managing Director
<b>Johan de Lange</b>	General Manager: Products
<b>Philip Faure</b>	Managing Director: RSA Agri Makelaars
<b>Charl Graham</b>	Group Manager: Information Technology
<b>Kobus Jacobs</b>	General Manager: Trade – Namibia
<b>Reinhard Köstens</b>	Group Secretary
<b>Johan Liebenberg</b>	Director Human Resources: Kaap Agri Bedryf
<b>Francois Loots</b>	General Manager: Trade – Northern Cape
<b>James Matthee</b>	Financial Director
<b>Ian Schooling</b>	General Manager: Agriplas
<b>Hennie Smit</b>	General Manager: Procurement and Logistics
<b>Francois Swanepoel</b>	General Manager: Trade – Coast
<b>Dawie van Rensburg</b>	General Manager: Mechanisation
<b>Gerhard Victor</b>	Group Manager: Finance
<b>Sean Walsh</b>	Operational Director
<b>Bertus Wolmarans</b>	Group Manager: Financing Services

## CHAIRMAN'S REVIEW

The past year was characterised by mixed successes and highlights. External factors including general economic conditions in the wake of the recession, as well as price pressures in certain farming sectors, posed particular challenges to just match the solid growth achieved in the previous two years. Having achieved turnover growth in real terms was encouraging and is considered one of the successes. This would not have been possible if the company just relaxed, waiting for business to happen.

### BUSINESS ENVIRONMENT

Following the widespread price reductions, the financial year started on the same low note the previous one ended. Despite the new additions mentioned later in this review, turnover was considerably lower than budget and even the preceding period. As the year progressed business confidence increased, with a notable rise in business confidence over the last two months in particular. This trend appears to be continuing into the new financial year as well.

### AGRICULTURE

In general, agricultural conditions in the Kaap Agri areas of operation were favourable. In terms of climatic conditions it was an average year and producers realised acceptable yields and prices. The exception was in the wheat areas where the area sown was 18% less, the grade somewhat disappointing and the prices remaining below long-term sustainable levels. The price protection and subsidies applying in other countries make it less competitive to grow wheat locally and one-third of domestic consumption is already imported. Existing levies that are supposed to promote food security are unrealistically low and provide no support to the industry. Imported food does not necessarily mean cheaper prices, but it does mean imported labour and a capital outflow as well.

Kaap Agri's diversification across various geographical areas as well as various commodities means that it is not exposed to one product or area only. This diversification spreads the risk inherent to agriculture, being exposed to various factors producers, and hence clients, have no control over. This is also evident from the debtors book, which reflects no concentration of major individual risks.

### EXPANSIONS

Kaap Agri opened eight new branches during the year, three in Namibia, one each in the Northern Cape and Southern Cape, and three in the Western Cape. This translates into a total of 14 branches acquired or established in the last two years. Two boutique liquor outlets were also established to be run as part of existing branches. A further four new branches have been opened since the financial year-end.

The focus will be on developing the urban market to supplement the agricultural market where growth opportunities are limited at this stage. The aim is also to improve service levels to the agricultural market by upgrading infrastructure and establishing depots to get closer to producers. Kaap Agri will continue to grow the business by exploring new opportunities within the existing business, as well as establishing and acquiring new branches.

### EMPOWERMENT

Kaap Agri is proud to have qualified as a level 8 contributor to black economic empowerment, one year earlier than targeted by its own BEE roadmap. Various programmes are under way but have not yet reached the minimum threshold levels required to qualify for points. Kaap Agri will however continue to promote BEE through internal processes such as training, development, accelerated programmes and opportunities, not only for the purpose of earning points but also to empower staff at all levels. Agriculture, especially in rural areas, is not high on the list of potential employers for qualified BEE candidates, and the challenge is to identify the right people, appoint or promote, train and develop as well as retaining them. Unfortunately these highly successful individuals also become the target for other businesses.

Kaap Agri also makes an effort to assist emerging farmers to develop into economically sustainable commercial farmers. Historically, Kaap Agri's area of operation has not many previously disadvantaged farmers and projects are therefore limited in scope.

Kaap Agri has entered into negotiations and discussions which, if successful, will enhance its empowerment status dramatically. An announcement in this regard may be made early in the new year.

### PIONEER FOODS

The Competition Commission is probably the first thing that comes to mind when Pioneer Foods is mentioned. Kaap Agri does not want to condone the alleged incidents that occurred there, but believes that Pioneer Foods' punishment may have been too harsh for practices other role players were more guilty of. Kaap Agri supported Pioneer Foods in its investigations, actions and negotiations on the issue and is grateful that a final settlement could be reached so that Pioneer Foods can focus further on its core operations from now on.

Apart from the competition issue, Pioneer Foods had an excellent year with growth in adjusted headline earnings of 43%. Due to the impact of the competition settlement, Pioneer Foods decided not to declare any dividend for the

current year, and Kaap Agri accepts this as a conservative approach. Pioneer Foods' growth prospects look very promising and Kaap Agri anticipates that Pioneer Foods will resume its dividend payments as early as the coming year.

## GROUP RESULTS

The 9% real increase in turnover is largely due to new expansions, as farming operations declined in many areas. This ratifies the strategy to grow outside existing business and areas.

Kaap Agri's headline earnings from own operations were 20% lower than the previous year, mainly due to margin pressures caused by price reductions. Kaap Agri is a high-turnover low-margin business, so profits are highly sensitive to changes in margins.

The total equity accounted adjusted headline earnings increased by 20% to R350,5 million.

## DIVIDEND

Kaap Agri's dividend policy has always been to pay dividends subject to Kaap Agri's own requirements and capabilities and not only being a conduit of Pioneer Foods' dividend. Despite the fact that Pioneer Foods has not declared a dividend, the Board has therefore decided to keep the final dividend the same as in the previous year. Due to the lower interim dividend paid, the total dividend for the year is 24 cents per share, or R59,1 million, in comparison with the 30 cents per share of the previous year.

## SHARE TRADING

Shares are traded in-house over the counter, using a sophisticated computerised trading system that supports the integrity of the transactions. During the year 5,3% of Kaap Agri's shares were traded, which is considered quite liquid for an unlisted share. The weighted average trading price was R7,76 per share, which is 40% higher than the previous year.

## PROSPECTS

The current wheat crop, although smaller, overall promises to be more profitable for producers. This may improve producers' financial position, which may encourage them to plant more in the next season. Other industries experienced a normal year and expectations are that expansions and replacements by producers that were neglected in the recession will gradually be resumed.

Kaap Agri's own expectation and observations are that the economy and business have already started to pick up and that new investments made in the last two years will start making a bigger contribution towards profits. Kaap Agri looks forward to a moderate growth compared to the previous year and will continue to exploit growth opportunities.

# FINANCIAL REVIEW

## GROUP RESULTS

	2010	2009	Increase/ (Decrease)
<b>Turnover: value of transactions</b>	<b>R3 471,4 million</b>	R3 335,8 million	4,1%
<b>Adjusted headline earnings</b>	<b>R350,5 million</b>	R292,7 million	19,7%
– Operations	<b>R78,2 million</b>	R97,7 million	(19,9)%
– Investments	<b>R272,3 million</b>	R195,0 million	39,6%
<b>Adjusted headline earnings per share</b>	<b>142,3 cents</b>	119,0 cents	19,6%
<b>Dividend per share</b>	<b>24 cents</b>	30 cents	(20,0)%

Turnover for the first six months of the financial year was substantially lower than in the corresponding period, mainly due to declining prices as well as the aftermath of the negative economic climate. However, the turnover for the second half of the year improved gradually, resulting in a 4,1% higher annual turnover compared to the previous year. This increase mainly constitutes real growth from more sales and new businesses, in the absence of any material price increases.

The total adjusted headline earnings of R350,5 million for the year, including Pioneer Foods on an equity-accounted basis but excluding the settlement mentioned below, are 19,7% higher than the previous year.

## OPERATIONS

### Income statement

The total value of business conducted, including direct business, increased by 4,1% to R3 471,4 million. Further decreases in the prices of fertiliser, feeds, steel and wire as well as packaging materials, resulted in a decline in turnover of approximately 5%, translating into real growth of approximately 9%.

Due to the price decreases and tighter economic environment, margins were under pressure and the total gross profit margin realised was somewhat lower than in the previous year.

Total costs increased by 11,4%. The above-inflation increase was due to the costs of new expansions and acquisitions not fully operative in the previous period.

Finance charges decreased by 31,1% as a result of interest rate cuts totalling six percentage points over the last two years. These declines had a similar impact on interest received from debtors, and net interest received remained unchanged compared to the previous year.

Earnings from own operations are 18,4% lower than in the previous year, while headline earnings from operations, after adding back items of a capital and non-recurring nature, are 19,9% lower.

### Segment report

The operating segments' total profit declined by 14,8%.

The turnover of the Trading division, including Agrimark outlets and supplying of packaging material, increased by 7,5%. However, profits were 10,0% lower than in the previous year due to pressure on margins as well as the establishment and start-up costs of new branches and expansions that have not yet contributed towards profits.

Apart from the six Pakmark branches acquired in Limpopo and one in the Langkloof in the previous year, three additional new branches were opened in Namibia and three in the Western Cape, with one each opened in the Northern Cape and Southern Cape. Two Liquormark shops were opened and four new branches are in the process to be opened.

The Pakmark branches have already contributed towards profits, and the other additions are expected to also make a small contribution towards profits in the coming year. Although it takes a while for new expansions to become profitable, it is important that the division continues to grow by also expanding its branch network.

The Grain Handling & Marketing and Seed Divisions' profits decreased by 42,3%. Income from the handling and storage of grain, the main source of income for the division, was significantly lower due to a much smaller wheat crop compared to the previous year, when a very large crop was handled and stored for a longer period. Wheat prices were also much lower, limiting the opportunities for trading margins. The success of the division is largely dependent on volume throughput and every effort is made to make it as attractive and cost-efficient as possible for producers to deliver their produce through Kaap Agri's facilities.

The Mechanisation division's turnover increased by 32,2% and the profit by 174,4%. The Workshops and Farming implement departments in particular were the biggest contributors towards this improvement.

The irrigation subsidiary, Agriplas, increased its profit by 16,6% despite a marginal decline in turnover. This was achieved through rigorous cost management.

The Corporate segment mainly consists of costs for support services. The decrease in costs points to rigorous and responsible cost management, even though the increase in activities required more attention from support services.

In total, the Trading division's contribution towards operating income was 76,5% (2009: 72,4%), the Commodity division 16,2% (2009: 23,9%), the Mechanisation division 3,9% (2009: 1,2%) and Agriplas 3,4% (2009: 2,5%).

### Statement of financial position

The increase in property, plant and equipment, after depreciation and disposals, was primarily due to the acquisitions and upgrades already referred to.

The moderate increase in inventories can be attributed to price decreases already referred to, which largely offset the increase as a result of expansions and acquisitions.

Debtors and production loans increased by 6,8%, which is marginally higher than the increase in turnover. Although there was an increase in total debtors and debtors outside terms, this increase is not significant and the quality of debtors remains sound.

The Board is well aware of the risk involved in debtors and production financing, and structures are in place to evaluate this risk continuously. The Board believes that provisions and reserves are adequate to cover the risks.

Creditors increased by 9,3%. The decrease in short-term loans must also be read in conjunction with creditors and income tax as the time of payment renders these figures interdependent.

Net interest-bearing debt decreased by 7,6%, in line with the decrease in short-term loans referred to above. The ratio of net interest-bearing debt to total assets remained virtually unchanged at 11,6%. If the total assets of only the operations are taken into account, the ratio is 24,3%.

The Group's statement of financial position is very healthy, with total shareholders' interest versus total assets at 74,7%. If only the operations were taken into account, excluding the investment in Pioneer Foods, this ratio is 46,7%, which the Board believes is an acceptable ratio for the operating company.

Cash flow from own activities was higher than in the previous year, mainly due to the decline in net operating capital as well as a reduction in tax paid. Cash flow is within planning and budget and the Group continues to maintain a sound balance between debt and available bank facilities.

### INVESTMENTS

The results of Pioneer Foods are equity accounted in the financial statements, which means that a proportional share of the retained earnings of Pioneer Foods is shown as Share in retained earnings of associate. Kaap Agri's voting interest

in Pioneer Foods is 28,7%, but due to limited profit-sharing in certain classes of shares, the economic interest in the profit is 31,2%. Actual dividends received are directly written off against the carrying value of the investment.

Pioneer Foods' profit from operations increased by 43,4% to R890,5 million, despite a 3% decline in turnover. A decrease in the prices of raw materials and improved efficiencies raised the operating margin from 7,1% to 8,9%.

The ratio of interest-bearing debt to equity improved from 14% to 9%. In the period under review Pioneer Foods negotiated with the Competition Commission and settled on certain alleged violations of the Competition Act. The total settlement amounts are payable over time and in various ways. Due to the impact of the settlement amounts on Pioneer Food's results, Pioneer Foods did not declare any interim nor any final dividend. The difference between earnings and adjusted headline earnings is mainly due to the settlement amounts.

The core figures of Pioneer Foods are as follows:

	2010	2009	Increase/ (Decrease)
Income (R million)	15 731,3	16 283,9	(3,4)%
Earnings (R million)	234,5	560,5	(58,0)%
Adjusted headline earnings (R million)	890,6	620,9	43,4%
Adjusted headline earnings per share (cents)	503,0	355,4	41,5%
Dividend declared per share (cents)	–	125,0	–
Dividend accrued to Kaap Agri (R million)	–	69,5	–
Carrying value in Kaap Agri's statements (R million)	1 570,5	1 543,6	1,7%

The market value of the Group's interest in Pioneer Foods at the trading price of R47,60 per share as at 30 September 2010, is R2 648 million.

### FINANCIAL STATEMENTS

Full details of cash flow, movements in equity, assets, liabilities, income and expenses and other statutory information are disclosed in the Group statements. This review must be read in conjunction with the directors' report on the Group statements.

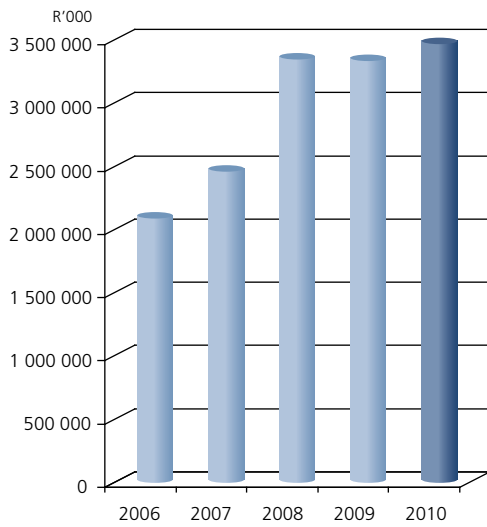
### DIVIDEND

A final dividend of 22 cents per share, the same as in the previous period, is proposed. The total dividend for the year is 24 cents per share in comparison with the previous year's 30 cents. This is in line with the Board's intention to pay dividends, subject to the Group's own needs and circumstances.

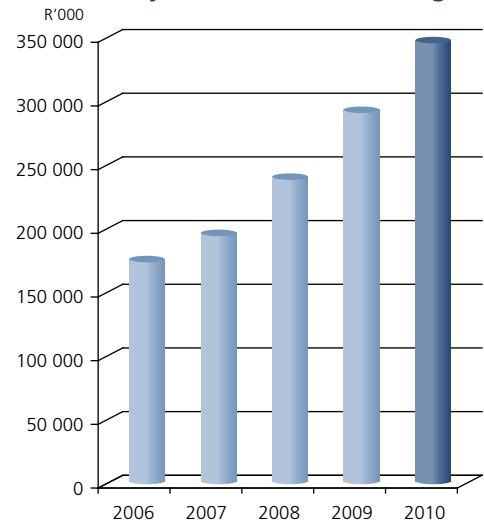
## FIVE-YEAR FINANCIAL REVIEW

	GROUP				
	2010 R'000	2009 R'000	2008 R'000	2007 R'000	2006 R'000
<b>Income statement</b>					
Revenue	2 449 556	2 274 091	2 363 094	1 701 051	1 415 306
Direct business	1 021 879	1 061 671	1 003 546	759 434	675 116
Value of transactions	3 471 435	3 335 762	3 366 640	2 460 485	2 090 422
Adjusted headline earnings					
– Operations	78 196	97 697	91 669	60 793	46 580
– Investments	272 356	195 029	148 723	135 293	129 077
– Total	350 552	292 726	240 392	196 086	175 657
Adjusted headline earnings per share (cents)					
– Operations	31,74	39,71	39,16	31,20	24,69
– Investments	110,56	79,26	63,53	69,43	68,42
– Total	142,30	118,97	102,69	100,63	93,11
Dividend per share (cents)	24,00	30,00	23,00	15,00	11,00
<b>Statement of financial position</b>					
Gross assets					
– Operations	1 446 341	1 372 087	1 325 791	1 192 363	1 036 357
– Investments	1 570 452	1 543 622	1 431 926	1 255 830	736 230
	3 016 793	2 915 709	2 757 717	2 448 193	1 772 587
Liabilities and loans	(753 386)	(749 725)	(784 050)	(728 487)	(667 045)
Shareholders' equity	2 263 407	2 165 984	1 973 667	1 719 706	1 105 542
Net interest-bearing debt	329 405	356 586	307 280	308 598	314 070
Net asset value per share					
Associates included at the equity method					
– Operations	R2,81	R2,53	R2,20	R2,02	R1,97
– Investments	R6,38	R6,26	R5,83	R5,45	R3,92
– Total	R9,19	R8,79	R8,03	R7,47	R5,89
Associates included at market value after deduction of capital gains tax	R12,52	R9,50	R7,49	R9,01	R7,26
Shares issued (number – '000)	246 340	246 340	245 890	230 148	187 798
<b>Ratios</b>					
Total shareholders' equity : Total assets employed	74,66%	72,97%	70,95%	66,94%	59,13%
Net interest-bearing debt : Total assets employed					
– Operations	24,34%	24,61%	24,46%	27,94%	36,96%
– Total	11,56%	11,70%	11,83%	14,75%	22,35%
Adjusted headline earnings : Shareholders' interest					
– Operations	11,89%	16,78%	18,23%	14,59%	14,03%
– Investments	17,49%	13,11%	11,07%	13,58%	19,29%
– Total	15,83%	14,14%	13,02%	13,88%	17,55%
Operating margin	2,25%	2,93%	2,72%	2,47%	2,23%
Ratios calculated on average balances					

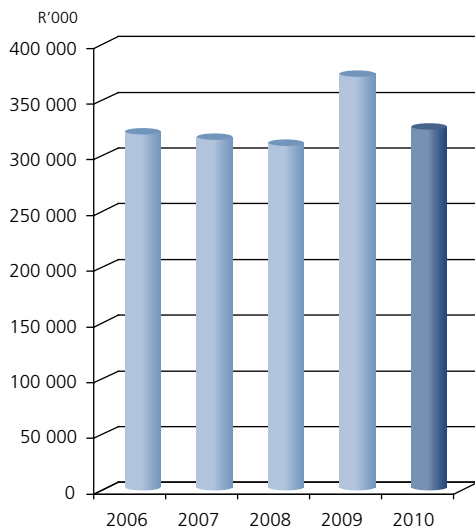
**Turnover**



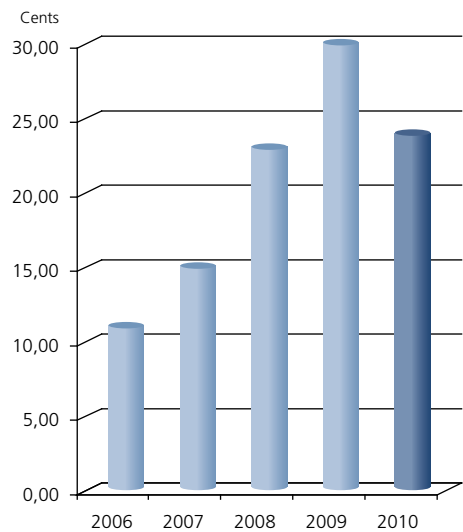
**Adjusted headline earnings**



**Interest-bearing debt**



**Dividend**



# SUSTAINABILITY

## STAKEHOLDERS

The community in which Kaap Agri conducts business brings about responsibility towards the environment and stakeholders. The environment includes the physical environment, social environment, economic environment and political environment.

Stakeholders are all those with whom Kaap Agri comes into contact, directly and indirectly. They therefore include customers, staff, shareholders, suppliers, financiers, the State, competitors, rivals, the community and also all the stakeholders of these stakeholders.

Kaap Agri's business philosophy seeks a balance between the environment and all these stakeholders in order to ensure sustainable growth and prosperity.

## EMPLOYMENT

Kaap Agri strives to have greater representation of the designated category in the Group, especially on all levels of management.

Not only are new appointments and promotions effected in accordance with the guidelines of the Employment Equity Act, but the Group's policy also determines that all appointments and promotions must first be measured against their compliance, or otherwise, with the targets set.

On junior and middle management levels the Group is well positioned and within its targets, but on senior level there is still room for improvement.

There is no discrimination in the workplace or in terms of policy or conditions of service, and all staff have equal access to all benefits or schemes offered.

## REMUNERATION PHILOSOPHY

The objective of the remuneration policy is to establish and retain a skilful workforce. Staff receive market-related remuneration on a Total Cost of Employment (TCOE) basis and can themselves choose how their TCOE should be divided among benefits and schemes offered.

The basic remuneration can be supplemented by profit-sharing schemes, which are applicable to all staff, in order to promote performance.

## TRAINING AND DEVELOPMENT

Kaap Agri's policy is firstly to develop potential and talent from within before positions are made available externally. A proactive process of identifying talent is followed, whereupon appropriate training and development programmes are structured around specific requirements, both internally and externally where necessary.

Training and development are further conducted according to a predetermined training plan that sets out to realise the needs of the Group and the employee, as well as the potential of the employee. These training programmes are not just focused on the needs of the Group and the task, but also endeavour to develop the individual as a person.

The Group is an active participant in the AgriSETA, and has 113 assessors, 80 mentors and 17 moderators. Several learnerships are being run on an ongoing basis under the SETA and more than 288 internal learnerships have already been completed, with a further 64 in process. The company is qualified as an accredited training services provider for AgriSETA and can therefore provide training for external people.

Self-development is also encouraged through the extension of funding for extramural study and the reimbursement of costs upon the attainment of qualifications. Kaap Agri also extends financial support to 12 external students in the form of short- and long-term bursaries.

About 70% of the total training budget is spent on staff members from the designated category.

## BLACK ECONOMIC EMPOWERMENT (BEE)

Over the past three years, the Group has put structures in place to implement BEE actively according to a predetermined road map. Although considerable progress has been made in most of the aspects of the scorecard, not all inputs have qualified as yet, as certain thresholds need to be reached before any qualifying points can be achieved.

Kaap Agri is already a level 8 contributor on the BEE scorecard and, according to preliminary indications, level 7 should be reached in the current year, one year earlier than the said road map. With some accelerated actions, it will be possible for Kaap Agri to reach the next level within the coming year and goals have been adjusted accordingly. Kaap Agri believes that level 5 (80% recognition) is possible within the next two years.

### KAAP AGRI ACADEMY

Kaap Agri has founded an academy that provides training to developing farmers as well as farm workers. The first two groups of 27 and 19 students have already completed the Farming Development programme, while several shorter training programmes were presented to more than 180 farm workers.

### SERVICE PROVIDER FOR MAFISA (MICRO AGRICULTURAL FINANCIAL INSTITUTION OF SA)

The Government has appointed Kaap Agri as a service provider to make loans available to developing farmers for production purposes. These MAFISA funds are managed under the name KALF (Kaap Agri Loans Fund). Applications by farmers who qualify are considered with them, amended and followed up to ensure that the right practice and support is applied.

### FARM WORKERS TRUST

During 2009 Kaap Agri made a loan of R2 million available to The Fruit Workers Development Trust to be utilised for the trust's long-term investment activities. The beneficiaries of the trust are persons from the designated category in the fruit production industry.

### SPECIAL AWARDS

Kaap Agri was recently awarded by AgriSETA as the National Employer of the Year in respect of learnerships. At the same event, Kaap Agri Academy's top student for the 2009 academic year was awarded the AgriSETA Student of the Year award.

### HEALTH AND SAFETY

The management of health and safety is done in accordance with the Occupational Health and Safety Act at all operational points as part of the risk management programme. Compliance with the requirements of the legislation is monitored strictly in order to ensure that a safe working environment is created and maintained.

### SOCIAL RESPONSIBILITY

Various community projects, such as the De La Bat School for the Deaf, the Ligstraal School for learners with special education needs, the Camphill organisation for persons with learning disabilities and farming projects in previously disadvantaged communities, are supported through financial contributions, job creation and indirect support. Kaap Agri provides a bursary fund on a yearly basis to the University of Stellenbosch and the Hoër Landbouskool Boland for the studies of learners of the designated category. Kaap Agri is also involved in many other areas, on primary level, in agriculture and agricultural activities and societies.

### ENVIRONMENT

The Group is mainly located in the rural areas, where its activities as well as the activities of its clientele are closely linked to nature. Consequently it is only natural that the Group will cherish nature, and conduct its business in such a manner that it has the minimum impact on nature. The risk management programme is hence not only set on the compliance of regulatory requirements, but follows a "green" approach to ensure a sustainable environment.

The Group is also aware of its impact on and its responsibility towards the environment in which it conducts business. The requirement of local authorities is strictly complied with as part of the risk management programme.

The Group is both employer and provider of products and services, often outside the usual business parameters, as it is sometimes the only supplier in a town.

### SUSTAINABILITY AND RISK MANAGEMENT

Kaap Agri originated in 1912, when the Westelike Graan Boeren Co-operatiewe Vereniging was founded on the farm De Grendel. After 98 years Kaap Agri and De Grendel still exist and it is Kaap Agri's intention to exist and grow for at least the next 98 years. This can only be achieved through a sustainable partnership with all role players, parties concerned and the environment at large. To this, Kaap Agri is committed.

## CORPORATE GOVERNANCE

Kaap Agri is an unlisted public company which conducts business from operational units in the Western Cape, Northern Cape, Limpopo, Mpumalanga, Gauteng and Namibia. Its shareholders consist of listed companies, institutional investors, several smaller private investors and traditional agricultural producers.

Kaap Agri is aware of its role and responsibility in the broader community and therefore subscribes to the principles of good corporate management and practices as set out in the relevant codes and legislation. In implementing them, the Board of Directors commits itself to the principles of professionalism, discipline, transparency, empowerment, fairness, integrity and accountability to all stakeholders.

The Board is of the opinion that compliance and adherence are dependent on an attitude and a mindset towards corporate governance and accountability, rather than ticking off a checklist. The Board is of the opinion that the Group complies with the codes and guidelines of good corporate governance, as far as practically possible. The Board also continually considers other suggestions, codes and practices to further improve corporate conduct.

### BOARD OF DIRECTORS

The Board is responsible for the overall performance of the Group. The Board fulfils its responsibility by giving strategic leadership, appointing competent management, delegating responsibilities in a structured manner, assessing business plans and budgets and monitoring their implementation and results, and overseeing the risk management programme.

In the implementation of these duties, the Board also pays attention to the sustainability of the business within the framework of the broader community and environment.

The Board consists of nine elected non-executive directors and three executive directors appointed by the Board. The terms of service of the executive directors are coupled to their terms of service as employees, whilst the non-executive directors rotate on a three-year basis. No director or employee has a fixed-term contract with the Group.

The remuneration of the non-executive directors consists of a fixed annual honorarium as a director, an additional honorarium for duties on committees and reimbursement for travelling and other costs. The remuneration of executive directors consists of remuneration as employees and they receive no additional remuneration as directors.

The remuneration for non-executive directors for the coming year is as follows:

Chairman	R312 716
Vice-chairman	R156 358
Chairman Audit Committee	R234 537
Chairman other committees	R156 358
Audit Committee member	R156 358
Other committee members	R117 269
Director	R93 814

The Chairman of the Board is a non-executive director. In conducting its responsibilities, the Board meets regularly and also makes use of the committees to advise it on auditing, human resources, financing and investment matters. The committees function on the basis of clearly defined mandates that set out their duties, powers and responsibilities.

Details of the Board members and attendance at board and committee meetings are provided on page 16.

### AUDIT COMMITTEE

The Audit Committee consists of four non-executive directors of the Group. The committee is responsible for ensuring that a proper system of internal control and risk management exists and is applied, and that the management information, accounting policy and reporting to shareholders and other interested parties meet appropriate standards and comply with relevant legislation. The external auditors and internal auditors have unrestricted access to the Chairman of the committee, which ensures that their independence is not impaired.

The Chairman and Vice-chairman of the Board, the Managing Director and the Financial Director attend meetings by invitation, and any other director may also attend the meetings if the director so requests.

The committee meets with internal and external auditors on a regular basis, also without management and other directors being present, and considers its findings and recommendations, as well as other information that may be relevant in carrying out their mandate or specific tasks entrusted to it by the Board.

### HUMAN RESOURCES COMMITTEE

The Human Resources Committee consists of three non-executive directors and the Managing Director. The Chairman of the Board is the chairman of the Human Resources Committee. The committee meets periodically to consider matters such as remuneration policy, the remuneration of

executive management, succession planning, directors' remuneration, incentive schemes and other human resource matters. The performance-linked remuneration philosophy of the Group makes provision for incentive schemes and is regularly rated against professional external remuneration surveys.

### NOMINATION COMMITTEE

The Nomination Committee consists of three non-executive directors. The Nomination Committee assesses the effectiveness of the actions of the Board and its committees and also plays a leading role in recommendations on the composition of the Board in order to achieve the correct balance of expertise and distribution.

### FINANCE COMMITTEE

The Finance Committee consists of four non-executive directors and the Financial Director and is supported by regional credit committees with local board representation, as well as outside experts where necessary, who meet regularly.

The committee sets guidelines and policy for the granting of credit and production finance and monitors the implementation of such guidelines and policy according to clear decision-making powers. The committee is also ultimately responsible for overseeing the evaluation of the recoverability of debts and write-offs and provision against debtors.

### INTERNAL CONTROL

In order to accept responsibility for the correctness of the financial statements, the Board relies on systems of internal control and accounting and information systems which objective is to provide a reasonable assurance that assets are being safeguarded and that the risk of errors, fraud or losses are effectively being kept to the minimum. These control measures, which are contained in written policy documents and procedures, include the delegation of responsibilities and powers within a clearly defined framework, effective accounting procedures and a separation of duties, and monitoring by a qualified internal audit and risk management division. All material risks in the Group have been identified and documented in a comprehensive risk framework.

The Audit Committee monitors the appropriateness of and compliance with the internal control and advises the Board in this regard.

Nothing has come to the attention of the Board that indicates a material deterioration in the functioning of these control measures, procedures and systems during the financial year.

### RISK MANAGEMENT

The Group is involved in the trading of grain products, mainly wheat. This involvement entails various risks, including delivery risk, storage risk and price risk. It is the Group's policy to hedge these risks by way of legal contracts, good administration, insurance and price hedging.

By their very nature and extent, debtors entail certain risks. The Board makes use of a specialist Finance Committee to ensure that these risks are properly managed through the application of a structured credit policy and the obtaining of securities where this is considered appropriate.

The Financial Director acts as the Compliance officer, together with the underlying disciplines and responsible persons in the Group, with the object to make sure that all acts, regulations and rules which may be applicable, are identified and complied with promptly.

During the past year, particular attention has been paid to compliance of the Competition Act by means of an extensive legal audit of all relevant contracts, agreements and practices, as well as those which would have been applicable in the past. Staff are continually being trained to be aware of this, as well as other relevant legislation.

Other operational risks are addressed by appropriate controls and procedures and the compliance thereto is monitored by an Internal Audit and Risk Management Team.

### RELATED PARTY TRANSACTIONS

A number of the non-executive directors are direct or indirect customers of the Group and do business with the Group on an ongoing basis. This business is in the ordinary course of events and takes place on an arm's length basis through the normal operating points. No director's business with the Group exceeds 1% of the total business.

Some directors also holds shares directly or indirectly in the company. No director's shareholding in the company exceeds 1%.

The directors' conduct in relation to any dealings with the Group is prescribed by an agreed written charter.

### SHARE TRADING

The Group's shares trade over an internal counter through use of a system bought from an acknowledged share broker.

Trading by directors and identified employees is subject to written policy that prescribes certain closed periods as well

## CORPORATE GOVERNANCE (CONTINUED)

as specific approval for every transaction. In addition to the written policy, the Board regularly considers whether there are any circumstances or information in their possession that is not generally known and that might have an impact on the share price, which would therefore prohibit trading.

### GROUP COMPANY SECRETARY

The secretary is an integral part of the Group's corporate governance process and sees to it that the affairs of the directorate and the Group of companies are administered in accordance with business ethics and relevant laws and regulations.

The secretary gives guidance to the directors in relation to compliance with their statutory responsibilities, and the directors have unrestricted access to the advice and services of the secretary in this regard.

### GOING CONCERN

The annual financial statements are compiled in accordance with International Financial Reporting Standards (IFRS) and the policy is implemented consistently.

The Board considers these financial statements, as well as the forthcoming year's business plan, budgets and the liquidity position in order to form its opinion on the Group's ability to trade as a going concern.

The Board's opinion pertaining to the appropriateness, validity and disclosure of the annual financial statements and explanations are set out in the Declaration of directors' responsibility and approval.

ATTENDANCE OF BOARD AND COMMITTEE MEETINGS	BOARD		COMMITTEE			
	Scheduled	Un-scheduled	Audit Committee	Human Resources Committee	Finance Committee	Nomination Committee
Number of meetings	4	1	4	2	4	1
GD (George) Eksteen <i>Chairman, Chairman HR Committee</i>	4	1		2		1
ASM (Mohammad) Karaan • <i>Vice Chairman</i>	2	1	2	1		
CA (Corwyn) Botha * <i>Managing Director</i>	4	1		2		
FA (Fran) du Plessis <i>Chairman Audit Committee</i>	3	1	4			
BS (Bernhardt) du Toit	3	1	4			
CJ (Chris) du Toit +	2			1		
IJ (Sakkie) Hugo +	2				1	
NC (Niko) Loubser	4	1			3	
HS (Stanley) Louw	4	1			4	
JJ (James) Matthee * <i>Financial Director</i>	4	1			3	
CA (Chris) Otto •	4	1	4	2		
HM (Helgard) Smit	4	1			3	
JH (Kosie) van Niekerk • <i>Chairman Finance Committee</i>	4	1	2	1	2	1
S (Sean) Walsh * <i>Operational Director</i>	4	1				

\* Executive

• Not a member of the Committee for a full year.

+ Not a member of the Board for a full year.

In all instances of absence apologies were offered in advance.

# SHARE STATISTICS

## SHAREHOLDERS' PROFILE

Shares	Number of shareholders	Number of shares	Percentage
1 to 10 000	2 336	8 331 168	3,4%
10 001 to 100 000	1 370	42 396 664	17,2%
100 001 to 1 000 000	236	52 535 042	21,3%
1 000 001 to 10 000 000	8	36 987 098	15,0%
Above 10 000 000	1	106 089 742	43,1%
	3 951	246 339 714	100,0%
Treasury shares	1	8 807 982	
Total	3 952	255 147 696	

### Share transfers

Average price October 2009	R7,24
Average price September 2010	R8,51
Weighted average price – year	R7,76
Total value transferred	R100 378 750
Number of shares transferred	12 935 665
Percentage transferred	5,25%

### Shareholding of directors (direct and indirect)

	2010	2009
Botha CA	–	–
Du Plessis FA	–	–
Du Toit BS	131 651	131 651
Du Toit CJ (Retired: 11 February 2010)	–	229 574
Eksteen GD	1 757 000	1 707 000
Hugo IJ (Retired: 11 February 2010)	–	425 728
Karaan ASM	–	–
Loubser NC	19 178	19 178
Louw HS	34 000	34 000
Matthee JJ	130 000	130 000
Otto CA	10 696	10 696
Smit HM	307 202	288 452
Van Niekerk JH	1 105 646	1 105 646
Walsh S	5 000	5 000
Total	3 500 373	4 086 925
Percentage of issued shares	1,4%	1,7%

## DECLARATION OF DIRECTORS' RESPONSIBILITY AND APPROVAL

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The directors are responsible for the reasonable presentation of the annual financial statements and annual group financial statements of Kaap Agri Limited. In conducting this responsibility they rely on the information, assessments and estimates of management. The fair presentation and integrity of the financial statements are also evaluated on the basis of accounting systems and internal financial control measures which are monitored on an ongoing basis during the financial period.

The financial statements have been compiled in accordance with International Financial Reporting Standards (IFRS) and fairly present the position of the company and Group on 30 September 2010, as well as the results of activities and cash flows over the accounting period.

Based on the financial statements, the present position of the Group, budgets for the coming year and available financing facilities, the directors have no reason to believe that the company and Group will not be a going concern. The going concern principle is therefore accepted and applied in the preparation of the financial statements.

The independent auditing firm, PricewaterhouseCoopers Inc, audited the financial statements. The auditors had unrestricted access to all financial records and related information, minutes of shareholders, directors and board committee meetings. The directors are of the opinion that all submissions and management declarations presented to the auditors were correct, valid and relevant.

The unqualified report of the auditors appear on page 20.

The annual financial statements and group annual financial statements on pages 21 to 63 were approved by the board of directors on 7 December 2010 and signed on their behalf by:



**GD Eksteen**  
Chairman



**CA Botha**  
Managing director

## DECLARATION BY THE COMPANY SECRETARY

In terms of section 268G(d) of the Companies Act, as amended, the Company Secretary hereby certifies that all returns of the company and its subsidiaries, as prescribed by the said Act, have been submitted to the Companies and Intellectual Property Registration Office (CIPRO) and that the said returns are true, correct and up to date.



**RH Köstens**  
Company Secretary  
7 December 2010

# REPORT OF THE AUDIT COMMITTEE

## TO THE MEMBERS OF KAAP AGRI LIMITED

### COMPOSITION AND ATTENDANCE OF MEETINGS

The composition of the audit committee and attendance of meetings are set out on pages 4 and 16 of this annual report.

### KEY FUNCTIONS AND RESPONSIBILITIES

The responsibilities of the audit committee are set out in a formal charter which is revised annually by the Board. The committee has free access to the chairman of the board of directors and is empowered to consult independent experts unlimited at company cost. In the execution of its duties according to its mandate and requirements of the Companies Act, the committee is responsible for the discussion and assessment of:

- the effectiveness of internal control systems and risk management as well as quality of management information;
- the internal auditors' audit plan, reports and recommendations;
- the independence, conditions of appointment, audit plan and remuneration of the external auditors;
- the effectiveness and reports of the external auditors;
- the Group's conformance to corporate management rules, risk management and statutory requirements;
- the appropriateness of accounting policy and any matters related to financial reporting;
- the separate and consolidated annual financial statements, before these annual financial statements are approved by the board for release;
- any other prescribed functions the committee is required to perform.

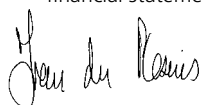
### INTERNAL AUDIT

The internal audit function fulfils an important role to give assurance to the audit committee that sufficient control measures are in place and are functioning correctly so that the committee can form an opinion on key functions and key responsibilities. Therefore, the internal auditors have direct access to the chairman of the audit committee, and the audit committee is also responsible to ensure that the internal audit function is independent and that it has the necessary resources, status and authority to perform its duties. The internal and external auditors attend audit committee meetings. The committee also regularly meets together and separately with the internal and external auditors in order to create the opportunity to exchange confidential information. The audit committee also oversees the co-operation between the internal and external auditors and serve as a link between the Board and these functions.

### OPINION

Given the functions and responsibilities of the committee, as well as the procedures referred to above, the audit committee is of the opinion that:

- the Group's internal control measures and risk management are sufficient;
- the audit was performed with the necessary independence and competence;
- the annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and comply with these standards;
- there are no other matters which are to be revealed to shareholders which have not been covered in the annual financial statements.



**FA du Plessis**

Chairman: Audit committee

7 December 2010

# REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KAAP AGRI LIMITED

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We have audited the annual financial statements and group annual financial statements of Kaap Agri Limited, which comprise the directors' report, statement of financial position and the consolidated statement of financial position as at 30 September 2010, the income statement and consolidated income statement, the statement of comprehensive income and the consolidated statement of comprehensive income, the statement of changes in equity and the consolidated statement of changes in equity, the statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 21 to 63.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the annual financial statements and group annual financial statements present fairly, in all material respects, the financial position of the company and of the Group as at 30 September 2010, and their financial performance and their 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**

Director: DG Malan

Registered auditor

PO Box 215

Paarl, 7620

7 December 2010

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 SEPTEMBER

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### NATURE OF ACTIVITIES

Kaap Agri is an agricultural services group which supplies a variety of products and services mainly to the agricultural sector, but also the general public, and is also the largest shareholder in Pioneer Food Group Limited, a company that is involved in the manufacturing of food, beverages and related products for humans as well as fodder for animals. The various operating activities are further highlighted in the Chairman's and Financial review on pages 6 to 11.

### FINANCIAL RESULTS

The profit after tax of the Group amounted to R146,4 million (2009: R274,2 million) while the gross assets increased to R3 017 million (2009: R2 916 million). The results of the Group are presented in detail in the financial statements and further information is provided in the Chairman's and Financial review on pages 6 to 11.

### SHARE CAPITAL

The authorised share capital consists of 400 000 000 ordinary shares of R0,01 each of which 255 147 696 are currently issued.

### DIVIDENDS

A final dividend of R54,2 million (2009: R54,2 million) has been approved, representing 22 cents (2009: 22 cents) per share. The dividend is payable on 11 February 2011 to shareholders registered on 28 January 2011 (the record date) as shareholders of the company. The last date of trade cum dividend will be 21 January 2011.

The total dividend for the year amounts to R59,1 million (2009: R73,9 million), representing 24 cents (2009: 30 cents) per share.

### SUBSIDIARIES

The interests in subsidiaries are presented on page 60 of the financial statements. The interest of the holding company in the profits and losses of subsidiaries after taxation is as follows:

	2010 R'000	2009 R'000
Profit	84 088	99 823
Losses	(3 843)	(1 468)

### DIRECTORS

Full details of the directors appear on page 4.

The term of Messrs BS du Toit, NC Loubser and HS Louw expires on the date of the Annual General Meeting. Details of the election of directors appear in the Notice of the Annual General Meeting on page 65.

### DIRECTORS' INTERESTS

The directors' interest in shares of the company appears on page 17.

### EVENTS AFTER REPORTING DATE

The directors are not aware of any matters or circumstances that occurred between the end of the financial year and the date on which the financial statements were approved that have not been dealt with in the report or group financial statements and which may have a significant influence on the activities of the Group or results of those activities.

# ACCOUNTING POLICY TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER

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## 1.1 Basis of preparation

The annual financial statements have been compiled in accordance with International Financial Reporting Standards (IFRS). The annual financial statements have been compiled on the historical cost basis, with the exception of Available-for-sale investments which are revalued to fair value.

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 Group'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 the notes to the annual financial statements.

## 1.2 Standards, interpretations and amendments to published standards that became effective for the first time during the current financial year

- IAS 1 (Revised) – "Presentation of financial statements" (effective from 1 January 2009)
- IAS 23 (Revised) – "Borrowing costs" (effective from 1 January 2009)
- IAS 27 (Revised) – "Consolidated and separate financial statements" (effective from 1 July 2009)
- IAS 32 (Amendment) – "Financial instruments: Presentation" and IAS 1 (Amendment) "Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2009)
- IAS 39 (Amendment) – "Financial instruments: Recognition and measurement – exposures qualifying for hedge accounting" (effective from 1 July 2009)
- IFRS 1 (Amendment) – "First-time adoption of International Financial Reporting Standards" and IAS 27 (Amendment) "Consolidated and separate financial statements – cost of an investment in a subsidiary, associate or jointly controlled entity" (effective from 1 January 2009)
- IFRS 1 (Amendment) – "First-time adoption of International Financial Reporting Standards" (effective from 1 July 2009)
- IFRS 2 (Amendment) – "Share-based payment – Vesting conditions and cancellations" (effective from 1 January 2009)
- IFRS 3 (Revised) – "Business combinations" (effective from 1 July 2009)
- IFRS 7 (Amendment) – "Improving disclosures about financial instruments" (effective from 1 January 2009)
- IFRS 8 – "Operating segments" (effective from 1 January 2009)
- Improvements to various IFRS standards (issued May 2008) (effective from 1 January 2009 and July 2009)
- Improvements to various IFRS standards (issued April 2009) (effective from 1 July 2009)
- IFRIC 15 – "Agreements for the construction of real estate" (effective from 1 January 2009)
- IFRIC 17 – "Distributions of non-cash assets to owners" (effective from 1 July 2009)
- IFRIC 18 – "Transfers of assets from customers" (effective from 1 July 2009)
- AC 503 (Revised) – "Accounting for Black Economic Empowerment Transactions" (effective from 1 January 2009)
- AC 504 – "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction in the South African pension fund environment" (effective from 1 April 2009)

None of the new standards, amendments and interpretations of existing standards mentioned above that have been published, have any material effect on the financial statements of the Group.

## 1.3 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 October 2010 or later periods, but which the Group has not early adopted voluntarily, and are as follows:

- IAS 24 (Amendment) – "Related party disclosures" (effective from 1 January 2011)
- IAS 32 (Amendment) – "Classification of rights issues" (effective from 1 February 2010)
- IFRS 1 and IFRS 7 (Amendments) – "Limited exemption from comparative IFRS 7 disclosures for first-time adopters" (effective from 1 July 2010)

- IFRS 1 (Amendment) – “First-time adoption of financial instrument disclosures” (effective from 1 January 2010)
- IFRS 2 (Amendment) – “Share-based payments – Group cash-settled share-based payment transactions” (effective from 1 January 2010)
- IFRS 9 – “Financial instruments” (effective from 1 January 2013)
- Improvements to various IFRS standards (issued April 2009) (effective from 1 January 2010)
- Improvements to various IFRS standards (issued May 2010) (effective from 1 July 2010 and 1 January 2011)
- IFRIC 14 (Amendment) – “Pre-payments of a Minimum Funding Requirement” (effective from 1 January 2011)
- IFRIC 19 – “Extinguishing financial liabilities with equity instruments” (effective from 1 July 2010)

Management is in the process of evaluating the impact of these amendments to standards and interpretations on the Group’s reported results or financial position. Managements’ initial evaluation is that the amendments will not have a material effect on the Group’s reported results or financial position.

#### 1.4 Basis of consolidation

##### ***Subsidiaries***

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies 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 consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Group’s interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Transactions which result in changes in ownership levels, where the Group has control of the subsidiary both before and after the transaction are regarded as equity transactions and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed of and a non-controlling interest is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

In the stand-alone financial statements of the companies which form part of the Group, the investments in subsidiary companies are stated at cost less accumulated impairments.

##### ***Foreign subsidiaries***

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

- all statement of financial position items (assets and liabilities) are translated at the closing rate at the specific reporting date;

# ACCOUNTING POLICY TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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- all income statement items (income and expenses) 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 rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

### **Business combinations**

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Acquisition-related costs are expensed as incurred.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liabilities or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3: Business combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal companies) that are classified as held-for-sale in accordance with IFRS 5: Non-current assets held-for-sale and discontinued operations, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the company assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for company purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interest arising from a business combination is measured either at their share of the fair value of the assets and liabilities of the acquiree or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in the note for business combinations.

In cases where the company held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

### **Transactions under common control**

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

During a transaction under common control, the result of operations for the period is presented as though the acquisition of its controlling interest through a transaction under common control had occurred in the earliest period presented. The effects of the intercompany transactions are eliminated in determining the results of operations for the period prior to the acquisition of the controlling interest, meaning that those results are on substantially the same basis as the results of operations for the period after the acquisition of the controlling interest. Similarly, the consolidated statement of financial position with related notes have been presented as though the assets and liabilities of the combining entities had been transferred at the earliest reporting period.

During a transaction under common control the excess of the purchase price consideration over the net asset value of the acquiree is recognised in equity.

### **Associated companies**

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 using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill, net of any accumulated impairment, 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 other comprehensive income. 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.

The effects of dilutionary and anti-dilutionary equity transactions by associates are recognised directly in profit or loss.

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.

The acquisition of associates in stages is accounted for in accordance with IFRS 3: Business Combinations. Goodwill is calculated at each stage of the acquisition based on the consideration and share of fair value of net assets at each stage. Any existing fair value reserve is reversed (in equity), restating the investment to cost. There is a step-up in retained earnings from the previously owned share of net assets to fair value.

In the stand-alone financial statements of the companies which form part of the Group, the investments in associated companies are stated at fair value.

Investments in associated companies 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.

### **Goodwill**

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree.

Goodwill on acquisition of subsidiaries is included in Intangible assets. Goodwill on acquisitions of associates is included in Investment in associated companies. Separately recognised goodwill is reviewed annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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 the goodwill arose. The group allocates goodwill based on the operating segments in which it operates.

# ACCOUNTING POLICY TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

### 1.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the managing director.

### 1.6 Property, plant and equipment

Land and buildings mainly comprise retail outlets, offices and silos. Land and buildings were revalued during 2006 to fair value when the Group made the choice to apply the fair value as deemed cost-exemption in terms of IFRS 1: First-time adoption of International Financial Reporting Standards. Property, plant and equipment, including investment property, is stated at historical cost less depreciation. Historical 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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write off the cost or revalued amounts to a value equal to the residual values over their estimated useful lives, as follows:

Buildings	50 years
Grain silos and buildings	10 – 50 years
Machinery and equipment	5 – 10 years
Vehicles	4 – 5 years
Office furniture and equipment	5 – 10 years
Leasehold improvements	Period of lease

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

Gains and losses on disposals of fixed assets are determined by comparing proceeds with the carrying amounts. These are included in the income statement.

### 1.7 Finance leased assets

Where assets are acquired under finance lease agreements that substantially transfer all the risks and rewards of ownership to the lessee, the finance leases are capitalised at the lease's commencement 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.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

### 1.8 Impairment of non-financial assets

Assets that are subject to amortisation 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.

### 1.9 Financial assets

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

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

This category is divided into two sub-categories: financial assets held for trading and those designated as 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.

#### ***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 are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables, as well as cash and cash equivalents in the statement of financial position.

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

Available-for-sale financial assets are non-derivatives that either meet the recognition criteria for this category or were designated to this category or are 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 reporting date.

Regular purchases and sales of investments are recognised on trade-date, the date on 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. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. 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. The fair value adjustments to available-for-sale financial assets are recognised directly in other comprehensive income.

Loans and receivables are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss, including interest and dividend income, are presented in the income statement in the period in which they arise.

# ACCOUNTING POLICY TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of listed investments are based on current bid prices. If the market for a financial asset is not active, including 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 analyses, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is 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 as an indicator that 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.

### 1.10 Deferred taxation

Deferred taxation are provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values. However, the deferred income tax is not accounted for if it 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. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets relating to unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused losses can be utilised.

Deferred tax assets are recognised for unused STC credits to the extent that it is probable that dividends will be declared against which the unused STC credits 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.

### 1.11 Inventory

Workshop stock, merchandise, farming requisites and raw materials are valued at the lower of cost, calculated on the average cost basis, or net realisable value, taking into account obsolescence and saleability. Implement stock is valued at the specific cost price or net realisable value, whichever is the lower. Finished goods are valued at the lower of cost, including cost of raw materials, direct costs and related production overheads, but excluding finance costs, determined on the average cost basis, or net realisable value. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

### 1.12 Trade accounts receivable

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Trade receivables against which a provision for impairment were made will be written off as soon as no further collections are possible. Trade receivables against which there were no previous provision for impairment, are written off directly to the income statement as soon as there are no further collections.

### 1.13 Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and bank balances. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

### 1.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the 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 rate 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 reporting date.

### 1.15 Trade payables

Trade payables are recognised initially at fair value. Trade payables are subsequently stated at amortised cost using the effective interest rate method.

### 1.16 Employee benefits

#### ***Pension scheme arrangements***

The Group operates a pension fund consisting of a defined contribution plan registered in terms of the Pension Funds Act, 1956, and the assets are administered separately by trustees. Funding is in terms of conditions of employment by means of contributions by the participating subsidiaries in the Group as well as employees. The Group has no further obligations to the fund once the contributions have been paid. Contributions are recognised in the income statement when they are due.

#### ***Post-retirement medical benefits***

Certain in-service members and retired staff are members of the post-retirement medical subsidy scheme of the Group. The Group pays the monthly contributions in respect of the retired members over to the medical fund. The valuation method used to value the liability is the projected unit method. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries. Any actuarially determined profits or losses are recognised in the income statement.

In terms of the Group's present policy the benefits are only available to certain in-service members and retired staff and not to future employees.

# ACCOUNTING POLICY TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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### ***Profit sharing and bonus plans***

A liability for employee benefits in the form of profit sharing and bonus plans is recognised under accounts payable when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

- there is a formal plan; or
- past practice has created a valid expectation by employees that they will receive a bonus or profit share.

It is expected that the liability will be paid within 12 months.

The Group also operates an incentive scheme based on phantom shares. The fair value of the liability incurred for employee services received is recognised as an expense. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in profit or loss for the period.

### **1.17 Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedge) or hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives 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.

#### ***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.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used, is amortised to profit or loss over the period to maturity.

#### ***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 other comprehensive income. 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 affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non-financial 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 the 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.

***Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss***

Certain derivatives 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.

**1.18 Leases**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

**1.19 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured and reasonable assurance exists that the economic benefits of the transaction will flow to the business. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after elimination of sales within the Group. Revenue is recognised as follows:

***Sales of goods and services***

Sales of goods and services comprise the fair value of sales in respect of manufacturing, trading operations and other services, excluding value added taxation, and are recognised upon delivery of goods and on the stage of completion of services. Only the finance margin earned on direct sales is recognised as income. The finance margin is recognised on delivery of products by the supplier to the customer.

***Interest income***

Interest income is recognised on a time-proportion basis using the effective interest rate 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 debtor. Interest on impaired debtors is recognised using the original effective interest rate.

***Dividend income***

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

**1.20 Foreign currency transactions*****Functional and presentation currency***

Items included in the financial statements 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 Rand, which is the holding company's functional and presentation currency.

***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 other comprehensive income as qualifying cash flow hedges.

# ACCOUNTING POLICY TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER

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## 1.21 Share capital

Ordinary shares are classified as equity. Additional costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any company in the Group purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable additional costs (net of income taxes) is deducted from equity attributable to the Group'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 additional transaction costs and the related income tax effects, is included in equity attributable to the Group's shareholders.

## 1.22 Dividend distributions

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved.

## 1.23 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 which entail economic benefits will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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.

## 1.24 Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurred because a specified debtor fails to make payment when due. Financial guarantees are initially measured at fair value. Subsequently it is measured at the higher of the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18: Revenue.

## 1.25 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised as an expense in the period in which they are incurred.

**1.26 Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**1.27 Secondary tax on companies (STC)**

South African resident companies are subject to a dual corporate tax system. One part of the tax being levied on taxable income and the other, secondary tax (STC), on distributed income. A company incurs a STC charge on the declaration or deemed declaration of dividends, as defined in the income tax act, to its shareholders. STC is not a withholding tax on shareholders, but a tax on companies.

The STC tax consequence of dividends is recognised as a taxation charge in the income statement in the same period that the related dividend is accrued as a liability. The STC liability is reduced by dividends received during the dividend cycle. Where dividends declared exceed the dividends received during a cycle, STC is payable at the current STC rate on the net amount. Where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends received is carried forward to the next dividend cycle as a STC credit. Deferred tax assets are recognised on unutilised STC credits to the extent that it is probable that dividends will be declared against which the unutilised STC credits will be utilised.

# STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER

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		GROUP	
		2010	2009
		R'000	R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	305 262	286 985
Investment in associated companies	4	1 570 452	1 543 622
Deferred taxation	5	4 555	1 661
		<b>1 880 269</b>	<b>1 832 268</b>
<b>Current assets</b>			
Inventory	6	363 241	356 767
Trade and other receivables	7	756 721	708 354
Financial instruments for hedging	8	556	770
Cash and cash equivalents	9	15 737	17 281
Income tax		269	269
		<b>1 136 524</b>	<b>1 083 441</b>
<b>Total assets</b>		<b>3 016 793</b>	<b>2 915 709</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Ordinary share capital	10	2 551	2 551
Share premium		659 371	659 371
Other reserves	11	772 342	746 335
Retained profit		838 262	766 846
Treasury shares	10	(9 119)	(9 119)
<b>Total equity</b>		<b>2 263 407</b>	<b>2 165 984</b>
<b>Non-current liabilities</b>			
Deferred taxation	5	2 271	117
Provisions for other liabilities and charges	12	16 067	19 232
		<b>18 338</b>	<b>19 349</b>
<b>Current liabilities</b>			
Trade and other payables	13	383 633	351 017
Financial instruments for hedging	8	556	770
Short-term portion of provisions for other liabilities and charges	12	4 913	5 004
Short-term borrowings	14	344 645	373 443
Income tax		1 301	142
		<b>735 048</b>	<b>730 376</b>
<b>Total liabilities</b>		<b>753 386</b>	<b>749 725</b>
<b>Total equity and liabilities</b>		<b>3 016 793</b>	<b>2 915 709</b>

# INCOME STATEMENT

## FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	GROUP	
		2010 R'000	2009 R'000
Revenue	19	2 449 556	2 274 091
Cost of sales		(2 036 058)	(1 868 536)
Gross profit		413 498	405 555
Other operating income	20	86 871	95 794
Distribution costs		(39 636)	(37 237)
Administrative expenses		(214 747)	(192 735)
Other operating expenses		(113 469)	(100 156)
Operating profit		132 517	171 221
Finance costs	23	(25 401)	(36 844)
Share in profit of associated companies	4	66 156	175 796
Profit before tax		173 272	310 173
Income tax	24	(26 871)	(36 022)
<b>Profit attributable to the shareholders of the holding company</b>		<b>146 401</b>	<b>274 151</b>
Earnings per share – basic and diluted (cents)	25	59,43	111,43
Dividend per share (cents)	26	24,00	30,00

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 SEPTEMBER

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	GROUP	
	2010 R'000	2009 R'000
Profit for the year	146 401	274 151
Other comprehensive income	10 144	(7 608)
Remeasurement to fair value – available-for-sale investments	–	(2)
Cash flow hedges	(39)	(247)
Dilution due to a decrease in interest of associated company	–	(4 015)
Share of other comprehensive income of associated company	10 183	(3 344)
<b>Total comprehensive income attributable to the shareholders of the holding company</b>	<b>156 545</b>	<b>266 543</b>

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 SEPTEMBER

	GROUP							
	Share capital R'000	Share premium R'000	Re-valuation reserve R'000	Fair value reserve R'000	Business-combination reserve R'000	Equity reserve R'000	Retained profit R'000	Treasury shares R'000
<b>Balance 1 October 2008</b>	2 551	659 371	20 486	141	216 582	399 623	684 500	(9 587)
Treasury shares sold	-	-	-	-	-	-	1 530	468
Total comprehensive income	-	-	-	(249)	-	(7 359)	274 151	-
Dividends paid	-	-	-	-	-	-	(76 224)	-
Transfer between reserves	-	-	(1 944)	-	-	119 055	(117 111)	-
<b>Balance 30 September 2009</b>	<b>2 551</b>	<b>659 371</b>	<b>18 542</b>	<b>(108)</b>	<b>216 582</b>	<b>511 319</b>	<b>766 846</b>	<b>(9 119)</b>
Total comprehensive income	-	-	-	(39)	-	10 183	146 401	-
Dividends paid	-	-	-	-	-	-	(59 122)	-
Transfer between reserves	-	-	(784)	-	-	16 647	(15 863)	-
<b>Balance 30 September 2010</b>	<b>2 551</b>	<b>659 371</b>	<b>17 758</b>	<b>(147)</b>	<b>216 582</b>	<b>538 149</b>	<b>838 262</b>	<b>(9 119)</b>

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 SEPTEMBER

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		GROUP	
		2010	2009
		R'000	R'000
	Notes		
<b>Cash flow from operating activities</b>		<b>94 915</b>	47 073
Net cash profit from operating activities	27	<b>137 786</b>	167 690
Working capital changes	28	<b>(16 415)</b>	(58 436)
Income tax paid	29	<b>(26 456)</b>	(62 181)
<b>Cash flow from investment activities</b>		<b>16 862</b>	14 724
Purchase of property, plant and equipment		<b>(33 076)</b>	(46 805)
Proceeds on disposal of property, plant and equipment		<b>1 503</b>	4 637
Proceeds on disposal of investments		–	151
Proceeds with insurance claim – property, plant and equipment		<b>3 583</b>	–
Acquisition of operations	30	<b>(4 657)</b>	–
Dividends received		<b>49 509</b>	56 741
<b>Cash flow from financing activities</b>		<b>(113 321)</b>	(64 349)
Proceeds on sale of Treasury shares		–	1 998
Repayment of borrowings		–	(136)
Increase/(decrease) in short-term loans		<b>(28 798)</b>	46 857
Interest paid		<b>(25 401)</b>	(36 844)
Dividend paid		<b>(59 122)</b>	(76 224)
Net decrease in cash and cash equivalents		<b>(1 544)</b>	(2 552)
Cash and cash equivalents at the beginning of the year		<b>17 281</b>	19 833
Cash and cash equivalents at the end of the year		<b>15 737</b>	17 281
<b>Comprising of:</b>			
– Bank and cash on hand		<b>15 737</b>	17 281

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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### 1. ACCOUNTING POLICIES

The principal accounting policies incorporated in the preparation of these financial statements, are set out on pages 22 to 33. These policies have been consistently applied to all the years presented, unless stated otherwise.

### 2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom precisely 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.

#### ***Recognition of deferred tax assets***

A subsidiary of the holding company has a current year calculated tax loss of R6,0 million (2009: R9,9 million). The subsidiary incurred a profit during the last two financial years, but during some of the previous financial years the subsidiary incurred losses. For the following financial year a taxable income of R5,2 million is budgeted for. It is the judgement of management that due to the uncertainty relating to future taxable profits against which the assessed tax loss could be utilised, a deferred tax asset should only be recognised for the budgeted taxable income. The Group has a STC credit of R75,0 million (2009: R87,7 million). It is the judgement of management that this STC credit will in all probability not be utilised in the foreseeable future, especially seen in the light of recent income tax act amendments, and accordingly no deferred tax asset is recognised.

#### ***Property, plant and equipment***

Property, plant and equipment are depreciated over their useful lives, taking into account their residual values at the end of their useful lives. The residual values and useful lives are based on industry knowledge and past experience with similar assets. Refer to note 1.6 of the Group's accounting policy.

#### ***Provision for impairment of trade receivables***

In estimating the provision for impairment of trade receivables, management makes certain estimates and judgements relating to the estimated recovery rate of debtors who are deemed to be impaired and historical impairment rates based on risk factors specific to the industry, such as price volatility of products, exchange rates, labour intensity of products and commodity prices.

#### ***Inventory provisions***

The Group makes certain judgements relating to the recoverability of inventory, based on the frequency of movement in different inventory types. These judgements are used to determine the extent of inventory provisions.

#### ***Post-retirement medical benefits***

Refer to note 1.16 of the Group's accounting policies as well as note 12.

#### ***Share-based remuneration***

Refer to note 1.16 of the Group's accounting policies as well as note 12.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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### 3. PROPERTY, PLANT AND EQUIPMENT

#### Cost/deemed cost

	GROUP	
	2010 R'000	2009 R'000
Land and buildings	246 867	224 679
Other property	243 467	221 279
Investment property	3 400	3 400
Grain silos	39 189	39 242
Machinery and equipment	38 864	33 573
Vehicles	12 362	11 751
Office furniture and equipment	52 835	47 667
Improvements to leasehold property	3 548	1 655
Assets under construction	933	10 490
	<b>394 598</b>	<b>369 057</b>

#### Accumulated depreciation

Land and buildings	(7 806)	(6 429)
Other property	(7 773)	(6 418)
Investment property	(33)	(11)
Grain silos	(24 577)	(23 345)
Machinery and equipment	(21 587)	(19 111)
Vehicles	(8 358)	(7 925)
Office furniture and equipment	(26 039)	(24 648)
Improvements to leasehold property	(969)	(614)
	<b>(89 336)</b>	<b>(82 072)</b>
Total carrying value	<b>305 262</b>	<b>286 985</b>

Depreciation has been allocated as follows in the income statement:

Cost of sales	(750)	(1 190)
Other operating expenses	(12 223)	(10 981)
	<b>(12 973)</b>	<b>(12 171)</b>

A register of land and buildings, containing details as required by Schedule 4 of the Companies Act, is available for inspection at the registered offices of the company and the subsidiaries.

Reconciliation of movements in carrying value

	Total R'000	Land and buildings R'000	Grain silos R'000	Machinery and equipment R'000	Vehicles R'000	Office furniture and equipment R'000	Improve- ments to leasehold property R'000	Assets under con- struction R'000
<b>30 September 2010</b>								
Carrying value								
1 October 2009	286 985	218 250	15 897	14 462	3 826	23 019	1 041	10 490
Additions	33 179	23 427	1	5 646	1 257	10 512	1 893	(9 557)
Disposals	(342)	-	-	(26)	(111)	(205)	-	-
Written off as a result of fire	(1 232)	(1 232)	-	-	-	-	-	-
Improvements to leased premises written off	(355)	-	-	-	-	-	(355)	-
Depreciation	(12 973)	(1 384)	(1 286)	(2 805)	(968)	(6 530)	-	-
Carrying value								
30 September 2010	<b>305 262</b>	<b>239 061</b>	<b>14 612</b>	<b>17 277</b>	<b>4 004</b>	<b>26 796</b>	<b>2 579</b>	<b>933</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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The share in the associate's profit for the period is calculated by using the economic interest. The economic interest is calculated by decreasing the associate's issued share capital with its issued shares which do not currently share in profit.

The Group's proportionate interest in assets and liabilities of the associated companies are as follows:

	GROUP	
	2010	2009
	R'000	R'000
Non-current assets	1 363 513	1 214 339
Current assets	1 410 208	1 340 837
Total assets	<u>2 773 721</u>	<u>2 555 176</u>
Non-current liabilities	647 800	552 860
Current liabilities	639 274	540 941
Total liabilities	<u>1 287 074</u>	<u>1 093 801</u>

The Group's proportionate interest in the cash flows of the associated companies are as follows:

Cash flow from operating activities	431 073	527 211
Cash flow from investment activities	(252 846)	(148 662)
Cash flow from financing activities	(141 521)	(164 895)
Net increase in cash and cash equivalents	<u>36 706</u>	<u>213 654</u>

The Group's proportionate interest in the revenue and expenses of the associated companies are as follows:

Revenue	<u>4 944 046</u>	<u>5 185 095</u>
Profit before taxation	193 737	284 884
Income tax	(120 038)	(106 410)
Profit attributable to ordinary shareholders	<u>73 699</u>	<u>178 474</u>

Settlement with Competition Commission:

On 2 November 2010 Pioneer Food Group Limited and the Competition Commission announced that they have agreed to a full and final settlement that concludes all investigations and proceedings. The Competition Tribunal confirmed the settlement agreement on 30 November 2010. Pioneer Food Group Limited was fined R500 million in addition to the administrative penalty of R196 million which was paid in April 2010. In addition, Pioneer Food Group Limited must also reduce its gross profit with R160 million in respect of certain wheaten flour and bread products. R654 million of the settlement and penalties were recognised in the current financial year.

Pioneer Food Group Limited has a share incentive scheme, as well as class A shares issued in terms of an employee share scheme, which will have a potential dilutive effect on the Kaap Agri Group's economic interest. The total potential dilution of 2,5%, which will occur as a result of the options being exercised, will be accounted for directly in the income statement.

## 5. DEFERRED TAXATION

Movement of deferred taxation

Balance beginning of year

Income statement credit

Credit/(debit) against reserves

Balance end of year

Due to the following timing differences:

Property, plant and equipment

Currency translation differences

Tax loss

Provisions and accrued expenses

For the purposes of the statement of financial position deferred taxation is presented as follows:

Non-current assets

Non-current liabilities

## 6. INVENTORY

Merchandise

Raw materials

Consumable goods

Inventory carried at net realisable value

Included in the inventory is a provision for slow-moving and obsolete stock of R7,6 million (2009: R7,3 million). Inventory to the value of R3,5 million (2009: R6,9 million) were written off during the year.

The inventory is encumbered as security as set out in note 14.

## 7. TRADE AND OTHER RECEIVABLES

Trade debtors

Provision for impairment

Sundry debtors

The carrying value of trade and other receivables approximates its fair value at the reporting date.

The trade debtors are encumbered as security as set out in note 14.

	GROUP	
	2010	2009
	R'000	R'000
	<b>1 544</b>	(1 405)
	<b>744</b>	2 438
	<b>(4)</b>	511
	<b>2 284</b>	1 544
	<b>(18 116)</b>	(17 426)
	<b>12</b>	16
	<b>4 401</b>	1 075
	<b>15 987</b>	17 879
	<b>2 284</b>	1 544
	<b>4 555</b>	1 661
	<b>(2 271)</b>	(117)
	<b>2 284</b>	1 544
	<b>359 392</b>	351 862
	<b>3 010</b>	4 010
	<b>839</b>	895
	<b>363 241</b>	356 767
	<b>22 867</b>	9 460
	<b>747 653</b>	700 477
	<b>(31 363)</b>	(26 124)
	<b>716 290</b>	674 353
	<b>40 431</b>	34 001
	<b>756 721</b>	708 354

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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### 8. FINANCIAL INSTRUMENTS FOR HEDGING

The fair values of Financial instruments at fair value through profit or loss and Derivative financial instruments on reporting date are:

#### Financial instruments at fair value through profit or loss

Firm commitment – Grain purchases

Assets/(Liabilities)

– Forward purchase contracts

– Options

GROUP  
2010                      2009  
R'000                      R'000

	1 361	(643)
	(805)	(127)
	556	(770)

Forward purchase contracts and options

The forward purchase contracts and options represent contracts with producers for the acquisition of physical commodities in the future, which will be delivered within the next 12 months after year-end.

#### Derivative financial instruments

Hedging instruments

Assets/(Liabilities)

– Forward sale contracts

– Options

	(1 361)	643
	805	127
	(556)	770

Forward sale contracts

The forward sale contracts represent contracts with millers and SAFEX for the future sale of physical commodities.

Options

Options represent derivative financial instruments originating from producers which will be recouped with the physical delivery of the commodities.

### 9. CASH AND CASH EQUIVALENTS

Cash on hand

Bank balances

	497	424
	15 240	16 857
	15 737	17 281

### 10. ORDINARY SHARE CAPITAL

#### Authorised:

400 000 000 (2009: 400 000 000) ordinary shares of R0,01 each

	4 000	4 000
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#### Issued:

255 147 696 (2009: 255 147 696) ordinary shares of R0,01 each

	2 551	2 551
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#### Treasury shares:

8 807 982 (2009: 8 807 982) ordinary shares

	(9 119)	(9 119)
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All issued shares are fully paid.

## 11. OTHER RESERVES

### Revaluation reserve

The revaluation reserve came into existence in 2006 when the Group revalued its land and buildings to fair value. The Group made the choice to apply the "fair value as deemed cost" – exemption in terms of IFRS 1 "First-time adoption of International Reporting Standards".

### Fair value reserve

Available-for-sale investments are shown in the statement of financial position at fair value. The remeasuring from initial cost to fair value is recognised directly in the statement of comprehensive income on the Fair value reserve. When these investments are sold or undergo an impairment, the accumulated fair value reserve in equity is recognised in the income statement.

Derivative financial instruments that are designated and qualify as cash flow hedges are shown in the statement of financial position at fair value. The effective portion of changes in the fair value are recognised directly in other comprehensive income on the Fair value reserve.

### Business combination reserve

The difference between the par value of shares issued during a transaction under common control and the fair value of the consideration received is recognised directly in equity on the Business combination reserve. For the following transactions under common control amounts were recognised against this reserve:

- On 31 January 2005 the trading companies WPK en Boland Agri were combined in a new interim holding company.
- On 31 July 2007 the Kaap Agri Group was restructured to combine Kaap Agri A and Kaap Agri B in one holding company.
- On 1 August 2007 the Group obtained a further interest in Pioneer Food Group Limited in a share swap transaction.

### Equity reserve

The share in profit of associated companies, less any dividends received, is transferred to the Equity reserve. The share in any other movements in reserves of associates, as well as the effect of dilutionary and anti-dilutionary equity transactions of associates, are recognised in the income statement and statement of comprehensive income and then transferred to the Equity reserve.

GROUP	
2010 R'000	2009 R'000
17 758	18 542
(147)	(108)
216 582	216 582
538 149	511 319
<u>772 342</u>	<u>746 335</u>



	2010 R'000	2009 R'000	2008 R'000	2007 R'000	2006 R'000
Trend information:					
Present value of liabilities	16 627	16 478	15 528	14 791	14 149
Present value of plan assets	–	–	–	–	–
Present value of obligations above plan assets	16 627	16 478	15 528	14 791	14 149
Experience adjustments					
Present value of liabilities	–	(588)	(716)	(495)	(2 483)
Present value of plan assets	–	–	–	–	–
Actuarial loss before changes in assumptions	–	(588)	(716)	(495)	(2 483)

	GROUP	
	2010	2009
<i>Long-term incentive scheme</i>		
Discount rate (%)	7,42	8,53
Growth rate of phantom-share value – year ending 30 September 2010 (%)	11,00	11,00
Growth rate of phantom-share value – year ending 30 September 2011 (%)	11,00	11,00
Growth rate of phantom-share value – year ending 30 September 2012 (%)	11,00	11,00
Growth rate of phantom-share value – year ending 30 September 2013 (%)	11,00	11,00
Forfeited phantom shares in future periods (number)	0	0

The Group operates an incentive scheme based on phantom shares. In terms of the scheme, phantom shares are allocated to senior management and executive directors at a value based on the bid price of the Group's share price and the price/earnings ratio of the operations. The calculated increase on the value of the phantom shares is paid as a bonus over three, four and five years, one-third in each year, from the date in which the phantom shares were allocated. Participants in this scheme must be employed by the Group at the date of payment. The accrued liabilities in terms of the scheme are provided for on a time basis against income. At year-end 6 185 875 (2009: 6 185 875) phantom shares, were allocated at calculated values of between R3,00 and R7,36 per share.

### 13. TRADE AND OTHER PAYABLES

	R'000	R'000
Trade creditors	346 434	301 922
Other creditors	37 199	49 095
	<b>383 633</b>	<b>351 017</b>

The carrying value of trade and other payables approximates its fair value at the reporting date.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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### 14. SHORT-TERM BORROWINGS

Bank overdrafts  
RSA Agri Makelaars (Pty) Ltd

GROUP	
2010	2009
R'000	R'000
341 532	368 967
3 113	4 476
<b>344 645</b>	<b>373 443</b>

The carrying value of short-term loans approximates its fair value at the reporting date.

The bank overdraft facility is renewed annually and the current facility bears interest at prime less 1,85%.

The loan from RSA Agri Makelaars (Pty) Ltd is unsecured and bears interest at rates agreed on from time to time. There are no specific repayment terms.

The bank overdraft facility of R623 million is secured by:

- A limited guarantee by Kaap Agri Beleggings Limited (limited to R680 million) for the facilities of Kaap Agri Bedryf Limited.
- A cession of trade debtors and stock of Kaap Agri Bedryf Limited.
- A negative pledge over the assets in the name of Kaap Agri Bedryf Limited and its subsidiaries.
- A cession and pledge over the shareholding of Kaap Agri Beleggings Limited in Agri Voedsel Beleggings (Pty) Ltd.
- A cession over the loan account of Kaap Agri Beleggings Limited to Agri Voedsel Beleggings (Pty) Ltd.
- A negative pledge over 55 627 707 Pioneer Food Group shares in the name of Agri Voedsel Beleggings (Pty) Ltd.
- A cession of trade debtors of Agriplas (Pty) Ltd as well as a limited guarantee by Kaap Agri Bedryf Limited (limited to R6 million) for the facilities of Agriplas (Pty) Ltd.
- An unlimited guarantee by Kaap Agri Beleggings Limited for the R20 million facility of Kaap Agri (Namibia) (Pty) Ltd.

### 15. RELATED PARTY TRANSACTIONS

The companies in the Group sell products in the normal course of business to directors on terms and conditions applicable to all clients.

#### Transactions with directors and outstanding balances

Sales	29 249	36 104
Purchases	13 155	4 948
Trade receivables	6 826	10 288

#### Transactions with associated companies and outstanding balances

Also refer to note 4.

Sales	42 157	35 322
Purchases	27 902	28 187
Interest paid	349	429
Trade receivables	795	500
Trade payables	2 554	2 245
Loan	3 113	4 476

The relationships between the various companies in the Group are disclosed in note 32. Refer to note 14 for loans with related parties.

Refer to executive directors' remuneration as disclosed in note 22 for key management compensation.

## 16. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks like market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate 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 accounting policy for financial instruments are applied to the following line items according to the statement of financial position: available-for-sale investments, trade and other debtors, financial instruments through profit or loss, derivative financial instruments, cash and cash equivalents, trade and other creditors and borrowings.

The carrying value according to the statement of financial position differs from the values disclosed in this note because of items included in the carrying value according to the statement of financial position which do not meet the definition of a financial instrument or which are excluded from the scope of IFRS 7: Financial instruments: Disclosures. These items include prepaid expenses of R357 494 (2009: R349 236), statutory receivable amounts of R22,4 million (2009: R19,7 million), statutory liabilities of R2,1 million (2009: R4,1 million) and liabilities in respect of employee benefits of R10,7 million (2009: R11,2 million).

### Market risk:

#### Foreign currency risk:

The Group operates internationally and is exposed to limited foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the euro. Foreign exchange risk primarily arises from inventory and asset purchases in other countries. Forward exchange contracts are used to manage the foreign exchange risk.

There is also a conversion risk arising from the consolidation of the results of foreign subsidiaries in South African rands, the Group's reporting currency.

Kaap Agri (Namibia) (Pty) Ltd is currently the only foreign subsidiary within the Group. The functional currency of Kaap Agri (Namibia) (Pty) Ltd is the Namibian dollar. The exchange rate between the Namibian dollar and South African rand is fixed at 1 Namibian dollar for 1 South African rand. Consequently no foreign exchange rate differences arises due to the translation of this foreign subsidiary.

#### Cash flow and fair value interest rate risk:

The Group finances its operations through a combination of shareholders' funds and bank borrowings. The Group's interest rate exposure and the effective interest rates can be summarised as follows:

	At floating rates			
	Rate 2010 %	Amount 2010 R'000	Rate 2009 %	Amount 2009 R'000
<b>Assets:</b>				
Trade receivables	9,50 – 14,50	716 290	10,75 – 15,75	674 353
Other receivables	–	17 705	–	14 038
Cash and cash equivalents	4,50	15 738	5,50	17 281
<b>Liabilities:</b>				
Bank overdraft	7,65	341 532	8,65	368 967
Loan RSA Agri Makelaars (Pty) Ltd	7,50	3 113	8,50	4 476
Trade payables	–	370 856	–	335 700

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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To illustrate the Group's exposure to interest rate changes, the influence of interest rate changes on the carrying values of interest-bearing financial assets and financial liabilities and resulting profit after taxation, are illustrated as follows:

	GROUP	
	2010	2009
	R'000	R'000
Interest-bearing assets	732 028	691 634
Interest-bearing liabilities	(344 645)	(373 443)
Net interest-bearing assets	387 383	318 191
Half a percentage point increase in interest rates	1 395	1 145
Half a percentage point decrease in interest rates	(1 395)	(1 145)

### Price risk:

The Group is exposed to equity securities price risk because of investments held by the Group that are classified on the statement of financial position as available-for-sale.

The Group is involved in the trading of grain commodities in order to optimise the utilisation of its silo infrastructure. It is the Group's intent to hedge any price risk arising from fluctuations in commodity prices during the trading of grain commodities. The Group uses commodity contracts, option contracts or other derivative financial instruments to hedge the commodity price risk. Commodities are hedged within the limits approved by the board of directors. The hedging policy is sufficiently flexible to allow management to rapidly adjust hedges following possible changes in the commodity market.

To illustrate the Group's exposure to commodity price risks, the influence of fluctuations in price on the carrying values of financial assets and financial liabilities and resulting profit after taxation, are illustrated as follows:

Influence of an increase of R100 per ton in commodity prices on Financial assets at fair value through profit or loss	1 404	673
Influence of an increase of R100 per ton in commodity prices on Derivative Financial instruments	(1 404)	(673)
	-	-
Influence of a decrease of R100 per ton in commodity prices on Financial assets at fair value through profit or loss	(1 404)	(673)
Influence of a decrease of R100 per ton in commodity prices on Derivative Financial instruments	1 404	673
	-	-

**Credit risk:**

Potential concentrations of credit risk consist mainly within cash equivalent investments and trade debtors.

The Group limits its counterparty exposures arising from its term deposits by only dealing with well-established financial institutions of high-quality credit standing.

Trade debtors consist of a large number of clients. As a result of a strict credit policy, which includes the ongoing revision of credit limits, securities and credit evaluations of the financial position of these clients, the Group is of the opinion that the credit risks associated with these financial assets are relatively small under normal circumstances. Considering that the vast majority of the trade debtors are associated with the agricultural sector, the recoverability of these financial assets can be negatively influenced by natural disasters, consecutive poor production seasons and lower than expected commodity prices. The credit risks related to trade debtors are limited by taking up securities, like mortgage bonds over property, notarial bonds over movable property and cessions over expected crops. Trade debtors are presented net of the provision for impairment. Interest on trade debtors is calculated on a base rate plus a factor for the risk associated with each client. The Group is of the opinion that no significant concentration of risk existed at year-end, which had not been secured or adequately provided for.

Trade debtors are divided into the following categories: Debtors within terms, Debtors outside terms but not impaired, and Debtors which are impaired.

	Grain R'000	Fruit R'000	Vegetables R'000	Other R'000	Total R'000
<b>Debtors within terms (settlement date is not exceeded)</b>					
<b>30 September 2010</b>					
Balance	172 428	241 194	85 989	91 033	590 644
Securities at fair value	(30 500)	(28 639)	(31 666)	(1 130)	(91 935)
Exposure to credit risk	141 928	212 555	54 323	89 903	498 709
<b>30 September 2009</b>					
Balance	201 903	212 380	60 987	75 867	551 137
Securities at fair value	(39 045)	(19 221)	(15 872)	(1 856)	(75 994)
Exposure to credit risk	162 858	193 159	45 115	74 011	475 143

Based on the payment history of Debtors within terms at year-end, management is of the opinion that the credit quality of this category of debtors is good.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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	Grain R'000	Fruit R'000	Vegetables R'000	Other R'000	Total R'000
<b>Debtors outside terms (settlement date is exceeded) but not impaired</b>					
<b>30 September 2010</b>					
Balance	32 781	68 391	5 626	14 089	120 887
Portion within terms	18 573	21 460	4 391	7 812	52 236
30 days outside terms	–	–	–	–	–
60 days outside terms	92	156	9	–	257
90 days outside terms	238	924	80	1 633	2 875
120 days and more outside terms	13 878	45 851	1 146	4 644	65 519
Securities at fair value	(15 873)	(17 409)	(3 598)	(2 227)	(39 107)
Exposure to credit risk	16 908	50 982	2 028	11 862	81 780
<b>30 September 2009</b>					
Balance	42 402	62 883	6 121	5 746	117 152
Portion within terms	26 763	25 070	2 932	4 018	58 783
30 days outside terms	–	–	–	–	–
60 days outside terms	–	93	–	11	104
90 days outside terms	288	1 990	48	1 460	3 786
120 days and more outside terms	15 351	35 730	3 141	257	54 479
Securities at fair value	(16 131)	(11 811)	(2 214)	(1 836)	(31 992)
Exposure to credit risk	26 271	51 072	3 907	3 910	85 160
<b>Debtors which are impaired</b>					
<b>30 September 2010</b>					
Balance	10 810	12 172	5 088	8 052	36 122
Provision for impairment	(7 279)	(11 566)	(4 561)	(7 957)	(31 363)
Balance beginning of year	(5 325)	(5 590)	(1 991)	(13 218)	(26 124)
Provision utilised	57	698	4	4 708	5 467
Provision written back/(created)	(2 011)	(6 674)	(2 574)	553	(10 706)
Securities at fair value	(3 531)	(403)	(527)	–	(4 461)
Exposure to credit risk	–	203	–	95	298
<b>30 September 2009</b>					
Balance	5 684	8 381	2 491	15 632	32 188
Provision for impairment	(5 325)	(5 590)	(1 991)	(13 218)	(26 124)
Balance beginning of year	(2 125)	(12 258)	(1 379)	(5 791)	(21 553)
Provision utilised	80	1 734	–	1 154	2 968
Provision written back/(created)	(3 280)	4 934	(612)	(8 581)	(7 539)
Securities at fair value	(359)	(1 447)	(500)	(2 264)	(4 570)
Exposure to credit risk	–	1 344	–	150	1 494

### Liquidity risk:

In order to mitigate any liquidity risk that the Group may face, the Group's policy has been to maintain substantial unutilised banking facilities and reserve borrowing capacity. The Group tends to have significant fluctuations in short-term borrowings due to seasonal factors. Consequently the Group policy requires that sufficient borrowing facilities are available to exceed projected peak borrowings.

	GROUP	
	2010 R'000	2009 R'000
The Group's unutilised borrowing facilities are as follows:		
Total borrowing facilities	623 000	603 000
Net interest-bearing debt	(329 405)	(356 586)
	<b>293 595</b>	<b>246 414</b>

The contractual periods of the Group's liabilities at reporting date are as follows:

	1 to 6 months R'000	7 to 12 months R'000	12 months and longer R'000	Total R'000
<b>30 September 2010</b>				
Trade and other payables	355 133	19 680	–	374 813
Financial instruments – Liabilities	557	–	–	557
Financial instruments – Assets	(557)	–	–	(557)
Short-term borrowings	–	368 527	–	368 527
	<b>355 133</b>	<b>388 207</b>	<b>–</b>	<b>743 340</b>
<b>30 September 2009</b>				
Trade and other payables	318 169	17 531	–	335 700
Financial instruments – Liabilities	770	–	–	770
Financial instruments – Assets	(770)	–	–	(770)
Short-term borrowings	–	402 942	–	402 942
	<b>318 169</b>	<b>420 473</b>	<b>–</b>	<b>738 642</b>

#### Fair value estimation:

##### *Investments and derivative financial instruments*

The fair value of financial instruments which trade in active markets, is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

##### *Trade debtors and trade creditors*

The nominal value of trade receivables, less impairment provision, and trade payables is assumed to approximate their fair values.

##### *Financial liabilities*

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 companies with similar financial instruments.

#### Capital maintenance:

The company considers total equity, which includes share capital, share premium, reserves and treasury shares, as capital. The ratio between capital and debt is the capital ratio. The Group's objective with the management of the capital ratio is to ensure that the Group continues to trade as a going concern and to create wealth for its shareholders and other stakeholders. The influence on the capital ratio is considered with decisions on the declaration of dividends, repurchase of shares, issue of shares, purchase and disposal of assets and investments and the acquiring or repayment of debt. The movement in capital is presented in the Statement of changes in equity on page 37 and the capital ratios on page 10.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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	GROUP	
	2010 R'000	2009 R'000
<b>17. CONTINGENT LIABILITIES</b>		
Guarantees for personal loans	220	408
<p>Kaap Agri Bedryf Limited guarantees certain loans of staff at Absa Bank Limited. The company is of the opinion that no financial loss would occur, as the company has guarantees from the staff.</p>		
Competition Commission investigation	–	–
<p>The Competition Commission informed Kaap Agri that it is investigating the apparent collective price fixing of grain storage tariffs by agricultural businesses and SAFEX by virtue of their membership of Grain Silo Industry Limited. The Commission informed all parties involved that the matter had been referred to the Competition Tribunal. The maximum fine could be as much as ten percent of the affected revenue. Kaap Agri will cooperate fully with the Commission and the Tribunal. The time span and potential financial consequence can not be determined as yet.</p>		
Operational lease payments		
Payable within one year	18 111	14 833
Payable between one and five years	33 128	28 377
Payable after five years	2 763	4 118
	<b>54 002</b>	<b>47 328</b>
<b>18. CAPITAL COMMITMENTS</b>		
Contracted	15 337	19 060
Not yet contracted	20 000	20 000
	<b>35 337</b>	<b>39 060</b>
<p>These commitments have been approved by the board of directors. The commitments will be financed by own and borrowed funds.</p>		
<b>19. REVENUE</b>		
Supplying of requisites and services	2 399 385	2 222 221
Finance margin on direct transactions	50 171	51 870
	<b>2 449 556</b>	<b>2 274 091</b>
<b>20. OTHER OPERATING INCOME</b>		
Interest received	62 083	72 493
– Trade debtors that are not impaired	57 577	66 498
– Trade debtors that are impaired	2 976	2 409
– Other	1 530	3 586
Profit on sale of property, plant and equipment	1 161	707
Profit on sale of investments	–	107
Proceeds with insurance claim – property, plant and equipment	3 583	–
Dividends received – unlisted	–	17
Foreign exchange differences	2	57
Transport cost recovered	3 797	4 248
Rent received	5 652	4 476
Bad debts recovered	311	777
Other income	10 282	12 912
	<b>86 871</b>	<b>95 794</b>

## 21. EXPENSES BY NATURE

	GROUP	
	2010 R'000	2009 R'000
Cost of products sold	2 024 943	1 858 143
– Cost of sales	2 026 434	1 886 106
– Net realised income of derivative financial instruments	(1 491)	(27 963)
Depreciation	12 973	12 171
– Properties	1 384	1 850
– Grain silos	1 287	1 257
– Machinery and equipment	2 805	2 848
– Vehicles	967	726
– Furniture and office equipment	6 530	5 376
– Capitalised leased assets	–	114
Improvements on leased premises written off	355	106
Property, plant and equipment written off as a result of fire	1 232	–
Directors' emoluments – Executive and non-executive	8 773	10 824
Staff costs	213 589	192 444
– Salaries, wages and bonuses	189 687	170 012
– Provision for long-term incentive scheme	122	678
– Employer's contribution to pension fund (defined contribution plan)	17 422	15 401
– Employer's contribution to medical benefits	1 279	1 217
– Increase in provision for post-retirement medical benefits	149	951
– Training expenses	4 930	4 185
Auditor's remuneration	2 326	2 010
– For audit	2 206	1 958
– Other services	120	70
– Over provision previous year	–	(18)
Rent paid	19 849	15 827
– Buildings	12 056	8 470
– Vehicles	5 378	4 909
– Machinery and equipment	2 415	2 448
Other occupancy costs	29 883	27 515
Computer expenses	9 572	9 050
Marketing costs	18 640	17 110
Transport/distribution	27 986	26 243
Bad debts written off	5 468	2 987
Increase in provision for impairment of trade debtors	5 239	4 571
Goodwill written off	800	–
Other expenses	22 282	19 663
	<b>2 403 910</b>	<b>2 198 664</b>
	<b>Number</b>	
Number of employees in service at year-end	1 621	1 514

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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	GROUP	
	2010	2009
	R'000	R'000
<b>22. DIRECTORS' EMOLUMENTS</b>		
Paid to directors for:		
Executive directors – remuneration	7 138	9 231
– Salaries	6 882	5 858
– Performance bonus	–	1 003
– Provision for long-term incentive scheme	256	2 370
Non-executive directors – remuneration	1 635	1 593
– Services as directors	1 549	1 500
– Other costs	86	93
	<b>8 773</b>	<b>10 824</b>
<b>23. FINANCE COSTS</b>		
Banks and other	25 401	36 841
Finance lease obligations	–	3
	<b>25 401</b>	<b>36 844</b>
<b>24. INCOME TAX</b>		
Tax expenditure:		
Current taxation – current year	27 615	38 460
Deferred taxation – current year	(744)	(2 438)
Taxation for the year	<b>26 871</b>	<b>36 022</b>
Calculated tax loss:		
Calculated tax loss available for utilisation against future taxable income	14 673	13 006
Utilised against deferred taxation	–	–
Net available for future utilisation	<b>14 673</b>	<b>13 006</b>
Tax relief calculated at current rates amounts to	<b>4 108</b>	<b>3 642</b>
	<b>%</b>	<b>%</b>
The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory rate, as follows:		
Statutory tax rate	28,00	28,00
Adjusted for:		
Non-taxable income	(0,91)	(0,16)
Temporary differences not provided for	0,26	(0,06)
Capital profit	0,31	0,14
Difference in tax rate of foreign subsidiary	(0,21)	(0,05)
Utilisation of assessed losses not previously recognised	(1,02)	(0,39)
Deferred taxation on assessed losses previously not recognised	(1,35)	–
Effective rate – Operations	<b>25,08</b>	<b>27,48</b>
Share in profit of associated company	<b>(9,58)</b>	<b>(15,87)</b>
Effective rate – Consolidated	<b>15,50</b>	<b>11,61</b>
	<b>R'000</b>	<b>R'000</b>
Calculated STC liability if the Group's total reserves would have been declared as a dividend	145 590	136 733
Unutilised STC credits	(7 507)	(8 774)
Contingent liability	<b>138 083</b>	<b>127 959</b>

## 25. EARNINGS PER SHARE

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	GROUP	
	2010 R'000	2009 R'000
Profit attributable to equity holders of the Group	146 401	274 151
Reconciliation between earnings and headline earnings:		
Net profit attributable to ordinary shareholders	146 401	274 151
Net profit on disposal of assets	(836)	(560)
Gross	(1 161)	(707)
Tax effect	325	147
Net profit on disposal of investments	–	(98)
Gross	–	(107)
Tax effect	–	9
Net proceeds with insurance claim due to fire	(2 013)	–
Gross proceeds	(3 583)	–
Property, plant and equipment written off	1 232	–
Tax effect	338	–
Goodwill written off	800	–
Headline earnings adjustment for associated company	597	19 233
Headline earnings	144 949	292 726
Associated company – Competition Commission penalties	205 603	–
Adjusted headline earnings	350 552	292 726
Weighted average number of ordinary shares ('000)	246 340	246 040
	<b>Cents</b>	
Earnings per share (cents)	59,43	111,43
Headline earnings per share (cents)	58,84	118,97
Adjusted headline earnings per share (cents)	142,30	118,97

Headline earnings is calculated based on Circular 8/2007 issued by the South African Institute of Chartered Accountants. Adjusted headline earnings are defined as headline earnings excluding the effect of Competition Commission penalties of the associated company.

Diluted earnings per share is not disclosed, as there are no potential dilutive instruments at reporting date.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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	GROUP	
	2010 R'000	2009 R'000
<b>26. DIVIDEND PER SHARE</b>		
Interim 2,0 cents (2009: 8,0 cents) per share	4 927	19 707
Final 22,0 cents (2009: 22,0 cents) per share	54 195	54 195
	<b>59 122</b>	<b>73 902</b>
Dividends payable are not accounted for until they have been declared by the board of directors. The Statement of Changes in Equity does not reflect the final dividend payable. The final dividend for the year ended 30 September 2010 will be accounted for as an appropriation of retained profit in the year ending 30 September 2011.		
<b>27. NET CASH FROM OPERATING ACTIVITIES</b>		
Operating profit per income statement	132 517	171 221
Adjusted for:		
– Depreciation	12 973	12 171
– Profit on disposal of property, plant and equipment	(1 161)	(707)
– Profit on disposal of investments	–	(107)
– Proceeds with insurance claim – property, plant and equipment	(3 583)	–
– Property, plant and equipment written off as a result of fire	1 232	–
– Goodwill written off	800	–
– Decrease in provisions	(5 347)	(14 994)
– Improvements on leased premises written off	355	106
	<b>137 786</b>	<b>167 690</b>
<b>28. WORKING CAPITAL CHANGES</b>		
Increase in inventory	(4 072)	(9 230)
Increase in trade and other debtors	(52 579)	(24 466)
Increase/(decrease) in trade and other creditors	40 236	(24 740)
	<b>(16 415)</b>	<b>(58 436)</b>
<b>29. INCOME TAX PAID</b>		
Balance owing/(paid in advance) at the beginning of the year	(127)	23 594
Income tax expense in income statement	27 615	38 460
Balance paid in advance/(owing) at the end of the year	(1 032)	127
	<b>26 456</b>	<b>62 181</b>
<b>30. ACQUISITION OF OPERATIONS</b>		
Non-current assets	103	–
Current assets	3 754	–
Goodwill	800	–
Purchase consideration settled in cash	4 657	–
	<b>8 314</b>	<b>–</b>
Refer to note 31 for more information.		

### 31. BUSINESS COMBINATIONS

On 1 October 2009 the Group acquired the assets and business of Blaauwberg Trading CC.

The assets and liabilities at the date of acquisition can be summarised as follows:

Carrying value

As the Group acquired the assets of this business rather than the shares of the legal entity that previously owned such assets, it is unpractical to disclose the carrying amounts in the books of the previous owners prior to the acquisition. In these circumstances the Group does not have access to such carrying values.

Fair value

Assets

Inventory

Trade receivables

Goodwill

Purchase consideration

	GROUP	
	2010	2009
	R'000	R'000
	1 704	-
	1 026	-
	800	-
	<b>3 530</b>	-

A purchase price allocation as required by IFRS 3 "Business Combinations" was performed and no material intangible assets were identified. For this reason the goodwill paid was written off in the income statement.

The acquired business contributed revenues of R11,2 million in the current financial year since acquisition to the company's total revenue. The acquired business realised a net loss of R1,5 million in the current financial year since acquisition.

On 1 October 2009 the Group acquired the assets and business of Orban Investments 13 CC, t/a Texas Trading.

The assets and liabilities at the date of acquisition can be summarised as follows:

Carrying value

As the Group acquired the assets of this business rather than the shares of the legal entity that previously owned such assets, it is unpractical to disclose the carrying amounts in the books of the previous owners prior to the acquisition. In these circumstances the Group does not have access to such carrying values.

Fair value

Assets

Equipment

Inventory

Purchase consideration

	103	-
	1 024	-
	<b>1 127</b>	-

A purchase price allocation as required by IFRS 3 "Business Combinations" was performed and no material intangible assets or goodwill were identified.

The acquired business contributed revenues of R8,8 million in the current financial year since acquisition to the company's total revenue. The acquired business realised a net loss of R1,4 million in the current financial year since acquisition.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER

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### 32. INTEREST IN SUBSIDIARIES

Name of subsidiary	Number of issued shares		Shareholding (%)	
	2010	2009	2010	2009
Kaap Agri Beleggings Limited	19 705 494 000	19 705 494 000	100,00	100,00
Kaap Agri Bedryf Limited	155 153 321	155 153 321	100,00	100,00
Agri Voedsel Beleggings (Pty) Ltd	906 041	906 041	100,00	100,00
Kaap Agri (Namibia) (Pty) Ltd	400	400	100,00	100,00
Cerino Trading 25 (Pty) Ltd	120	120	100,00	100,00
Agri IT Limited	6 010 000	6 010 000	100,00	100,00
Agriplas (Pty) Ltd	7 000	7 000	100,00	100,00

### 33. INFORMATION ABOUT OPERATING SEGMENTS

Management has determined the operating segments based on the reports reviewed by the managing director that are used to make strategic decisions. The managing director considers the business from a divisional perspective. The performance of the following divisions are separately considered: Trade, mechanisation, commodity and seed processing as well as irrigation: manufacturing and retail. The performance of the operating segments are assessed based on a measure of revenue and net profit before taxation.

Segment income and results	Segment income		Segment results	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Trade	1 927 949	1 792 764	81 062	90 057
Mechanisation	159 124	120 375	4 185	1 525
Products and seed processing	284 709	279 406	17 175	29 793
Irrigation: manufacturing and retail	70 037	74 756	3 584	3 074
Total for reportable segments	2 441 819	2 267 301	106 006	124 449
Corporate	7 737	6 790	(49 531)	(50 347)
Treasury	–	–	50 641	60 275
Investment in associated companies	–	–	66 156	175 796
Total external income	2 449 556	2 274 091		
Profit before tax			173 272	310 173
Income tax			(26 871)	(36 022)
Profit attributable to ordinary shareholders			146 401	274 151

Segment assets and liabilities	Segment assets		Segment liabilities	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Trade	503 510	459 899	314 183	274 451
Mechanisation	42 381	48 932	12 352	8 673
Products and seed processing	48 627	42 110	14 775	10 742
Irrigation: manufacturing and retail	23 927	28 164	5 680	8 826
Total for reportable segments	618 445	579 105	346 990	302 692
Corporate	107 051	116 968	59 480	73 473
Trade debtors	716 290	674 353	–	–
Short-term borrowings	–	–	344 645	373 443
Investment in associated companies	1 570 452	1 543 622	–	–
Deferred taxation	4 555	1 661	2 271	117
	3 016 793	2 915 709	753 386	749 725

Other segment information	Capital expenses		Depreciation	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Trade	24 384	35 524	4 562	3 114
Mechanisation	709	1 254	257	291
Products and seed processing	3 008	2 391	2 120	1 976
Irrigation: manufacturing and retail	779	1 303	855	1 330
Total for reportable segments	28 880	40 472	7 794	6 711
Corporate	4 196	6 333	5 179	5 460
	33 076	46 805	12 973	12 171
			2010 R'000	2009 R'000

Geographical revenue for the Group is attributed to countries on the basis of the customers' location. No single customer contributes to more than 10% of the group's revenue. Geographical revenue for the Group are as follows:

South Africa	2 255 933	2 139 486
Namibia	193 623	134 605
Total	2 449 556	2 274 091

Non-current assets (excluding deferred taxation) are located in the following countries:

South Africa	1 870 437	1 827 072
Namibia	5 277	3 535
Total	1 875 714	1 830 607

# KAAP AGRI LIMITED

STATEMENT OF FINANCIAL POSITION at 30 September		COMPANY	
		2010 R'000	2009 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiary company	2	1 881 875	1 881 875
<b>Current assets</b>			
Loan subsidiary company	3	479 230	479 230
<b>Total assets</b>		<b>2 361 105</b>	<b>2 361 105</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Ordinary share capital	4	2 552	2 552
Share premium		2 358 553	2 358 553
<b>Total equity</b>		<b>2 361 105</b>	<b>2 361 105</b>
<b>Total equity and liabilities</b>		<b>2 361 105</b>	<b>2 361 105</b>

STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 September		COMPANY	
		2010 R'000	2009 R'000
Investment income – Kaap Agri Beleggings Limited		61 239	79 100
Other operating expenses		(4)	(4)
Profit before taxation		61 235	79 096
Income tax		–	–
Net profit for the year		<b>61 235</b>	<b>79 096</b>

STATEMENT OF CHANGES IN EQUITY for the year ended 30 September		COMPANY		
		Share- capital R'000	Share- premium R'000	Retained profit R'000
<b>Balance 1 October 2008</b>	2 552	2 358 553	–	
Net profit for the year	–	–	79 096	
Dividends paid	–	–	(79 096)	
<b>Balance 30 September 2009</b>	2 552	2 358 553	–	
Net profit for the year	–	–	61 235	
Dividends paid	–	–	(61 235)	
<b>Balance 30 September 2010</b>	<b>2 552</b>	<b>2 358 553</b>	<b>–</b>	

## STATEMENT OF CASH FLOWS for the year ended 30 September

### Cash flow from operating activities

Net cash loss from operating activities  
Operating profit per income statement  
Adjusted for:  
Investment income

### Cash flow from investment activities

Dividends received

### Cash flow from financing activities

Dividend paid

Net increase in cash and cash equivalents  
Cash and cash equivalents at the beginning of the year  
Cash and cash equivalents at the end of the year

COMPANY	
2010	2009
R'000	R'000
61 235	79 096
(61 239)	(79 100)
(4)	(4)
61 239	79 100
61 239	79 100
(61 235)	(79 096)
(61 235)	(79 096)
-	-
-	-
-	-

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September

### 1. ACCOUNTING POLICIES

The principal accounting policies incorporated in the preparation of these financial statements, are set out on pages 22 to 33. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also required management to exercise its judgement in the process of applying the company's accounting policies. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

### 2. INVESTMENT IN SUBSIDIARIES

Unlisted  
KaaP Agri Beleggings Limited  
Number of issued shares: 19 705 494 000 (2009: 19 705 494 000)  
Shareholding: 100% (2009: 100%)  
Shares at cost

### 3. LOANS SUBSIDIARY COMPANY

KaaP Agri Beleggings Limited  
The carrying value of the loan approximates its fair value at the reporting date.  
The loan is unsecured, interest free and there are no specific repayment terms.

### 4. ORDINARY SHARE CAPITAL

Authorised: 400 000 000 ordinary shares of R0,01 each  
Issued: 255 147 696 ordinary shares of R0,01 each (2009: 255 147 696 ordinary shares of R0,01 each)  
All issued shares are fully paid.

### 5. RELATED PARTY TRANSACTIONS

Refer to notes 2 and 3.

COMPANY	
2010	2009
R'000	R'000
1 881 875	1 881 875
479 230	479 230
4 000	4 000
2 552	2 552

# ADMINISTRATION

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**Company secretary and registered office**

RH Köstens

65 Voortrekker Road, Malmesbury, 7300

PO Box 22, Malmesbury, 7299

Telephone number: 022 482 8000

Fax number: 022 482 8008

Internet address: [www.kaapagri.co.za](http://www.kaapagri.co.za)

**Auditors**

PricewaterhouseCoopers Inc

**Share transfer office**

Contact person: Lizelle Bleeker

PO Box 13, Porterville, 6810

Telephone number: 022 931 8200

Fax number: 086 636 7200

E-mail: [lbleeker@kaapagri.co.za](mailto:lbleeker@kaapagri.co.za)

# NOTICE OF ANNUAL GENERAL MEETING

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## KAAP AGRI LIMITED

Registration number 2007/015880/06  
65 Voortrekker Road  
PO Box 22  
MALMESBURY  
7299  
18 January 2011

## TO SHAREHOLDERS OF KAAP AGRI

Notice is hereby given that the Annual General Meeting of shareholders of the company will be held in the Kaap Agri Members' Hall, 65 Voortrekker Road, Malmesbury, on Thursday 10 February 2011 at 11:00 for the following purposes:

1. To consider the annual financial statements of the Kaap Agri group for the period ended 30 September 2010, including the directors' report and the report of the independent auditors.
2. To approve the directors' remuneration.
3. To approve the reappointment of the auditors PricewaterhouseCoopers Inc as the auditors for the following year, and to authorise the Audit Committee to determine the remuneration of the auditors.
4. To elect and appoint directors in order to fill vacancies arising due to the retirement or resignation of directors.

**Note:**

Messrs BS du Toit, NC Loubser and HS Louw are retiring by rotation. All three directors are available for re-election.

Details of the candidates are as follows:

- 4.1 Mr BS du Toit (Born 1957)  
Farmer, Op-die-Berg, Ceres  
Serves on the board of Kaap Agri Limited.
- 4.2 Mr NC Loubser (Born 1954)  
Farmer, Robertson  
Serves on the board of Kaap Agri Limited.
- 4.3 Mr HS Louw (Born 1954)  
Farmer, Rawsonville  
Serves on the board of Kaap Agri Limited.

**Notes:**

The nomination of a person for election as a director is subject to the provisions of Articles 14 and 22 of the company's Articles of Association, which contain the following stipulations, among others:

1. No one other than a retiring director, except on the Board's recommendation, shall be eligible to be elected as a director at any general meeting, unless he is nominated as a director by at least two (2) members, which nomination shall be in writing and lodged at the company's registered office at least fourteen (14) days before the meeting at which the director stands to be elected.
2. The nominated person must, unless the latter is also the proposer, accept his nomination in writing, which acceptance must be attached to the nomination concerned.

## NOTICE OF ANNUAL GENERAL MEETING

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5. To consider and approve the following special resolution

“Resolved that the Board of Directors be authorised, by way of a general authorisation which shall be valid until the next annual general meeting, to approve the following:

The purchase by the company or any subsidiary of the company of shares issued by the company, provided that:

1. the general authority shall be valid only until the company’s next annual general meeting, subject to such annual general meeting being held not later than 15 months after the date of this resolution;
2. the general authority to repurchase shares shall be limited to 10% of the company’s issued share capital at the date on which such repurchase is approved by the board of directors;
3. the price at which the shares are purchased shall not be more than 5% above the average price at which the shares of the company traded in the month preceding the approval.”

Reasons and effect of the special resolution:

The purpose of the special resolution is to grant the directors a general authority to repurchase shares that were issued by the company. The directors intend to exercise such authority should the circumstances so require, but subject to the limitations and requirements set out in section 85 of the Act, namely that shares may not be repurchased if:

- (a) the company is, or would after the payment be, unable to pay its debts as they become due in the ordinary course of business; or
- (b) the consolidated assets of the company, fairly valued, would after the payment be less than the consolidated liabilities of the company.

6. Conclude any other business that may be dealt with at an Annual General Meeting.

A shareholder of the company entitled to attend and vote at the meeting shall be entitled to appoint one or more proxies to attend, speak and vote in his stead at the meeting. A proxy need not be a shareholder of the company.

Duly completed proxy forms must be lodged at the registered office of the company no later than 48 (forty-eight) hours (excluding Saturdays, Sundays and public holidays) before the time fixed for the commencement of the meeting.

By order of the board of directors.



**R H Köstens**  
Group secretary

# FORM OF PROXY



Number of shares

I/We (full names) \_\_\_\_\_

of (address) \_\_\_\_\_

being a shareholder of KAAP AGRI LIMITED hereby appoint

\_\_\_\_\_ of \_\_\_\_\_ or failing him

\_\_\_\_\_ of \_\_\_\_\_ or failing him

\_\_\_\_\_ of \_\_\_\_\_ or failing him

the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the company to be held on the 10th day of February 2011 and at any adjournment thereof, as follows:

	In favour of	Against	Abstain
1. Directors' remuneration			
2. Re-appointment of auditors			
3. Election of directors			
Mr BS du Toit			
Mr NC Loubser			
Mr HS Louw			
4. Special resolution – Repurchase of shares			

(Indicate instructions to proxy by way of a cross (X) in the appropriate space provided above.)

Unless otherwise instructed my proxy may vote as he deems fit.

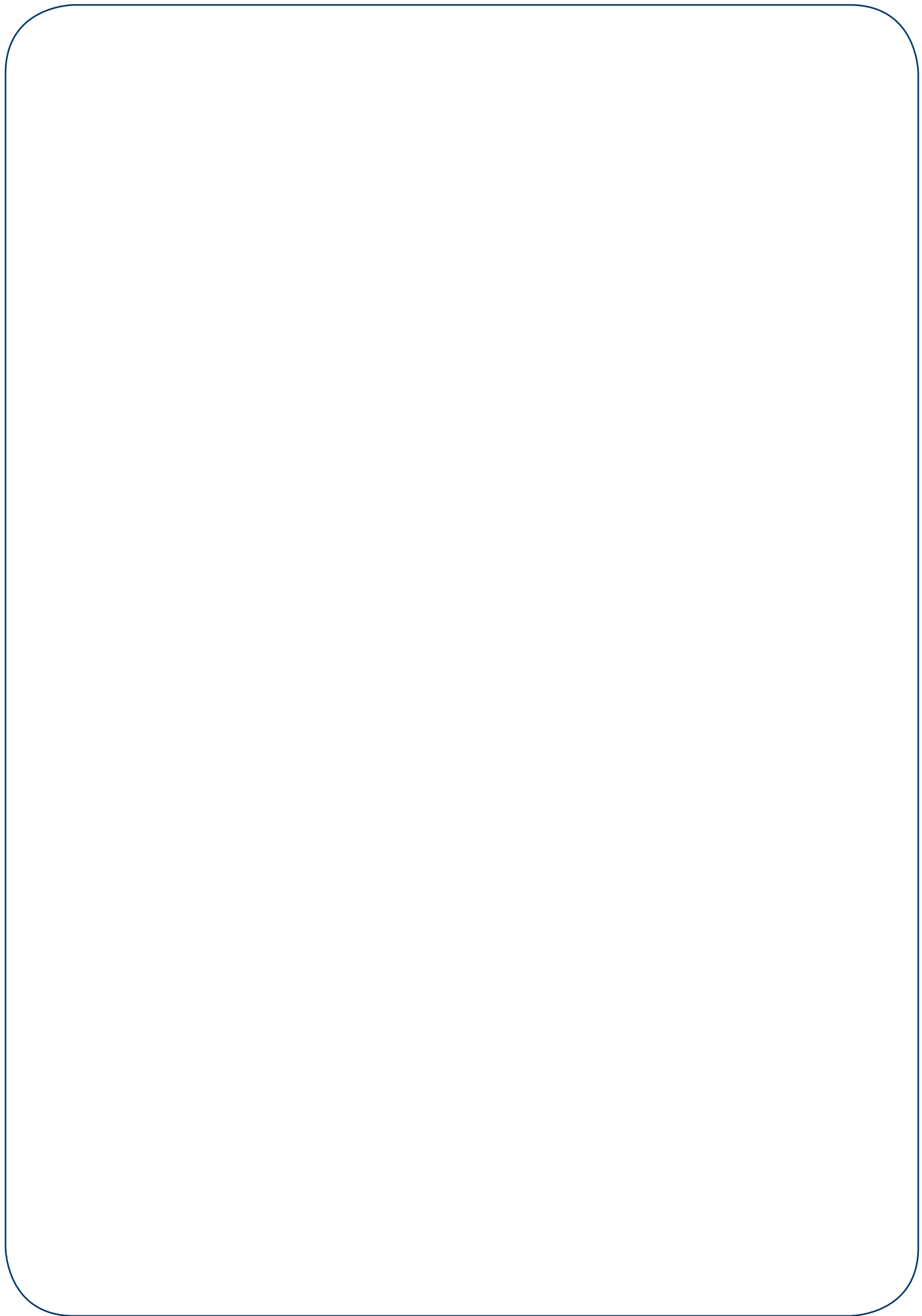
Signed at \_\_\_\_\_ this the \_\_\_\_\_ day of \_\_\_\_\_ 2011

\_\_\_\_\_  
Signature

This proxy shall only be valid if it is returned to the Group Secretary, PO Box 22, Malmesbury, 7299 (fax number: 022 482 8008) at least 48 hours (excluding Saturdays, Sundays and public holidays) before the time fixed for the meeting.

Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form.

Shareholders who do not hold shares in their own names should contact their brokers to make arrangements to attend and vote at the meeting.



*Invitation*

*The Annual General Meeting  
will be held on Thursday  
10 February 2011 at 11:00  
in the Kaap Agri Members' Hall,  
Voortrekker Road, Malmesbury.*

*Shareholders are cordially invited  
to join the Board for tea after the  
Annual General Meeting.*



Business address and registered office: 65 Voortrekker Road | Malmesbury 7300