

# RAINBOW™

## ANNUAL REPORT



2006

**Rainbow** chickens are delicious roast dinners, juicy chicken burgers, crispy nuggets, succulent braais. **Rainbow** is not just a company that produces 4-million birds per week, it creates 4-million memorable meal occasions.

With these inspired insights, **Rainbow** is evolving into a consumer-driven company which recognises that consumers are much more than just people at the end of the supply chain. They are the single reason for it.

**Rainbow** believes that the consumer is at the heart of the business and without them there would be no business. Only through truly understanding our customers and consumers can we deliver meaningful innovation and keep building a sustainable and profitable company.

It is not by accident that **Rainbow's** two vital ingredients, inspired people and great brands, are driving the business to new heights.

**Rainbow's** vision is to be at the heart of every meal.

Just imagine no Sunday roasts, chickenless braais, no nuggets for the youngsters, restaurants without chicken dishes, neighbourhoods without chicken takeaway outlets. The list is endless – the scenario unthinkable.

# Imagine life without **RAINBOW**<sup>TM</sup> Chicken.

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**Rainbow** will become the preferred choice for South African chicken consumers by taking ownership of all customer poultry contact points through the introduction of products which will exceed consumers' needs and wants.



**Farmer Brown** will be unashamedly our consumers' premium choice in fresh and value-added chicken. This will be delivered through consumer-driven innovation, superior quality and brand building.



**Bonny Bird** is a value-for-money brand and is well positioned across all consumer groups, particularly those with large families who require reliable, Grade A chicken products at a reasonable price.



**Rainbow FoodSolutions** are “the chicken experts” providing consistent, quality, innovative solutions to the Foodservice industry.



**Epol** is the perfectly balanced animal feed. **Epol** is scientifically formulated for various animal feed requirements offering a formulation that ensures optimum results.



**Cobb** is the superior chicken breed. **Cobb** offers consistent delivery of average daily gain, meat yield and low feed conversion rates, backed by a support system of expertise, experience, committed customer service and our relationship with **Cobb-Vantress International**.



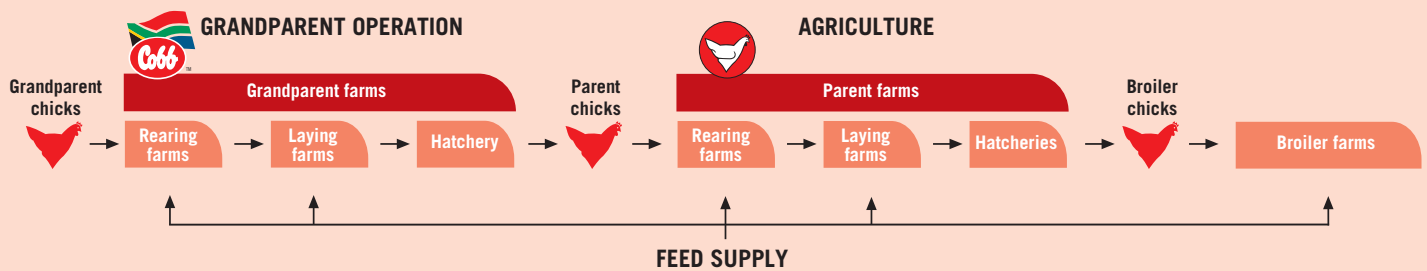
**Vector** is a specialist third-party logistics provider, for the food and food-related industries within Southern Africa across the Retail, Wholesale and Foodservice sectors. **Vector** focuses on the frozen and chilled supply chain.

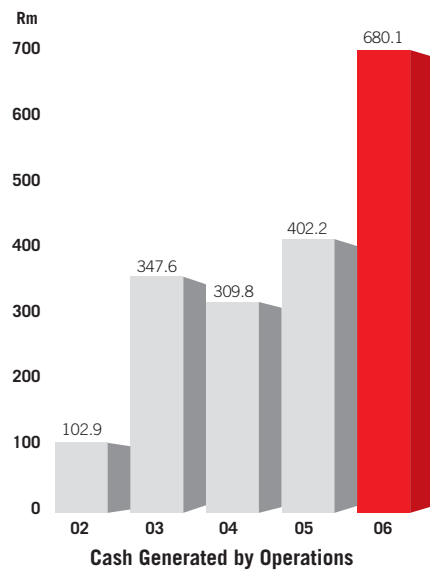
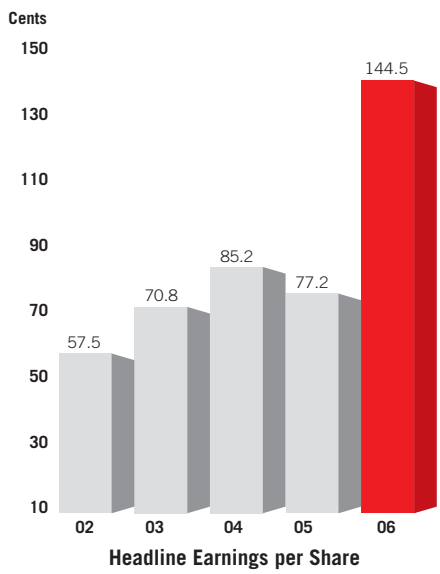
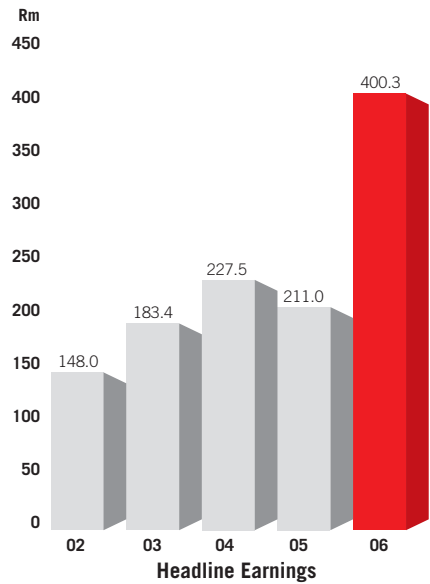
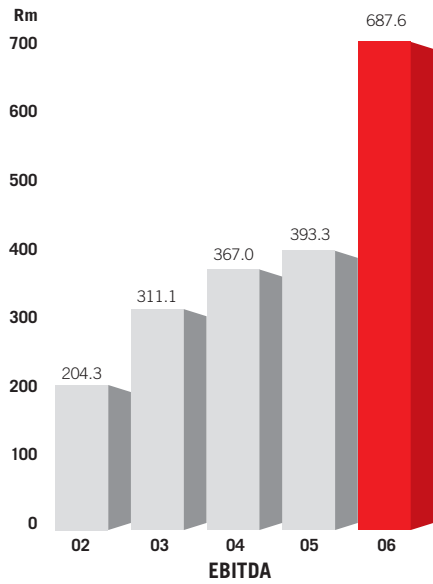


		2006	2005	%
Revenue	(Rm)	4 101.5	4 027.0	1.8
EBITDA	(Rm)	687.6	393.3	74.8
Headline earnings	(Rm)	400.1	211.0	89.7
Headline earnings per share	(cents)	144.5	77.2	87.2
Cash generated by operations	(Rm)	680.1	402.2	69.1
Capital expenditure	(Rm)	234.4	200.0	17.2
Return on equity	(%)	27.7	18.7	9.0

# financial highlights

## FROM FARM...





**...TO FORK**



**PROCESSING**



**DISTRIBUTION**

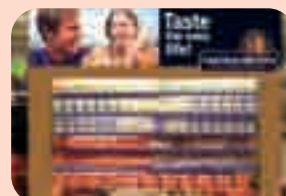
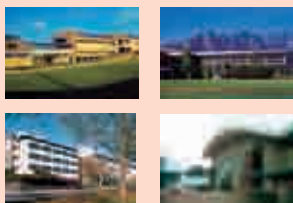


**BRANDS**



**CUSTOMERS**

**CONSUMERS**



# consumer insight - at the heart of our business

Over the past 4 years significant investment has been made in placing consumers and brands at the heart of our business. Strong consumer and customer insight has allowed **Rainbow** to differentiate, innovate and communicate the **Rainbow**, **Farmer Brown** and **Rainbow FoodSolutions** brands.

During 2004 these brands were repositioned and took on new look packaging to reflect the essence of the brands. Two new generic **Rainbow** television commercials were aired and have been successful in communicating the "Grade A Quality, Grade A Taste" message.

**Rainbow** and **Farmer Brown** came alive in-store with impactful point-of-sale and consumer activations. These have included in-store sampling, consumer and trade promotions and the innovative "Chicken Dust" campaign in KwaMashu and Soweto.

Numerous new products launched into the category have allowed us to further differentiate the **Rainbow** brands, the most innovative and successful of these being the **Rainbow Family Pack**.

In February 2006, 66 new value-added products, based on compelling consumer and customer insights, were launched. This launch has been supported by 5 television campaigns and exciting consumer promotions and activations. These products have further entrenched the **Rainbow**, **Farmer Brown** and **Rainbow FoodSolutions** as strong national, innovative brands in the minds of our consumers and customers.

## value-added - new products

Research revealed that consumers are concerned that they and their families are not getting enough nutrition from processed meat products.

Now **Rainbow** has solved their problem with the new **Simply Chicken** range which is made from 100% **Rainbow's** Grade A chicken meat. It consists of frozen crumbed chicken products, Viennas and Polonies – offering greater choice, great taste and more convenience while meeting the need for healthy, nutritious meals.

**Simply Chicken** products contain no pork, soya or fillers and are Halaal certified.

The range caters to all tastes:

- Crumbed products – Steaklets, Burgers and Nuggets as well as Shapes and Bites (for kids and snacks) in Original and Cheese flavours. These have the added advantage of semi-rigid see-through packaging with peel-reseal lids for convenience and easy storage.
- Viennas in Original, Cheese and Barbecue flavours.
- Polonies in Original, Peri-Peri and Chakalaka flavours.



# pure and simple



## Simply Chicken™



“made from 100% Rainbow's Grade A chicken”



# taste the easy life

Increasing pressure on people's time means more demand for convenient meals. At the same time, consumers need to be appreciated for the quality of the meals they serve their families.

These needs are now satisfied with ready-to-eat and ready-to-heat ranges – **easyserve** and **easybraai**.

**easyserve** comprises oven-roasted Whole Chickens, Drumsticks and Wings in Barbecue and Butter Basted flavours. They can be enjoyed hot or cold – anywhere, any time.

**easybraai** is one of the most innovative and exciting of **Farmer Brown's** new ranges. Par-cooked to take the hassle out of braaing chicken, it cooks in the same time as red meat. The range comprises Spatchcocks, Thighs and Wings in Peri-Peri and Barbecue flavours.

The extended **Farmer Brown** range also includes:

- Frozen Crumbed Breast Fillets, Schnitzels and Cordon Bleu.
- Sliced Chicken in Traditional and Smoked flavours.
- Ready-to-Use Chicken Mayonnaise in Tangy, Chutney and Peri-Peri flavours.



**easyserve**



**easybraai**



“brimming with all the goodness, taste and premium quality”

Keeping the Foodservice industry happy is one of **Rainbow's** top priorities. This important sector now has a line-up of innovative new products that answer their needs – and therefore the needs of their customers.

Key to the development of the extended **Rainbow's FoodSolutions** range was to ensure that it not only offers greater choice but also more convenience without compromising on quality. Made from 100% **Rainbow's** Grade A chicken meat, **Rainbow FoodSolutions'** new **Ready2Go** range is available in par-cooked and fully cooked offerings. All are matured for the ultimate in tenderness and succulence, attractively packaged and easy to use.

A state-of-the-art cooking method ensures maximum yield, taste and safety. Packed in portion-controlled bags, they are easier for customers to identify, store and use. Exact weight ranges and equal portions also assist with budgeting and stock control.

**Ready2Go** par-cooked products comprise:

- Tenderbreasts – premium fillets that are flattened and marinated.
- Steaklets – whole breast fillets in a light, crunchy coating containing no fillers or substitutes.
- Schnitzels – designed to minimise preparation time and maximise taste.

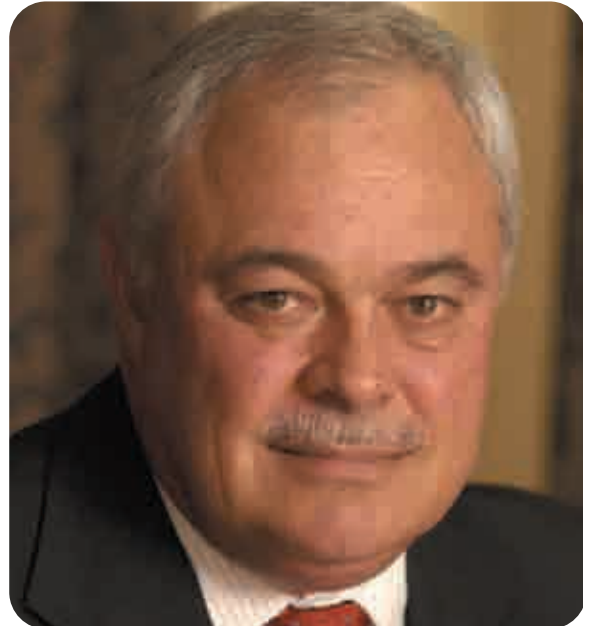
**Ready2Go** fully cooked products include:

- Spatchcocks, Leg Quarters, Breast Fillets and Barbecue Wings.
- Smoked Breasts – fillets that are naturally smoked using finest beechwood.
- Shredded and Cubed Chicken.
- Ready-to-Use Chicken Mayonnaise.



convenience  
without  
compromise

// **Rainbow's** results  
for the year reflect  
significant growth. //



# chairman's report

## **STRONG PERFORMANCE**

**Rainbow's** results for the year ended 31 March 2006 reflect significant growth with headline earnings up 89.7% compared to the previous year. The improvement in operating margins and the significant increase in cash generated by operations were highlights for the year.

**Rainbow's** strong performance has been achieved through a number of strategic initiatives, key features of which have been increased chicken volumes in targeted customers and branded products, improved supply chain efficiencies now that the business operates as a fully integrated chicken operation and lower feed input costs from **Rainbow's** defined feed raw material procurement strategy.

Further, it is pleasing to note that following the acquisition of **Vector** last year, new customer opportunities and synergies have been realised through strategic alignment.

## **INVESTING FOR THE FUTURE**

The Board remains committed to investing in its customer focused strategy to deliver sustainable profit at acceptable margins.

Significant investments in the past year include the completion of the upgrades to the Rustenburg and Worcester plants as well as the commissioning of the Further Processing Plant. Continued

investment in brands and innovation were also features of the year. Specifically in respect of the Further Processing Plant, 66 new products were launched in February 2006. This was the culmination of a significant amount of consumer research and the start of an exciting new chapter for **Rainbow**.

## **SUSTAINABILITY**

**Rainbow** is committed to the three pillars of sustainability covering economic, social and environmental practices. Sustainability also enables **Rainbow** to identify and manage risks and deliver value to all stakeholders.

Steady progress continues to be made in ensuring that **Rainbow** addresses the expectations of all stakeholders and that targets are met.

The detailed Sustainability Report on pages 16 to 23 covers:

- Economic practices
  - Broad-based black economic empowerment
  - Contract growers
- Social practices
  - Human capital, including employment equity, employee training, health and safety, HIV/AIDS, industrial relations and remuneration

- Community involvement
- Corporate social investment
- Product stewardship
- Environmental practices
  - Land use
  - Nature conservation and environmental risk
  - Water and energy usage
  - Analysis of waste
  - Emissions to air
  - Animal welfare

**Rainbow** is committed to behaving responsibly in relation to the physical and social environment and acting with the highest ethical and moral standards.

**CORPORATE GOVERNANCE**

The Board maintains high standards of corporate governance. **Rainbow** endorses the principles of integrity, accountability, transparency and social responsibility and fully complies with the JSE Listing Requirements and King II.

I thank Louis Grobler and Emil Bührmann for their valuable contributions over their many years of service to **Rainbow**. I would like to welcome Manana Nhlanhla and Deon Zwiendelaar who joined the Board during July and November respectively.

**DIVIDEND DECLARATION**

The Board declared dividends totalling 57.0 cents per ordinary share in respect of the twelve months ended 31 March 2006. The fully diluted headline earnings per share dividend cover is 2.5 times. It is intended that the Group’s dividend policy will take into account the performance, cash flow and future prospects of the business whilst maintaining an appropriate level of dividend cover.

**PROSPECTS**

Consumer spending is expected to remain positive. Demand for chicken specifically as an affordable protein source is also expected to remain strong.

Maize prices are likely to remain at the current higher levels with the impact on feed input costs only partly offset by the lower soya price.

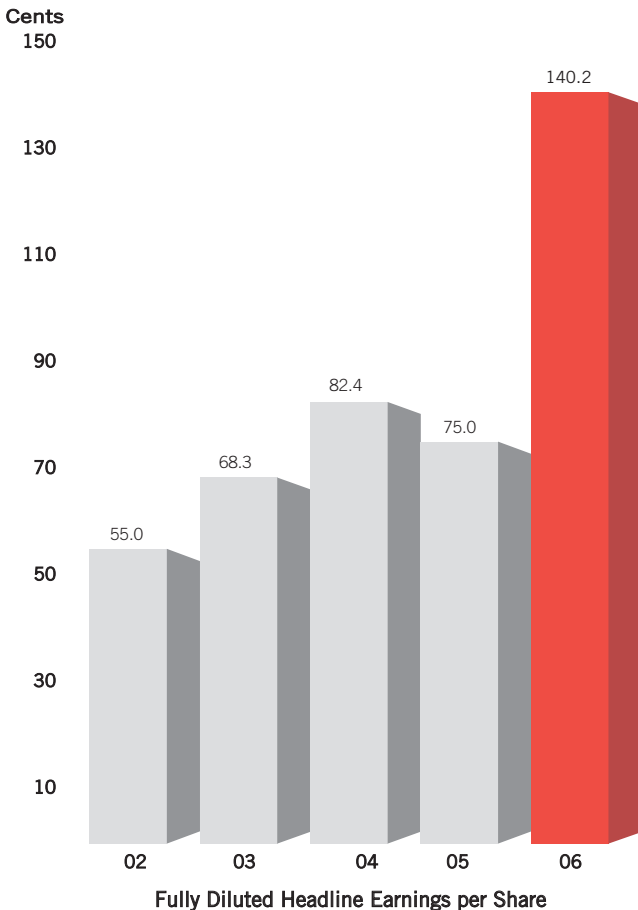
Results for the period ahead will continue to be negatively impacted by the investment cost associated with the Further Processing Plant while initial capacity utilisation is relatively low. Returns will however be in line with original expectation.

Capital expenditure in agriculture and feedmilling over the next few years is expected to be higher than normal. This will enable further supply chain efficiencies and additional chicken volume capacity.

Excluding any potential impact of IAS 39 (Financial Instruments: Recognition and Measurement) (the required year-end mark-to-market adjustment of financial instruments used strategically in feed raw material procurement), the Group expects to report real earnings growth for the next financial year.



**M H Visser**  
Non-executive Chairman



// Rainbow's excellent results reflect the benefits of our strategy. //



# chief executive's review

## OVERVIEW AND MARKET CONDITIONS

The South African economy has grown by 4.4%, the highest rate in decades. Despite the higher oil price, the macroeconomic environment remained positive during the year with further tax relief afforded by the fiscus, low inflation and stable interest rates all contributing to increased consumer spending. The local chicken industry has grown by an estimated 8% in volume.

The reduced planting and lower anticipated yields for the 2006 maize season have resulted in a 63% increase in the 31 March year-on-year closing SAFEX price. **Rainbow** remains comfortable with its overall raw material procurement positions relative to the market and its competitors.

The local chicken industry remains on high alert for Avian Influenza (AI). AI outbreaks internationally have more recently been reported in Asia, Europe and in Africa as far south as Nigeria. **Rainbow** and the local industry at large, through the Southern African Poultry Association (SAPA) and in co-operation with the National Department of Agriculture, have focused on prevention through increased bio-security and stepped-up surveillance and monitoring of flock health.

The strength of the rand, increased domestic demand for chicken and international developments relating to AI all contributed to imports of chicken products increasing by 18.9% over the period. Extension of the anti-dumping tariff on the USA is currently being reviewed and a ruling is expected in the near future.

## STRATEGIC INITIATIVES

The five pillars of the Group's strategic direction are:

- 1. Consumer Insight – The Heart of our Business**  
We need to intimately understand our Consumer's habits, their needs and produce products that excite, satisfy and meet those needs. To build strong brands we need to Innovate, Differentiate and Communicate.
- 2. Customer Focus – Creating Win-Win Partnerships**  
We need to reach our Consumers through partnering targeted Customers which provides solutions that excite the shopper/ consumer and as a consequence deliver better margins for both parties.
- 3. Supply Chain – Delivering Excellence**  
The supply chain's focus is to produce the right size bird at the lowest cost. Key to this being achieved is the integration of breed, feed and processing functions targeting cost competitiveness. The supply chain needs to constantly evolve around changing Consumer and Customer needs.
- 4. Business Investment – Investing for Future Growth**  
Appropriate investment is key to ensure continued growth. We need to invest in inspirational people, our great brands and processes that result in best operating performance.



5. Our Culture – Doing Things Inspirationally

This is the most difficult initiative in that it involves behavioural change, aligning people behind a common purpose, dramatically changing the way we see chicken. We don't just make chicken, we create memorable meal occasions. We need a culture of empowerment and a deep respect for valued partnerships.



The excellent results achieved in the current year reflect the benefits of this strategy, and the operational Board restructure which took place in May 2005 provided the platform for this success. Whilst significant investment in assets, brands and people has been made, further investment is necessary to ensure long-term sustainability of the business.

**REVIEW OF OPERATIONS**

The significant plant upgrades in Rustenburg and Worcester and the Further Processing Plant in Hammarsdale were all completed during the period under review. These investments, totalling R222 million, are key to delivering on **Rainbow's** consumer and customer focused strategy and enabling further supply chain efficiencies.

Investment continues to be made in understanding consumer demand. A significant amount of research and development was conducted on preparing for the launch of the new value-added products out of the Further Processing Plant. This culminated in trade launches during February 2006 at which 66 new retail and foodservice products were introduced under the **Farmer Brown, Rainbow** and **Rainbow FoodSolutions** brands.

**Rainbow** has continued to support and invest in its brands via TV advertising and various consumer activations. The **Rainbow** TV campaign has been particularly successful, achieving an impressive 98% awareness amongst the target market.

**Epol** is a critical element of **Rainbow's** overall cost chain. Its strategic priorities are cost-effective procurement, milling efficiency, targeting external business thus ensuring better capacity utilisation and optimising the feed specification in relation to **Rainbow's Cobb** breed to achieve the lowest cost bird. The feed industry remains under pressure due to over-capacity, with resultant pressure on margins. As a consequence, a decision has been taken to close the Roodepoort mill and consolidate inland volumes from the Rustenburg and Pretoria mills.

**Epol** continues to recover external volumes lost as a result of the feed contamination issue. In February 2006 **Epol** was awarded the ISO 22000 certification for all its sites, being the first operation in South Africa and the first feedmilling operation in the world to achieve such accreditation.

**Vector's** results for the year are in line with expectation. Progress continues to be made in realising synergies between **Rainbow** and **Vector** through an aligned business strategy. This in particular is evidenced in **Rainbow's** improved customer mix. The new contracts with **Nando's** and **Spur** within **Vector's** Multi Temperature Contract Distribution (MTCD) business, as well as **Willowton** within the traditional business, are progressing well. In addition, from January 2006, **Vector** began servicing the balance of **Rainbow's** volumes previously distributed by a third party.

Whilst the Group remains committed to implementing an integrated Enterprise Resource Planning (ERP) system to effectively manage the complex supply chain, a decision was taken to revisit the proposed implementation to take account of other business requirements. In the short-term, **Rainbow** will leverage the **Vector SAP** system to integrate its outbound sales and distribution process to further support the Group's strategy. This will enable other opportunities to be pursued in the short-term and further preparatory work to be performed in respect of an extended ERP roll-out.

Recovery of the significant feed contamination claim against the responsible supplier is progressing, but to date remains outstanding.

**IFRS REPORTING**

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS was adopted with effect from 1 April 2005. Full disclosure of the impact of applying the new standards on the Group's results has been provided in Note 1 on pages 40 to 42.

**FINANCIAL REVIEW**

As previously noted, reporting the financial effects of certain financial instruments, used in the feed raw material procurement strategy, in accordance with IAS 39 (Financial instruments: Recognition and Measurement) materially impacts the Group's financial results. The pre-taxation impact of applying IAS 39 on the Group's results is a positive R63.5 million (2005: R18.3 million negative).

A number of strategic initiatives have resulted in **Rainbow's** strong performance. These initiatives have enabled the Group to achieve a 14% increase in chicken volumes in targeted customers and branded products, with reduced volumes to non-strategic, unprofitable third parties like reprocessors resulting in an improved customer and product mix. In addition, supply chain efficiencies were improved further, **Vector** made a full year contribution and the feed raw material strategy delivered lower feed input costs.

Chicken revenue for the year was 5.1% higher than the previous year (2005: 5.5%). Food inflation remains low with **Rainbow's** average price realisation growth of 2.0% resulting from improved product mix offset by lower contractual foodservice pricing. Overall chicken volumes increased by 3.1%, with the pleasing growth in sales to targeted customers and brands largely offset by the reduction of supply to reprocessors.

**Group revenue** increased by 1.8% to R4.1 billion (2005: R4.0 billion). This lower rate of increase is a function of **Epol's** revenue to external customers being impacted by the lower maize cost as well as lower but recovering volumes as a consequence of the feed contamination issue.

Revenue - Rm	2006	2005	%
Chicken	3 447	3 281	5.1
External sales - <b>Cobb, Epol</b> and <b>Vector</b>	654	746	(12.3)
Reported Revenue	4 101	4 027	1.8

**Headline EBITDA** increased by 86.9% to R688.1 million (2005: R368.2 million), reflecting the improved customer and product mix, lower feed input cost and the inclusion of **Vector's** earnings for a full year. The headline EBITDA margin increased to 16.8% (2005: 9.1%).

**Taxation** increased in line with the higher operating profit. The effective taxation rate however reduced to 31.9% (2005: 32.7%) as a result of the 1% taxation rate adjustment to the deferred taxation liability (R5.4 million).

**Finance income** reduced by 64.7% due to the acquisition of **Vector** in October 2004.

**Headline earnings** increased by 89.7% to R400.3 million (2005: R211.0 million) with **diluted headline earnings per share** improving by 86.9% to 140.2 cents per share (2005: 75.0 cents per share).

**Cash generated by operations** improved by 69.1% to R680.1 million (2005: R402.2 million) as a result of the overall improved performance of the Group and the continued focus on managing working capital.

**Capital expenditure** was R234.4 million (2005: R200.0 million), which included R64.7 million in respect of the Further Processing Plant. A further amount of R102.6 million (2005: R134.1 million) has been contracted and committed, but not spent, whilst a further R49.0 million (2005: R32.3 million) has been approved, but not contracted. The Group continues to follow a policy of upgrading its facilities and funding normal levels of replacement capital expenditure from its own resources.

**Return on equity** increased to 27.7% (2005: 18.7%).

**CONCLUSION**

I would like to record my appreciation to our employees for their immense effort throughout the year and to our valued customers and shareholders for their ongoing support. We are committed to realising all aspects of our strategy for the benefit of all **Rainbow's** stakeholders.

**M Dally**  
Chief Executive Officer

# directorate

## NON-EXECUTIVE CHAIRMAN

### **M H (Thys) Visser (52)**

CA (SA)

**Appointed:** January 1997

**Directorships:** Managing Director and Chief Executive Officer of Remgro Limited, director of British American Tobacco plc, Distell Group Limited, Nampak Limited, Medi-Clinic Corp Limited and Unilever Bestfoods Robertsons (Holdings) Limited LLC.

Thys is a Chartered Accountant who qualified with Arthur Young & Company in Cape Town before joining Rembrandt Group Limited in 1980. He held a number of positions, including Financial Director in 1991 and Managing Director in 1992.

## NON-EXECUTIVE DIRECTOR

### **D G (Deon) Zwiendelaar (60)**

CA (SA)

**Appointed:** November 2005

**Directorships:** Director of M&I Group Services (Proprietary) Limited, the service company of Remgro Limited and VenFin Limited as well as various other wholly-owned unlisted investment holding and finance companies in the Remgro Group of companies.

Deon is a Chartered Accountant who qualified with Theron van der Poel in Cape Town, one of the firms who merged with the existing PricewaterhouseCoopers Inc. After several years of audit experience, he joined the Rembrandt Group as a Financial Manager in 1976. He is currently Group Financial Manager.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### **Dr. M (Munro) Griessel (67)**

PhD (Animal Science)

**Appointed:** November 2002

**Directorships:** Chairman of the technology committee of the Protein Research Foundation.

Munro has over forty years' experience in the animal feed and livestock industries. He is a member of the advisory committee of the Oil and Protein Seeds Development Trust, and an honorary life member of the Animal Feed Manufacturers Association.

### **J B (JB) Magwaza (63)**

MA (UK)

**Appointed:** November 2002

**Directorships:** Chairman of Mutual and Federal, Motseng Marriott Property Services (Proprietary) Limited, Pamodzi Investment Holdings Limited and Peoples' Bank Limited, director of The Tongaat-Hulett Group Limited, Anglo American Corporation of South Africa Limited, Development Bank of Southern Africa Limited, Dorbyl Limited, Ithala Development Finance Corporation Limited, Africa Vukani Resources, Nedcor Limited and Nedcor Bank Limited.

JB served as an industrial relations consultant to Tongaat-Hulett Sugar from 1975 to 1988. Thereafter he held various directorships within The Tongaat-Hulett Group and was appointed an Executive Director of The Tongaat Group Limited in May 1994, a position he held until he retired in August 2003.

### **M (Manana) Nhlanhla (53)**

BSc MA (Information Science)

**Appointed:** May 2005

**Directorships:** MION Investments, Batho Bonke Limited, Trade and Investments KwaZulu-Natal, Women in Oil and Energy – South Africa and Gold Circle.

Manana is a former university lecturer in information science. Over the past ten years Manana has been involved in various businesses including Thebe Investments as a director and in 2004 as a founding member of Batho Bonke Consortium, a broad-based National Group lead by Mr Tokyo Sexwale.

### **N (Noel) Phillips (71)**

BComm, Rhodes University; PMD, Harvard Business School

**Appointed:** August 1996

**Directorships:** McCarthy Limited, Dorbyl Limited and Transvaal Sugar Limited.

Noel was previously Managing Director of Volkswagen South Africa, President and Chief Executive Officer of Volkswagen America and President and Chief Executive Officer of Autolatina (Brazil and Argentina).

### **D W (Don) Vale (65)**

MA (Oxon), FCA (UK)

**Appointed:** July 2004

Don qualified in the UK as a Chartered Accountant and Chartered Management Accountant. He worked for Unilever for 26 years, principally in South Africa and the UK, latterly as the Financial Director. Don has subsequently acted as a business strategy consultant to corporate clients.

## EXECUTIVE DIRECTORS

### **M (Miles) Dally (49)**

Chief Executive Officer  
BComm

**Appointed:** February 2003

**Directorships:** Rainbow Chicken Limited and its subsidiary companies.

Miles has over 25 years experience in the consumer goods industry and served as Group Managing Director of Robertsons Holdings (Proprietary) Limited from 1995 to 2002. After the unbundling of Robertsons Holdings he accepted the position of Chief Executive Officer at Rainbow. Miles is Co-chairman of the Board of the Consumer Goods Council of South Africa (CGCSA). He is also a member of the Board of Business Against Crime South Africa - KZN.

### **R H (Rob) Field (34)**

Chief Financial Officer  
CA (SA)

**Appointed:** July 2004

**Directorships:** Rainbow Chicken Limited and its subsidiary companies.

Rob is a Chartered Accountant who qualified with Deloitte & Touche in Durban. Prior to joining Rainbow in May 2003 he spent four years as Commercial Director of Robertsons Homecare (Proprietary) Limited.

## EXECUTIVE MANAGEMENT

### **M (Miles) Dally**

Managing Director

### **C D (Chris) Creed**

FoodSolutions Director

### **R H (Rob) Field**

Financial Director

### **T J (Trevor) Harding**

IT Director

### **S B (Stephen) Heath**

Company Secretary and Legal Advisor

### **D (David) Hood**

Distribution Director

### **D L (Debbie) Nortje**

Marketing Director

### **M P W (Michael) Rogowski**

Processing Director

### **P C (Patrick) September**

Human Resources and Corporate Affairs Director

### **M P (Marthinus) Stander**

Supply Chain Director

### **P C (Phil) Tozer**

Sales Director

### **C J (Chris) Van Niekerk**

Feed Director

### **C E (Charles) Vauquelin**

Agricultural Director

## MEMBERS OF COMMITTEES

### AUDIT COMMITTEE

N Phillips (Chairman)

D W Vale

D G Zwiigelaar

### REMUNERATION COMMITTEE

M H Visser (Chairman)

J B Magwaza

N Phillips

### RISK COMMITTEE

N Phillips (Chairman)

M Dally

R H Field

Dr. M Griessel

D W Vale

**Rainbow** subscribes to the highest standards of corporate governance in all its dealings with stakeholders. This means that it will be transparent and accountable to all those affected by the business. The Board subscribes to the values of and accepts the inclusive approach to good corporate governance espoused in the King II report. The directors recognise that good corporate governance is essentially about leadership and that there exists the need to conduct the enterprise with integrity and in compliance with best international practices. The Board and individual directors accept their duty and responsibility to ensure that the principles set out in the Code of Corporate Practices and Conduct as defined in the King II report are observed.

#### COMPLIANCE

In keeping with its commitment to corporate governance, the Board continually assesses its state of compliance with the Code of Corporate Practices and Conduct.

#### SUSTAINABILITY

**Rainbow's** corporate governance policy is aligned to ensure the three pillars of sustainability, being Economic, Social and Environmental sustainability practices are addressed in a structured manner so that the fundamentals of fairness, accountability, responsibility and transparency are apparent. The Group is committed to reporting on stakeholder issues in the most appropriate manner.

safety at work, career paths and upliftment of their communities. Through **Rainbow's** developing framework for managing non-financial performance, all of these issues have been taken into account in the strategy, moving closer to the consumers.

Key stakeholders	Dialogue channels and processes
Shareholders and other providers of capital	Annual General Meeting
	Investors relations
Business partners and customers	Sales teams
Local community	Selected projects
	Regular meetings with municipalities
Government and Regulators	Corporate affairs, legal and investor relations functions
Industry	Southern African Poultry Association (SAPA) and Consumer Goods Council of South Africa (CGCSA) representation
Consumers	Consumer hotline
Staff and unions	Confidential helpline
Suppliers	Direct relationships with suppliers

# corporate governance statement

#### STAKEHOLDER RELATIONS

**Rainbow** subscribes to a partnership approach in the way business is conducted. **Rainbow** seeks to constructively engage its key stakeholders with a view to learning and responding to their needs through its core business activities. Interaction occurs with key stakeholders in the business through a number of formal and informal channels, including participation in industry forums, the investor relations function and consumer helplines. **Rainbow** will continue to emphasise open and transparent dialogue in order to anticipate trends and make changes where possible to the way it currently operates.

While the shareholders are concerned with value creation, government and local communities emphasise direct and indirect job opportunities that **Rainbow** can create. **Rainbow's** economic strength is critical to all stakeholders.

**Rainbow** recognises that it has an important role to play in the industry, including technological development, improvement of manufacturing standards and over and above compliance with legislation, facilitating relevant industry self-regulation.

Consumers are becoming increasingly proactive with regard to issues such as health and safety, farming practices, product recall, **Proudly South African** status and animal welfare. **Rainbow's** employees and unions expect fair labour practices, job security,

#### CODE OF ETHICS

It is a fundamental policy of the Group to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. All employees are required to comply with the spirit as well as the letter of this policy and to maintain the highest standards of conduct in all Group professional and social dealings.

The Board has adopted a code of ethics for the Group in order to:

- Clearly state what is an acceptable and unacceptable practice
- Guide policy by providing a set of ethical corporate standards
- Encourage ethical behaviour of the Board, managers and employees at all levels
- Guide ethical decision-making
- Make ethical infringements easy to identify
- Promote awareness of, and sensitivity to, ethical issues
- Help resolve conflicts.

There has been full compliance with the Group's code of ethics during the year under review.

#### CORPORATE CODE OF CONDUCT

The Group is committed to:

- The highest standards of integrity in all its dealings with its stakeholders and society at large

- Carrying on of business through fair commercial competitive practices
- Trading with customers and suppliers who subscribe to ethical business practices
- Non-discriminatory employment practices and the promotion of employees to realise their potential through training and development of their skills
- Being proactive toward environmental and social sustainability issues.

## BOARD OF DIRECTORS

### Composition of the Board

The Group has a unitary Board of Directors that currently comprises seven non-executive (five of whom are independent) and two executive directors.

The executive directors have overall responsibility for implementing the Group's strategy.

Non-executive directors complement the skills and experience of the executive directors and bring judgement to bear, independent of management, on issues of strategy, budgets, performance, resources, transformation, diversity, employment equity, standards of conduct and evaluation of performance, contributing to the formulation of policy and decision-making through *inter alia* their knowledge and experience. The Board is of the view that all non-executive directors bring independent judgement to bear on material decisions of the company.

The Chairman is not independent but the roles of Chairman and Chief Executive Officer are separate and a clear division of responsibility exists. Details of the directorate are provided on page 10 and 11 of the annual report. Aside from executive directors employment contracts, there are no other contracts of service between any of the directors and any subsidiaries within the Group.

The non-executive directors take responsibility for ensuring that the Chairman encourages proper deliberation of all matters requiring the Board's attention. The Board ensures that there is an appropriate balance of power and authority so that no one individual or block of individuals can dominate the Board's decision-making process.

The Board gives strategic direction to the Group under the chairmanship of Mr M H Visser. The Board meets six times a year and has a formal schedule of matters reserved to it as recorded in its Board Charter. The Board retains full and effective control over the Group and monitors executive management in implementing plans and strategies.

The Board has established a comprehensive control environment ensuring that risks are mitigated and the Group's objectives are attained. This control environment sets the tone for the Group and covers ethical values, management's philosophy and the competence of employees.

The Board ensures that the Group complies with all relevant laws, regulations and codes of business practice and that it communicates with its shareholders and relevant internal and external stakeholders transparently, promptly and with substance prevailing over form.

Through the Audit Committee, the Board regularly reviews processes and procedures to ensure the effectiveness of the systems of internal control so that its decision-making capability and the accuracy of its reporting are maintained at a high level at all times. The Board, furthermore, identifies and monitors the non-financial aspects relevant to the business of the Group and reviews appropriate non-financial information that goes beyond assessing the financial and quantitative performance of the Group, and looks at other qualitative performance factors, which take into account broader stakeholder issues. The Board is committed to conforming to good corporate governance, without impacting on the Group's entrepreneurial flair.

The Board and its committees are supplied with full and timely information which enables them to discharge their responsibilities. They have unrestricted access to all Group information, records, documents and property. Non-executive directors have access to management and may even meet separately with management, without the attendance of executive directors. The information needs of the Board are well defined and regularly monitored. All

directors have access to the advice and services of the Company Secretary and there is an agreed procedure by which directors may obtain independent professional advice at the Group's expense, should they deem this necessary.

The Group has a formal policy, established by the Board and implemented by the Company Secretary, prohibiting dealing in securities by directors, officers and other selected employees for a designated period preceding the announcement of its financial results or in any other period considered sensitive. The Chairman through the Company Secretary in any event, approves all dealings by directors during "open" periods.

The Board defines levels of authority, reserving specific power to itself and delegating other matters with the necessary written authority to management. These matters are monitored and evaluated on a regular basis.

Through the Risk Committee, the Board identifies the key risk areas and key performance indicators for the Group. The Board has a process by which these are updated regularly.

On an ongoing basis the Board reviews the required mix of skills, experience and other qualities such as its demographics and diversity in order to assess its effectiveness.

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

The Board is cognisant of the duties imposed on the Company Secretary who is accordingly empowered to properly fulfil those duties. In addition to the statutory duties, the Company Secretary provides the Board and directors individually with guidance as to how their responsibilities should be properly discharged in the best interests of the Group.

The Remuneration Committee determines the remuneration of directors at levels sufficient to attract, retain and incentivise individuals of quality. Only non-executive directors receive fees for their services on the Board and on Board committees. Executive directors are remunerated in terms of their contracts of employment with the Group.

The record of attendance of each director at **Rainbow Chicken Limited** Board meetings for the financial year ended 31 March 2006 is as follows:

	18/05/05	19/07/05	20/09/05	16/11/05	31/01/06	28/03/06
M H Visser	✓	✓	✓	✓	✓	✓
W E Bührmann	✓	✓	✓	Resigned 16/11/05		
M Dally	✓	✓	✓	✓	✓	✓
R H Field	✓	✓	✓	✓	✓	✓
M Griessel	✓	✓	✓	✓	✓	✓
L J Grobler	✓	Resigned 30/06/05				
J B Magwaza	✓	✓	✓	✓	-	✓
M Nhlanhla	N/A	✓	✓	✓	✓	✓
N Phillips	✓	✓	✓	✓	✓	✓
D W Vale	✓	✓	✓	✓	✓	✓
D G Zwegelaar	Appointed 17/11/05				✓	✓

✓ indicates attendance

- indicates absence with apologies

N/A indicates not a director at that meeting date

## BOARD COMMITTEES

Several committees have been established to assist the Board in discharging its responsibilities. The committees facilitate high standards of governance. Specific responsibilities have been formally delegated to Board committees with defined terms of reference, duration and function, clearly agreed upon reporting procedures and written scope of authority documented in formal charters.

# corporate governance statement (continued)

There is transparency and full disclosure from the Board committees to the Board, except where mandated otherwise by the Board. Board committees are free to take independent outside professional advice as and when necessary and are subject to evaluation by the Board to ascertain their performance and effectiveness.

## The principal Board committees are as follows:

### Executive Committee

The Executive Committee consists of the Chief Executive Officer, Chief Financial Officer and Operational Directors. The Executive Committee takes all day-to-day decisions relating to the Group and refers major decisions, which have their sanction, to the Board for approval.

### Audit Committee

Mr N Phillips chairs the Audit Committee and its other members are Messrs D G Zwiendelaar and D W Vale. The Chief Executive Officer, Chief Financial Officer, Group Internal Audit Manager, Company Secretary and external auditors are invited to attend every meeting. Other members of the Board and management team attend as required. The Audit Committee meets separately with the external auditors and the Group Internal Audit Manager twice a year without management present.

The Audit Committee meets three times a year and is responsible for reviewing the interim and final financial statements, internal financial control procedures, accounting policies, compliance and regulatory matters, recommending the appointment of external auditors and other related issues. In the current year a special audit committee meeting was held in order to approve the International Financial Reporting Standards (IFRS) restatement. All members of the Audit Committee have the required financial knowledge and experience to oversee and guide the Board and the Group in respect of the audit and corporate governance disciplines.

The Audit Committee has written terms of reference that deal adequately with its membership, authority and duties. The Audit Committee considers whether adequate and appropriate internal financial controls are in place to meet the current and future needs; that significant business, statutory and financial risks have been identified and are being monitored and managed; and that appropriate standards of governance, reporting and compliance are in operation. The Audit Committee advises the Board on issues ranging from the application of accounting standards to published financial information. Interim and annual results of the Group are reviewed and revised by the Audit Committee before submission to the Board for approval.

The Audit Committee has a responsibility to recommend to the Board, for its consideration and acceptance by shareholders, the appointment of external auditors. The Audit Committee approves the external auditor's engagement letter and terms, nature and scope of the audit function and the audit fee. The Audit Committee continually monitors the independence and objectivity of the external auditors. The Audit Committee reviews the nature and quantum of non-audit projects undertaken by the external auditors. The auditors are required, on an annual basis, to provide a summary of relationships that they consider may have a bearing on their independence and objectivity.

The record of attendance at **Rainbow Chicken Limited** Audit Committee meetings for the financial year ended 31 March 2006 is as follows:

	17/05/05	28/10/05	15/11/05	27/03/06
N Phillips	✓	✓	✓	✓
W E Bührmann	✓	✓	-	N/A
D W Vale	✓	✓	✓	✓
D G Zwiendelaar	*	*	N/A	✓
M H Visser	*	*	*	*
M Dally	*	*	*	*
R H Field	*	*	*	*

✓ indicates attendance

- indicates absence with apologies

\* indicates attendance by invitation of the Audit Committee chairman

N/A indicates not a member of the Audit Committee at that meeting date

### Risk Committee

Mr N Phillips chairs the Risk Committee and its other members are Messrs M Dally, R H Field, Dr M Griessel and D W Vale. The Group Internal Audit Manager and Company Secretary are invited to attend every meeting.

The Risk Committee reviews the Group's risk profile on a regular basis. The risk register provides an effective means of measuring and monitoring the business's financial and non-financial risks.

The Risk Committee meets twice a year and is responsible for the total process of risk management and sets the risk strategy, which is based on the need to identify, assess, manage and monitor all known forms of risk across the Group, in liaison with the executive directors and senior management.

Management is accountable to the Board for designing, implementing and monitoring the processes of risk management and integrating it into the day-to-day activities of the Group. The risk tolerance philosophy is communicated to all managers and employees in an endeavour to incorporate this philosophy into the language and culture of the Group.

The Risk Committee attests that there are adequate systems of internal control in place to mitigate the significant risks faced by the Group to an acceptable level. The systems are designed to manage, rather than eliminate, the risk of failure or to maximise opportunities to achieve business objectives.

Risk reviews are proactive in not only determining negative areas but also identify areas of opportunity where effective risk management can be turned into competitive advantage.

At operational level, senior management identifies critical major business risks, promote awareness, introduce applicable control environments and procedures and apply risk-monitoring techniques. In support of this risk management structure, the Group is working with its insurance consultants to undertake regular risk control audits at all the Group's sites.

In addition to the Group's other compliance and enforcement activities, the committee recognises the need for a confidential reporting process ("whistle-blowing") covering fraud and other risks. This "whistle-blowing hotline" continues to function effectively. Staff and other parties may anonymously report concerns. Procedures are in place for the independent investigation of matters reported and for appropriate follow-up action.

The record of attendance at **Rainbow Chicken Limited** Risk Committee meetings for the financial year ended 31 March 2006 is as follows:

	20/09/05	27/03/06
N Phillips	✓	✓
M Dally	✓	✓
R H Field	✓	✓
M Griessel	✓	✓
D W Vale	✓	✓

✓ indicates attendance

### Remuneration Committee

The Remuneration Committee consists of three non-executive directors. The Chairman of the Group, Mr M H Visser, is the Chairman of the Remuneration Committee. The other members are Messrs N Phillips and J B Magwaza. The Remuneration Committee meets at least twice a year. The committee is responsible for the assessment and approval of the Board remuneration

strategy for the Group, determination of short- and long-term incentive pay structures for Group executives, positioning of senior executive pay levels relative to local and international industry benchmarks and assessment and authorisation of specific reward proposals for the Group's executive directors and senior management. The objective of the remuneration philosophy is to employ the necessary skills for the company to achieve its business goals and to base remuneration on personal and company performance in accordance with competitive market practices.

The Chief Executive Officer and Company Secretary attend meetings of the Remuneration Committee but are excluded from the review of their own remuneration.

A schedule setting out directors' remuneration and equity interest appears in the annual financial statements.

The record of attendance at **Rainbow Chicken Limited** Remuneration Committee meetings for the financial year ended 31 March 2006 is as follows:

	17/05/05	20/09/05
M H Visser	✓	✓
J B Magwaza	✓	✓
N Phillips	✓	✓

✓ indicates attendance

### Nomination Committee

The Board as a whole acts as the Nomination Committee. The Board considers its composition, retirements and appointments of additional and replacement directors.

Executive directors are appointed to the Board on the basis of skill, experience and level of contribution to the Group and are responsible for the running of the business. Non-executive directors are selected on the basis of industry knowledge, professional skills and experience.

All non-executive directors are subject to election by shareholders, retire by staggered rotation and stand for re-election at least every three years in accordance with the Articles of Association. The names of directors submitted for election or re-election are accompanied by sufficient biographical information to enable shareholders to make an informed decision in respect of their election.

The Board has reviewed its required mix of skills and experience and other qualities such as its demographics and diversity in order to assess its effectiveness, its committees and the contribution of each director.

### GOING CONCERN

The Board minutes the facts and assumptions used in the assessment of the going concern status of the Group at the financial year-end. At the interim reporting stage, the directors consider their assessment at the previous year-end of the Group's ability to continue as a going concern and determine whether or not any of the significant factors in the assessment have changed to such an extent that the appropriateness of the going concern assumption at the interim reporting stage has been affected.

### ACCOUNTABILITY AND AUDIT

#### Auditing and Accounting

The Board is of the opinion that the auditors observe the highest level of business and professional ethics and that their independence is not in any way impaired. The Group aims for efficient audit processes using its external auditors in combination with the internal audit function and management encourages unrestricted consultation between external and internal auditors. The co-ordination of efforts involves periodic meetings to discuss matters of mutual interest, the exchange of working papers and management letters and reports, and a common understanding of audit techniques, methods and terminology.

#### Internal Financial Controls

The directors are responsible for ensuring that internal control systems exist that provide reasonable assurance regarding the

safeguarding of assets and the prevention of their unauthorised use or disposition, proper accounting records are maintained and the financial and operational information used in the businesses are reliable.

### Internal Audit Function

The internal audit department is an independent appraisal function whose primary mandate is to examine and evaluate the effectiveness of the applicable operational activities, the attendant business risks, including those that arise subsequent to the year-end, and the systems of internal financial control, so as to bring material deficiencies, instances of non-compliance and development needs to the attention of the Audit Committee, external auditors and operational management for resolution.

Internal audit is an independent, objective assurance and consulting activity to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It provides:

- Assurance that the management processes are adequate to identify and monitor significant risks
- Confirmation of the adequacy and effective operation of the established internal control systems
- Credible processes for feedback on risk management and assurance.

The purpose, authority and responsibility of the Internal Audit activity is formally defined in an Internal Audit Charter, which is approved by the Board, and which is consistent with the Institute of Internal Auditors' definition of internal auditing. The activities of the internal audit function are co-ordinated by the Group Internal Audit Manager who has unrestricted access to the Audit Committee and its Chairman. The Group Internal Audit Manager reports at all audit committee meetings. The Group Internal Audit Manager reports administratively to the Chief Executive Officer.

The internal audit function co-ordinates with external auditors to ensure proper coverage and to minimise duplication of effort. The external auditors also review reports issued by internal audit. Internal audit plans are tabled annually to take account of changing business needs. Follow-up audits are conducted in areas where weaknesses are identified.

The internal audit plan, approved by the Audit Committee, is based on risk assessments, which is of a continuous nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit Committee and senior management.

### Relations with Shareholders

It is the policy of the Group to pursue dialogue with institutional investors based on constructive engagement and the mutual understanding of objectives taking due regard of statutory, regulatory and other directives regulating the dissemination of information by companies and their directors. To achieve this dialogue presentations are made to analysts, investors and the press and some one-on-one meetings are held with investors and analysts to communicate the strategy and performance of the Group. The quality of this information is based on the standards of promptness, relevance and transparency.

**Rainbow** makes every effort to ensure that information is distributed through an appropriate range of communication channels to ensure the security and integrity of the information and that critical financial information reaches all shareholders simultaneously.

The Board accepts its duty to present a balanced and understandable assessment of the Group's position in reporting to stakeholders, taking into account the circumstances of the communities in which it operates and the greater demands for transparency and accountability regarding non-financial matters. The quality of the information is based on the principles of openness and substance over form. Reports address material matters of significant interest and concern to all stakeholders and present a comprehensive and objective assessment of the Group, so that all stakeholders with a legitimate interest in the Group's affairs can obtain a full, fair and honest account of its performance.

## INTRODUCTION

Sustainable development is an integral and essential part of doing business locally and internationally. It requires **Rainbow** to respond to and inform a broader group of stakeholders about what has been done in terms of the three pillars of sustainability, namely Economic, Social and Environmental sustainability practices. **Rainbow** uses corporate governance to underpin these practices to ensure that the fundamentals of fairness, accountability, responsibility and transparency are upheld and all stakeholders' expectations are met.

**Rainbow** is a national company and has operations located throughout South Africa.

## MANAGEMENT OF SUSTAINABLE DEVELOPMENT

The policies, strategies and targets are reviewed and updated by the Board annually, and by the executive directors, sustainability committee and operational teams quarterly. This ensures that progress against targets is monitored regularly and that **Rainbow's** commitment to sustainability is evidenced within the business.

## ECONOMIC SUSTAINABILITY PRACTICES

Creating value for our stakeholders through sustainable economic growth and development encompasses a number of elements.

In generating economic value for shareholders and other stakeholders, **Rainbow** provides a quality and affordable food source to the South African nation and creates jobs both within the business and along the supply chain in the formal and informal sectors. **Rainbow** is committed doing business through fair commercial competitive practices and to trading with customers and suppliers with shared values and subscribe to the same high ethical business practices.

### Broad-Based Black Economic Empowerment (BEE)

**Rainbow** supports the principles embodied in the draft Agricultural Sector Charter and has focused management effort on all aspects of BEE ensuring alignment with the updated Code of Good Practice on Broad-Based Black Economic Empowerment.

**Rainbow** has recently been awarded an overall "C" rating (35%-45%) score by EmpowerDex and with various initiatives in place,

# sustainability report

## VALUE ADDED STATEMENT

	%	2006 R'000	%	Restated for IFRS 2005 R'000
Revenue		4 101 454		4 026 998
Paid to suppliers		(2 403 234)		(2 845 049)
Value added by operations		1 698 220		1 181 949
Finance income		9 930		28 146
<b>TOTAL VALUE ADDED</b>		<b>1 708 150</b>		<b>1 210 095</b>
Applied as follows:				
<b>TO PAY EMPLOYEES</b>				
Salaries, wages and benefits	43.6	744 922	47.1	570 109
<b>TO PAY PROVIDERS OF CAPITAL</b>	6.3	107 624	7.0	84 619
Interest paid	0.1	2 351	0.1	1 126
Dividends paid	6.2	105 273	6.9	83 493
<b>TAXATION</b>	26.5	452 288	27.3	330 443
Normal taxation	10.9	186 578	9.3	111 959
VAT	9.1	155 685	11.5	139 307
PAYE	5.8	99 634	5.8	70 708
Rates, taxes and RSC levies	0.6	10 391	0.7	8 469
<b>RE-INVESTED IN THE BUSINESS</b>	23.6	403 316	18.6	224 924
Depreciation and amortisation	6.4	109 744	6.4	78 036
Retained earnings	17.2	293 572	12.1	146 888
	100.0	1 708 150	100.0	1 210 095

is confident in improving on this rating in the coming years. The BEE sub-committee of the Board is currently reviewing equity ownership options with a view to achieving BEE compliance.

The company's performance in preferential procurement reflects an improvement on 2005.

	2010 % Target	2006 Rm	2005 Rm
Total contracted spend *		579	470
BEE spend		157	115
BEE spend %	30.0	27	25

\* Excludes spend on commodities

### Contract Growers

Within the context of BEE enterprise development, the **Rainbow** contract grower initiative has significant potential to deliver true empowerment to previously disadvantaged persons in the poultry industry.

The fundamental principle is that the farms must be owner managed, ensuring that there is a true transfer of skills, knowledge, accountability and responsibility.

All growers are managed and mentored against the highest standards and best operating practices. **Rainbow's** key performance indicators (KPIs) and best operating practices manuals (BOPs) are followed, ensuring that the strictest animal welfare and biosecurity practices are enforced.

Growers or potential growers are given all the necessary guidance and support, including the development of the business plan, accessing of finance and day-to-day management of their independent growing operation. Regular interactive workshops are held with our local and international partners, suppliers and specialists to ensure that the necessary knowledge and skills are transferred and maintained at the highest levels.

**Rainbow** is proud of its BEE growers and some have achieved outstanding performances over the past year.

	2010 % Target BEE	2006 % BEE	2006 Growers	2005 % BEE	2005 Growers
Cape	20.0	20.0	5	20.0	5
North	20.0	16.7	18	7.1	28
KwaZulu-Natal	20.0		2		2
Total Growers	20.0	16.0	25	8.6	35

## SOCIAL SUSTAINABILITY PRACTICES

### Human Capital

Individuals are respected and nurtured by empowering them to grow and investing in their ongoing development, for both their personal and **Rainbow's** benefit. Teamwork, dedication and innovation are acknowledged and encouraged.

## Employment Equity

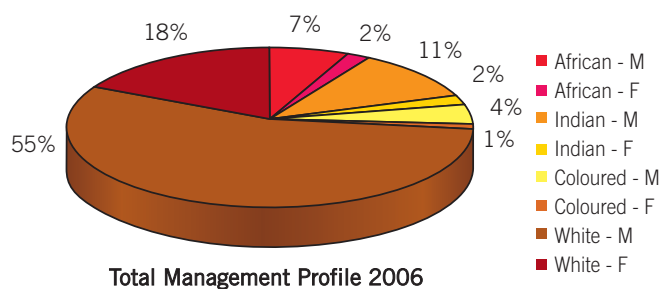
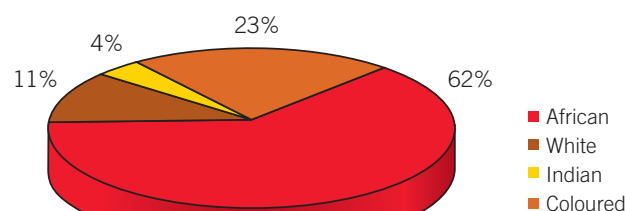
**Rainbow** is committed to the principles embodied in the Employment Equity Act No 55 of 1993. Objectives are to equalise opportunities for all employees, eradicate any form of discrimination that may exist and strive towards being staffed on a basis that is demographically representative of the society in which **Rainbow** operates.

The principles of the Group equity plan is incorporated in succession planning at all levels.

Employment equity forums meet within the various operations on a quarterly basis and monitor performance against targeted equity plans. Targets set in 2000 were exceeded in the junior and middle management levels. However, results within the senior management and executive levels were below expectation and are attributed to the re-structuring and turnaround program.

Recent initiatives should assist in creating a sustainable culture of diversity management and a faster pace of progress in this area.

RECONCILIATION OF EMPLOYEE MOVEMENTS FOR THE YEAR	
Employees at the beginning of the year	6 375
Add: Recruitment	1 032
Less: Deaths	(58)
Discharges	(308)
Disability	(29)
Resignations	(267)
Retirements	(59)
Employees at the end of the year	6 686



EMPLOYMENT STATISTICS: ACTUALS AS AT 31 MARCH 2006											
	Race								Total		
	African		Indian		Coloured		White		M	F	Total
	M	F	M	F	M	F	M	F			
Executive directors	1						10	1	11	1	12
Senior managers	1	2	9	1	2		90	25	102	28	130
Middle managers	27	5	38	6	13	4	136	50	214	65	279
Total management (No.)	29	7	47	7	15	4	236	76	327	94	421
Total management (%)	6.9	1.7	11.1	1.7	3.6	0.9	56.1	18.0	77.7	22.3	100.0
Other	2 388	1 705	185	52	779	757	208	191	3 558	2 705	6 265
Total (No.)	2 417	1 712	232	59	794	761	444	267	3 885	2 799	6 686
Total (%)	36.1	25.6	3.5	0.9	11.9	11.4	6.6	4.0	58.1	41.9	100.0

# sustainability report (continued)

Female representation in the Group is 41.9% and is categorised as follows:

	2006 %	2005 %
Executive level	8.3	7.7
Senior managers	19.2	14.9
Middle managers	30.4	30.9
Other	43.2	41.3
Total	41.9	40.2

## Employee Training and Skills Development

Rainbow's strategy has been to focus on the delivery of foundation skills and competencies to deliver against three primary long-term strategic areas:

- Skills development to sustain our focus on low cost production
- People development to attract, develop and retain talented resources
- Diversity management to change organisational behaviour.

Within each area of training the principle applied is to develop once and implement many times. Areas that are currently addressed are:

- Learnerships in call centre management, poultry management, leadership and driving skills
- Coaching and support training in the workplace
- Business fundamental programmes
- Adult Basic Education Teaching (ABET) programmes
- Function specific skills development with a recent focus on negotiation skills, industrial relations and sales and marketing training
- Diversity management for all executive, senior and middle management.

In addition, site-based technical training is used to continue to build on the core technical skills of employees and includes:

- Artisan skills
- Courses in poultry management
- Hazard Analysis Critical Control Points (HACCP)
- Health and safety
- Computer training.



## Health and Safety

Rainbow mitigates the health and safety risks associated with poultry farming and processing, feed milling and logistics by having:

- Dedicated health and safety personnel officers in each operation
- Health and Safety Committees in each operation made up of workers' union representatives and management, meeting on a monthly basis
- Policies and procedures on how to mitigate each of the risks, in addition to ensuring compliance with all legislation
- Centralised monitoring of all issues
- Training programmes for all employees in all aspects of health and safety, ensuring appropriate understanding, accountability and responsibility for health and safety is in place at all managerial levels
- Accredited audit and verification programmes in place:
  - International Standardisation Organisation (ISO)
  - Occupational Health and Safety Act System (OHSAS).

### EMPLOYEE HEALTH AND SAFETY STATISTICS AS AT 31 MARCH 2006

	DIFR*	No. of Nurses	Clinic costs Rm
Farming operations	2.20		
Processing and milling operations	1.55		
Distribution and administration centres	-		
Total	1.44	14	1.8

\*Disabling incident frequency rate

A disabling incident is defined as any incident in which an employee is booked off work for more than a shift (hour equivalent) following the incident.

## HIV/AIDS

Over the past year Rainbow employees undertook voluntary counselling and testing following an extensive educational drive throughout the operations. The results were as follows:

% of total employees tested	27.3
% HIV positive	14.1
Working population - national ave. % HIV positive	20.0



### EMPLOYEE TRAINING AND SKILLS DEVELOPMENT FOR THE YEAR ENDED 31 MARCH 2006

	Race								Total		
	African		Indian		Coloured		White		M	F	Total
	M	F	M	F	M	F	M	F			
ABET	145	50	3		6	9	16	9	170	68	238
Specific skills	1 012	958	116	43	160	72	414	190	1 702	1 263	2 965
LDP/SDP/MDP	41	5	17	5	25	5	44	19	127	34	161
Total (No.)	1 198	1 013	136	48	191	86	474	218	1 999	1 365	3 364
Total (%)	35.6	30.1	4.0	1.4	5.7	2.6	14.1	6.5	59.4	40.6	100.0
Total spend (Rm) excluding skills levy											5.7
Total spend (as a % of total salaries and wages)											0.8

Voluntary counselling and testing remain available at all sites.

**Rainbow's** HIV/AIDS strategy continues to be driven by the strategic road map in line with a balanced scorecard approach. The policy statement as included in the road map endorses **Rainbow's** commitment to combating HIV/AIDS. **Rainbow** has designated an executive member to inform the Board on a quarterly basis of the progress within the various initiatives. The HIV/AIDS corporate steering committee is responsible for the development of the various HIV/AIDS initiatives and is assisted by workplace committees at the various sites.

### Industrial Relations

**Rainbow** subscribes to the Labour Relations Act No. 66 of 1995 and the principles of freedom of association. 47% of employees belong to trade union interest groups, who are either COSATU or NACTU affiliated. During the period under review there has been no industrial action and generally industrial relations are good.

Workplace forums meet quarterly to deal with issues not falling under the ambit of the bargaining forums, such as HIV/AIDS and employment equity.

### Remuneration

Remuneration and incentives are benchmarked against market practices on an annual basis. It is well recognised that competitive remuneration packages are important in attracting and retaining talent.

Employees within the bargaining units are subject to the remuneration packages as negotiated annually by the various bargaining forums. Bargaining unit remuneration levels are well above the industry average and reflect **Rainbow's** commitment to fair labour practices.

### Community

**Rainbow's** presence in certain areas of the country has allowed the respective municipalities to provide subsidised/free water and electricity to the local communities due to the premium **Rainbow** has paid to the municipality for these services.

### Corporate Social Investment (CSI)

**Rainbow's** focus on CSI is in the areas of education, health, HIV/AIDS and similar national issues. At the operating site level the Group supports local schools and institutions giving care to the aged/infected and/or affected by HIV/AIDS. Houses have been built to shelter aids orphans and donations given to foundations giving home-based care. Additionally, contributions have been made to support enterprise development in local communities like the Chicken Dust operations, as well as supporting regional Business Chambers and Business Against Crime initiatives.

Rm	HIV Focus	HIV Orphans	Education & Culture	Other	Total
Total spend	0.9	0.9	0.8	0.2	2.8

**Rainbow** has made the following contributions:

- R0.6 million has been donated to "House on the Rock" in East London to build a house to provide care for abandoned and orphaned children with HIV/AIDS, cerebral palsy, foetal alcohol syndrome and children who have been sexually abused.
- R0.2 million has been donated to "Thembelithe Community Centre" to build two new cottages to provide care for orphaned children.



"House on the Rock"

- R0.4 million has been committed to the "Tiisa Thuto Project" to support a Business Against Crime South Africa (BACSA) initiative. The project is a school-community based crime prevention intervention that targets learners, educators, governing bodies and safety teams with the aim to inculcate a positive value system among members of the school community as a way of fighting crime.

### PRODUCT STEWARDSHIP

"From farm to fork", **Rainbow's** products are subject to the highest standards in food safety, quality and traceability throughout the entire supply chain.

Within agriculture, **Rainbow's** approach is modelled on the British Poultry Council's Assured Chicken Production Programme which sets the standards for nutrition and welfare, and covers catching, transport and slaughter of poultry to achieve high levels of food safety and environmental care.

### HACCP

HACCP is an internationally recognised system devised by the food industry that focuses on food safety. Compliance with HACCP is integrated in **Rainbow's** total quality management system and all sites operate according to HACCP procedures.

HACCP accreditation is audited on an annual basis by the South African Bureau of Standards (SABS).



Rustenburg employees receiving HACCP award.

	2006	2005
Worcester processing plant	Yes	Yes
Rustenburg processing plant	Yes	*
Hammarsdale processing plant	*	*
Hammarsdale Further Processed plant	*	N/A
Feed mills	Yes	Yes
Feed mills	ISO 22000	
Peninsula distribution centre	Yes	*
Roodepoort distribution centre	Yes	*
Thekwini distribution centre	Yes	*

\* in progress of being accredited  
N/A plant not built

### European Union (EU) Standards

**Rainbow's** approach is to benchmark itself continuously against EU standards as the most recognised international standard.

EU standards are applicable to all aspects of the operations, including production flow, building specifications, personnel flow, protective clothing, ablutions, change-rooms, laundry, canteen facilities, packaging and labelling. When **Rainbow** designs new facilities or upgrades existing facilities, great care is taken to meet EU standards. This endorses control and management practices, ensuring product safety and hence consumer satisfaction.

### Good Manufacturing Process (GMP)

**EpoI** was the first animal feed manufacturer in the world to be accredited with ISO 22000, which combines both the HACCP and ISO 9001 systems into one standard.

# sustainability report (continued)

**Epol** abides by and is accredited with GMP (ISO 9001:2000) which controls the use of additives and veterinary medicines, as well as hygienic work methods in the control of bacteriological conditions. GMP accreditation is audited annually.

Batch microbiological analysis of raw materials and feed samples are conducted by accredited independent laboratories to complement **Epol's** internal quality control's verification batches against specification.

## Quality

Throughout the supply chain **Rainbow** has comprehensive and world-class quality assurance programmes to ensure that the birds, the raw materials and the environments in which they are transformed meet world class standards, and that the highest levels of food safety and environmental care possible, are achieved.

Regular audits and reviews are conducted to ensure these programmes are up to date, adhered to and in line with both local legislation and international best practice.

These include reviews of compliance with good poultry husbandry, raw material control, manufacturing practice, cold chain maintenance, housekeeping, hygiene, pest control, process control, protective clothing, foreign matter, preventative maintenance and external and internal facility conditions.

Monitoring includes:

- Blood sampling of birds at weekly intervals for disease
- Dust sampling of chicken houses throughout the cycle for pathogens
- Feed sampling for salmonella
- Daily inspection of staff, equipment and facilities
- Daily microbiological analysis of food contact services and employees' hands
- Daily microbiological analysis of products and residues
- Batch quality checks of products to verify adherence to product specification.

## Laboratories

Processing plants and feed mills have well equipped laboratories, with well trained and qualified staff, backed up by regional veterinarians.

The processing plants' laboratories are ISO 17025 accredited by the South African National Accreditation Standards (SANAS) for the respective testing that they conduct. In addition, the laboratories use outside accredited laboratories and institutions to test samples on a routine basis to ensure consistency of results.



## Halaal Status

All processing plants have certified and qualified meat inspectors in place, who together with inspectors from the Muslim Judicial Council in the Cape and the North West and Jamiatul Ulama in KwaZulu-Natal ensure that practices are Halaal compliant.

## Outside Inspections

State veterinarians have unrestricted access to **Rainbow** farms and processing plants to conduct animal welfare audits and health inspections. In addition, the SPCA and other animal welfare organisations regularly visit the operations to conduct animal welfare audits.

**Rainbow** is proactive in helping both the State and Southern African Poultry Association (SAPA) to monitor the disease status in the various provinces in which **Rainbow** is present, and the company's veterinarians are actively involved with State veterinarians and institutions in monitoring all disease threats through regular blood sampling and reporting.

## Antibiotics

Antibiotics are only used in treatment as stipulated under the SAPA Code of Practice, the Fertilisers and Farm Feeds Agricultural Act No. 36 of 1947 and the Medicines and Related Substances Control Act No. 101 of 1965. These regulations prohibit unnecessary administration of antibiotics to healthy flocks.

When antibiotics are administered, either through water or feed, **Rainbow** adheres to the recommended withdrawal period of five to six days before slaughter. Antibiotic residues are tested routinely through in-house laboratory and sample testing by independent institutions and the suppliers of the respective antibiotics. Antibiotics are responsibly shuttled when used and are only administered by **Rainbow** veterinarians.

## Feed

**Rainbow's** chickens are grain fed. They are omnivores, and so their feed consists of approximately 62% corn and 38% other proteins and vitamins. They are not fed any growth-promoting hormones. Feed rations are formulated by qualified feed nutritionists to ensure that the rations match the birds' growth pattern, and each batch produced is tested against these formulations to ensure consistent quality.

## Procurement of Raw Materials

Feed ingredients and other raw materials are purchased from approved suppliers that have similar quality management systems in place. Suppliers are obliged to submit a Certificate of Analysis (COA) or Quality Certification (QC) with each batch of raw materials received at the mills or processing plants. These batches are subjected to traceability testing and either microbiological analysis or verification against agreed standards to ensure consistent quality, adherence to specifications and full traceability. **Rainbow** regularly conducts hygiene and housekeeping audits and inspections at these suppliers to ensure compliance to food safety requirements.

## Meeting Customer Requirements

Certain customers audit **Rainbow's** adherence to prescribed specifications on a regular basis. Independent third parties conduct supplier audits at **Rainbow** for **KFC**, **Nando's**, **Pick 'n Pay**, **Woolworths** and **Wimpy**. These supplier audits focus on two main areas, namely food safety and quality management.

Food safety is based on HACCP standards, whilst quality management is based on ISO 9000. The STAR (Supplier Tracking Assessment and Recognition) audit is the strictest for which the pass rate is 90%.

**Rainbow** has passed all audits for the year ended March 2006.

## Product Labelling

All packaging and labelling conform to the Foodstuffs, Cosmetic and Disinfectants Act No. 54 of 1972, which ensures that **Rainbow** states the nutritional content and cold chain requirements.

**Rainbow** supports the Consumer Goods Council of South Africa (CGCSA) and Global Standards (GS1) in the listing of all its products with GS1, the labelling of all saleable units with EAN-13 bar codes and cartons with ITF-14 bar codes. Each carton label additionally reflects the production batch number and case number, production date and sell-by date. **Rainbow** is introducing EAN-128 bar codes on all cartons and pallets to ensure full traceability to the customer.

## Industry Collaboration

**Rainbow** is proactive in both food safety and ethical business practices throughout the supply chain and has active representation on the following organisations:

- Consumer Goods Council of South Africa (CGCSA)
  - **Rainbow's** CEO is Co-Chairman
  - Various personnel sit on sub-committees
- Southern African Poultry Association (SAPA)
  - **Rainbow's** Supply Chain Director was Deputy Chairman, now Chairman effective April 2006
  - Various personnel sit on sub-committees
- Animal Feed Manufacturers Association (AFMA)
- Council of Logistics Management
- Logistics SA
  - **Rainbow's** Distribution Director is Chairman
- Business Against Crime South Africa - KwaZulu-Natal
  - **Rainbow's** Human Resources and Corporate Affairs Director is Chairman

## Consumer Care Service

The website at [www.rainbowchicken.co.za](http://www.rainbowchicken.co.za) received on average 3 000 visits per month for the 2006 financial year (2005: 2 500).

**Rainbow** provides both online and phone-in customer complaint services, as well as share-call numbers for the **Farmer Brown** and **Rainbow** branded products. All details are centrally logged and an email with all relevant details is sent daily to the National Quality Assurance Department where dedicated personnel then contact the consumers to resolve their issues. If necessary, testing of the product is undertaken at **Rainbow's** accredited laboratories. This process ensures continuous improvement in product quality and service.

ANALYSIS OF CALLS LOGGED AND ACTIONED						
2006					2005	
Total No.	Prank %	Queries %	Compliments %	Complaints %	Total No.	Complaints %
736	0.5	3.1	0.7	95.7	862	82.6

## Consumer Insight

At **Rainbow** "the consumer is at the heart of our business". Only through a strong understanding of consumers and customers can the company deliver products that satisfy their needs. **Rainbow** undertakes extensive consumer research on a formal and informal platform. This includes: keeping abreast of international and local trends; quantitative and qualitative research of product and communication concepts, through reputable research houses; consumer immersions within a variety of target markets. Time is spent in consumers homes gaining a rich insight into their lifestyles, cooking, eating and purchasing habits. Lastly, the marketing and research and development teams conduct monthly trade visits to see **Rainbow** products on shelf, see what competitors are doing and interact with shoppers.

Innovations launched this year, based on true consumer insight, have been the **Rainbow Family Pack** and the range of value-added **Rainbow**, **Farmer Brown** and **FoodSolutions** products into the emulsion, fully cooked and frozen crumbed categories.

ANALYSIS OF LAND USAGE AS AT 31 MARCH 2006					
Hectares	Owned	Leased	Partners	Dormant	Total
Farming operations	9 016	49	456	295	9 816
Processing and milling operations	56		4	39	99
Distribution and administration centres	41	1			42
Total use	9 113	50	460	334	9 957

## Awards

**Rainbow FoodSolutions** received the following recognition during the year:

### Nando's

Supplier of the Year – Poultry  
– All Suppliers

### YUM! (KFC)

Excellence Awards – Finalist for Supplier of the Year  
– Achieving an overall STAR rating above 85% for 2005 calendar year

### Chicken King

Supplier of the Year – Raw materials

**Rainbow** was awarded a "Silver Arrow Award" by PMR journal in the Western Cape for its efforts in stimulating and developing economic growth in the province. **Rainbow** is proud of the recognition received from its valued customers and the media.

## ENVIRONMENTAL SUSTAINABILITY PRACTICES

**Rainbow** takes full responsibility for environmental performance by charging every **Rainbow** employee to ensure effective use of resources and limit the company's impact on the environment. In addition, **Rainbow** favours suppliers and partners who share similar values with regard to the environment.

**Rainbow** strives to use the best environmental practices on all land used for either farming, processing, milling or distribution operations, whether it be owned, leased or a partner's property. Employees, partners and contractors are aware of these practices in order to ensure that **Rainbow** limits its impact on the environment in which it operates.

### Nature Conservation

**Rainbow** supports nature conservation as an important national heritage. In this regard, **Rainbow** leases approximately 630 hectares to the North West Parks Board for the enlargement of the Rustenburg Nature Reserve, for one rand per annum.

Additionally, at the company's 1 547 hectare farm Roodevaal near Koster in the North West, **Rainbow** has permission from the Department of Nature Conservation to conserve game. Bordered by three game farms, it actively supports the North West Parks Board and game farming in the area by helping to ensure wildlife and plant diversity.

### Environmental Risks

**Rainbow** has highlighted the following environmental risks in its supply chain:

- Fire
- Dust at feed mills
- Effluent spillage at farms, processing plants and mills
- Hazardous chemical and gas spillage or release at farms, processing plants, mills and distribution centres
- Odours from processing plants and mills
- Disease outbreaks on farms
- Drought.

These risks are mitigated by having:

- Strong policies and practices on how to handle an event
- Effective training programmes covering all environmental risks
- Effective biosecurity and security procedures at all operations

# sustainability report (continued)

- Effective health and safety procedures
- Effective scrubber plants and biofilters
- Supply agreements with registered waste companies for the safe disposal of diseased birds and contaminated material
- Management of water capacity through boreholes, bulk supply and storage reservoirs.

A broiler bird will consume approximately 3.8 litres of water during its growing cycle and a farm of 360 000 birds will therefore consume 1 368 kilolitres of water per cycle.

A broiler chicken farm consisting of 360 000 birds uses as much as 400 kilolitres of water a day for the running of the cooling systems in the height of summer and supplying the drinking lines. **Rainbow** is investigating alternative cooling methods for the birds to reduce evaporative cooling losses.

**Rainbow** has targeted the use of 14.0 litres of water per bird slaughtered within the processing plants. Current usage is 15.5 litres per bird.

## Waste

**Rainbow** analyses all types of waste material generated. Options for possible re-use and disposal are assessed to ensure that it is used or disposed of in the most environmentally friendly way.

Water effluent plants at the processing plants treat the water to flocculate

out the solids and reduce the biological and chemical oxygen demands before the water is released to municipalities for re-use.

## Non-Compliance, Prosecutions and Fines

**Rainbow** has experienced no incidents of non-compliance, prosecution or fines during the review period.

## Emissions to Air

**Rainbow** recognises its responsibilities in terms of the Atmospheric Pollution Prevention Act No. 45 of 1965, and as such ensures that the coal-fired boilers and their boiler stacks are well maintained and routinely inspected.

Although **Rainbow's** rendering plants do not produce any hazardous emissions, they have been registered in terms of the Atmospheric Pollution Prevention Act. All rendering plants use environmentally friendly water-cooled scrubbers and bio-filters to ensure effective control of all odours.

Additional management process changes have taken place within the rendering plants to ensure:

- Capacities of all cookers and driers are not exceeded
- Alternative disposal of raw material is available through registered waste companies
- Cooking recipes are balanced to prevent odours

ENERGY COST ANALYSIS FOR THE YEAR ENDED 31 MARCH 2006					
Rm	Coal	Gas	Diesel	Electricity	Total
Farming operations	3.5	27.4	3.8	26.3	61.0
Processing and milling operations	10.0	0.2	14.9	37.4	62.5
Distribution and administration centres			17.7	8.1	25.8
<b>Total</b>	<b>13.5</b>	<b>27.6</b>	<b>36.4</b>	<b>71.8</b>	<b>149.3</b>

ENERGY USAGE ANALYSIS FOR THE YEAR ENDED 31 MARCH 2006			
	Coal (Tons)	Gas (Kilolitres)	Diesel (Kilolitres)
Farming operations	11 045	21 572	765
Processing and milling operations	24 685	30	3 087
Distribution and administration centres			3 254
<b>Total</b>	<b>35 730</b>	<b>21 602</b>	<b>7 106</b>

WATER USAGE ANALYSIS FOR THE YEAR ENDED 31 MARCH 2006					
Kilolitres	Borehole	Municipal	Waterboard	Third party	Total
Farming operations	203 622	2 393 404	1 133 336	112 744	3 843 106
Processing and milling operations	12 859	3 123 384	131 621		3 267 864
Distribution and administration centres	200	155 956	6 155		162 311
<b>Total</b>	<b>216 681</b>	<b>5 672 744</b>	<b>1 271 112</b>	<b>112 744</b>	<b>7 273 281</b>

ANALYSIS OF WASTE TYPES AND THEIR DISPOSAL FOR THE YEAR ENDED 31 MARCH 2006		
Waste type	Volumes	Use or disposal
Cardboard waste (tons)	228	Sold to recyclers
Coal ash (m <sup>3</sup> )	5 114	Sold
Litter (m <sup>3</sup> )	370 876	Sold as fertiliser and cattle fodder
Plastic waste (tons)	132	Sold to recyclers
Scrap metal and timber (tons)	932	Sold to scrap merchants
Waste water (kl)	2 710 066	Effluent plants then to municipal recycling

ANALYSIS OF CAPITAL INVESTMENT AND MAINTENANCE SPEND FOR ENVIRONMENTAL CONTROL FOR THE YEAR ENDED 31 MARCH 2006				
Rm	Current maintenance	Current effluent cost	Current capital	Prior 5 years capital
Farming operations	0.3		1.6	1.7
Processing and milling operations	1.1		2.9	4.7
Distribution and administration centres	0.9			
<b>Total</b>	<b>2.3</b>	<b>9.9</b>	<b>4.5</b>	<b>6.4</b>

- Routine scheduled maintenance is carried out for the effective running of all equipment
- The use of specialist consultants to investigate possible further improvements in processing
- Dedicated personnel to investigate odour complaints.

#### Animal Welfare

**Rainbow** subscribes to the British Poultry Council's Assured Chicken Production Programme that sets the highest standards for the nutrition and welfare of poultry. It covers the rearing, catching, transport and slaughter of poultry to ensure that the birds are handled in the most humane manner possible throughout the supply chain.

#### Bird Housing

All birds are reared in either environmentally controlled houses or temperature controlled and ventilated open-sided houses, in which the birds are able to roam around with free access to feed and water.

Each house is provided with sufficient clean wood shavings as bedding, lights, clean water lines, feeder lines and heating and cooling ventilation systems to ensure that the birds are always comfortable.

At the end of each growing cycle and prior to the commencement of the next cycle, each house undergoes a thorough clean-out of the old litter and is washed out. Prior to the placement of new chicks, new litter is put down and the house is fumigated and then preheated.

The stocking density of each house on a farm is determined by the facilities on that farm and the equipment within the houses.

Access to all farms and houses is regulated by strict biosecurity measures that include:

- The use of security personnel to control access to farm sites
- Fences around all chicken houses as well as around the farm perimeters



- All personnel can only enter a farm by first showering and wearing garments and gumboots given to them; then showering again on exit
- Footbaths are present at all doors to individual houses and have to be used.

With these biosecurity measures strictly enforced, **Rainbow** control and mitigate the risk of any disease being spread to the birds or personnel.

The SPCA regularly inspects the processing plants to ensure that the processes and practices are humane. In the event of a transport accident, the SPCA is immediately informed so that its inspectors, in conjunction with **Rainbow** veterinarians, can make the most humane decision on how to handle any damaged birds.

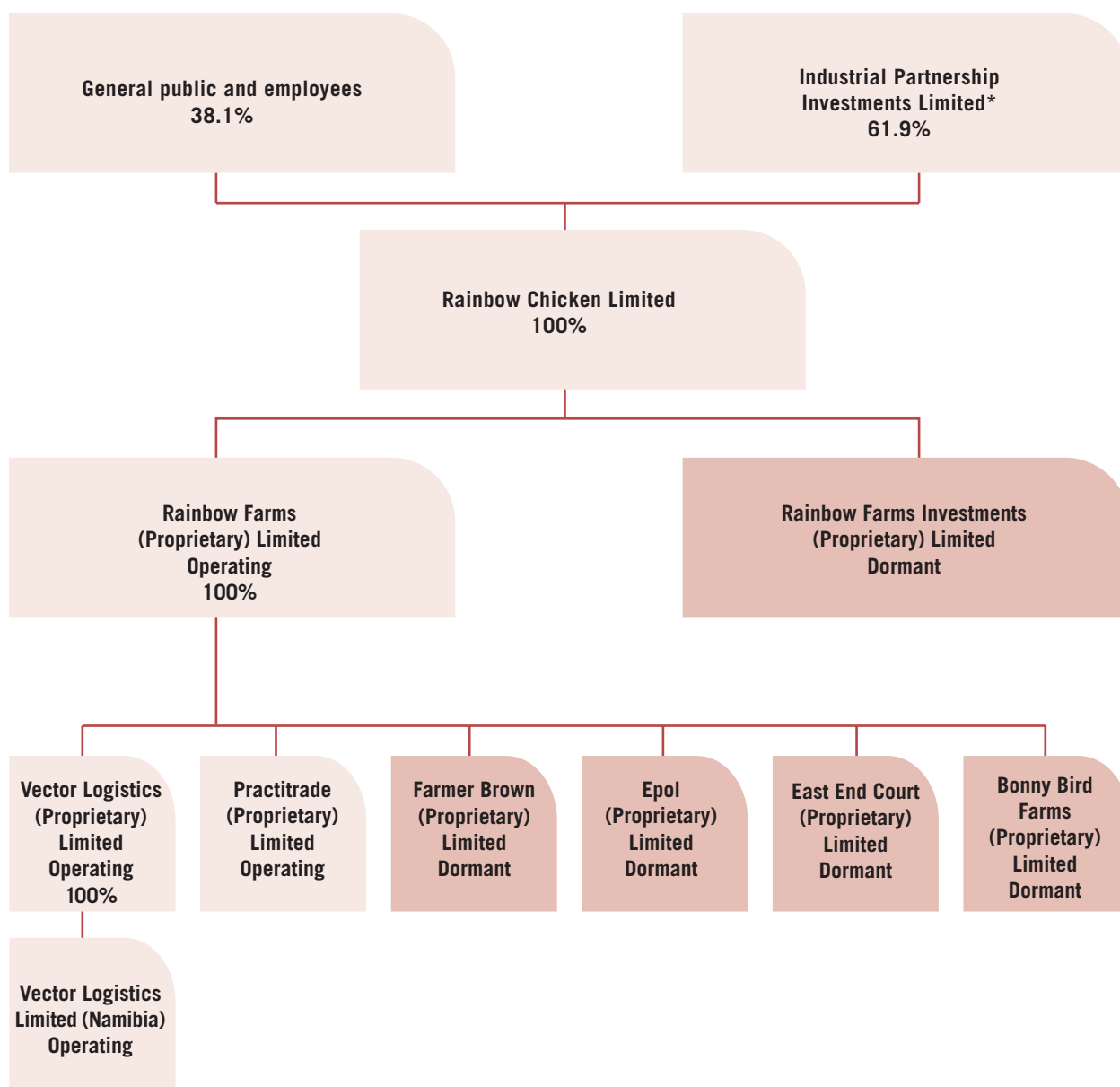
#### CONCLUSION

**Rainbow** takes seriously its responsibility and accountability to all stakeholders in terms of the three pillars of sustainability and is constantly looking at ways to improve on its transparency in reporting to ensure all stakeholders' expectations are met.

**Rainbow** is proud of its achievements in the past year and looks forward to further improvements in the forthcoming year.



# group structure



\* A wholly owned subsidiary of Remgro Limited

# five year. review

## GROUP BALANCE SHEETS

	IFRS 2006 R'000	IFRS 2005 R'000	SA GAAP 2004 R'000	SA GAAP 2003 R'000	SA GAAP 2002 R'000
<b>ASSETS</b>					
Property, plant and equipment	962 194	850 318	589 953	567 976	527 925
Trademarks	404	1 205	2 005	2 807	28 182
Goodwill	287 444	287 444			
Deferred taxation		16 023			
Current assets	1 495 747	1 047 016	1 239 858	1 075 218	714 102
<b>Total assets</b>	<b>2 745 789</b>	<b>2 202 006</b>	<b>1 831 816</b>	<b>1 646 001</b>	<b>1 270 209</b>
<b>EQUITY AND LIABILITIES</b>					
Ordinary shareholders' equity	1 595 901	1 286 706	1 181 625	974 740	850 639
Preference share capital			500	500	500
Deferred taxation	168 519	180 082	165 201	89 533	12 252
Post-retirement medical obligation	69 683	63 677	33 596	30 131	28 960
Finance lease liability - long-term	116	651	1 694	3 469	4 848
Current liabilities	911 570	670 890	449 200	547 628	373 010
<b>Total equity and liabilities</b>	<b>2 745 789</b>	<b>2 202 006</b>	<b>1 831 816</b>	<b>1 646 001</b>	<b>1 270 209</b>

## GROUP INCOME STATEMENTS

Revenue	4 101 454	4 026 998	3 830 032	3 748 520	3 035 671
Operating profit before depreciation and amortisation	687 588	393 298	366 967	311 121	204 265
Depreciation and amortisation	(109 744)	(78 036)	(63 742)	(59 159)	(51 997)
Trademark impairment				(21 064)	
Operating profit	577 844	315 262	303 225	230 898	152 268
Finance costs	(2 351)	(1 126)	(658)	(1 585)	(3 567)
Finance income	9 930	28 146	37 839	15 139	4 560
Profit before taxation	585 423	342 282	340 406	244 452	153 261
Taxation	(186 578)	(111 959)	(112 764)	(82 549)	(6 008)
Profit after taxation	398 845	230 323	227 642	161 903	147 253
Preference dividends			(62)	(62)	(62)
Profit attributable to the equity holders of the Group	398 845	230 323	227 580	161 841	147 191

The nature of the adjustments from SA GAAP to IFRS have been disclosed in note 1.

# definitions ratios & statistics

## SHAREHOLDERS' RATIOS

### Basic earnings per share

Attributable profit divided by the weighted average ordinary shares in issue.

### Basic earnings per share - diluted

Attributable profit divided by the fully diluted weighted average ordinary shares in issue.

### Headline earnings per share

Headline earnings divided by the weighted average ordinary shares in issue.

### Headline earnings per share - diluted

Headline earnings divided by the fully diluted weighted average ordinary shares in issue.

### Fully diluted dividend cover

Diluted headline earnings per share divided by dividends per share.

### Net asset value per share

Ordinary shareholders' equity divided by the ordinary shares in issue at year-end.

## INCOME STATEMENT INFORMATION

### EBITDA margin

Earnings before interest, taxation, depreciation and amortisation expressed as a percentage of revenue.

### Operating profit margin

Operating profit expressed as a percentage of revenue.

### Headline earnings

Headline earnings are calculated in accordance with the South African Institute of Chartered Accountant's Circular 7/2002.

## BALANCE SHEET INFORMATION

### Total assets

Non-current and current assets.

### Total liabilities

Non-current and current liabilities.

### Net assets

Total assets less total liabilities.

## SOLVENCY AND LIQUIDITY

### Return on total assets

Profit before taxation expressed as a percentage of total assets.

### Return on equity

Attributable profit expressed as a percentage of the average total equity.

### Return on net assets

Operating profit expressed as a percentage of net assets.

### Net asset turn

Revenue divided by net assets.

		IFRS 2006	IFRS 2005	SA GAAP 2004	SA GAAP 2003	SA GAAP 2002
<b>SHAREHOLDERS' RATIOS</b>						
Basic earnings per share	cents	<b>143.9</b>	84.2	85.2	62.5	57.4
Basic earnings per share - diluted	cents	<b>139.7</b>	81.9	82.5	60.2	54.7
Headline earnings per share	cents	<b>144.5</b>	77.2	85.2	70.8	57.7
Headline earnings per share - diluted	cents	<b>140.2</b>	75.0	82.4	68.3	55.0
Dividends per share	cents	<b>57.0</b>	30.5	29.0	24.0	14.0
Fully diluted dividend cover	times	<b>2.5</b>	2.5	2.8	2.8	3.9
Net asset value per share	cents	<b>571.6</b>	467.1	438.6	371.0	331.2
<b>INCOME STATEMENT INFORMATION</b>						
EBITDA margin	%	<b>16.8</b>	9.8	9.6	8.3	6.7
Operating profit margin	%	<b>14.1</b>	7.8	7.9	6.2	5.0
Headline earnings	Rm	<b>400.3</b>	211.0	227.5	183.4	148.0
<b>BALANCE SHEET INFORMATION</b>						
Total assets	Rm	<b>2 746</b>	2 202	1 832	1 646	1 270
Total liabilities	Rm	<b>1 150</b>	915	650	671	419
Net assets	Rm	<b>1 596</b>	1 287	1 182	975	851
Number of employees at year-end	'000	<b>6 686</b>	6 375	5 239	5 561	6 191
<b>SOLVENCY AND LIQUIDITY</b>						
Return on total assets	%	<b>21.3</b>	15.5	18.6	14.9	12.1
Return on equity	%	<b>27.7</b>	18.7	21.1	17.7	18.8
Return on net assets	%	<b>36.2</b>	24.5	25.7	23.7	17.9
Net asset turn	times	<b>2.6</b>	3.1	3.2	3.8	3.6
<b>SHARE INFORMATION</b>						
Number of ordinary shares						
- weighted average in issue	'000	<b>277 096</b>	273 387	266 973	259 106	256 299
- fully diluted weighted average in issue	'000	<b>285 558</b>	281 275	275 891	268 658	269 120
- at year-end	'000	<b>279 222</b>	275 449	269 384	262 709	256 837
Market share price						
- at year-end	cents	<b>950</b>	650	545	325	290
- highest	cents	<b>1 030</b>	795	550	398	350
- lowest	cents	<b>610</b>	495	325	210	170
Number of shares traded	'000	<b>44 200</b>	57 696	64 234	26 076	20 861
Value of shares traded	Rm	<b>372.3</b>	359.0	268.5	77.4	54.8

The nature of the adjustments from SA GAAP to IFRS has been disclosed in note 1.

# annual financial statements

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# approval of the annual financial statements

For the year ended 31 March 2006

The directors are responsible for the preparation and integrity of the annual financial statements of the company and the Group and other information included in this report which has been prepared in accordance with International Financial Reporting Standards. The directors are also responsible for the systems of internal control.

The directors, supported by the Audit Committee, are of the opinion, based on the information and explanations given by management and the internal auditors and on comment by the independent external auditors on the results of their statutory audit, that the Group's internal accounting controls are adequate, so that the financial records may be relied upon for preparing the financial statements and maintaining accountability for assets and liabilities. The directors believe that the Group's assets are protected and used as intended in all material respects with appropriate authorisation. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year.

In preparing the annual financial statements, the Group has used appropriate accounting policies, supported by reasonable and prudent judgements and estimates, and has complied with all applicable accounting standards. The directors are of the opinion that the annual financial statements present fairly the financial position of the company and the Group at 31 March 2006 and the results of its operations for the year then ended. The directors are also of the opinion that the Group will continue as a going concern in the year ahead.

The annual financial statements were approved by the Board of Directors on 24 May 2006 and are signed on their behalf by:



**M H Visser**  
Non-executive Chairman



**M Dally**  
Chief Executive Officer

## certificate by the company secretary

I hereby certify that in respect of the year ended 31 March 2006, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of section 268 G (d) of the Companies Act of 1973 as amended, and that all such returns are true, correct and up to date.



**S B Heath**  
Company Secretary  
Westville  
24 May 2006

# report of the independent auditors

## To the members of Rainbow Chicken Limited

We have audited the company and Group annual financial statements of Rainbow Chicken Limited set out on pages 31 to 56 for the year ended 31 March 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

## SCOPE

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

## AUDIT OPINION

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company and the Group at 31 March 2006 and the results of its operations and cash flow information for the year then ended in conformity with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



**PricewaterhouseCoopers Incorporated**

Registered Auditor

Durban

24 May 2006

# report of the directors

For the year ended 31 March 2006

## NATURE OF BUSINESS

Rainbow Chicken Limited is the holding company of three principal operating subsidiaries being Rainbow Farms (Proprietary) Limited, Practitrade (Proprietary) Limited and Vector Logistics (Proprietary) Limited. These subsidiaries enable the Group to be a vertically integrated chicken producer with a route to market.

## STATED CAPITAL

There was no change in the authorised share capital of the company during the year under review. The issued share capital increased by 3 772 838 ordinary shares during the year due to share options being exercised.

At the balance sheet date, unexercised options had been granted to beneficiaries of the Rainbow Share Incentive Trust in respect of 15 281 336 (2005: 15 421 627) shares. These options are granted at the discretion of the directors.

Shareholders will be asked to consider an ordinary resolution at the forthcoming Annual General Meeting to place the unissued shares of the company under the control of the directors until the following Annual General Meeting.

## FINANCIAL RESULTS

The profit attributable to the equity holders of the Group for the year ended 31 March 2006 amounted to R398.8 million (2005: R230.3 million). This translates into a headline earning per share of 144.5 cents (2005: 77.2 cents) based on the weighted average shares in issue during the year.

## DIVIDENDS

Ordinary dividends declared and paid during the year under review are as follows:

Number 65 amounting to R47 263 904 (17.0 cents per ordinary share) declared on 16 November 2005 and paid on 16 January 2006.

Number 66 amounting to R111 688 769 (40.0 cents per ordinary share) declared on 24 May 2006 and payable on 26 June 2006.

The salient dates of the declaration and payment of this dividend are as follows:

Last date to trade ordinary shares "CUM" dividend	Thursday, 15 June 2006
Ordinary shares trade "EX" dividend	Monday, 19 June 2006
Record date	Friday, 23 June 2006
Payment date	Monday, 26 June 2006

Share certificates may not be dematerialised or rematerialised between Monday, 19 June and Friday, 23 June 2006 (both dates inclusive).

## SUBSIDIARIES

Details of Rainbow Chicken Limited's interest in its subsidiaries are set out in note 1 on page 56. The aggregate profit after taxation, so far as concerns the interest of the company in its subsidiaries, amounts to R398 845 000 (2005: R230 323 000).

## HOLDING COMPANY

Industrial Partnership Investments Limited, a company incorporated in the Republic of South Africa and a wholly-owned subsidiary of Remgro Limited, is the holding company of Rainbow Chicken Limited.

## DIRECTORS AND SECRETARY

The names of the directors and Company Secretary are listed on pages 10, 11 and 29 respectively. Mr L J Grobler and Mr W E Bührmann resigned from the Board with effect from 30 June 2005 and 17 November 2005 respectively. The Board wishes to express its appreciation for their contribution to the business. Mrs M Nhlanhla and Mr D G Zwiendelaar were appointed as non-executive directors with effect from 19 July 2005 and 17 November 2005 respectively.

## DIRECTORS' SHAREHOLDING

At the date of this report, the directors in aggregate held direct beneficial interests in 817 000 (2005: 133 000) ordinary shares in the company and had indirect beneficial interests in 4 680 (2005: 4 680) ordinary shares. Details of directors' shareholdings are set out in note 26 on page 54.

## SUBSEQUENT EVENTS

No material change has taken place in the affairs of the Group between the end of the financial year and the date of this report.

# group balance sheet

As at 31 March 2006

	Note	2006 R'000	Restated for IFRS 2005 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	962 194	850 318
Trademarks	3	404	1 205
Goodwill	4	287 444	287 444
Deferred taxation	9		16 023
		<b>1 250 042</b>	<b>1 154 990</b>
<b>Current assets</b>			
Inventories	5	320 420	260 493
Biological assets	6	242 199	238 656
Trade and other receivables	7	517 442	425 883
Derivative financial instruments	14	19 790	178
Taxation receivable		1 513	15 799
Cash and cash equivalents		394 383	106 007
		<b>1 495 747</b>	<b>1 047 016</b>
<b>Total assets</b>		<b>2 745 789</b>	<b>2 202 006</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Group</b>			
Stated capital	8	1 115 747	1 105 959
Share-based payments reserve		14 226	8 391
Retained earnings		465 928	172 356
<b>Total equity</b>		<b>1 595 901</b>	<b>1 286 706</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred taxation	9	168 519	180 082
Post-retirement medical obligation	10	69 683	63 677
Finance lease liability	11	116	651
		<b>238 318</b>	<b>244 410</b>
<b>Current liabilities</b>			
Trade and other payables	12	781 800	626 653
Provisions	13	30 771	15 585
Finance lease liability	11	698	1 264
Derivative financial instruments	14	402	15 980
Taxation payable		97 899	11 408
		<b>911 570</b>	<b>670 890</b>
<b>Total liabilities</b>		<b>1 149 888</b>	<b>915 300</b>
<b>Total equity and liabilities</b>		<b>2 745 789</b>	<b>2 202 006</b>

# group income statement

For the year ended 31 March 2006

	Note	2006 R'000	Restated for IFRS 2005 R'000
Revenue		4 101 454	4 026 998
Operating profit before depreciation and amortisation		687 588	393 298
Depreciation and amortisation	15	(109 744)	(78 036)
Operating profit	16	577 844	315 262
Finance costs	17	(2 351)	(1 126)
Finance income	18	9 930	28 146
Profit before taxation		585 423	342 282
Taxation	19	(186 578)	(111 959)
Profit for the year attributable to the equity holders of the Group		398 845	230 323
Basic earnings per share (cents)	21	143.9	84.2
Basic earnings per share - diluted (cents)	21	139.7	81.9

# group statement of changes in equity

For the year ended 31 March 2006

	Stated capital R'000	Share-based payments reserve R'000	Preference share capital R'000	Retained earnings R'000	Total R'000
<b>Balance at 1 April 2004 as previously reported</b>	<b>1 098 714</b>		<b>500</b>	<b>82 911</b>	<b>1 182 125</b>
Opening IFRS adjustments:					
Share-based payments		3 627		(3 627)	
Preference shares reclassified			(500)		(500)
Property, plant and equipment				(53 816)	(53 816)
<b>Balance at 1 April 2004 under IFRS</b>	<b>1 098 714</b>	<b>3 627</b>		<b>25 468</b>	<b>1 127 809</b>
Profit for the year attributable to the equity holders of the Group as previously reported				232 376	232 376
IFRS adjustments: (note 1)					
Share-based payments		4 764		(4 764)	
Property, plant and equipment				3 538	3 538
Post-retirement medical obligation				(827)	(827)
Ordinary dividends paid				(83 435)	(83 435)
Issue of shares	7 245				7 245
<b>Balance at 1 April 2005 restated</b>	<b>1 105 959</b>	<b>8 391</b>		<b>172 356</b>	<b>1 286 706</b>
Profit for the year attributable to the equity holders of the Group				398 845	398 845
Ordinary dividends paid				(105 273)	(105 273)
Employee share option scheme:					
Proceeds from shares issued	9 788				9 788
Value of employee services		5 835			5 835
<b>Balance at 31 March 2006</b>	<b>1 115 747</b>	<b>14 226</b>		<b>465 928</b>	<b>1 595 901</b>

# group cash flow statement

For the year ended 31 March 2006

	Note	2006 R'000	Restated for IFRS 2005 R'000
<b>Cash flows from operating activities</b>			
Cash generated by operations	A	680 091	402 245
Finance costs		(2 351)	(1 126)
Finance income		9 930	28 146
Dividends paid		(105 273)	(83 435)
Taxation paid	B	(81 341)	(146 009)
<b>Net cash inflow from operating activities</b>		<b>501 056</b>	<b>199 821</b>
<b>Cash flows from investing activities</b>			
Replacement property, plant and equipment		(26 664)	(20 311)
Expansion property, plant and equipment		(207 733)	(179 668)
Proceeds on disposal of property, plant and equipment		13 030	13 543
Decrease in long-term receivables			30
Acquisition of subsidiary	C		(395 164)
<b>Net cash outflow from investing activities</b>		<b>(221 367)</b>	<b>(581 570)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		9 788	7 245
Decrease in finance lease liability		(1 101)	(1 275)
Preference shares repaid			(500)
<b>Net cash inflow from financing activities</b>		<b>8 687</b>	<b>5 470</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>288 376</b>	<b>(376 279)</b>
Cash and cash equivalents at the beginning of the year		106 007	482 286
<b>Cash and cash equivalents at the end of the year</b>		<b>394 383</b>	<b>106 007</b>

# notes to the group cash flow statement

	2006 R'000	Restated for IFRS 2005 R'000
<b>A. Cash generated by operations</b>		
Operating profit	577 844	315 262
Adjusted for:		
Depreciation and amortisation	109 744	78 036
Loss/(profit) on disposal of property, plant and equipment	3 626	(9 022)
Asset impairment provision released	(3 078)	(16 034)
Share-based payments	5 835	4 764
	<b>693 971</b>	<b>373 006</b>
Working capital changes:		
(Increase)/decrease in inventories	(59 927)	34 763
Increase in biological assets	(3 543)	(21 984)
(Increase)/decrease in trade and other receivables	(91 559)	106 832
Increase in derivative financial assets	(19 612)	(178)
Increase in post-retirement medical obligation	6 006	4 475
Increase/(decrease) in trade, other payables and provisions	170 333	(106 679)
(Decrease)/increase in derivative financial liabilities	(15 578)	12 010
	<b>(13 880)</b>	<b>29 239</b>
	<b>680 091</b>	<b>402 245</b>
<b>B. Taxation paid</b>		
Paid in advance/(unpaid) at the beginning of the year	4 391	(44 381)
Subsidiary acquired		(11 624)
Charged to the income statement	<b>(182 118)</b>	<b>(85 613)</b>
Normal taxation	<b>(170 672)</b>	<b>(74 364)</b>
Prior year over/(under) provision	1 713	(812)
STC	<b>(13 159)</b>	<b>(10 437)</b>
Unpaid/(paid in advance) at the end of the year	<b>96 386</b>	<b>(4 391)</b>
	<b>(81 341)</b>	<b>(146 009)</b>
<b>C. Acquisition of subsidiary</b>		
Property, plant and equipment		202 990
Long-term receivables		471
Deferred taxation asset		26 613
Inventory		50 433
Cash and cash equivalents		61 448
Trade and other receivables		439 418
Post-retirement medical obligation		(25 606)
Deferred taxation liability		(22 189)
Trade and other payables		(547 499)
Provisions		(5 287)
Taxation payable		(11 624)
		<b>169 168</b>
Goodwill on acquisition		287 444
Cash acquired		(61 448)
Cash cost of subsidiary acquired		<b>395 164</b>

# accounting policies

For the year ended 31 March 2006

## BASIS OF PREPARATION

The Group and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the South African Companies Act 1973, as amended, and the Listing Requirements of the JSE Securities Exchange South Africa. The accounting policies are consistent with those of the previous year, except for changes made as a result of the implementation of IFRS as disclosed in note 1. The revised IFRS policies have been consistently applied to both years presented.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 39.

## BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the potential voting rights. The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued, liabilities and contingent liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date on which control ceases. All inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Dividend income from subsidiaries is recognised when the right to receive payment is established.

Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the Group effectively controls the entity.

The accounting policies of subsidiary companies conform to the policies adopted by the Group. Investments in subsidiaries are accounted for at cost less impairment losses.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation less impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the assets 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.

Depreciation is provided on property, plant and equipment at rates that reduce the cost thereof to an estimated residual value over the expected useful life of the asset on a straight-line basis. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where assets are identified as being impaired, that is when the recoverable amount has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Land is not depreciated.

Depreciation is calculated over the following estimated useful lives:

Buildings	25 - 50 years
Plant and machinery	10 - 30 years
Vehicles	3 - 8 years
Furniture	10 - 20 years

## INTANGIBLE ASSETS

### Trademarks

Trademarks are recognised at cost. They have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their expected useful lives (15 years).

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiary at the date of acquisition. It is reported in the balance sheet as a non-current asset, tested annually for impairment and carried at cost less accumulated impairment losses. It is allocated to cash generating units for the purpose of impairment testing. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## INVENTORIES

Finished goods, processed chicken, raw materials and consumables are valued at the lower of cost, determined on a first-in first-out basis, and net realisable value. Costs include expenditure in acquiring the inventories and bringing them to their present location and condition, all direct production costs and an appropriate portion of overheads based on normal capacity. Slaughtered chickens are transferred to inventory at fair value less estimated point-of-sale costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

## BIOLOGICAL ASSETS

Breeding stock includes the Cobb grandparent breeding and the parent rearing and laying operations. Broiler hatching eggs are included in breeder stock.

Biological assets are measured at their fair value less estimated point-of-sale costs at reporting dates. Fair value is determined based on market prices or, where market prices are not available, by reference sector benchmarks.

Gains and losses arising on the initial recognition of biological assets at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs are charged to the income statement in the year in which they arise.

## IMPAIRMENT OF NON-FINANCIAL ASSETS

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

## STATED CAPITAL

Ordinary shares are classified as equity.

Redeemable preference shares are classified as liabilities.

Where options are exercised the proceeds, net any directly attributable transaction costs, are credited to stated capital.

## DEFERRED TAXATION

Deferred taxation is calculated using taxation rates that have been enacted or substantially enacted at the balance sheet date and that are expected to apply to the period when the liability is settled or asset realised. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax value used in the computation of taxable income. Deferred taxation assets are raised only to the extent that their recoverability is probable.

Deferred taxation 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 affects neither accounting nor taxable profit or loss.

A deferred taxation liability is recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current taxation assets and liabilities on a net basis.

## EMPLOYEE BENEFITS

### Retirement funds

The Group provides defined benefit and defined contribution plans for the benefit of employees, the assets of which are held in separate trustee-administered funds. These plans are funded by payments from the employees and the Group, taking into account recommendations of independent qualified actuaries.

For the defined benefit plan, the pension accounting costs are assessed every three years by qualified actuaries, using the projected unit credit method. A liability is recognised in the balance sheet in respect of defined benefit pension plans if the present value of the defined benefit obligation at the balance sheet date is less than the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The pension obligation is measured as the present value of the estimated future cash outflows using the interest rates of government securities that have terms to maturity approximating the terms of the related liability.

If the cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the greater of ten percent of the defined benefit obligation or ten percent of the value of plan assets, that excess is recognised in future periods over the expected average remaining working lives of the participating employees.

The Group's contribution to the defined contribution pension plans is charged to the income statement in the year to which they relate.

### Post-retirement medical benefits

The Group provides post-retirement medical benefits to its retirees. The entitlement to post-retirement medical benefits is based on the employees remaining in service up to retirement age. The projected unit credit method of valuation is used to calculate the liability for post-retirement medical benefits.

The expected costs of these benefits are accrued over the period of employment using the same accounting methodology to that used for defined benefit pension plans.

## Bonus plan

The Group recognises a liability where contractually obliged or where there is past practice that has created a constructive obligation. Management participates in a bonus plan whereby bonuses are paid in respect of out-performance against targets. All bonuses are authorised by the Remuneration Committee.

## Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity and is based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model excluding non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. The Group recognises the impact on the original estimates, if any, in the income statement with a corresponding adjustment to equity.

## LEASES

Leases of property, plant and equipment where the Group assumes a significant portion of the risks and rewards of ownership are classified as finance leases. Finance leased assets are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the future 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 non-current liabilities. The assets are depreciated over the shorter of the period of the lease or the period over which the particular category of asset is otherwise depreciated. Lease finance charges are charged to the income statement over the term of the relevant lease using the effective interest rate method.

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

## PROVISIONS

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

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

## REVENUE

### Sale of goods

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivable is reasonably assured. Revenue includes the invoiced price of goods sold, after the deduction of incentive rebates and settlement discounts. Value Added Taxation and inter-company transactions are not included in the determination of revenue.

### Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

# accounting policies (continued)

For the year ended 31 March 2006

## FINANCIAL INSTRUMENTS

Financial instruments recognised on the balance sheet include derivative instruments, trade and other receivables, cash and cash equivalents, trade and other payables and interest bearing debt. When the Group is party to a contractual arrangement financial instruments are initially measured at fair value including transaction costs.

The Group classifies its financial assets at fair value through the income statement and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

### Financial assets at fair value through the income statement

A financial asset is recognised at fair value through the income statement if acquired principally for selling in the short-term. Derivatives are categorised as held for trading and are classified as current assets.

### Loans and receivables

Loans and receivables with fixed or determinable payments that are not quoted in an active market are included in current assets as non-derivative financial assets. Maturities longer than twelve months after the balance sheet date are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

Financial assets (or a portion thereof) are de-recognised when the Group realises the rights to the benefits specified in the contract, the rights expire or the Group surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On de-recognition the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustments to reflect fair value that had been recognised in equity, is included in the income statement.

Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. On de-recognition, the difference between the carrying amount of the financial liability, including related unamortised costs and any amount paid, is included in the income statement.

The fair value of financial instruments traded in an organised financial market is measured at the applicable quoted prices. The fair value of the financial instruments not traded in an organised financial market is determined using a variety of methods and assumptions that are based on market conditions and risk existing at balance sheet date, including independent appraisals and discounted cash flow methods. Fair values represent an approximation of possible value that may differ from the value that will be finally realised.

### Derivative instruments

Derivative instruments include forward exchange contracts, SAFEX options and futures contracts and derivatives embedded in procurement contracts. Derivatives are measured at fair value. Any gain or loss as a result of fair value adjustments is recognised in the income statement. Forward commitments to purchase maize for own use and consumption are designated executory in nature, and excluded from the fair value adjustment. Embedded derivatives are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract.

### Trade and other receivables

Short duration receivables with no stated interest rate are measured at amortised cost, less accumulated impairment losses. Other receivables are stated at amortised cost.

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 or delinquency in payments are considered to be indicators that trade receivables are impaired. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The difference is recognised as an expense.

### Cash and cash equivalents

Cash and cash equivalents are measured at fair value and comprises cash on hand and deposits held on call with banks.

### Financial liabilities

Financial liabilities, excluding derivatives are measured at amortised cost.

### Offset

Financial assets and financial liabilities are offset if there is a currently enforceable legal right to offset and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

## FOREIGN CURRENCY

### Functional and presentation currency

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

### Transactions and balances

Transactions in foreign currencies are translated to the functional currency at the rates of exchange ruling on 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.

## DIVIDEND DISTRIBUTION

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

Secondary Taxation on Companies is provided for in respect of dividend payments, net of dividends received or receivable and is recognised as a taxation charge for the year.

# critical accounting judgements and key sources of estimation uncertainty

There are a number of areas where judgement is applied in the financial statements. A critical judgement area at the balance sheet date that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is impairment of goodwill.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-

generating unit and a suitable discount rate in order to calculate present value of future cash flows.

Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the cash-generating units. The growth rates are based on industry and customer growth forecasts. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

## impact of future amendments to accounting standards and interpretations

Management has considered all Standards, Interpretations and Amendments that are in issue but not yet effective. The Standards, Interpretations and Amendments that are relevant to the Group but which the Group has not early adopted are as follows:

### STANDARDS

#### IFRS 4

Financial guarantee contracts (1 January 2006)

IFRS 4 requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the balance sheet date. This adoption of this standard should not have a significant impact. The Group will apply this amendment from periods beginning on 1 April 2006.

#### IFRS 7

Financial instruments: Disclosures (1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments. It replaces IAS 32 (Financial instruments: Disclosures and Presentation). The adoption of this standard will only impact the format and extent of disclosures presented. The Group will apply this amendment from periods beginning on 1 April 2007.

#### AC 503

Accounting for Black Economic Empowerment (BEE) transactions (1 May 2006)

AC 503 clarifies that the difference between the fair value of equity instruments granted and the fair value of cash and other assets received (i.e. the BEE equity credentials do not meet the definition of an intangible asset and should be expensed). Where BEE equity credentials are obtained as part of the net assets acquired in a business combination, the BEE equity credentials form part of goodwill. Where the BEE transaction includes service conditions, the fair value of the equity instruments shall be measured at grant date and the expense should be recognised over the period of the service conditions, the fair value of the equity instruments shall be measured at grant date and the expense should be recognised immediately on grant date. This standard currently has no impact.

### INTERPRETATIONS

#### IFRIC 4

Determining whether an arrangement contains a lease (1 January 2006)

IFRIC 4 requires the determination of whether an arrangement is or contains a lease based on the substance of the arrangement. It requires a full assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. This IFRIC should

not have a significant impact. The Group will apply this IFRIC interpretation from periods beginning on 1 April 2006.

#### IFRIC 8

Scope of IFRS 2 (1 May 2006)

IFRIC 8 clarifies whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received within a share-based payment transaction. This IFRIC interpretation currently has no impact.

#### IFRIC 9

Reassessment of embedded derivatives (1 June 2006)

IFRIC 9 clarifies that subsequent reassessment of embedded derivatives is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows of the contract. This IFRIC should not have a significant impact. The Group will apply this IFRIC interpretation from periods beginning on 1 April 2007.

### AMENDMENTS

#### IAS 1

Capital disclosures (1 January 2007)

This amendment introduces disclosures about the level of an entity's capital and how it manages capital. The adoption of this amendment will only impact the format and extent of disclosures presented. The Group will apply this amendment from periods beginning on 1 April 2007.

#### IAS 19

Employee benefits (1 January 2006)

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment will only impact the format and extent of disclosures presented. The Group will apply this amendment from periods beginning on 1 April 2006.

#### IAS 39

The Fair Value Option (1 January 2006)

This amendment changes the definition of financial instruments classified at fair value through the income statement and restricts the ability to designate financial instruments as part of this category. This amendment should not have a significant impact on the classification of financial instruments as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through the income statement. The Group will apply this amendment from periods beginning on 1 April 2006.

# notes to the group financial statements

For the year ended 31 March 2006

## 1. Transition to IFRS

The date of transition to IFRS for the Group is 1 April 2004 and therefore as required by IFRS 1 (First-time Adoption of IFRS), the Group's opening balance sheet at 1 April 2004 has been restated to reflect retrospectively all existing IFRS standards and IFRIC interpretations applicable at 31 March 2006, other than where certain available mandatory exemptions and exceptions to this retrospective application principle has been utilised. The Group has not early adopted any IFRS standards or IFRIC interpretations issued but not yet effective as at 31 March 2006.

Management has considered all exceptions and exemptions allowed in IFRS 1 and have, consistent with Remgro Limited, applied the following:

### Business combinations:

The Group has elected not to apply IFRS 3 (Business Combinations) for business combinations that occurred prior to 1 April 2004. Subsequent acquisitions have been accounted for in terms of IFRS 3.

### Share-based payments:

The Group has elected not to apply the provisions of IFRS 2 (Share-based payments) to equity instruments granted on or before 7 November 2002, or to equity instruments granted after 7 November 2002 but which had vested prior to 1 January 2005.

### Property, plant and equipment:

A first time adopter may elect to use the fair value of individual property, plant and equipment at transition date as deemed cost. The Group has elected not to make use of this optional exemption and has applied IAS 16 (Property, plant and equipment) retrospectively.

### Employee benefits:

The Group has elected to apply the exemption to account for all cumulative actuarial gains and losses at the date of transition.

### Financial instruments:

The Group has elected not to restate its comparatives for IAS 32 (Financial instruments: Disclosure and Presentation) and IAS 39 (Financial instruments: Recognition and Measurement). The Group has applied existing GAAP applicable as at 31 March 2005 to financial instruments in its 2005 figures that have been disclosed as comparatives for the 2006 IFRS results.

## Adjustments

The basis of the adjustments, net of the taxation impact, as shown in the reconciliation of assets, liabilities and equity, reconciliation of income statement and reconciliation of statement of changes in equity are noted below:

### Share-based payments:

The Group grants share options to employees under the Rainbow Share Incentive Scheme. Under SA GAAP, other than costs incurred in administering the scheme, which were expensed as incurred, the scheme did not result in any adjustment, besides a dilution in earnings per share when the shares were issued.

In accordance with the requirements of IFRS 2, the Group has recognised an expense in the income statement for 2005 and retained earnings for prior years, with a corresponding credit to equity, representing the grant date fair value of outstanding vested employee share options. The fair value at the date of granting the options is charged to the income statement over the relevant option vesting periods, adjusted to reflect actual and expected levels of vesting.

### Property, plant and equipment:

Past interpretation and practice, generally accepted in South Africa, did not take into account separate depreciation of significant components of property, plant and equipment, or the re-assessment of an asset's useful life on a regular basis. The revised version of IAS 16 requires significant components of an asset, with useful lives that differ significantly from the asset as a whole, to be depreciated separately over their useful lives and also requires the useful life and residual value of an asset to be reviewed at least at each financial year-end.

### Post-retirement medical obligation:

Previously the Group elected to recognise, in full, actuarial gains and losses in the year in which they arose. From 1 April 2004, actuarial gains and losses will be recognised using the corridor method – actuarial gains and losses in excess of 10% of the opening defined benefit obligation in the fund will be amortised in the income statement over the expected remaining working lives of the employees.

### Reclassifications:

Previously the Group disclosed preference shares and leave pay in equity and provisions respectively. These balances have now been re-classified under non-current liabilities and trade and other payables respectively.

	As previously reported R'000	IFRS adjustments R'000	Restated under IFRS R'000
<b>1. Transition to IFRS (continued)</b>			
<b>Reconciliation of balance sheet as at 31 March 2005</b>			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	922 144	(71 826)	850 318
Trademarks	1 205		1 205
Goodwill	287 444		287 444
Deferred taxation	16 023		16 023
	<u>1 226 816</u>	<u>(71 826)</u>	<u>1 154 990</u>
<b>Current assets</b>			
Inventories	260 493		260 493
Biological assets	238 656		238 656
Trade and other receivables	425 883		425 883
Derivative financial instruments	178		178
Taxation receivable	15 799		15 799
Cash and cash equivalents	106 007		106 007
	<u>1 047 016</u>		<u>1 047 016</u>
<b>Total assets</b>	<u>2 273 832</u>	<u>(71 826)</u>	<u>2 202 006</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Group</b>			
Stated capital	1 105 959		1 105 959
Share-based payment reserve		8 391	8 391
Retained earnings	231 852	(59 496)	172 356
	<u>1 337 811</u>	<u>(51 105)</u>	<u>1 286 706</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred taxation	201 905	(21 823)	180 082
Post-retirement medical obligation	62 574	1 103	63 677
Finance lease liability	651		651
	<u>265 130</u>	<u>(20 720)</u>	<u>244 410</u>
<b>Current liabilities</b>			
Trade and other payables	597 845	28 808	626 653
Provisions	44 394	(28 809)	15 585
Finance lease liability	1 264		1 264
Derivative financial instruments	15 980		15 980
Taxation	11 408		11 408
	<u>670 891</u>	<u>(1)</u>	<u>670 890</u>
<b>Total liabilities</b>	<u>936 021</u>	<u>(20 721)</u>	<u>915 300</u>
<b>Total equity and liabilities</b>	<u>2 273 832</u>	<u>(71 826)</u>	<u>2 202 006</u>

# notes to the group financial statements (continued)

For the year ended 31 March 2006

	Gross R'000	Taxation R'000	Net R'000
<b>1. Transition to IFRS (continued)</b>			
<b>Reconciliation of profit for the year ended 31 March 2005 attributable to the equity holders of the Group</b>			
As previously reported			232 376
IFRS adjustments:			
Share-based payments	(4 764)		(4 764)
Property, plant and equipment	5 055	(1 517)	3 538
Post-retirement medical obligation	(1 003)	276	(827)
As reported under IFRS			<u>230 323</u>
		31 March 2005 R'000	1 April 2004 R'000
<b>Reconciliation of assets, liabilities and equity</b>			
<b>Assets</b>			
As previously reported		2 273 832	1 831 816
IFRS adjustments:			
Property, plant and equipment		(71 826)	(76 881)
As reported under IFRS		<u>2 202 006</u>	<u>1 754 935</u>
<b>Liabilities</b>			
As previously reported		936 021	649 691
IFRS adjustments:			
Preference shares reclassified			500
Property, plant and equipment (deferred taxation impact)		(21 548)	(23 064)
Post-retirement medical obligation (gross amount)		1 103	
Post-retirement medical obligation (deferred taxation impact)		(276)	
As reported under IFRS		<u>915 300</u>	<u>627 127</u>
<b>Equity</b>			
As previously reported		1 337 811	1 182 125
IFRS adjustments:			
Preference shares reclassified			(500)
Property, plant and equipment		(50 278)	(53 816)
Post-retirement medical obligation		(827)	
As reported under IFRS		<u>1 286 706</u>	<u>1 127 809</u>

There was no impact of the IFRS adjustments on the cash flow statement.

	Cost	2006 Accumulated depreciation	Carrying value	Restated for IFRS 2005			
	R'000	R'000	R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	
<b>2. Property, plant and equipment</b>							
Land and buildings	742 054	335 735	406 319	672 251	319 399	352 852	
Plant, machinery and furniture	1 029 196	580 315	448 881	891 698	534 857	356 841	
Vehicles	160 725	93 322	67 403	140 881	88 763	52 118	
Capitalised leased assets - plant	281	266	15	301	224	77	
Capitalised leased assets - vehicles	2 215	1 614	601	3 873	2 373	1 500	
Capital work-in-progress	38 975		38 975	86 930		86 930	
	<b>1 973 446</b>	<b>1 011 252</b>	<b>962 194</b>	<b>1 795 934</b>	<b>945 616</b>	<b>850 318</b>	
<b>2006 Cost</b>							
	Land and buildings R'000	Plant, machinery and furniture R'000	Vehicles R'000	Capitalised leased assets- plant R'0000	Capitalised leased assets- vehicles R'000	Capital work-in- progress R'000	Total R'000
At the beginning of the year	672 251	891 698	140 881	301	3 873	86 930	1 795 934
Additions	84 494	172 370	25 488			(47 955)	234 397
Disposals	(14 691)	(34 872)	(5 644)	(20)	(1 658)		(56 885)
At the end of the year	<b>742 054</b>	<b>1 029 196</b>	<b>160 725</b>	<b>281</b>	<b>2 215</b>	<b>38 975</b>	<b>1 973 446</b>
<b>Accumulated depreciation</b>							
At the beginning of the year	319 399	534 857	88 763	224	2 373		945 616
Disposals	(4 235)	(30 811)	(4 286)		(897)		(40 229)
Asset impairment release	(2 284)	(794)					(3 078)
Depreciation	22 855	77 063	8 845	42	138		108 943
At the end of the year	<b>335 735</b>	<b>580 315</b>	<b>93 322</b>	<b>266</b>	<b>1 614</b>		<b>1 011 252</b>
<b>Net book amount</b>	<b>406 319</b>	<b>448 881</b>	<b>67 403</b>	<b>15</b>	<b>601</b>	<b>38 975</b>	<b>962 194</b>
<b>2005 Cost</b>							
At beginning of year as previously reported	484 521	642 927	14 515	301	3 873	24 942	1 171 079
IFRS restatement	68 831	24 430	8 389				101 650
At the beginning of the year restated	553 352	667 357	22 904	301	3 873	24 942	1 272 729
Additions	19 442	106 442	14 197			59 898	199 979
Subsidiary acquired	82 559	116 385	75 982			2 097	277 023
Fair value adj on subsidiary acquired	20 542	22 257	31 783				74 582
Disposals	(3 644)	(20 743)	(3 985)			(7)	(28 379)
At the end of the year	<b>672 251</b>	<b>891 698</b>	<b>140 881</b>	<b>301</b>	<b>3 873</b>	<b>86 930</b>	<b>1 795 934</b>
<b>Accumulated depreciation</b>							
At beginning of year as previously reported	120 457	447 983	10 783	169	1 734		581 126
IFRS restatement	184 046	(14 962)	9 447				178 531
At the beginning of the year restated	304 503	433 021	20 230	169	1 734		759 657
Disposals	(689)	(20 110)	(3 059)				(23 858)
Subsidiary acquired	8 414	73 563	66 638				148 615
Asset impairment release	(3 066)	(12 968)					(16 034)
Depreciation	10 237	61 351	4 954	55	639		77 236
At the end of the year	<b>319 399</b>	<b>534 857</b>	<b>88 763</b>	<b>224</b>	<b>2 373</b>		<b>945 616</b>
<b>Net book amount</b>	<b>352 852</b>	<b>356 841</b>	<b>52 118</b>	<b>77</b>	<b>1 500</b>	<b>86 930</b>	<b>850 318</b>

During the year the Group carried out a review of the recoverable amount of its dormant sites and as a consequence an impairment release of R3 077 661 (2005: R16 033 524) has been recognised in administration expenses in the income statement. Depreciation expenses of R80 274 000 (2005: R66 252 000) has been charged in cost of sales, R2 016 000 (2005: R1 395 000) in selling and marketing expenses, R7 121 000 (2005: R4 175 000) in administration expenses and R19 532 000 (2005: R5 414 000) in distribution expenses (refer to note 16).

In addition, in line with the new accounting requirements, the Group has reviewed the residual values and useful lives used in the calculation of the depreciation charge for the year. The review did not highlight any requirement for an adjustment to the residual values and useful lives used in the current or prior periods. Capitalised leased assets, with a book value of R616 000 (2005: R1 577 000), are encumbered as security for the secured finance lease obligations (refer to note 11).

A register of land and buildings is available for inspection at the registered office of the company.

No borrowing costs have been capitalised in the current or prior year.

# notes to the group financial statements (continued)

For the year ended 31 March 2006

	2006 R'000	Restated for IFRS 2005 R'000
<b>3. Trademarks</b>		
<b>Cost</b>		
At the beginning of the year	50 500	50 500
Additions		
Disposals		
At the end of the year	50 500	50 500
<b>Accumulated amortisation</b>		
At the beginning of the year	49 295	48 495
Additions		
Disposals		
Amortisation charge	801	800
At the end of the year	50 096	49 295
<b>Net book amount</b>	<b>404</b>	<b>1 205</b>
Amortisation of R801 157 (2005: R801 151) is included in administration expenses (refer to note 16).		
Finite life/indefinite life	<b>Finite life</b>	Finite life
Amortisation period	<b>15 years</b>	15 years
Method of amortisation	<b>Straight-line</b>	Straight-line
Is intangible title restricted in any way	<b>No</b>	No
Net book amount pledged as security	<b>Nil</b>	Nil
Trademarks comprise Farmer Brown, Bonny Bird, FarmFare and Epol all of which were acquired on acquisition of Bonny Bird Farms (Proprietary) Limited and Epol (Proprietary) Limited in 1991.		
<b>4. Goodwill</b>		
Surplus over the fair value of net assets acquired	<b>287 444</b>	287 444
<b>Carrying value</b>	<b>287 444</b>	287 444
Goodwill relates to the acquisition of Vector Logistics (Proprietary) Limited in 2005. The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management and future periods based on estimated growth rates. Cash flows beyond a five-year period are extrapolated using the estimated growth rates stated below.		
Key assumptions used in the goodwill impairment test:		
Discount rate (%)	12.44	
Perpetuity growth rate (%)	5.0	
Period (years)	5	
No impairment was required in the current or prior year.		
Sensitivity analysis of assumptions used in the goodwill impairment test:		
<u>Assumption</u>	<u>Movement</u>	<u>Impairment</u>
Discount rate (%)	+5	Nil
Perpetuity growth rate (%)	-5	Nil
<b>5. Inventories</b>		
Processed chicken	53 594	34 875
Finished goods	80 324	63 956
Raw materials	162 645	144 780
Consumables	23 857	16 882
	<b>320 420</b>	260 493
Cost of inventory written down to net realisable value	<b>10 386</b>	5 682

	2006 R'000	Restated for IFRS 2005 R'000
<b>6. Biological assets</b>		
<b>Breeding stock</b>		
At the beginning of the year	148 606	138 982
Gain arising from cost inputs	376 029	385 217
Decrease due to harvest	(382 759)	(376 917)
Fair value adjustment	1 438	1 324
<b>At the end of the year at fair value</b>	<b>143 314</b>	<b>148 606</b>
<b>Broiler stock</b>		
At the beginning of the year	90 050	77 690
Gain arising from cost inputs	1 901 269	1 989 901
Decrease due to harvest	(1 900 056)	(1 980 699)
Fair value adjustment	7 622	3 158
<b>At the end of the year at fair value</b>	<b>98 885</b>	<b>90 050</b>
<b>Total at the end of the year at fair value</b>	<b>242 199</b>	<b>238 656</b>
<b>7. Trade and other receivables</b>		
Trade receivables	473 349	398 675
Prepayments	4 899	5 939
Other receivables	39 194	21 269
	<b>517 442</b>	<b>425 883</b>
Impairment release/(recognised)	1 410	(3 183)
All trade and other receivables are due within one year of the balance sheet date. The directors consider that the carrying amount of trade and other receivables approximates their fair values.		
<b>8. Stated capital</b>		
<b>Authorised</b>		
575 525 772 (2005: 575 525 772) ordinary shares of no par value	Number of shares	
<b>Issued ordinary shares of no par value</b>		
At the beginning of the year	275 449 079	1 105 959
Shares issued in terms of share option scheme	3 772 838	9 788
<b>At the end of the year</b>	<b>279 221 917</b>	<b>1 115 747</b>
The unissued ordinary shares are under the control of the directors until the forthcoming Annual General Meeting, and 15 281 336 (2005: 15 421 627) unexercised options have been granted to employees in terms of the Rainbow Share Incentive Trust (refer to note 25).		
<b>9. Deferred taxation</b>		
<b>Deferred taxation liability movement</b>		
At the beginning of the year	180 082	142 136
Subsidiary acquired		22 189
Charge for the year - temporary differences	(11 563)	15 757
<b>At the end of the year</b>	<b>168 519</b>	<b>180 082</b>
<b>Deferred taxation liability comprises</b>		
Trademarks, property, plant and equipment	163 604	136 500
Inventories and biological assets	74 562	76 014
Provisions	(67 535)	(28 952)
Derivative financial instruments	5 739	(3 749)
Assessed loss in subsidiary	(9 957)	
Other	2 106	269
	<b>168 519</b>	<b>180 082</b>
<b>Deferred taxation asset movement</b>		
Subsidiary acquired	(16 023)	(26 613)
Charge for the year - temporary differences	16 023	10 590
<b>At the end of the year</b>		<b>(16 023)</b>
<b>Deferred taxation asset comprises</b>		
Trademarks, property, plant and equipment		14 305
Provisions		(31 029)
Other		701
		<b>(16 023)</b>

# notes to the group financial statements (continued)

For the year ended 31 March 2006

	2006 R'000	Restated for IFRS 2005 R'000
<b>10. Post-retirement medical obligation</b>		
<p>The obligation of the Group to pay medical aid benefits after retirement is no longer part of the conditions of employment for Rainbow employees engaged after 1 October 2003 and for Vector employees engaged after 1 January 1997. The last valuation dates were 31 March 2006 for both Rainbow and Vector. A number of pensioners and current employees however, remain entitled to this benefit. The entitlement to this benefit is dependent upon the employee remaining in service until retirement age. The unfunded liability for post-retirement medical aid benefits is determined actuarially each year and comprises:</p>		
At the beginning of the year	63 677	33 596
Subsidiary acquired		25 606
Recognised as an expense in the current year	6 006	4 475
Interest costs	5 096	3 577
Current service costs	2 597	2 197
Benefits paid	(1 687)	(1 299)
<b>At the end of the year</b>	<b>69 683</b>	<b>63 677</b>
Unrecognised actuarial (gains)/losses	(4 180)	1 103
<b>Balance per actuarial valuation</b>	<b>65 503</b>	<b>64 780</b>
The principal actuarial assumptions are:		
Discount rate (%)	7.5	8.5
Expected rates of return of planned assets (%)	7.5	8.5
Health care cost inflation (%)	5.5	6.5
<b>11. Finance lease liability</b>		
Total finance lease liabilities	814	1 915
Less amount payable within one year disclosed under current liabilities	(698)	(1 264)
	116	651
Present value of finance lease liabilities:		
One year	698	1 264
Two to five years	116	651
	814	1 915
Secured over assets with a book value of:		
Plant and equipment	15	77
Vehicles	601	1 500
	616	1 577
<p>Finance leases have varying interest rates between 15% and prime linked escalations. The carrying amount of short-term finance leases approximates fair value. No limit has been placed in the Articles of Association on the borrowing powers of the Group.</p>		
<b>12. Trade and other payables</b>		
Trade payables	571 561	488 103
Accruals	100 779	30 252
Other payables	109 460	108 298
	<b>781 800</b>	<b>626 653</b>
<p>The directors consider that the carrying amount of trade and other payables approximates their fair values.</p>		

				2006 R'000	Restated for IFRS 2005 R'000
<b>13. Provisions</b>					
	*Legal disputes R'000	Leave pay R'000	Onerous lease agreements R'000		
At the beginning of the year as previously reported	14 649	28 809	936	<b>44 394</b>	50 843
Reclassified under trade and other payables		(28 809)		<b>(28 809)</b>	(20 843)
At the beginning of the year restated	14 649		936	<b>15 585</b>	30 000
Subsidiary acquired					1 235
Provisions raised	20 679		451	<b>21 130</b>	
Provisions utilised	(5 328)		(616)	<b>(5 944)</b>	(14 148)
Provisions reversed					(1 502)
<b>At the end of the year</b>	<b>30 000</b>		<b>771</b>	<b>30 771</b>	<b>15 585</b>
* Litigation is in progress against the Group. The information required by IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation.					
<b>14. Derivative financial instruments</b>					
<b>Derivative financial assets</b>					
Forward exchange contracts				<b>1 573</b>	178
SAFEX written options				<b>1 555</b>	
SAFEX futures contracts				<b>16 317</b>	
Other options				<b>345</b>	
				<b>19 790</b>	178
<b>Derivative financial liabilities</b>					
Forward exchange contracts				<b>402</b>	23
SAFEX written options					11 392
SAFEX futures contracts					4 565
				<b>402</b>	15 980
<b>Net derivative financial instruments</b>					
				<b>19 388</b>	(15 802)
The Group's market risk management procedures are set out in note 23.					
<b>15. Depreciation and amortisation</b>					
Trademarks				<b>801</b>	800
Buildings				<b>22 855</b>	10 237
Plant, machinery and furniture				<b>77 063</b>	61 351
Vehicles				<b>8 845</b>	4 955
Capitalised leased assets - plant				<b>42</b>	55
Capitalised leased assets - vehicles				<b>138</b>	638
				<b>109 744</b>	<b>78 036</b>

# notes to the group financial statements (continued)

For the year ended 31 March 2006

	2006 R'000	Restated for IFRS 2005 R'000
<b>16. Operating profit</b>		
Revenue	4 101 454	4 026 998
Cost of sales	(2 580 779)	(3 030 567)
Gross profit	1 520 675	996 431
Administration expenses	(374 209)	(289 086)
Selling and marketing expenses	(116 160)	(69 405)
Distribution expenses	(398 168)	(258 313)
Other expenses	(54 294)	(64 365)
<b>Operating profit</b>	<b>577 844</b>	<b>315 262</b>
<b>Disclosable items - income</b>		
Fair value adjustment on biological assets	4 578	4 482
Foreign exchange profits - realised	60	1 239
Foreign exchange profits - unrealised	2 101	318
Profit on disposal of property, plant and equipment		9 022
Fair value adjustments on maize derivatives	34 071	
Asset impairment provision release	3 078	16 034
Land and buildings	2 284	3 066
Plant, machinery and furniture	794	12 968
<b>Disclosable items - expense</b>		
Fair value adjustments on maize derivatives		12 497
Operating lease charges	13 546	9 846
Land and buildings	5 362	4 332
Plant and machinery	545	2 303
Other	7 639	3 211
Technical consultants' fees	7 330	6 401
Foreign exchange losses - realised	388	3 139
Foreign exchange losses - unrealised	402	61
Loss on disposal of property, plant and equipment	3 626	
Staff costs*	744 922	570 109
Salaries and wages	665 409	503 798
Share-based payments	5 835	4 764
Retirement benefit costs	42 008	33 520
Other post-employment benefits	7 693	5 774
Other	23 977	22 253
Administration fee paid to Group company	3 516	3 286
Auditors' remuneration	4 668	3 240
Fees for the audit	3 850	2 619
Prior year under provision	138	306
Fees for other services	680	315
*Prior year staff costs have been restated by re-allocating outsourced costs		
<b>17. Finance costs</b>		
Call borrowings from Group company	986	393
Interest paid on overdraft	1 218	500
Interest paid on finance leases	147	175
Preference dividends paid		58
	<b>2 351</b>	<b>1 126</b>
<b>18. Finance income</b>		
Call funds with Group company	4 691	7 137
Call funds with financial institutions	5 239	21 009
	<b>9 930</b>	<b>28 146</b>

	2006 R'000	Restated for IFRS 2005 R'000
<b>19. Taxation</b>		
<b>Taxation charge</b>		
Current taxation - South African	170 446	74 291
- Foreign	226	73
- Prior year (over)/under provision	(1 713)	812
Deferred taxation - South African	4 521	28 157
- Foreign	939	139
- Change in rate	(5 435)	
- Prior year under/(over) provision	4 435	(1 950)
Secondary Taxation on Companies	13 159	10 437
	<b>186 578</b>	<b>111 959</b>
<b>Reconciliation of taxation rate</b>	<b>%</b>	<b>%</b>
Normal rate of taxation	29.0	30.0
Adjusted for:		
Secondary Taxation on Companies	2.3	3.0
Capital gains		0.2
Change in rate	(0.9)	
Prior year (over)/under provision - current	(0.3)	0.2
Prior year under/(over) provision - deferred	0.7	(0.6)
Non-taxable recoupment		(0.3)
Non-taxable items	1.1	0.2
<b>Effective rate of taxation</b>	<b>31.9</b>	<b>32.7</b>
<b>20. Commitments</b>		
<b>Capital expenditure</b>		
Contracted and committed	102 590	134 076
Approved but not contracted	48 981	32 279
<b>To be spent within one year</b>	<b>151 571</b>	<b>166 355</b>
The capital expenditure will be financed from available resources.		
<b>Operating leases</b>		
Due within one year	11 842	10 575
Due within two to five years	25 452	13 667
Thereafter	1 944	
	<b>39 238</b>	<b>24 242</b>
In respect of:		
Property	20 113	13 181
Plant and equipment	9 228	6 691
Other	9 887	4 370
	<b>39 228</b>	<b>24 242</b>

# notes to the group financial statements (continued)

For the year ended 31 March 2006

	2006 R'000	Restated for IFRS 2005 R'000
<b>21. Headline earnings and earnings per share</b>		
<b>Headline earnings reconciliation</b>		
Profit for the year attributable to the equity holders of the Group	398 845	230 323
Asset impairment provision released	(2 185)	(11 224)
Loss/(profit) on disposal of property, plant and equipment	3 626	(8 110)
<b>Headline earnings</b>	<b>400 286</b>	210 989
<b>Number of shares</b>		
Earnings and headline earnings per share are calculated using the weighted average ordinary shares in issue during the year. Diluted earnings and headline earnings per share are calculated using the fully diluted weighted average shares in issue. These are as follows:		
Weighted average shares for the purpose of basic and headline earnings per share	277 096 276	273 387 109
Share option dilution impact	8 461 586	7 887 504
<b>Weighted average shares for the purposes of basic and headline earnings per share - diluted</b>	<b>285 557 862</b>	281 274 613
Headline earnings per share (cents)	144.5	77.2
Headline earnings per share - diluted (cents)	140.2	75.0

Changes in the Group's accounting policies during the year are described in detail in note 1. To the extent that these changes have had an impact on the results reported for the year ended 31 March 2005, they have had an impact on the amounts reported for basic and headline earnings per share. The following table summarises the impact on both basic and headline earnings per share.

	Earnings per share		Headline earnings per share	
	Basic	Diluted	Headline	Diluted
Share-based payments	(1.7)	(1.7)	(1.7)	(1.7)
Property, plant and equipment	1.3	1.3	1.3	1.3
Post-retirement medical obligation	(0.3)	(0.3)	(0.3)	(0.3)

## 22. Retirement benefit plans

### Pension and provident fund schemes

The Group contributes towards retirement funds for all permanent employees, who are required to be a member of a Group implemented scheme. These schemes are governed by the Pension Fund Act 1956. Their assets consist primarily of listed shares, fixed income securities, property investments and money market instruments and are held separately from those of the Group. The schemes assets are administered by a board of trustees, each of which includes elected employee representatives. The Pension Funds Second Amendment Bill was enacted with effect 7 December 2001. This Bill requires that the actuarial valuations at 31 March 2004, together with a plan for the apportionment on a fair basis to past and current members of the funds, of any surplus established by this valuation date must be approved by the Financial Services Board (FSB). The FSB has approved a Nil Surplus Apportionment for the Rainbow Provident Fund. A Nil Surplus Apportionment application has been submitted to the FSB in respect of the Rainbow Pension Fund. Accordingly, due to the uncertainty regarding this entitlement, no surplus has been recognised on the Group's balance sheet.

### Defined benefit pension fund scheme

The Rainbow Pension Fund is a hybrid scheme. This scheme is actuarially valued at intervals of not more than three years using the projected unit credit method. The last statutory valuation of the scheme was at 31 March 2004, and the fund was found to be in a sound financial position.

An actuarial valuation of liabilities, based on the existing benefits, showed the present value of obligations to be adequately covered by the fair value of the scheme assets. Details of the valuation are as follows:

Fair value of scheme assets	7 604	5 455
Present value of obligation	6 858	5 320
	746	135
The principal actuarial assumptions are:		
Investment return (%)	15.0	15.0
Future salary increases (%)	13.5	13.5
Future pension increases (%)	10.0	10.0
Discount factor (%)	15.0	15.0

### Defined contribution pension and provident fund schemes

There are six defined contribution schemes as listed below. During the current year, Vector employees previously part of the I & J Retirement and Provident Funds were merged with the Rainbow Pension and Provident Funds. The latest audited financial information of these schemes all reflect a satisfactory state of affairs.

### Amounts charged to the income statement

Defined benefit pension scheme	509	537
Defined contribution pension and provident schemes		
Rainbow Pension Fund	7 576	6 298
Rainbow Provident Fund	28 372	23 729
Epol Pension Fund	2 891	1 635
I & J Retirement Fund	2 418	1 189
Namflex Pension Fund	242	132
	42 008	33 520

### 23. Financial risk management

The Group's financial instruments consist primarily of cash resources with financial institutions, derivatives, accounts receivable and payable and interest bearing debt. In the normal course of business, the Group is exposed to credit, interest, liquidity and market risk. In order to manage these risks, the Group may enter into transactions which make use of derivatives. They include forward exchange contracts, options, interest rate swaps and commodity futures and options. Separate committees are used to manage the risks and the hedging activities of the Group. The Group does not speculate in or engage in trading of derivative instruments.

#### Credit risk

Credit risk primarily relates to trade receivables and cash investments. The Group deposits cash surpluses with financial institutions of high quality and standing. The granting of credit is controlled by well established criteria which are reviewed on an annual basis. Other than feed, all trade receivables greater than R50 000 are covered by Credit Guarantee Insurance Cover (CGIC). This insurance covers 90.0% of outstanding debt. As a consequence, at 31 March 2006, the Group did not consider there to be any significant concentration of credit risk which had not been adequately provided for.

#### Interest rate risk

The Group is exposed to interest rate risk on its cash deposits and loan liabilities, which can impact on the cash flows of these instruments. The exposure to interest rate risk is managed through the Group's cash management system which enables the Group to maximise returns whilst minimising risk. The effective interest rate for the year was 6.98% (2005: 7.76%).

#### Liquidity risk

The Group has no risk of illiquidity as it has no borrowings. Its unutilised borrowing capacity is R610 500 000 (2005: R533 000 000). Banking and loan facilities are renewed annually and are subject to floating interest rates. Rainbow Chicken Limited binds itself in favour of the following banking institutions as surety in solidum for and co-principal debtor jointly and severally with Rainbow Farms (Proprietary) Limited for facilities granted by:

- ABSA Bank Limited
- Standard Bank Limited
- FirstRand Bank Limited
- Investec Bank Limited

#### Market risk

The Group's forward exchange and forward purchase contracts do not qualify as designated hedges for accounting purposes. Their fair values are disclosed in note 14.

#### Foreign currency risk

In the normal course of business the Group enters into transactions denominated in foreign currencies. Trade and other payables include net payables of R6 324 610 (2005: R4 574 380) in respect of purchases due in foreign currencies. The currencies predominantly traded in by the Group are USD, GBP and EURO'S. As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. The Group utilises forward exchange contracts to minimise foreign currency exchange risk in terms of its risk management policy. All forward exchange contracts are supported by underlying transactions.

	Average rate R	Foreign contract value '000	Forward value R'000	Fair value R'000
Forward exchange contracts - derivative assets				
USD	6.19	12 000	74 276	<b>1 573</b>
Forward exchange contracts - derivative liabilities				
EURO	7.37	129	951	<b>42</b>
USD	6.19	366	2 267	<b>32</b>
GBP	10.78	651	7 021	<b>328</b>
				<b>402</b>

#### Commodity price and procurement risk

Commodity price risk arises from the risk of an adverse effect on current or future earnings from fluctuations in the prices of commodities. To stabilise prices for the Group's substantial commodity requirements, commodity options and futures contracts are used, including forward purchase contracts. Rainbow Farms (Proprietary) Limited has entered into forward purchase agreements with various counterparties to procure a portion of the companies maize requirements for the forthcoming financial year. The delivery period is planned from May 2006 to December 2006, which correlates with the company's normal procurement requirements. These commitments are of a recurring nature in the normal course of operations.

Rainbow Farms (Proprietary) Limited further utilises derivative instruments to hedge its exposure to commodity price risks. These instruments comprise commodity options and futures contracts and are utilised to normally procure an additional 20% to 30% of the company's maize requirements for the forthcoming year. The delivery period is planned from May 2006 to December 2006.

The Group utilises a combination of over the counter forward contracts, direct forward contracts with producers, SAFEX traded futures and options and spot purchases. The overriding directive is to procure commodities at the lowest cost to meet forecast requirements, both internally and for external sales. Call and put options are utilised within this framework to manage commodity requirements and supply. The use of written options is restricted to the hedging of existing long positions.

The overall procurement strategy and net positions are reported monthly to the Board and an oversight committee. The oversight committee is responsible for the setting of the monthly company view with regard to future price movements. The daily trading by the procurement team is restricted in terms of this company view, unless prior approval is obtained.

The fair value at year-end of the commodity futures and options contracts based on a SAFEX closing price on 31 March 2006 was:

	Tons	2006 R'000	Tons	2005 R'000
Maize options - liability			54 300	11 392
Maize options - asset	58 200	<b>1 555</b>		
Maize futures - liability			34 900	4 565
Maize futures - asset	110 000	<b>16 317</b>		
Sunflower options - asset	800	<b>345</b>		
		<b>18 217</b>		<b>15 957</b>

Rainbow Farms (Proprietary) Limited has entered into contract grower agreements with various counterparties to procure broiler chickens for the forthcoming financial year. These contracts are not material to the overall production requirements.

# notes to the group financial statements (continued)

For the year ended 31 March 2006

	2006 R'000	Restated for IFRS 2005 R'000
<b>24. Contingencies</b>		
Legal actions pending	1 943	1 293
Contract grower guarantees *	34 971	36 997
	<b>36 914</b>	<b>38 290</b>

\* The Group has contingencies in respect of guarantees relating to certain contract grower arrangements. It is not anticipated that any material liabilities will arise from these contingencies.

## 25. Share-based payments

The company has a share option scheme for certain employees of the Group which is equity-settled options. Options are exercisable in three equal tranches from years two, three and four after the grant date. Options granted to employees have a ten year contractual life for those issued prior to 31 March 2005 and a seven year contractual life for those issued thereafter. The options are forfeited if not exercised before termination of employment subject to the discretion of the trustees. Details of share options issued in terms of the Rainbow Share Incentive Trust are as follows:

Option price (cents)	Date options granted	Options at 31 March 2005	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options at 31 March 2006	Options exercisable
94	22 May 2000	2 055 538		(749 704)	(622 000)	683 834	683 834
150	7 December 2000	83 816		(83 816)			
191	15 February 2001	96 571		(96 571)			
210	16 May 2001	475 601		(274 963)		200 638	200 638
238	1 August 2001	58 824				58 824	58 824
285	27 February 2002	2 708 514		(1 223 198)	(102 450)	1 382 866	1 382 866
345	28 January 2003	334 837		(89 163)		245 674	134 061
345	1 February 2003	3 623 188		(550 000)		3 073 188	1 865 458
355	19 May 2003	3 125 858		(705 423)	(221 039)	2 199 396	562 953
510	21 May 2004	2 598 848			(153 964)	2 444 884	310 801
530	1 August 2004	197 732				197 732	
690	6 December 2004	62 300				62 300	
665	19 May 2005		4 587 500		(205 500)	4 382 000	
825	1 August 2005		350 000			350 000	
		15 421 627	4 937 500	(3 772 838)	(1 304 953)	15 281 336	5 199 435

The options outstanding at the end of the year have a weighted average remaining contractual life of 6.7 years. In 2006, options were granted on 19 May 2005 and 1 August 2005. The estimated fair values of options granted on those dates are R1.39 to R1.54. In 2005 options were granted on 21 May 2004, 1 August 2004 and 6 December 2004. The estimated fair values of options granted on those dates are R1.41 to R2.03.

These fair values were calculated using the binomial options pricing model. The inputs into the model were as follows:

	2006	2005
Weighted average share price (R)	8.31	6.21
Weighted average exercise price (R)	8.69	5.69
Expected volatility (%)	37 - 60	42 - 60
Risk free rate (%)	7.5 - 10.5	7.9 - 10.5
Expected dividend yield (%)	5.0 - 5.5	5.2 - 5.5
Contractual life (years)	7 or 10	10

Expected volatility was determined calculating the historical volatility of the share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of R5 835 000 (2005: R4 764 000) related to equity-settled share-based payment transactions during the year.

## 26. Directors' emoluments and interests

### Directors' emoluments 2006

	Basic Salary R'000	Bonuses # R'000	Pension contribution R'000	Other benefits R'000	Total R'000
<b>Executives</b>					
M Dally	2 929		259	65	<b>3 253</b>
R H Field	1 363		103	38	<b>1 504</b>
L J Grobler *	286		21	1 399	<b>1 706</b>
	<b>4 578</b>		<b>383</b>	<b>1 502</b>	<b>6 463</b>
<b>2005 Executives</b>					
M Dally	2 668	1 240	236	53	4 197
R H Field **	752		54	22	828
L J Grobler	1 102	200	80	39	1 421
	<b>4 522</b>	<b>1 440</b>	<b>370</b>	<b>114</b>	<b>6 446</b>

# Bonuses relate to the previous financial year.

\* Mr L J Grobler resigned from the Board on 30 June 2005 and disclosure therefore only reflects emoluments up to this date. Other benefits include severance benefits.

\*\* Mr R H Field was appointed to the Board on 28 July 2004 and disclosure therefore only reflects emoluments after this date.

	Service as director	
	2006 R'000	2005 R'000
<b>Non-executives</b>		
<b>Current</b>		
M H Visser*	<b>82</b>	80
Dr M Griessel	<b>55</b>	45
J B Magwaza	<b>55</b>	45
M Nhlanhla	<b>10</b>	
N Phillips	<b>105</b>	100
D W Vale	<b>73</b>	45
	<b>380</b>	315
<b>Past</b>		
W E Bührmann*	<b>60</b>	42
D J Loch Davis		25
N P Mageza	<b>36</b>	60
	<b>96</b>	127
<b>Total</b>	<b>476</b>	442

\* Paid to M&I Group Services (Proprietary) Limited.

### Directors' interests

Options granted to executive directors and unexpired or unexercised as at 31 March 2006 are as follows:

	Options exercisable	Option price (cents)	Options at 31 March 2005	Options granted during the year	Options exercised during the year	Options at 31 March 2006	Exercise price (cents)	Gain on options exercised R'000
<b>Present Directors</b>								
M Dally	1 865 458	345 665	3 623 188	696 000	(550 000)	<b>3 073 188</b> <b>696 000</b>	788	2 438
	1 865 458		3 623 188	696 000	(550 000)	<b>3 769 188</b>		2 438
R H Field		355 510 530 665	202 297 48 307 197 732	384 000	(67 432)	<b>134 865</b> <b>48 307</b> <b>197 732</b> <b>384 000</b>	870	347
			448 336	384 000	(67 432)	<b>764 904</b>		347
<b>Past Directors</b>								
L J Grobler		94	396 500		(396 500)		867	3 066
	41 431	285	424 291		(382 860)	<b>41 431</b>	898	2 346
	161 343	355	231 983		(70 640)	<b>161 343</b>	788	386
	70 640	510	138 791			<b>138 791</b>		
	273 414		1 191 565		(850 000)	<b>341 565</b>		5 798
	2 138 872		5 263 089	1 080 000	(1 467 432)	<b>4 875 657</b>		8 583

# notes to the group financial statements (continued)

For the year ended 31 March 2006

## 26. Directors' emoluments and interests (continued)

### Interest of directors of the company in stated capital

The aggregate beneficial holdings as at 31 March 2006 of those directors of the company holding issued ordinary shares of the company are detailed below:

	2006		2005	
	Direct shares '000	Indirect shares '000	Direct shares '000	Indirect shares '000
Executive directors				
M Dally	700		100	
R H Field	117		33	
Non-executive directors				
M Griessel		5		5
	<b>817</b>	<b>5</b>	<b>133</b>	<b>5</b>

There has been no change in the interest of the directors in the stated capital of the company since the end of the financial year to the date of this report.

## 27. Segmental reporting

The primary reporting format of the Group is by business segment. As the company operates as a vertically integrated chicken producer, there is only one business segment as defined by IAS 14 (Segment Reporting). The relevant disclosure is given in the financial statements.

## 28. Related party transactions

Related party relationships exist between Rainbow Chicken Limited, its subsidiaries and Remgro Limited and its subsidiaries. Remgro Finance Corporation provides treasury functions to the Group. All purchasing, selling and treasury transactions are concluded at arm's length.

### Company

As detailed in note 1 to the company financial statements on page 56, the company has concluded certain lending transactions with these related parties. During the year, cash was invested or borrowed with Remgro Finance Corporation. Finance income or costs on these investments or borrowings are disclosed in notes 17 and 18. In addition, the holding company provides strategic, management and administrative support to the Group in return for an administration fee which is based on costs incurred. This is disclosed in note 16. Included in receivables is an amount owing by the holding company of R673 674 (2005: payable R176 476).

### Directors

Details of director's emoluments and shareholding in the company are disclosed in note 26 as well as in the Report of the Directors.

### Shareholders

Details of the major shareholders of the company appear on page 58.

# company balance sheet

As at 31 March 2006

	Note	2006 R'000	Restated for IFRS 2005 R'000
<b>ASSETS</b>			
Investment in subsidiaries	1	1 101 644	1 094 672
<b>Total assets</b>		<b>1 101 644</b>	<b>1 094 672</b>
<b>EQUITY</b>			
Stated capital	2	1 115 747	1 105 959
Accumulated loss		(14 103)	(11 287)
<b>Total equity</b>		<b>1 101 644</b>	<b>1 094 672</b>

# company income statement

For the year ended 31 March 2006

Profit before taxation	3	102 457	81 397
Taxation			
Profit for the year attributable to the equity holders of the company		<b>102 457</b>	<b>81 397</b>

# company cash flow statement

For the year ended 31 March 2006

<b>Cash flows from operating activities</b>			
Cash generated by operations		102 457	81 397
Dividends paid		(105 273)	(83 435)
<b>Net cash outflow from operating activities</b>		<b>(2 816)</b>	<b>(2 038)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		9 788	7 245
Preference shares repaid			(500)
Increase in investment in subsidiaries		(6 972)	(4 707)
<b>Net cash inflow from financing activities</b>		<b>2 816</b>	<b>2 038</b>
<b>Net increase in cash</b>			

# statement of company changes in equity

For the year ended 31 March 2006

	Stated capital R'000	Accumulated loss R'000	Total R'000
<b>Balance at 1 April 2004</b>	<b>1 098 714</b>	<b>(9 249)</b>	<b>1 089 465</b>
Profit for the year attributable to the equity holders of the company		81 397	81 397
Ordinary dividends paid		(83 435)	(83 435)
Issue of shares	7 245		7 245
<b>Balance at 1 April 2005</b>	<b>1 105 959</b>	<b>(11 287)</b>	<b>1 094 672</b>
Profit for the year attributable to the equity holders of the company		102 457	102 457
Ordinary dividends paid		(105 273)	(105 273)
Issue of shares	9 788		9 788
<b>Balance at 31 March 2006</b>	<b>1 115 747</b>	<b>(14 103)</b>	<b>1 101 644</b>

# notes to the company financial statements

For the year ended 31 March 2006

	Issued Share Capital R	Effective Holding 2006 % 2005 %		Shares 2006 R'000 2005 R'000		Indebtedness 2006 R'000 2005 R'000		2006 R'000	Total 2005 R'000
<b>1. Investment in subsidiaries</b>									
<b>Directly owned</b>									
Rainbow Farms Investments (Proprietary) Limited	99 900	100	100	100	100			100	100
Rainbow Farms (Proprietary) Limited	40 000	100	100	1 142	1 142	1 100 402	1 093 430	1 101 544	1 094 572
Rainbow Nominees (Proprietary) Limited	1	100	100						
<b>Indirectly owned</b>									
Vector Logistics (Proprietary) Limited	50	100	100						
Vector Logistics Limited (Namibia)	100 000	100	100						
Practitrade (Proprietary) Limited	100	100	100						
Farmer Brown (Proprietary) Limited	1	100	100						
East End Court (Proprietary) Limited	1	100	100						
Bonny Bird Farms (Proprietary) Limited	312	100	100						
Epol (Proprietary) Limited	78 000	100	100						
				1 242	1 242	1 100 402	1 093 430	1 101 644	1 094 672
The above loan is unsecured, interest free and repayable at an unspecified date. None of the above companies are listed.									
<b>Attributable profit/(loss) of subsidiary companies</b>									
Rainbow Farms (Proprietary) Limited								241 665	186 344
Vector Logistics (Proprietary) Limited								60 261	46 017
Practitrade (Proprietary) Limited								(5 538)	
								296 388	232 361
<b>2. Stated capital</b>									
<b>Authorised</b>									
575 525 772 (2005: 575 525 772) ordinary shares of no par value									
<b>Issued ordinary shares of no par value</b>									
At the beginning of the year						Number of shares 275 449 079		1 105 959	1 098 714
Shares issued in terms of share option scheme						3 772 838		9 788	7 245
<b>At the end of the year</b>						279 221 917		1 115 747	1 105 959
The unissued ordinary shares are under the control of the directors until the forthcoming Annual General Meeting and 15 281 336 (2005: 15 421 627) unexercised options have been granted to employees in terms of the Rainbow Share Incentive Trust.									
<b>3. Profit before taxation includes</b>									
Dividends received from subsidiaries								105 273	83 493
Finance costs								(476)	(58)
Non-executive directors fees								(2 340)	(443)
Listed company expenses									(1 595)

# ordinary shareholders' information

## ordinary shareholders' analysis

### Distribution of Ordinary Shareholders

	Number of shareholders	% of shareholders	Number of shares held	% of shares issued
Public shareholders	6 247	99.9	104 985 661	37.7
Non-public shareholders:				
Directors of Rainbow and its subsidiaries	4	0.1	1 154 767	0.4
Holding company	1		172 846 261	61.9
Share Trusts	1		101 148	
Rainbow Pension Fund	1		134 080	
	<b>6 254</b>	<b>100.0</b>	<b>279 221 917</b>	<b>100.0</b>

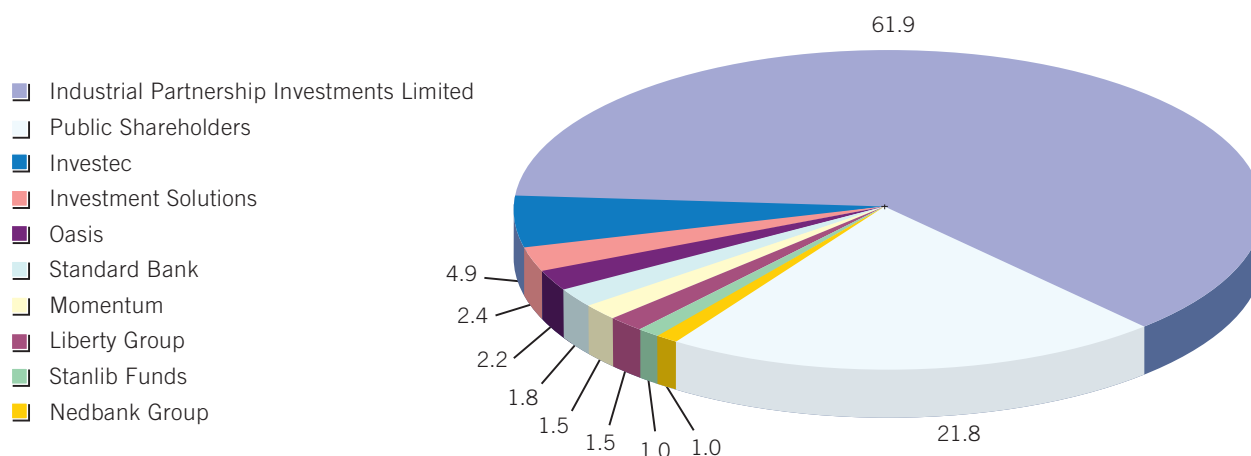
### Shareholder Spread

	Number of shareholders	Shareholder spread	Number of shares held	% of shares issued
	4 158	1 - 1 000 shares	1 193 730	0.4
	1 682	1 001 - 10 000 shares	6 145 908	2.2
	282	10 001 - 100 000 shares	8 289 282	3.0
	105	100 001 - 1 000 000 shares	31 041 040	11.1
	27	1 000 001 - shares and over	232 551 957	83.3
	<b>6 254</b>		<b>279 221 917</b>	<b>100.0</b>

# ordinary shareholders' analysis (continued)

## Shareholdings Over One Percent (Beneficial)

	Number of shares	%
Industrial Partnership Investments Limited	172 846 261	61.9
Investec	13 592 942	4.9
Investment Solutions	6 781 369	2.4
Oasis	6 146 372	2.2
Standard Bank	5 093 613	1.8
Momentum	4 265 971	1.5
Liberty Group	4 181 921	1.5
Stanlib Funds	2 900 000	1.0
Nedbank Group	2 860 939	1.0



## shareholders' diary

Financial Year End 31 March  
Annual General Meeting 25 July 2006

### FINANCIAL REPORTS

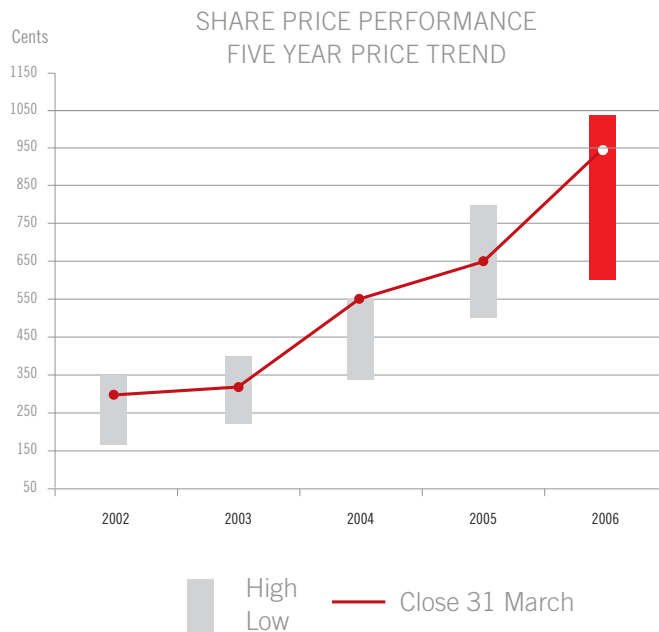
Announcement of results for the year May  
Annual financial statements posted June  
Interim report for the half year to September November

### FUTURE DIVIDENDS

Interim dividend  
- Declaration November  
- Payment January  
Final dividend  
- Declaration May  
- Payment June

# corporate information

Company Registration Number: 1966/004972/06  
JSE Share code: RBW  
ISIN code: ZAE000019063  
Registered Office / Street Address: One The Boulevard, Westway Office Park, Westville, 3629  
Postal Address: P.O. Box 2734, Westway Office Park, Westville, 3635  
Transfer Secretaries: Computershare Investor Services 2004 (Proprietary) Limited  
70 Marshall Street, Johannesburg, 2001  
P.O. Box 61051, Marshalltown, 2107  
Company Secretary: S B Heath  
Auditors: PricewaterhouseCoopers Incorporated  
Listing: JSE Securities Exchange South Africa  
Sector: Food Producers and Processors  
Sponsor: RAND MERCHANT BANK (a division of FirstRand Bank Limited)  
Bankers: ABSA Bank Limited  
Website: [www.rainbowchicken.co.za](http://www.rainbowchicken.co.za)



# notice to shareholders

Notice is hereby given that the 40th Annual General Meeting of shareholders of Rainbow Chicken Limited will be held at 1 Stanley Methven Road, Hammarsdale, KwaZulu-Natal on Tuesday 25 July 2006 at 09h00 for the following business:

1. To receive and consider the company and Group annual financial statements for the year ended 31 March 2006.
2. To elect directors in place of Messrs M H Visser, N Phillips and M Dally, who retire by rotation in accordance with the Articles of Association and who, being eligible, offer themselves for re-election. Details of each of these retiring directors are set out on pages 10 and 11 of the 2006 Annual Report.
3. To consider and, if deemed fit, to pass the following ordinary resolution with or without modification: "Resolved that the unissued ordinary shares in the capital of the company remain under the control of the directors who shall be authorised to issue these shares at such times and on such terms as they may determine, subject to section 221 of the Companies Act, 1973 (as amended), and the regulations of The JSE Securities Exchange South Africa (JSE)."
4. To confirm the re-appointment of the auditors until the next Annual General Meeting and to authorise the directors to approve the amount of their remuneration for the forthcoming year.
5. To transact such other business as may be transacted at an Annual General Meeting.

Ordinary shareholders who have not dematerialised their ordinary shares or who have dematerialised their ordinary shares with own name registration are entitled to attend and to vote at the meeting. Any such shareholder may appoint a proxy/proxies to attend and speak and vote (on a poll) at the meeting.

A proxy need not be a member of the company. Forms of proxy, together with a notarially certified copy of the power of attorney (if applicable) or other instrument (if any), appointing the proxy and the authority under which it is signed (if any), must be deposited at the registered office of the company or posted to the Company Secretary, P.O. Box 2734, Westway Office Park, Westville, 3635, or the transfer secretary, Computershare Investor Services 2004 (Proprietary) Limited, P.O. Box 61051, Marshalltown, 2107, so as to arrive not less than 48 hours before the time fixed for the meeting.

On a show of hands, every member of the company present in person or represented by proxy shall have one vote only. On a poll, every member of the company shall have one vote for every share held in the company by such member.

Ordinary shareholders who have dematerialised their ordinary shares, other than in own name registration, should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the Board



**S B Heath**  
Company Secretary  
Registered Office  
One The Boulevard  
Westway Office Park  
Westville 3629





RAINBOW CHICKEN LIMITED  
Incorporated in the Republic of South Africa  
Registration number 1966/004972/06  
Share code: RBW ISIN ZAE000019063  
"the Company"

## FORM OF PROXY

THIS FORM OF PROXY IS ONLY FOR USE BY:

1. REGISTERED MEMBERS WHO HAVE NOT YET DEMATERIALISED THEIR ORDINARY SHARES
2. REGISTERED MEMBERS WHO HAVE ALREADY DEMATERIALISED THEIR ORDINARY SHARES AND REGISTERED THEM IN THEIR OWN NAME.\*

\* See explanatory note 3 overleaf

I/We \_\_\_\_\_  
(Name in block letters)

of address \_\_\_\_\_

being a member/members of Rainbow Chicken Limited (registration number 1966/004972/06) and the registered

holder/s of \_\_\_\_\_ ordinary shares  
in the company, hereby appoint (see instruction 1 overleaf)

1. \_\_\_\_\_ or failing him/her

2. \_\_\_\_\_ or failing him/her

3. the Chairman of the Annual General Meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the Annual General Meeting of the company to be held at 1 Stanley Methven Road, Hammarsdale, KwaZulu-Natal on Tuesday 25 July 2006 at 09h00 and at any adjournment thereof as follows:

	IN FAVOUR OF	AGAINST	ABSTAIN
1. Consideration and receipt of annual financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.1 Re-election of director - M H Visser	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Re-election of director – N Phillips	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Re-election of director – M Dally	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Control of authorised but unissued shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Re-appointment of auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Other business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

Signed this \_\_\_\_\_ day of \_\_\_\_\_

Signature \_\_\_\_\_

(Please read the notes overleaf)

#### NOTES:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a registered member of the company.
2. Every member present in person or by proxy and entitled to vote at the Annual General Meeting of the company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds. In the event of a poll, every member shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by such member bears to the aggregate amount of the nominal value of all the shares issued by the company.
3. Members registered in their own name are members who elected not to participate in the Issuer-Sponsored Nominee Programme and who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertified shares are to be registered in the electronic sub-register of **members in their own names**.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this form of proxy must be initialled by the signatory/ies.
8. The Chairman of the Annual General Meeting may accept any form of proxy which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

#### Instructions on signing and lodging the form of proxy:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the Chairman of the Annual General Meeting", but any such deletion must be initialled by the member. Should this space be left blank, the proxy will be exercised by the Chairman of the Annual General Meeting. The person whose name appears first on the form of proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A member's voting instructions to the proxy must be indicated by the insertion of an "X", or the number of votes exercisable by the member, in the appropriate spaces provided overleaf. Failure to do so will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by him/her or by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. To be valid, the completed forms of proxy must be deposited at the registered office of the company or posted to the company Secretary, P.O. Box 2734, Westway Office Park, Westville, 3635 or lodged with the transfer secretaries of the company, Computershare Investor Services 2004 (Proprietary) Limited at 70 Marshall Street, Johannesburg, 2001, South Africa, or posted to the transfer secretaries at P.O. Box 61051, Marshalltown, 2107, to be received by them not later than Thursday, 20 July 2006 at 15h30 (South African time).
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries or waived by the Chairman of the Annual General Meeting.
6. The completion and lodging of this form of proxy will not preclude the relevant member from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

