sovereignfoods™

full of goodness

INTEGRATED REPORT 2016

Integrated Report 2016

Highlights

+5%

Revenue

108,4 cents

Headline earnings per share

+8%

Net asset value per share

8%

Net gearing

Turnover per annum **R1,73 billion**	• 25 Farms
Net asset value per share **1,018 cents**	• 2 Hatcheries
Sales volume per annum **100 300 tons**	• 1 Feedmill
Complement **2 800 people**	• 2 Abattoirs
	• 2 Coldstores

Contents

Overview

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Strategy

Phases 1 and 2, running from the 2012 to the 2016 financial year, were concerned with **Fixing Performance, Building Consistency** and **Growing the Footprint**.

Phase 3, which runs from the 2017 to the 2019 financial year, is called **Expansion and Strategic Resilience**. The main aims of this phase are:

- Significant increase in poultry volumes to meet the demand of customers and;
- A significant portion of the Group's revenue is to be derived from currencies other than the Rand.

To this end, the Group will:

- Expand production at the Uitenhage and Hartbeespoort abattoirs in order to optimise the supply chain at these facilities with a focus on growing production at the Hartbeespoort abattoir;
- Grow exports to selected destinations, either through current or new trading partners; and
- Enter into prudent, well-priced acquisitions that fit into the strategic direction of the Group and that meet the Group's financial criteria.

As set out in this Integrated Report, although this phase is only scheduled to commence in the 2017 financial year, the Group is satisfied with the progress it has made to date towards these aims.

Abattoir

Products

Distribution

At home

Chef's kitchen

Focused on producing world-class products

Vision

To double the size of our business whilst exceeding stakeholder expectations.

Values

- **We focus** on cutting wastage and on finding a more efficient way of going about our work.
- **We measure our success** by the satisfaction of our customers, internal and external.
- **We are passionate** about what we do and believe we can be the best.
- **We always** do the basics well.
- **We pride ourselves** on team success and focus on results.
- **We speak with candour** and respect and value every team member regardless of position, age, gender or race.

Our Critical Success Factors

- **Beat our own records** inside the business.
- **Customer-centric** operations, internally and externally.
- **Increase yields** from all operations.
- **Stringent quality measures** in place across the business.
- A team that is **engaged, motivated, passionate and performance driven.**

Company and divisional structure

Sovereign Foods is an integrated poultry producer with its head office situated in the Eastern Cape and produces approximately 125 000 tons of poultry per annum from two production nodes. In Uitenhage in the Eastern Cape, it has an integrated breeder, hatchery and broiler operation which is supplied by its own feedmill, and an abattoir and coldstore producing approximately 100 000 tons of poultry per annum. In Hartbeespoort in Gauteng, it has an abattoir and coldstore producing approximately 25 000 tons of poultry per annum. It has a national sales footprint with a concentration of sales in Gauteng.

100%
General public and institutions

100%
Sovereign Food Investments Limited

100%
Sovereign Food Industries (Pty) Limited

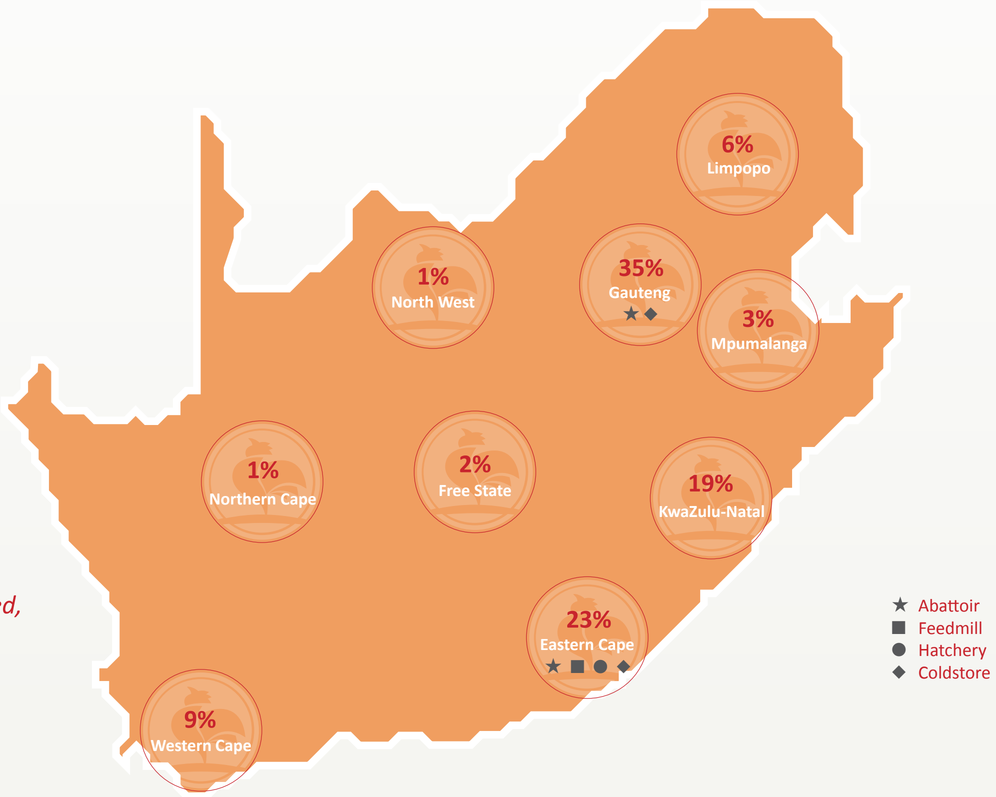
100%
Crown Chickens (Pty) Limited

AGRICULTURE	PRODUCTS	SOVEREIGN MARKETING	GROUP SERVICES
Parent Stock and Hatcheries Feedmill Broilers	Abattoirs Value Added Waste Recovery	Warehouses and Distribution Sales and Marketing	Finance and Procurement Information Technology Human Resources

Sales and operations map

Operation

The main production facilities are located within 100km of Uitenhage in the Eastern Cape. There is also a second abattoir located in Hartbeespoort, Gauteng.



Note: *Besides 1% of product that was exported, all other sales take place within South Africa.*

Key performance indicators

Area	Performance indicators	Results 2016	Results 2015	Comments
Economic	Earnings before interest, taxation, depreciation and impairments	**9,1%**	8,8%	Despite the poor fundamentals in the SA poultry industry, the Group's EBITDA increased to 9,1%.
	Return on shareholders' equity	**10,7%**	10,9%	Capital allocation is an area of continuous focus and the Group is pleased with the improvement over the five-year period.
	Return on net assets	**12,4%**	12,6%	The Group aims to improve the return on assets through increasing the throughput of high-margin products.
	Net gearing	**8,2%**	1,2%	Net gearing increased as a result of the purchase of the Hartbeespoort abattoir.
Environmental	Environmental incidents	**0**	1	There have been no incidents of non-compliance.
Social	B-BBEE	**Level 5**	Level 5	The Group achieved a Level 5 contributor status and has adopted a more targeted approach to improving its preferential procurement and employment equity scores.
	Labour practices and decent work	**0,31**	0,44	As much as the Goup will always strive for nil, a target of less than 0,9 is realistic. The decrease in the current year is as a result of a strong focus by the divisional risk management teams.
		Nil	Nil	No fatalities occurred during the year. The Group will always strive for zero and is happy to have achieved it.
		Five Star (Uitenhage abattoir)	Five Star (Uitenhage abattoir)	The Group is pleased to have achieved Five Star certification for the Uitenhage abattoir and the agricultural division.
		Five Star (Agriculture)	Five Star (Agriculture)	The Group is committed to a safe working environment and a Five Star health and safety NOSA certification is the target for our major operations and/or facilities.
	Product responsibility	**Nil**	Nil	As the Group is a food company we take product safety very seriously.
	Animal welfare	**Nil**	Nil	The Group takes animal welfare seriously and has stringent safeguards to ensure that our livestock is treated as per policy.

Brands, products and markets

Product and market strategy

In order to improve pricing and revenue stability, the Group has embarked upon the following product and market strategy:

Product strategy
To move away from commodity type IQF products into higher-margin, niche products where either:

- further processing, that is traditionally done at the consumer sales point, can be transferred back to the abattoir in products that are either crumbed, coated, fully cooked, marinated, tumbled or a combination thereof; or
- distribution and shelf life constraints mean that certain products, such as fresh products, need to be manufactured close to the customer; or
- value can be added to the product at the abattoir to meet specific customer specifications such as weight-graded portions.

Market strategy
To adopt a "selected market spaces" strategy where service levels and product needs are matched to key customers' requirements.

Corporate brand

The Group's corporate brand is "sovereignfoods", and a conscious decision has been taken to separate its product brands from its corporate brand.

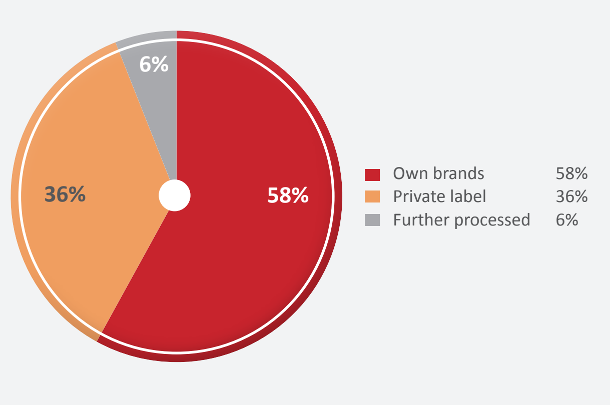
sovereignfoods™ *full of goodness*

Product brands

For the Group to achieve the above, it undertook a brand consolidation exercise several years ago and consolidated its own "non-further processed" retail and wholesale brands under its flagship brand, **"Country Range"**. Within the Country Range brand, there are four ranges, each of which caters for a different customer, channel or route to market and a different consumer or LSM group. The **"Cater Chicken"** brand is used for products sold into the Food Services segment.

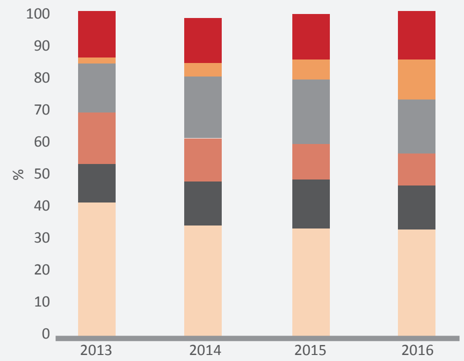
In order to meet its market strategy, the Group also packs several **"private label"** brands for "non-further processed" products for key customers, and to meet its product strategy, the Group has developed a range of **"further processed"** brands that it either owns or co-owns along with selected customers.

Approximately two-thirds of the Group's products are sold in its own brands, as can be seen below:



Product mix

As set out in the product strategy above, the Group is moving away from commodity IQF type products into higher-margin, niche products, and this can be seen in the chart below:



	2013	2014	2015	2016
Primary products	14%	14%	14%	14%
Further processed/value added/fresh	2%	4%	6%	12%
Fillet and soup pack	15%	19%	20%	17%
Tray packs, wholebirds and small IQF portions	16%	13%	11%	10%
IQF single portions	12%	14%	15%	13%
IQF mixed portions	41%	36%	34%	34%

Brands framework

Product category	Brand ownership	Brand	Range	Brand positioning	Market channel: Domestic – Retail	Domestic – HMR	Domestic – Wholesale	Domestic – Food Services	Export	Consumer "LSM" groups
VALUE-ADDED	Co-owned by Sovereign and customer	Chicka Chicken		Breaded and fully cooked products, developed with and for Spar, directed at the Home Meal Replacement ("HMR") and Quick Service Restaurant ("QSR") sectors.		●			●	LSM 4, 5, 6, 7, 8, 9, 10
VALUE-ADDED	Co-owned by Sovereign and customer	SPAR		Breaded and fully cooked products, developed with and for SPAR, directed at the retail market.	●				●	LSM 4, 5, 6, 7, 8, 9, 10
VALUE-ADDED	Owned by Sovereign			Breaded and fully cooked products, directed at the Food Services market and informal Quick Service Restaurant ("QSR") sectors.				●	●	LSM 6, 7, 8, 9, 10
PRIVATE LABELS										
VALUE-ADDED	Owned by customer			Breaded and fully cooked products, directed at informal wholesale.	●				●	LSM 4, 5, 6, 7, 8, 9, 10
VALUE-ADDED	Owned by customer	Freshly Foods		Breaded and fully cooked products, directed at food services.			●			LSM 4, 5, 6, 7, 8, 9, 10
NON VALUE-ADDED	Owned by Sovereign	Country Range – The Taste of Home.	Meal Makers	"Family-sized" packs directed at the consumer with an average-sized family for home meal preparation.	●		●			LSM 4, 5, 6, 7, 8
NON VALUE-ADDED	Owned by Sovereign	Country Range	Feast Favourites	5kg "bulk packs" directed at the consumer with at-home requirements, as well as the informal catering sector.	●		●			LSM 4, 5, 6, 7, 8
NON VALUE-ADDED	Owned by Sovereign	Country Range	Braai 'n Grill	"Tray packs" directed at the single consumer and smaller families looking for a lower pricing pick-up point.	●		●			LSM 3, 4, 5, 6, 7, 8, 9
NON VALUE-ADDED	Owned by Sovereign	Country Range	Extra Packs	Chicken downgrades (such as "Chunks", "Livers" and "Heads and Feet") and by products ("Soup Pack") directed primarily at the lower LSM groups as a source of affordable protein.	●		●			LSM 1, 2, 3, 4, 5, 6
NON VALUE-ADDED	Owned by Sovereign	Country Range	Fresh Chicken	"Fresh" chicken directed at the middle to upper consumers who are less price conscious.	●					LSM 5, 6, 7, 8, 9, 10
NON VALUE-ADDED	Owned by Sovereign	Cater Chicken	Chef's Choice MCP – For Food Professionals	Portion-controlled "cater packs" directed at the Food Services market.				●		LSM 6, 7, 8, 9, 10
NON VALUE-ADDED	Owned by Sovereign	Cater Chicken	(other)	Bulk "value" products for the Food Services industry.				●	●	LSM 6, 7, 8, 9, 10
PRIVATE LABELS										
NON VALUE-ADDED	Owned by customer	SPAR		Quality frozen products ranging from family packs to bulk packs, as well as downgraded packs.	●		●			LSM 3, 4, 5, 6, 7, 8
NON VALUE-ADDED	Owned by customer	Bidvest foodservice		Portion-controlled "cater packs" directed at Food Services markets.				●		LSM 6, 7, 8, 9, 10
NON VALUE-ADDED	Owned by customer			Quality frozen packs directed at the family-meal and informal catering sectors.	●		●			LSM 4, 5, 6, 7, 8

5-year review

	2016	2015	2014	2013	2012
Consolidated results (R'000)					
Revenue	**1 726 638**	1 648 631	1 391 224	1 267 968	1 258 694
Group operating profit (EBIT)	**119 889**	110 896	68 616	79 309	75 283
Attributable income	**81 158**	77 596	44 847	52 458	41 906
Total assets employed	**1 460 049**	1 206 695	1 073 572	1 031 980	1 008 950
Net current assets	**169 033**	189 493	139 417	160 014	106 894
Ordinary share performance					
Earnings per share (cents)	**108,3**	101,9	58,5	66,2	53,5
Headline earnings per share (cents)	**108,4**	103,3	60,2	74,5	67,5
Net worth per share (cents)	**1 018**	942	852	808	734
Market price at year-end (cents)	**700**	900	540	460	574
Net cash flow from operating activities per share (cents)	**251**	163	82	117	81
Liquidity					
Interest cover (times)	**30,8**	39,7	14,3	10,9	3,5
Net gearing (%)	**8,2**	1,2	9,9	6,0	17,7
Current ratio	**1,5**	1.7	1,7	1,9	1,6
Profitability					
Operating profit margin (%) (EBIT)	**6,9**	6,7	4,9	6,3	6,0
Earnings before interest, taxation, depreciation and impairment (%) (EBITDA)	**9,1**	8,8	7,2	9,2	9,4
Return on net assets (%)	**12,4**	12,6	8,3	10,0	9,0
Net asset turnover	**1,7**	1,8	1,6	1,5	1,6
Return on shareholder equity (%)	**10,7**	10,9	6,9	8,4	7,2
Value added					
To remunerate employees (%)	**57**	62	64	55	59
To providers of finance (%)	**2**	1	3	4	7
To the government (%)	**17**	14	13	13	10
To replace assets (%)	**8**	7	8	11	12
To expand the Group (%)	**16**	16	12	17	12
Total value added (%)	**100**	**100**	**100**	**100**	**100**

Definitions of ratios and terms

Net worth per share: Ordinary shareholders' funds divided by the number of ordinary shares in issue at year-end.

Net cash flow per share: Available operating cash flow before dividends divided by the weighted average number of shares in issue during the year.

Interest cover: Profit before interest and tax divided by net interest paid.

Net borrowings: Interest-bearing debt less cash reserves.

Net gearing: Net borrowings as a percentage of equity.

Current ratio: Current assets to current liabilities.

Net assets: Total assets less total liabilities excluding cash and cash equivalents, borrowings, normal and deferred tax.

Operating profit margin (EBIT): Profit before finance costs as a percentage of revenue.

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

Return on net assets: Operating profit before interest and income tax as a percentage of average net assets.

Net asset turnover: Revenue divided by average net assets.

Return on shareholders' equity: Earnings attributable to ordinary shareholders as a percentage of ordinary shareholders' funds.

Integrated Report overview

Sovereign has the pleasure of presenting the Integrated Report for Sovereign Food Investments Limited for the year ended 29 February 2016. As in previous years, this report follows the guidance contained in the King III Report, as well as the Integrated Reporting Framework discussion paper, as issued by the Integrated Reporting Committee. In accordance with the stated objectives of integrated reporting, this report focuses on those issues that have a material impact on our ability to create and sustain value, and outlines how these issues have been integrated within our business strategy.

WE HAVE IDENTIFIED AND REPORTED ON:	• Our material issues • Our stakeholders • Key performance indicators ("KPIs")
AS PART OF THE PROCESS, WE STILL NEED TO:	• Obtain external assurance on the report

Boundaries and scope

The boundaries of this Integrated Report ("report") are identified as entities over which the Group exercises control, ("organisational boundary") which is Sovereign Food Investments Limited and all its subsidiaries ("the Group"), which are set out on page 2. All of the operational activities of the Group take place in South Africa, while a portion of sales consists of exports. The geographical sales breakdown is set out on page 2.

The Group does not consider there to be any entities over which it exercises influence but not control and which would therefore need to be included in this report. The Group does not have any joint ventures and has no material leased facilities that fall within the boundaries of this report. There are no customers, suppliers or service providers that the Group considers necessary to include in this report.

There were no limitations imposed on the scope or boundaries of this report.

Measurement

Data is measured according to specific indicators throughout the report. Tables and graphs are used where appropriate. In many instances, data measurement is implicit as set out in the unit of measurement. Where the Group found the GRI G3 indicators not relevant, this has been set out in the GRI G3 Content Index and Standard Disclosures table, which can be found on our website www.sovereignfoods.co.za. Data is evaluated and collected according to policies, procedures, practices and principles that the Group has implemented to meet best practice.

Reporting period, date of prior report and reporting cycle

This report covers the period 1 March 2015 to 29 February 2016. This period is either referred to as *"the financial period ended 29 February 2016"*, *"the year under review"* or "the period under review". The previous annual report was for the period 1 March 2014 to 28 February 2015, which was dated 14 May 2015. The reporting cycle is on an annual basis.

External assurance and contact person

This Integrated Report has not been externally evaluated although the intention is to seek external assurance in the future. The contact person for this report is G Coley who can be contacted at gcoley@sovfoods.co.za.

Location of Standard Disclosures

The Standard Disclosures table can be found on our website www.sovereignfoods.co.za.

Board declaration

The board of directors ("board") acknowledges its responsibility to ensure the integrity of the Integrated Report. The board has accordingly applied its mind to the Integrated Report and in the opinion of the board the Integrated Report addresses all material issues and presents fairly the integrated performance of the organisation and its impacts. The Integrated Report has been prepared in line with best practice pursuant to the recommendations of the King III Code (Principle 9.1). The board authorised the Integrated Report for release on 31 May 2016.

Signed by the Independent Non-executive Chairman and an Independent Non-executive Director, who have been duly authorised thereto by the board.

Thomas Pritchard
Independent Non-executive Chairman

John Bester
Independent Non-executive Director

Port Elizabeth
31 May 2016

Material issues

What is our response to these issues?

Area	Issue	Stakeholder impacted
Financial/ Operational	Recovery of increases in feed, energy and labour costs through the selling price	• Shareholders • Employees • Customers • Suppliers • Consumers
	Saturation of the IQF sector of the poultry market	• Shareholders • Employees • Customers • Suppliers
	Disease breakout	• Shareholders • Customers
	Reduction of increase in non-feed costs to a level consistent with that of a commodity poultry business	• Shareholders • Employees • Customers • Suppliers
	Consumer perceptions around injection/brining could lead to legislative changes or a cap on the maximum brining levels allowed	• Shareholders • Employees • Customers • Consumers
	Failure in the supply of electricity or other essential services	• Shareholders • Employees • Customers • Suppliers • Community
People	Key staff/skills retention	• Shareholders • Employees
	An unsettled labour force	• Shareholders • Employees • Suppliers • Customers • Community

Impact	Mitigation/response/long-term goal
If increased feed, energy and labour costs (which are largely outside the Group's control) cannot be recovered through an increased selling price then gross margins will decline.	• Continue to achieve increases in selling prices that are above inflationary levels by changing product mix and improving customer interaction. • Interact with government to impose higher tariffs on imported poultry. • Improve feed conversion ratio through continuous development to minimise effect of feed cost increases. • Employ top-rated nutritionists so that feed can be formulated as effectively as possible. • Utilise the best feed raw material pricing advice available. • Implement a renewable energy strategy so as to mitigate increases in energy cost per unit produced.
The IQF mixed portion sector of the poultry market is becoming overtraded both through local producers and increasing imports.	• Minimise exposure to IQF mixed portion sector by reducing this to below 30% of sales volume and increasing value-added production. • Implement strategic partnerships with selected customers so as to increase brand loyalty and minimise pricing disruption.
If a disease broke out on the farms which could not be contained or stopped then this could lead to a material drop in production.	• Stringent biological risk controls on and around farms and associated facilities such as feedmill and hatcheries. • Vaccination programme to prevent diseases. • In-house veterinary staff.
The ongoing increases in inputs with administered prices (labour, electricity, fossil fuels) could increase our non-feed costs at a rate in excess of CPI and our increase in selling prices.	• Reduce increase in payroll expenditure to levels on par with or below competitors as measured against revenue. • Implement smooth, consistent and efficient supply chain and production process so as to minimise production "friction" and reduce cost. • Constantly review the level of expenditure on "discretionary" costs. • Allocate capital to make structural reductions to the cost base.
The industry has a duty to ensure that consumers are not sold products where the consumer is "ripped off" and therefore the red meat and poultry industry currently practise a system of industry self-regulation; if this is legislated due to consumer action then the business model of the meat and poultry industry and the Group would be impacted.	• Customers and consumers are informed through the industry body and other channels of the facts and advantages of injection such as taste, succulence and affordability. • Consumers are given the choice to purchase suitable priced products with varying levels of injection (fresh versus frozen). • Interact with government around the "brining" issue and, through this interaction, ensure that government makes a decision that is in the best interests of all roleplayers.
The long-term failure of electrical or water supplies to the abattoirs, feedmill or hatchery could lead to a material decrease in production.	• Back-up generators at all facilities except the abattoirs. • Ability to drive in water in tankers to certain facilities if needed. • Insurance cover.
If the Group loses key staff and skills then the long-term sustainability and success of the Group will be threatened.	• Grading system implemented for all permanent employees. • Workers (permanent and contract labour) treated with dignity and respect. • Employees understand clearly what is required of them so that "trust" relationship can be maintained. • Demonstrate secure employment with a secure company. • Performance Management System. • Career path available. • Competitive remuneration.
A disgruntled or disenfranchised workforce can cause lost production through strikes, other lost-time incidents, lower production levels and quality standards.	• Careful selection of contract labour service providers. • Implementation of a strategic long-term solution around the use of contract labour. • Establishment of workplace forums to resolve issues.

Material issues (continued)

What is our response to these issues? (continued)

Area	Issue	Stakeholder impacted
Health and Safety	Minimise and reduce the risk of injury to all stakeholders at all facilities	• Shareholders • Employees • Suppliers
	The Group produces food for human consumption and therefore must adopt a "zero tolerance" attitude to food safety issues	• Shareholders • Customers • Consumers • Employees • Suppliers • Government
	A major facilities disaster	• Shareholders • Customers • Employees • Suppliers • Government
Empowerment and Transformation	B-BBEE/scorecard/agricultural charter	• Shareholders • Government
	Skilled black employees' development and retention	• Shareholders • Employees • Government
Environment and Governance	The Group meets the necessary environmental legislation standards and practices in the communities and industries within which it operates	• Shareholders • Government • Communities
	Animal treatment and welfare standards are set and achieved	• Government • Communities

Impact	Mitigation/response/long-term goal
Injuries or deaths will impact the Group through a distrustful workforce and community, resolution of any incidents with government, lost time and reputational damage.	• Maintain DIFR accident injury rate at below 0,9 incidents per 200 000 man-hours and maintain number of deaths at zero. • Achieve health and safety NOSA Five Star ratings at the abattoirs and agricultural operations. • Continuous training and monitoring. • Implementation of risk assessment and mitigation programmes and resources.
The Group has a moral and legal obligation to ensure that the people that consume its products are safe from any possible safety concerns; a food safety issue could pose a potential threat to consumer safety and lead to possible consumer and customer action, government sanction and reputational damage.	• The Group does not sell a material amount of animal feed or day-old chicks outside the Group and so the potential for a safety issue to arise here is minimal. • Stringent quality and laboratory checks and balances ensure control over food safety at the abattoirs. • Training on and adherence to the Consumer Protection Act and Packaging Act.
A major facilities disaster at the abattoirs, feedmill or hatchery could lead to death or severe injury and a material loss of production and loss of market share.	• Adequate fire prevention and protection systems at all major facilities. • Training for all loss control personnel to agreed levels. • Disaster recovery plans in place. • Insurance cover.
The Group has a moral and legal obligation to correct past inequitable practices; not meeting agreed transformation targets will impact the Group's ability to conduct business.	• Improve/maintain B-BBEE rating on an ongoing basis.
The Group has a duty to equip black employees with the necessary skills and experience so that they can assume managerial positions.	• Internal skills development and promotion programme to ensure that suitably qualified and experienced black employees are promoted. • Employment practices implemented to ensure that appropriately qualified black candidates are given preference. • Improvement in EE score is a KPI for senior management.
The Group has a moral and legal obligation to protect the environment; if the Group does not meet the applicable legislative standards and practices then this may impact the Group's ability to utilise all its productive capability and capacity at all of its sites.	• Sufficient resources and capital are made available to address environmental issues where deemed necessary. • Environmental management practices implemented at all sites. • Implement a renewable energy strategy to reduce our carbon footprint. • Improve data collection systems to close feedback loop and enhance decision-making.
The Group has a moral and legal obligation to ensure that all livestock are handled in a considerate and humane manner; poor handling can lead to higher bird mortalities, quality issues and lower production and selling prices.	• Bird Welfare Policy implemented. • Bird treatment and handling is carried out as per the Bird Welfare Policy. • Stocking density and other animal welfare-related production standards and practices adhered to.

Chairman's and CEO's report

Tom Pritchard **Chris Coombes**

"THE PAST YEAR HAS BEEN TUMULTUOUS FOR THE SOUTH AFRICAN POULTRY INDUSTRY AND A SIGNIFICANT AND EXCITING YEAR FOR THE GROUP WITH SOVEREIGN COMPLETING THE ACQUISITION OF THE HARTBEESPOORT ABATTOIR ("HARTBEESPOORT")."

Factors affecting the SA poultry industry

There are a number of factors affecting the SA poultry industry that should be reviewed in order to contextualise the Group's strategy and performance.

Economic growth

In April 2016 the International Monetary Fund published a report which cut South Africa's growth prospects to 0,6% for 2016 and 1,2% for 2017. The low growth scenario is driven primarily by the slowdown in the Chinese economy and the resultant decrease in commodity prices and will impact on all industries in South Africa with a knock-on effect onto the South African consumer.

Rand weakness

The Rand depreciated by 18% in 2015 and by a further 35% in the first quarter of calendar 2016 with further volatility expected for the remainder of 2016. This is caused, *inter alia*, by the low growth outlook as set out above, the narrowing of the interest rate differential between South Africa and other countries and the perceived higher risk of investing in South Africa due to policy and regulatory uncertainty.

Rand weakness impacts the Group's operations by raising the cost of inputs that are traded against import parity such as maize, soya beans, diesel and other fossil fuels, plastics, brine and coated materials. It will also impact the cost of capital equipment as most poultry production equipment is imported from the European Union.

However, a weaker Rand does have two aspects which are positive for the South African poultry industry:

- It opens up the possibility of South African poultry producers being able to establish a viable export market and this is an aspect that should be strongly explored by the industry.
- Imports will land at higher Rand prices which will help support local poultry prices.

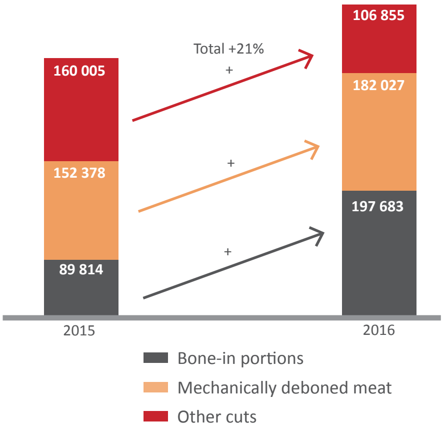
Consumer demand

Consumer demand continues to be weak as increases in the price of staple foods and grains, fuel, electricity and interest rates, coupled with high levels of unemployment, all increasing the burden on an embattled consumer. As almost all of the Group's customers live in South Africa, this might have an effect on the Group going forward by suppressing poultry selling price increases.

Imports volumes

South Africa imported 486 565 tons of poultry in the 2016 financial year (see opposite chart) which is a 21% increase over the prior financial year. It is worth noting that this import volume is 29% of the total South African poultry production of approximately 1,7 million tons for the same period.

Import volumes in tons by category



The 21% increase in poultry imports, and in particular the 24% increase in bone-in portions, into South Africa during the period under review continues to place local chicken producers under pressure as this is creating a situation where supply exceeds demand, which has a further negative effect on poultry prices.

The additional 65 000 tons per annum of imports from the USA, agreed to by the SA government in December 2015 and which started to land in South Africa from March 2016, will only exacerbate the oversupply issue and will cause a greater oversupply issue and its concomitant negative impact on poultry prices.

International poultry prices

International poultry prices (as measured by the price of exported Brazilian poultry in US$/kg) have decreased by 23% in the period under review. This is due to changes in international trade patterns as a result of:

- the outbreak of Avian Influenza in the USA, which caused many countries to discontinue the importation of US poultry meat; and
- the emergence of domestic poultry industries in the Middle East, Russia and the Baltic States, which has caused these regions to lower their reliance on imports.

This will have an effect on the Group's operations by lowering the free-on-board price at which poultry is exported to South Africa and thereby affecting local poultry selling prices.

Poultry exports

As discussed above, the weakening Rand presents the South African poultry industry with a unique opportunity to develop a sustainable export market, which will go some way to offset the pressure that the industry finds itself under. However, at the date of this report South Africa is still precluded from exporting raw frozen poultry meat to almost all countries in the world with the exception of the SADC countries and a single country in the Middle East.

Although most large abattoirs (larger than 500 000 birds per week processed) in South Africa are export-approved by the Department of Agriculture, Forestry and Fisheries ("DAFF") and conform to international food safety standards; this preclusion is due to the fact that the countries to which South Africa can and wishes to export are:

- not comfortable with the level of independent oversight exercised over meat safety in the local industry; and
- concerned with the standards of the country-wide veterinary services that are required from DAFF.

Although the industry is working with DAFF to resolve these issues, without a concerted effort by DAFF to address and resolve these issues, the South African poultry industry will find it difficult to develop a meaningful export for its raw products.

The drought in South Africa

South Africa is in the grip of what has been described as the worst drought in 25 years and this has had a drastic effect on the production and prices of maize for the 2015/2016 and 2016/2017 seasons. This has resulted in an increase in the spot price of white and yellow maize on the South African Futures Exchange for the 12 months ended February 2016 of 59% and 39% respectively over the previous corresponding period.

Not only has the price of maize increased markedly but the expected crop size of 7,1 million tons, which is 29% down on the previous year, means that South Africa is expected to import 2,4 million tons of yellow maize. The volatility of the Rand will impact on the landed price of yellow maize throughout the period over which imports are required.

Brining legislation

DAFF promulgated brining regulations on 22 April 2016. The main points in these regulations are:

- Maximum of 10% mass increase for carcasses.
- Maximum of 15% mass increase for portions.
- An implementation date of 22 October 2016.

On 23 May 2016 the South African Poultry Association ("SAPA") applied for a court interdict to stop the promulgation of these regulations on both technical and fundamental grounds.

If the brining regulations are implemented, this will affect all producers of brined and injected products and will lead to a decrease in the total volume of poultry produced in South Africa, which in turn could lead to a concomitant increase in the price of IQF portions on a per kg basis of over 20%.

National minimum wage

There has been much media speculation recently regarding the introduction of a national minimum wage which will be in excess of the current minimum wage in the agricultural sector. There have been numerous arguments, both for and against the introduction of a national minimum wage, which highlights the complexity of this issue.

The introduction of a national minimum wage which is far in excess of current wage levels will have the effect of increasing the Group's cost base. However, this could be partly mitigated by increases in consumption driven by higher disposable income available to consumers.

Strategic overview

The Group's strategy, as set out below, was reviewed during the year and the board is satisfied that it is optimal for the Group.

The Group's strategy has been set out in detail in previous Integrated Reports and this report will focus on "Phase 3 – Expansion and Strategic Resilience".

Phase 3 runs from the 2017 financial year to the 2019 financial year and the main aims of this phase are:

- Significant increase in poultry volumes to meet the demand of customers.
- Significant portion of the Group's revenue is to be derived from currencies other than the Rand.

To this end, the Group will:

- expand production at the Uitenhage and Hartbeespoort abattoirs in order to optimise the supply chain at these facilities with a focus on growing production at the Hartbeespoort abattoir;
- grow exports to selected destinations, either through current or new trading partners; and
- enter into prudent, well-priced acquisitions that fit into the strategic direction of the Group and that meet the Group's financial criteria.

As set out in this Integrated Report, although this phase is only scheduled to commence in the 2017 financial year, the Group is satisfied with the progress it has made to date towards these aims.

The vision of the Group has been set as **"To double the size of our business whilst exceeding stakeholders' expectations"**. During the last few years the Group reported superior margins and, combined with maximising the use of its assets, aims to produce superior returns.

Hartbeespoort abattoir

As part of the strategy outlined above, the Group purchased the abattoir at Hartbeespoort from Quantum Foods Proprietary Limited ("Quantum") during 2015 and took over operational control on 19 October 2015. The Hartbeespoort acquisition will increase the Group's bird volumes by 31% to approximately 1,2 million birds per week.

In terms of the acquisition, the Group acquired the assets of the operation, took over the existing employees and entered into a long-term live bird supply agreement with Quantum. The purchase price for the acquisition was R120 million which the Group financed through long-term debt.

The strategy of the Group in respect of this abattoir is that a material proportion of the abattoir's output will be fresh portions which are, to a large extent, not affected by the high volume of frozen imports. In order to give effect to this strategy, the Group is working closely with its customers and has already started supplying a major customer with fresh portions, initially into the Gauteng market and thereafter on a national basis. The acquisition has also allowed the Group to enter the "formal" Quick Service Restaurant ("QSR") market as it is now a supplier to one of the large national QSR chains.

The Hartbeespoort abattoir will also allow the Group to rationalise its production across the Uitenhage and Hartbeespoort abattoirs and this has already started with certain product lines being transferred to the Hartbeespoort abattoir. This in turn will allow for increased production of higher margin products and better utilisation of the value-added facility at Uitenhage.

In addition, the Hartbeespoort abattoir will allow the Group to decrease its average distribution cost as the Hartbeespoort abattoir is close to its primary market. The Hartbeespoort abattoir will also decrease the overall sales and marketing and Group services costs per unit as no significant additional costs will be incurred in these divisions in the production of the additional volumes from this abattoir.

It is therefore pleasing to report that the Group, without incurring significant additional capital expenditure ("capex"), has made significant progress in achieving its aim of improving production efficiencies and product mix with a view towards achieving the financial objectives that the Group set itself when considering the acquisition.

Hartbeespoort is currently processing 280 000 birds per week on five day shifts per week and, with the requisite investment, the site has the potential to process 800 000 birds per week. This would be made possible by increasing the current volume per shift and by introducing a second shift. However, given the current challenges faced by the poultry industry in South Africa, this decision would not be taken lightly and would be subject to rigorous strategic, operational and financial analysis and scrutiny.

Empowerment transaction

As set out in the SENS announcement published on 31 May 2016, the Group has proposed a series of inter-conditional transactions ("Empowerment Transaction") comprising, *inter alia*:

- the introduction of strategic empowerment partners;
- the repurchase of no more than 5% of the Group's issued share capital; and
- the introduction of a new executive remuneration policy.

Operations, sales and costs

As mentioned above, the industry and the Group experienced volatile pricing increases during the year driven by increases in both feed and non-feed costs. Despite this, the Group showed a 5% increase in headline earnings per share to 108,4 cents compared to 103,3 cents per share for the prior period.

The year-on-year changes in the major drivers of financial performance in the Group were as follows:

Key performance indicators

Key performance indicator	Unit	Change %
Total birds processed	Birds	+12
Sales volumes	Tons	+2
Net sales value ("NSV")	R/kg sold	+3
Agricultural costs	R/kg sold	+8
Abattoir and product costs	R/kg sold	+2
Distribution and sales and marketing costs	R/kg sold	+7

Operations and volumes

With the inclusion of the Hartbeespoort operations, from 19 October 2015, the total number of birds processed by the Group increased by 12%. Due to the lower yields at Hartbeespoort as a result of its predominantly fresh product mix and holding more inventory over year-end, the total sales volume increased by 2%.

At Uitenhage, bird numbers processed increased by 2%, live mass per bird decreased by 2% and abattoir yield declined by 4,1%. Of the 4,1% decline in abattoir yield, 1,4% was due to changing product mix and 2,7% was a "once-off" inefficiency as the installation of new equipment in the third quarter disrupted operations; at the date of this report, this inefficiency has largely been rectified.

At Hartbeespoort, the number of birds processed, the live mass of these birds and the abattoir yield were in line with management's expectations.

Sales

The table below sets out the change in the Group's net selling value ("NSV") compared to the prior comparable period:

Net sales value changes

Period	NSV
Full year	+3%
First half	+10%
Second half	-3%

As can be seen, the second half of the year was significantly impacted by a weaker consumer, an increase in the volume of imported product and a local oversupply situation. This should be seen against the context of national IQF mixed portions poultry prices which decreased 2% over the same period.

The Group continues to mitigate these challenges by successfully executing on its product mix strategy. The increased production of value-added, fresh and exported products accounted for 11% of sales volume in the second half of the year compared to 7% for the prior comparable period.

The Hartbeespoort abattoir has increased the Group's national sales footprint, and in the last quarter of the financial year 81% of the Group's total sales volume was from outside the Eastern Cape.

The value-added business in particular is growing strongly and the Group continues to invest, together with its major customers, in growing the footprint and brand recognition of these products. The Group is an exclusive supplier of fully cooked value-added products to one of its major customers and the recently completed re-branding by this customer of this value-added offering is expected to drive further growth. Key export markets, such as the Middle East, and the customers and distribution channels within these markets, have been accessed as a result of the Group's value-added facility and this will assist the Group in expanding exports of raw poultry products when this is possible.

Feed cost

The table below sets out the change in the landed cost of the Group's major feed ingredients at its Uitenhage operations compared to either the South African Futures Exchange ("SAFEX") or the Chicago Board of Trade ("CBOT") translated at the average Rand/USD rate.

Raw materials

Ingredient	Sovereign	Exchange	Exchange used
Yellow maize	+12%	+39%	SAFEX
Soya beans	-9%	0%	SAFEX
Soya oil cake	-22%	-6%	CBOT x R/USD

The Group has managed to mitigate the increases in its major raw material components to less than the equivalent benchmark through either importing or hedging the component. Due to this mitigation, the Group managed not to increase its broiler feed cost at Uitenhage in Rand/ton terms and the Group's feed conversion ratio at its Uitenhage operations also remained flat.

Cost breakdown

The inclusion of the Hartbeespoort operations, from 19 October 2015, has changed the way in which the Group breaks down its cost base as is set out over page.

Agriculture costs

Agriculture costs include all costs associated with producing a live bird up to the point of delivery to the abattoir and includes broiler and breeder feed and contract grower costs. For the year under review, agriculture cost across the Group increased by 1% per kg live mass but, due to the lower abattoir yields at Hartbeespoort and at Uitenhage and the increased stock holding over year-end, agriculture costs increased by 8% per kg sold.

Abattoir and product costs

Abattoir and product costs include all the costs of operating the abattoirs and also product costs such as packaging, brine and value-added ingredients. For the year under review, abattoir and product costs across the Group increased by 2% per kg sold and were mitigated by the inclusion of the additional volumes from Hartbeespoort.

Distribution, storage and sales and marketing costs

Distribution, storage and sales and marketing costs include all the costs of distributing goods to customers, utilising outside storage and running the sales and marketing operation. For the year under review, these costs across the Group increased by 7% per kg sold.

Balance sheet

Excluding the acquisition of Hartbeespoort for R120 million and the re-purchase of a contract grower farm to secure the supply chain at Uitenhage for R36 million, total net capital expenditure during the year was R53 million. Of this, R44 million was incurred on mechanisation and automation at the Uitenhage abattoir, a net R6 million was incurred on decreasing costs and increasing the production of high margin products at Uitenhage and R3 million was incurred at Hartbeespoort on product mix changes.

Despite the acquisition of Hartbeespoort and the capex as outlined above, the board remains satisfied with the strength of the balance sheet at year-end with R110 million cash on hand and gross and net gearing of 23% and 8% respectively.

Due to the ongoing investment in plant and equipment, at year end the Group had a "tax shield" of R264 million that can be utilised against future taxable income.

Corporate governance

The Group strives to continuously improve its reputation for fair dealing, accountability and openness in conducting its business affairs and has a diverse, skilled and knowledgeable board which is well suited to overview the affairs of the Group. The board has assessed its compliance with King III and will continue the process of assessing compliance on an ongoing basis.

Directorate

During the year under review there were a number of changes to the directorate.

On 9 October 2015, Mr. Litha Nyhonyha and Professor Phinda Madi resigned as directors. Having joined the board during 2007, their input and contribution over the past several years has been invaluable. The board thanks both of them for their contributions over the years and wishes them well in their future endeavours.

Following the resignation of Mr Nyhonyha and Professor Madi and in order to maintain the balance between non-executive directors and executive directors, including ensuring an outright majority of non-executive directors serving on the board, Messrs Gerald Walter and Blaine van Rensburg volunteered to step down from the board with effect from 9 October 2015. Messrs Walter and van Rensburg remain employees of the Group and members of the Group's Executive Committee.

Mr Charles Davies opted to retire as Chairman of the board with effect from 10 October 2015 and will continue to serve as an independent non-executive director until his retirement. Mr Davies has made an invaluable contribution to the Group during his tenure as Chairman and as a member of the board. The board would like to extend its sincere appreciation for his leadership and unwavering support to the Group over the past 10 years.

Mr Tom Pritchard has been appointed as Chairman of the board with effect from 10 October 2015. Mr Pritchard, a chartered accountant (SA), has served as a director of the Group since 1 November 2010 and has extensive experience in the poultry industry.

Sustainability

As set out in this Integrated Report, the Group subscribes to the long-term sustainable success of the business as well as that of its surroundings, including the environment, suppliers, employees and the local community.

Dividend

No dividend has been declared for the 2016 financial year.

Prospects

The Group continues to execute strongly on its product mix and expansion strategy and this will be supported by the positive impact that the acquisition of the Hartbeespoort abattoir will have on the Group's operations, customers and markets.

Acknowledgements

The year under review has been a significant one for the Group with the acquisition of the Hartbeespoort abattoir, and we extend a warm welcome to all the new employees who work at Hartbeespoort. We would like to thank our customers, shareholders and suppliers who continue to show their support for the Group and we would also like to thank our employees, management, executive committee and board colleagues for their continued support over this period and into the coming year.

Tom Pritchard
Independent Non-executive Chairman

Chris Coombes
Chief Executive Officer

31 May 2016


sovereignfoods
HESTONY
TRANSPORT

Financial overview

"THE GROUP HAS PRODUCED A STRONG SET OF RESULTS DESPITE THE ISSUES FACING THE INDUSTRY, WITH NET ASSET VALUE PER SHARE INCREASING BY 8% OVER THE PERIOD."

Grant Coley

Financial performance

	2016 Rm	2015 Rm	% change
Revenue	**1 727**	1 649	5
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**158**	145	9
Depreciation and amortisation	**38**	34	12
Earnings before interest and tax (EBIT)	**120**	111	8
Net finance costs	**4**	3	33
Profit before tax	**116**	108	7
Tax	**35**	31	13
Profit for the year	**81**	77	5
EBIT margin (%)	**6,9%**	6,7%	3
Earnings per share (cents)	**108,3**	101,9	6

Statement of financial position

	2016 Rm	2015 Rm
Non-current assets	**926**	754
Current assets (excluding cash)	**424**	382
Cash and cash equivalents	**110**	71
	1 460	1 207
Equity	**760**	712
Non-current liabilities (excluding borrowings)	**213**	178
Borrowings (long- and short-term)	**172**	79
Current liabilities (excluding borrowings)	**315**	238
	1 460	1 207

The Group's revenue for the year increased by 5% to R1,7 billion (2015: R1,6 billion). This was achieved as a result of an increase in sales volumes compared to the previous year as well as an increase in the net sales value per kg poultry sold ("NSV") from R16,70 in FY15 to R17,26 in FY16. The increase in volumes was as a result of the Group assuming control of the operations of the Hartbeespoort abattoir in October 2015, and the positive change in NSV was as a result of both price inflation and the change in the product mix.

The Group continues to sell to a diverse mix of customers, and approximately 53% of revenue by value is sold to "blue-chip" wholesalers and retailers, such as SPAR, Masscash, Bidvest and Shoprite, with the balance of revenue being derived from what would be called the "independent wholesaler" market.

Profit before interest and tax was up by 8% on the previous year at R120 million. Feed costs were flat at a Rand level and non-feed costs comprising all other costs, excluding finance charges increased by 7,8% per kg of poultry sold.

Contributors to the increase in non-feed costs were mainly increases in administered costs such as wages (9%), energy (electricity and coal both 8%) and utilities (12%), as well as increases in packaging and value-added materials due to changes in the product mix, while other costs were contained.

Net finance costs increased by R1 million as a result of the increase in debt levels during the 2016 financial year.

Profit for the year was up from R77 million in the previous year to R81 million, or 5%, while earnings per share were up 6% year-on-year.

Non-current assets are made up of property, plant and equipment. The Group incurred capital expenditure of R89 million during the year, which was primarily spent on automation and buying a

farm that the Group had been leasing in order to secure the supply chain. In addition to that, the Group acquired the Hartbeespoort abattoir for R120 million. Depreciation and impairments for the year were R38 million in total.

Net working capital, excluding cash, reduced by R35 million. Current assets, excluding cash, increased by R42 million as a result of increases to both inventories and accounts receivable. These increases were partially as a result of the addition of the assets at Hartbeespoort, and also as a result of higher stock and sales volumes when compared to the previous year. Current liabilities increased by R77 million off the back of higher volumes and input costs, and included an amount of R8 million in respect of a dispute with a local service provider.

Cash and cash equivalents increased by R39 million. Cash generated from operations increased by 51% to R192 million (2015: R127 million) demonstrating the Group's cash-generating ability. This cash was applied to investment in capital equipment (R89 million), funds returned to shareholders in the form of dividends (R26 million) as well as normal debt repayments (R27 million). R120 million was invested in the purchase of the Hartbeespoort abattoir.

Non-current liabilities, excluding borrowings, consists of the deferred tax liability. This increased by R35 million as a result of unutilised tax allowances on capital expenditure and the lower tax values of biological assets. The Group's "tax shield" against future taxable income is R264 million.

The net increase in borrowings was R93 million. This comprised an increase of R120 million due to the debt incurred to fund the purchase of the Hartbeespoort plant and a reduction due to normal debt repayments of R27 million.

Other financial information

Whilst operating margins (EBIT) increased slightly from 6,7% to 6,9%, the Group's return on net assets reduced from 12,6% to 12,4% as the full year effect of the Hartbeespoort facility has yet to come through. Return on equity also reduced slightly from 10,9% to 10,7%.

After taking into account the proposed 5% share repurchase, which is part of the proposed Empowerment Transaction, the board has not declared a dividend for the 2016 financial year.

Grant Coley
Chief Financial Officer

31 May 2016

Board of directors

1. Thomas (Tom) Pritchard (61)

Independent Non-executive Chairman

Qualifications: **CA(SA), BCom (Hons) (UP)**

Appointed to the Sovereign Foods board: **1 November 2010**

Tom was appointed as Independent Non-executive Chairman in October 2015. In 2009 Tom co-founded Lodestone Brands (Pty) Limited, a private equity company in consortium with Standard Chartered Bank. Earlier in his career he joined Tiger Brands in 1998 as Financial Director of its Branded Consumer Division. Upon the unbundling of Tiger Brands agri-poultry business, Tom was appointed as Financial Director of Astral Foods, a position he held until 2007. In 2008 Tom joined Famous Brands as their Financial Director.

2. Charles Peter Davies (69)

Independent Non-executive Director

Appointed to the Sovereign Foods board: **19 February 2007**

Charles is actively involved in dairy farming in the Eastern Cape and serves on various boards in a non-executive capacity.

In March 1989 Charles was appointed as Managing Director of Norwich Life and later as Chief Executive Officer of Norwich Holdings Limited at is incorporation in 1995, a position he held until his retirement in 1999.

3. John Andrew Bester (70)

Independent Non-executive Director

Qualifications: **CA(SA), BCom (Hons) (UCT)**

Appointed to the Sovereign Foods board: **1 November 2010**

John currently serves as a non-executive director on the boards of a number of companies, which include Clicks Holdings Limited, Homechoice Holdings Limited, Tower Properties Limited, Ascendis Health Limited, Personal Trust (Pty) Limited and Western Province Rugby (Pty) Limited. He is also a trustee of Children's Hospital Trust in Cape Town. He also chairs several audit committees.

John's experience within the accounting profession has spanned 17 years and 35 years within commerce and industry.

4. Christopher (Chris) Coombes (50)

Chief Executive Officer

Qualifications: **CA(SA), BCompt (Hons), BSc (Eng) (UCT)**

Appointed to the Sovereign Foods board: **1 March 1999**

Chris was appointed as CEO in May 2012. Chris's career with Sovereign began in May 1997 when he was appointed as Group Financial Manager, thereafter he progressed to the role of Chief Financial Officer in March 1999.

Chris started his working career in the civil engineering field, where he was employed as a designer and site engineer with several civil engineering companies from 1989 to 1993. He then moved into the accounting profession as an articled clerk with PKF from 1994 to 1997.

5. Grant Lawrence Coley (38)

Chief Financial Officer

Qualifications: **CA(SA), BCom (Hons)**

Appointed to the Sovereign Foods board: **1 July 2013**

Grant was appointed as Chief Financial Officer in July 2013 following a career with Sovereign starting in May 2008 when he was appointed to set up the internal audit division, after which he held a number of positions within the Group.

Prior to joining Sovereign, he was employed by PricewaterhouseCoopers as a manager in the assurance division, where he completed his articles.

Executive Committee and Company Secretary

Chris Coombes
Chief Executive Officer

Ettienne du Preez
Group Executive Agriculture

Thuto Maepa
Group Executive
Human Resources
Qualifications: BA Law, LLB

Gerald Walter
Group Executive
Marketing

Grant Coley
Chief Financial Officer

Blaine van Rensburg
Group Executive
Products

Max Hoppe
Company Secretary
Qualifications: BA (Hons)

Corporate governance

Sovereign Food Investments Limited is proud of its reputation on fair dealing, accountability and openness in conducting its business affairs. The Group conducts its business within an ethical framework to achieve these principles. At the same time, the Group strives to benefit the community in which it operates and to minimise any possible damaging effects its operations may have on the environment. The board of directors and management endorse the principles of good corporate governance as set out in the King III Report, especially the need to conduct the enterprise with integrity and accountability, and also subscribes to the Global Reporting Initiative. The Group has assessed compliance against the King III Report as detailed below:

King III implementation programme score

Governance element	Status	Explanation
1. Ethical leadership and corporate	Compliant	n/a
2. Boards and directors	Compliant	n/a
3. Audit committees	Compliant	n/a
4. Governance of risk	Compliant	n/a
5. The governance of information technology	Explain	The CFO is currently managing the IT process, as the CIO position is vacant. The IT function is closely monitored by the Audit and Risk Committee and the possible appointment of a CIO has been considered. However, it has been decided that the company does not functionally require a CIO at this stage and the matter will be reviewed annually.
6. Compliance with laws, rules, codes and standards	Compliant	n/a
7. Internal audit	Compliant	n/a
8. Governance stakeholders' relationship	Compliant	n/a
9. Integrated reporting and disclosure	Explain	The requirement of the King III Report, which states that an independent assurance over sustainability issues be done, was considered. This was not regarded as a priority due to the fact that the sustainability issues were reviewed by the directors, non-executive directors and internal audit.

The Group is materially compliant with the King III Report as demonstrated in the table above. Where the Group is not compliant, an explanation has been provided.

A detailed review of the Group's compliance with all the King III principles can be viewed on the Group's website at www.sovereignfoods.co.za.

The Group complies with the JSE Listings Requirements for which it completes an annual compliance checklist to verify its compliance. The annual compliance certificate is submitted to the JSE in terms of the Listings Requirements with the annual financial statements.

The Group also complies with the requirements of the Companies Act of 2008 and maintains a Companies Act compliance checklist.

The JSE Listings Requirements checklist is reviewed by the board annually, and the Companies Act compliance checklist is reviewed at all board meetings.

Governance structures

The information below sets out:
- the procedures of the board of directors for overseeing the Group's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles; and
- the processes in place for evaluating the board's own performance, particularly with respect to economic, environmental and social performance.

Board of directors

The board of directors is the highest governing authority within the Group and is ultimately responsible for governance. The Group operates a unitary board which comprises two executive directors and three independent non-executive directors, who meet regularly and maintain full and effective control over the Group's affairs.

The board and its committees and sub-committees operate under approved charters which are reviewed annually. The key principles of the board charter are detailed below:
- Assume accountability and responsibility for the performance and affairs of the Group.
- Retain full and effective control by ensuring strategies are in place to achieve the goals and objectives of the Group.
- Protect the Group's financial position and sustainability of the business.
- Ensure that non-financial aspects relevant to the business are identified and monitored.

- Ensure there is a communication policy that is used to communicate with its shareholders and all relevant stakeholders openly and promptly, with substance prevailing over form.
- Ensure that the business is managed on strong leadership and ethical standards.

There is no overlap between the roles and functions of the Independent Non-executive Chairman and the Chief Executive Officer. The Independent Non-executive Chairman, Tom Pritchard, leads the board, while the leadership of the Executive Committee of the Group is the responsibility of the Chief Executive Officer, Chris Coombes. This ensures a balance of authority and power so that no individual has unrestricted decision-making powers. At the same time, the board and Executive Committee members work closely together in determining the strategic objectives of the Group.

The independent non-executive directors bring an analytical and outside view of performance, strategy and resource planning. They take responsibility for ensuring that the Chairman encourages proper deliberation on all matters requiring board attention.

Executive directors have overall responsibility for implementing the Group's strategy. Directors have full access to all information within the Group and services of the Company Secretary and, in appropriate circumstances, may, at the Group's expense, seek independent professional advice concerning the Group's affairs. The board is satisfied that in accordance with King III, it has a working understanding of the effect of applicable standards, codes, rules and legislation on the Group and its activities.

The board is also satisfied that its members are suitably qualified and experienced to give the Group guidance, not only on economic but also on environmental and social issues.

All stakeholders have access to the directors electronically and can provide recommendations and direction as they see fit. The Group provides a toll-free number for consumers to call and these calls are reviewed by the Group Executive Marketing. The Group also provides a "whistle blowers" hotline and any calls to this line are reported at the Audit and Risk Committee and Social and Ethics Committee meetings.

In terms of the Group's Memorandum of Incorporation, one-third of all directors retire by rotation and can offer themselves for re-election. There is no formal succession plan in place for the position of Chairman of the board, as it is deemed unnecessary.

The board reviews the external chairmanships of the directors annually, as proposed in the King III Report and it is of the view that the external chairmanships do not conflict with the performance of any director on the Sovereign Foods board.

Independence and conflict of interest

Directors are required to disclose all interests in material contracts and any possible conflict of interest as soon as they are aware of them, and directors disclose to the board and review each other's interests, shareholdings and directorships in other companies and bodies at every board meeting.

Directors will recuse themselves from board meetings where conflicts may exist.

Evaluation of the effectiveness of the board

Directors undergo a formal evaluation every second year.

An external directors' evaluation was conducted in March 2014. The outcome of the evaluation was satisfactory and no issues requiring rectification were reported.

Board sub-committees

The board has established three principal committees to assist in discharging its responsibilities, namely the Audit and Risk Committee, the Human Resources and Remuneration Committee, and the Social and Ethics Committee. Specific responsibilities have been delegated to these committees. The meeting frequency in the 2017 financial year is as follows:

- Five board meetings.
- Three Audit and Risk Committee meetings.
- Two Human Resources and Remuneration Committee meetings.
- Two Social and Ethics Committee meetings.

Two of the five board meetings have been set aside to focus on the budget and strategy respectively and one of the Audit and Risk Committee meetings is to review the Group's risks.

Attendance at scheduled board and committee meetings in the year under review was as follows:

	AGM	Board	Audit and Risk Committee	Human Resources and Remuneration Committee	Social and Ethics Committee
CP Davies	1/1	5/5	3/3**	1/1	1/1
JA Bester	1/1	5/5	3/3	1/1	1/1
T Pritchard	1/1	5/5	3/3	n/a	n/a
C Coombes	1/1	4/5†	3/3**	1/1**	1/1**
GL Coley	1/1	5/5	3/3**	1/1**	1/1**
LM Nyhonyha^^	1/1	2/3†	1/1	n/a	n/a
Prof MP Madi^^	1/1	3/3	1/1**	1/1	1/1
BJ van Rensburg^^	1/1	3/3	n/a	n/a	n/a
GG Walter^^	1/1	3/3	n/a	n/a	n/a

† *Apology* ** *Observer* *n/a Not applicable* *^^ Resigned In October 2015*

Governance

Audit and Risk Committee

The Audit and Risk Committee, whose purpose is to bring influence to bear on accounting, auditing, internal controls, business risk, compliance and financial reporting matters, meets three times per annum. The Audit and Risk Committee comprises independent non-executive directors JA Bester (Chairman), T Pritchard and CP Davies. The Group's external auditors have unrestricted access to the members and workings of the Audit and Risk Committee.

The Committee monitors proposed changes in accounting policies, reviews the internal audit functions, advises the board on the accounting implications of major transactions and recommends the appointment of the Group external auditors for approval by shareholders.

The Audit and Risk Committee meets at least once per annum with the external and internal auditors without the executive directors being present and also meets with the executive directors without the external auditors being present.

During the year under review, the Audit and Risk Committee reviewed, confirmed and approved the following as required by the Companies Act of South Africa and also by the King III Report:

- The Integrated Report for the year ended 29 February 2016.
- The qualifications, experience and performance of the Group's Chief Financial Officer and confirmed that the appointee had sufficient knowledge of IFRS and JSE reporting requirements.
- The independence of the external audit function.

Deloitte is the incumbent auditor for the Group. The Audit and Risk Committee continually monitors the independence and objectivity of the external auditors. The policy of the Group is that non-audit services provided by the incumbent auditors may not exceed 33% of the audit fee in any financial period. During the year, Deloitte provided certain non-audit services. Total non-audit fees incurred or accrued for during the 2016 financial year for Deloitte were R75 000 (8% of the statutory audit fee). These were related to non-audit services, which the Audit and Risk Committee concluded that there were no areas of conflict and that these fees were in line with the approved policy. Over and above the statutory audit, Deloitte was paid R530 000 for other audit work performed during the year under review.

The Audit and Risk Committee operates under a charter which is reviewed annually.

As the Audit and Risk Committee has become a statutory body in terms of the Companies Act of South Africa, 2008, shareholders are required to appoint the members of the Audit and Risk Committee at the annual general meeting to be held on 4 August 2016.

Refer to the Audit and Risk Committee's report on pages 51 to 52 for more information regarding the activities of the Audit and Risk Committee.

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee meets at least twice a year to ensure that remuneration policies within the Group are equitable. The Committee comprises independent non-executive directors JA Bester (Chairman), CP Davies and T Pritchard. A special interest is applied to training and opportunities for empowerment.

The Human Resources and Remuneration Committee operates under a charter which is reviewed annually.

The Human Resources and Remuneration Committee performs the functions of the Nominations Committee, which are provided for by the King III Report and the JSE Listings Requirements and are set out in the Sovereign Food Investments Limited Independent Non-executive Directors' Policy. The Chairman of the board leads the Nominations Committee.

A more detailed review of the governance and other issues pertaining to the sphere of Human Resources and Remuneration is contained in the Human resources and remuneration report on pages 43 to 49.

Risk management

Material risks are reviewed at each Audit and Risk Committee meeting, and progress against agreed targets is reviewed and evaluated. The Audit and Risk Committee meeting held in August is dedicated to a full review of all matters pertaining to risk and risk management and mitigation. Although responsibility for sound risk management practices is delegated to divisional management, risks are evaluated, monitored and reported on at an enterprise level.

In addition, the executive management reviews risks every quarter and conducts bi-annual company-wide risk assessment.

The Group makes use of external consultants, where deemed necessary, to review the Group's risk management philosophy and implementation of risk management practices.

The table below sets out the top risks to the Group and the measures in place to mitigate these risks:

Risk category	Item	Risk	Mitigation in place to manage this risk
Facilities	Feedmill silo explosion or collapse	A feedmill silo could collapse or explode	Managed through application of the standard operating procedures to manage dust levels within the silos and to manage activities around the silos when there is a situation that could lend itself to a possible explosion. Regular emergency drills and evacuations are also held.
	Ammonia leak	An ammonia leak at an abattoir leading to serious injury and/or neighbourhood evacuation	Managed through application of the standard operating procedures to manage the facility, including regular and preventive maintenance, regular MHI drills, an annual MHI inspection and an annual NOSA audit.
	Hatchery or value-added plant fire	A fire at the hatchery or value-added plant damages the facility	Managed through application of the standard operating procedures to manage the potential for a fire; regular emergency and evacuation drills are conducted; there is adequate fire fighting and emergency equipment at these facilities.
	Sabotage	Sabotage of key equipment at an abattoir	The key target for any sabotage would be the plant room at Uitenhage and compressors/refrigeration system. Access to the plant room is limited by means of a biometric system at Uitenhage to only authorised personnel and is further monitored by means of cameras.
Disease	Avian diseases	Diseased layer birds generating diseased eggs, diseased eggs/chicks supplied or the introduction of diseases by vehicles and people	Managed through a carefully controlled medication and vaccination programme and also through the imposition of strict bio-security protocols throughout the business.
Products and markets	Currency strength/ import volumes	A strong Rand makes the importation of poultry more attractive	SAPA has applied for tariffs and safeguards to mitigate and reduce the level of imports into SA. The Group is moving into "defensive" products that will be hard to import, such as fresh, weight-graded portions and fully cooked products.
	Injection limits	The implementation of legislation enforcing maximum injection limits in poultry that are unprofitable	The Group's product mix strategy will move the Group away from mixed portions which is the most vulnerable product to brining legislation. However, the Group will always have a certain percentage of injected products in our product mix, so we will never be able to mitigate this risk completely. Through SAPA, the Group is engaging with government on the brining issue.
	Loss of market spaces	Competitors launch competitive product lines in the most profitable trading spaces	Mitigated through a proactive programme of engaging with our key customers and gathering market intelligence, as well as developing new products and packaging solutions on an ongoing basis.
	Product food safety	Contaminated product causes death of consumer; food-borne illness outbreak	Mitigated through a comprehensive set of SOPs and quality systems. The Group also undergoes annual and bi-annual food safety and HACCP audits from a number of regulatory and industry bodies.
	Loss of key customer	Loss of sales and/or markets	The Group's strategy of partnering with selected customers either on a product or geographic basis is intended to counter this risk.

Risk category	Item	Risk	Mitigation in place to manage this risk
Human resources	Key management protection	Loss of key management staff due to competitor poaching	The Group has a long-term incentive plan in place for senior management and succession plans are in place for the majority of our top 70 managers.
	Scarce skills, i.e. artisans	The loss of technical skills at artisan and semi-skilled labour levels	The Group has instituted a remuneration system to attract and retain technical/artisan skills.
	Minimum wage increases	Minimum wage costs increase to levels that render the business unprofitable	The Group has automated various processes to reduce its dependency on unskilled labour.
	Labour instability	General country-wide labour instability affects local operations and business is interrupted	Implementing market-related wage increases, improving communications through workplace forum and formal recognition agreements will mitigate this risk in the short term.
Supply interruption	Electrical supply failure/load shedding	The risks of electrical interruption in supply or transformer failure for longer than 24 hours at the abattoirs	The Uitenhage municipality is constructing a new sub-station near to the Uitenhage abattoir, which should improve the quality of the electrical supply at the Uitenhage abattoir and reduce the Group's risk. All other facilities, apart from Hartbeespoort, have standby generators and the Group has insurance cover for electrical outages longer than 72 hours.
Finance and legislation	Low-cost culture	Lack of a low-cost culture	Cost issues are monitored and discussed at Executive Committee and Divisional Executive Committee level. Senior managers' incentives are tied into Group profitability.
	Funding	Funding for acquisition or expansion is not available	The Group keeps an ongoing relationship and dialogue with providers of finance and capital at both a debt and equity level. The Group reviews business progress and financials with them on an ongoing basis to provide them with insight and understanding of the business and the industry.
	Land restitution legislation	Land claims against our farms and loss of productive assets	Management is not aware of any possible land claims and will address the issue of claims should any arise.
	50% land expropriation	Loss of productive assets	The Group is working with the industry on the proposed legislation.
	Maximum land holding	Loss of productive assets	The Group currently holds less than 12 000 ha of land.
Environmental	Environmental compliance	Environmental compliance is not achieved and facilities must be closed	Managed through the application of the standard operating procedures around health, safety and environmental issues. The Group assesses ongoing compliance with environmental laws and regulations.

Internal audit

The Group has a full-time internal audit function.

The annual internal audit plan is reviewed and approved by the Audit and Risk Committee and progress against this plan is monitored at all committee meetings. The results and findings of the internal audits conducted, as well as steps taken to correct any internal control weaknesses are reviewed at the Audit and Risk Committee meetings. The internal audit function operates under a charter which is reviewed annually. The independence of the internal audit function has been reviewed at the Audit and Risk Committee, and it is satisfied that its independence has not been restricted in any way.

The Group Internal Auditor is accountable to the Audit and Risk Committee and reports functionally to the Chairman of the Committee and administratively to the Chief Financial Officer.

Internal controls

The directors believe the internal controls in use by the Group are adequate to safeguard the assets from loss or unauthorised use and that the financial records may be relied upon to maintain accountability for Group assets and liabilities. Internal controls are enhanced by accounting policies and organisational structures providing adequate segregation of duties. The Group has been careful in the selection and training of administrative personnel. The cost of enhancements to internal controls is compared to the benefits to be derived from their implementation. Nothing has come to the attention of the directors to indicate any material breakdown in the functioning of the Group's internal controls, procedures and systems during the year under review.

Management reporting

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

A one-day budget review at board level is held in February each year at which the board approves the budget for the following financial year.

Strategic planning
The strategic focus of the Group is reviewed on a regular basis at board, exco and divisional levels and the long-term strategy is reduced to near-term operational plans and responsibilities.

A one-day strategic review at board level is conducted in March each year.

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

Environment
Environmental awareness is an integral part of the Group's operations. The Group is committed to ensuring that its operations, packaging and products are as environmentally friendly as possible and also considers the environmental impact of new and existing projects.

Company Secretary
The Company Secretary works to ensure that board procedures and relevant legislation and regulations are observed, and is responsible for preparing the meeting agendas and recording minutes.

The board has formally assessed the competence, qualifications and experience of the Company Secretary and is of the opinion that he has the requisite competence, knowledge and experience to carry out the duties of Company Secretary for Sovereign Foods.

The Company Secretary's relationship with the board has been assessed and it has been determined that he is suitably independent of the directors to maintain an arm's length relationship with the board, as recommended by the King III Code and the JSE Listings Requirements.

The services and advice of the Company Secretary is available to all directors and they are also allowed to seek independent and professional advice about the affairs of the Group, at the Group's expense.

Society

All new farms and sites were evaluated for their impact on the environment (see Environment section on page 33) and also their impact on the surrounding communities in terms of employment opportunities, crime, traffic, noise, odour, dust and other potential "nuisance" factors.

The Group does not participate in any public policy development and lobbying unless through the auspices of the South African Poultry Association and the Animal Feed Manufacturing Association who have entered into discussions with government and consumer groups on a number of issues pertaining to the poultry industry, such as brine injection and import tariffs.

The Group does not contribute financially to any political party, politicians or related institutions.

The Group has no knowledge of any legal actions against the Group for anti-competitive behaviour, anti-trust or monopoly practices.

No non-compliance notices were issued by the Department of Labour and no legal action has been taken against the Group or its contract labour broker service providers during the period under review in respect of non-compliance of labour legislation.

Social and Ethics Committee

The Social and Ethics Committee was established in terms of section 72 of the Companies Act and the Committee is comprised of three independent non-executive directors, JA Bester (Chairman), CP Davies and T Pritchard. The Chief Executive Officer, Chief Financial Officer and the Group Executive Human Resources attend the meetings as *ex officio* members of the Committee.

The Committee meets at least twice a year to fulfil the functions set out in regulation 43(5) of the Companies Regulations and to review the issues under the following broad headings:

- Social and Economic Development as set out in the United Nations Global Compact.
- Good Corporate Citizenship.
- Environment, Health and Public Safety.
- Consumer Relationships.
- Labour and Employment.
- Anti-corruption.
- Broad-Based Black Economic Empowerment.

The Social and Ethics Committee operates under a charter which is reviewed annually. The Committee's primary role is to monitor the key issues falling within its terms of reference and to ensure that these are being addressed within the company where applicable and to report its findings to the board.

In order to determine the company's level of compliance with these issues, a compliance model and scorecard was developed and a desktop survey was done of the issues set out in the Companies Regulations and the UN Global Compact 10 Principles. The Group's internal assessment of its current level of compliance with the Global Compact and Regulations is 97,9%.

This document serves to maintain an ongoing monitoring "checklist" for the Committee to measure compliance and to provide a definitive assessment of where the company stands, with hyperlinks to all relevant supporting documentation. The ratings are continually verified.

The company endorses the principles outlined in the UN Global Compact and its intention to respect its provisions, including those on fundamental workers' rights.

Ethics

At Sovereign Foods, we believe that ethical business is good business. We strive to conduct our business in an ethical, honest manner and in full compliance with all applicable laws and regulations. We believe integrity is a fundamental element in our relationships with our many stakeholders. Our commitment to operating with respect, trust, accountability and honour is modelled daily by our employees and underwritten by the *Value #6: "We speak with candour and respect and value every team member regardless of position, age, gender or race"*.

Our values are fundamental to our company. They shape and direct our strategy, inspire us daily and are integral to the way we do business. Our values guide our relationships with all stakeholders. Based on the foundation of our values, the Group has a Code of Ethics that applies to the board of directors and all employees. The Code of Ethics provides direction on how we conduct ourselves with respect to key business requirements such as food safety, animal welfare, regulatory compliance, environmental management, health and safety, and conflicts of interest.

All employees in the Group up to and including executive director level are required to sign a declaration annually certifying that they have not engaged in any anti-competitive behaviour in the marketplace and to declare their business and other interests, which may impact Sovereign Foods. This process will be rolled out to the employees at the recently purchased Hartbeespoort abattoir during the 2016 calendar year. In addition, all employees are given a copy of our Code of Conduct and Ethics Policy upon joining the Group and sign that they will abide by these documents. Apart from these initiatives, no operations have been analysed for risks relating to corruption.

Any allegations of corruption and/or fraud are investigated by the Internal Audit Department utilising any external resources as the board may deem fit. These investigations are monitored directly by the Chairman of the board and in these instances the Internal Audit Department would report back directly to the Chairman of the Audit and Risk Committee.

The Group has complied with the requirements of the Promotion of Access to Information Act, Act No 2 of 2000, and the Group's Manual of Information is lodged with the Human Sciences Research Council as prescribed and a copy is also available on the Sovereign Foods website (http://www.sovereignfoods.co.za/investors). No requests for access to the Manual of Information were received during the year under review.

The Group applies the highest standards possible with regard to disclosing price-sensitive information and in ensuring that share trading by directors and members of staff are strictly controlled:

- The Disclosure and Communication of Price-sensitive Information Policy was adopted to ensure that all employees are aware of the company policies and the legal and regulatory requirements with regard to the disclosure of any price sensitive information concerning the company they may hear, acquire or be party to.
- The Share Trading Policy ensures that all directors and senior level employees in the Task grade T13 category and above comply with the JSE Listings Requirements relating to the trading of the Group shares and to ensure that the risks against insider trading as provided for in the Financial Markets Act are mitigated.

The Supplier Code of Practice was adopted by the company to ensure that our procurement is conducted under strict ethical and business practices, both locally and internationally. This code is circulated to all suppliers annually with the request that they acknowledge that they support and abide by the principles contained therein.

Sustainability report

Introduction

Responsibility
In line with the recommendations of the King III Report the Sovereign board, together with its committees, accepts responsibility for directing the strategy and operations of the company to build a sustainable business; and in so doing to consider the short-term and long-term impacts of the strategy on the economy, society and the environment.

The day-to-day responsibility for building a sustainable business is delegated to executive management.

Overview
As the Group has grown, so have its responsibilities. We understand our actions and decisions have an impact on the community and on the environment. We recognise that the community we serve faces daunting economic, environmental and social issues such as increased unemployment rates, resource scarcity and increasing hunger and poverty. Understanding and addressing our impact on these issues is consistent with the core values of our company.

We believe our triple bottom-line success, including social progress, environmental excellence and economic growth, will continue as we strive to do the right thing with respect to people, the planet and profit.

Sustainability touches every aspect of our company and our operations. Accordingly, we define sustainability in a way that brings responsibility and accountability into every business activity and process. Our core values focus on sustainability and guide our actions on important issues such as risk management, food safety, environmental and resource conservation, animal welfare, ethical business practices, health and safety of our team members and returning a profit to our shareholders.

We are committed to conducting business in a manner that builds financial success, respects the environment and supports those in need.

Our approach to sustainability
We are fully committed to maintaining our sustainability direction and to ensuring that economic, environmental and social issues remain a key consideration of our business decisions. This report is intended to cover the issues we believe are most material to the Group.

We define these issues as those with the potential to positively and negatively influence, both now and in the future:
- progress and growth of our society;
- protection of the environment and conservation of natural resources; and
- the company's finances or operations.

We also consider those values that are of concern to stakeholders or that can substantially influence the assessments and decisions they have towards the Group:

Value #1: "We focus on cutting wastage and on finding a more efficient way of going about our work"

As responsible stewards for the resources, animals and land entrusted to us we are conscious of the need to reduce our impact on the environment. We are therefore committed to aggressively and responsibly minimise our environmental footprint by:
- conserving natural resources through more efficient use, careful planning and continual improvement; and
- reducing the impact of the waste we generate through effective disposal and recycling programmes.

Value #2: "We measure our success by the satisfaction of our customers, internal and external"

One of the driving forces to the success of this company is the knowledge that our future depends on providing the safe, consistent, quality products our customers and consumers expect and deserve. To sustain confidence in the Sovereign Foods brand, we are committed to maintaining and continually improving the systems and practices that allow us to provide safe, nutritious food products and uphold an outstanding food safety record.

We believe in being supportive of local stakeholders and interact with them on a regular basis. This includes our customers, consumers and neighbours. We understand we have a responsibility to provide support to the communities surrounding our operations as well as those in need.

Value #3 – Self-belief: "We are passionate about what we do and believe we can be the best"

While the poultry market has experienced difficult conditions and demanding challenges, we have, in the completed first phase of strategic planning, focused on returning our company to a sustained rate of return for shareholders. The current strategic focus is on increasing volumes by expanding the business, which has been seen through the acquisition of the Hartbeespoort abattoir.

We remain focused on conducting our business activities in an ethical manner while creating innovative food solutions, optimising commodity business models, building an integrated enterprise and converting raw materials and by-products into high-margin initiatives.

Our focus is always on ensuring the long-term profitability of our company.

Value #4: "We always do the basics well"

Producing a high-quality food product means that at all times we need to do the basics well. This begins with:
- ensuring the health and wellbeing of the animals we grow, purchase and process. We have a long-standing commitment to the wellbeing and proper handling of the animals used in our food products. This is not only the right obligation, but it is also an important moral and ethical obligation;
- providing a safe work environment for all our employees. We regard health and safety as a core indicator of our business success and are committed to maintaining a safe and healthy environment that allows our employees to work free from occupational injury and illness; and
- maintaining our assets to the highest standards as it is an ongoing imperative to minimise downtime.

Doing the basics well requires us to always have a standard of excellence when it comes to managing all aspects of our business.

Value #5: "We pride ourselves on team success and focus on results"

Our employees are our most valued resource. We are committed to attracting, developing and retaining a diverse group of talented individuals and to providing a workplace that allows each one to contribute to the overall success of our team. Individually we all contribute, but only collectively can we exceed expectations. Accordingly, we promote a culture of teamwork which has its foundation of this value.

Our initiatives relating to employment equity, engagement, personal and professional development and motivation are key elements to fulfilling this commitment, especially in today's challenging economic climate.

Our aim is to build and retain an exceptional team.

Value #6: "We speak with candour and respect and value every team member regardless of position, age, gender or race"

At Sovereign we have developed a culture that respects human rights and values and promotes diversity inside the business and seeks to redress past inequalities.

This is seen through the introduction of a wide range of human resources policies that ensures these values are filtered throughout the Group and by measuring our effectiveness in meeting these goals through internal and external climate surveys.

The success of the implementation of this value is seen in widening acceptance of the Sovereign employment brand.

Stakeholder engagement

Stakeholder engagement is an important part of Sovereign's sustainability activities and our overall business success. We recognise that internal and external stakeholder engagement can help better define our business strategy; sharpen our decision-making; and enhance our company's economic, environmental and social performance. Accordingly, we seek to understand the perspectives and needs of our stakeholders, set expectations for areas of mutual concern, act upon these expectations and ensure our stakeholders remain informed of our progress.

Every facet of our company and its operations has potential to affect, or be affected, by stakeholders. To better align our business practices with stakeholder expectations, we maintain an open dialogue and foster collaborative relationships with those individuals and groups who have an interest in, or are affected by, our company and its operations.

Stakeholder engagement activities occur in virtually every aspect of Sovereign's operations and business transactions. These occur in a primarily decentralised manner as part of normal business.

Sovereign also engages with its stakeholders in formal settings through community forum involvement and outreaches. At a corporate level, the Group engages with representatives from government, academia and industry on emerging issues.

We have identified the following individuals and groups as our key stakeholders and have provided examples of how we engage with them in the table on page 31.

KEY STAKEHOLDERS

	Stakeholder concerns	Mitigation measures	Communication channels
Shareholders and potential investors	• Competitive returns • Management accountability • Regulatory compliance • Sound governance • Proactive risk management • Accurate financial reporting	• Return to profitability • Enhanced governance and oversight at the most senior level within the Group	• Integrated reports • Annual shareholder meeting • Investor roadshows • Bi-annual results releases • Bi-annual results booklet • Trading updates • SENS announcements • Website updates • Site visits
Customers and consumers	• Safe quality food products • Nutritious options • Competitive and affordable prices • Innovative products • Product information • Ingredient statements	• Rigorous quality checks and balances • Continuous product development • Adherence to legislation concerning ingredient statements and packaging	• Food safety programmes and procedures • Regular meetings and key accounts contact • Email • Telephonic contact • Customer events • Customer care hotline • Consumer surveys • Consumer sensory panels • Sovereign website
Local communities	• Economic development • Environmental protection • Employment opportunities	• Financial prosperity • Compliance with relevant legislation	• Regular interactions with local municipal representatives • Community area forums • Corporate Social Responsibility ("CSR") initiatives
Government and regulators	• Regulatory compliance • Transparent reporting • Job creation • Brining • Poultry tariffs	• Compliance with relevant legislation • Reporting excellence • In-house legal counsel • Launching BEE initiatives	• Face-to-face meetings • Open days and workshops • Consistent, timeous and relevant reporting
Industry	• Animal disease control • National demand and supply balance • Training and development	• Interaction with government on animal health issues through SAPA • Training initiatives with academic agricultural institutions	• Southern African Poultry Association ("SAPA") • Department of Agriculture sanctioned protocols • Consumer Goods Council of South Africa ("CGCSA") • Animal Feed Manufacturers Association ("AFMA")
Staff	• Fair treatment • Engagement and inclusion • Safe workplace • Competitive remuneration • Professional development • Regular communication • Trade unions	• The development, implementation and monitoring of human resources policies and procedures • Regular audits, both internally and externally • Training	• Code of Ethics • Environmental protection • Engagement activities • People development plans • Safety policy, procedures and programmes • Incentive programmes • Internal communications programmes • Tip-offs Anonymous line • Exco roadshows
Suppliers	• Timely payment • Ethical business practices • Growth opportunities	• Supplier audits • Sound commercial contracts	• Face-to-face meetings • Code of Conduct • Supplier events • Strategic sourcing tenders

Affiliations and memberships
The Group is involved in a number of bodies and associations or has employees that belong to these bodies and associations:

- Specific industry associations:
  - The South African Poultry Association which has a Code of Good Practice, endorsed by government, to which members are bound to comply.
  - Agri-Laboratory Association of Southern Africa.
  - Consumer Goods Council of South Africa.
  - Animal Feed Manufacturers Association.
  - South African Renderers Association.
- General business and professional associations:
  - South African Institute of Chartered Accountants.
  - South African Institute for Business Accountants.
  - South African Institute of Professional Engineers.
  - Institute of Internal Auditors.
  - Institute of People Management.
  - SA Nursing Council.
  - South African Society of Occupational Health Nursing Practitioners.
- Local business associations:
  - Nelson Mandela Bay Business Chamber.
  - Exporters Club.

Awards and recognition
The Group has received a number of awards and recognition over the past several years at its Uitenhage operations:

- Food Safety System Certification 22000 (FSSC 22000) (Uitenhage abattoir).
- NOSA Integrated Five Star Rating (Uitenhage abattoir) audited 2015.
- NOSA Integrated Five Star Rating (Uitenhage Agriculture) audited 2015.
- Export Accreditation (awarded 2012 and retained annually) (Uitenhage abattoir).
- Atmospheric Emissions Licence (issued in terms of the Air Quality Act, No 39 of 2004) (Uitenhage abattoir) August 2015.
- Top Eastern Cape Abattoir (Uitenhage abattoir).
- Cobb Award for broiler performance.

Black economic empowerment

The Group fully embraces the principles embodied in the B-BBEE Act of 2003 and has initiated a programme to ensure that progress is made in achieving black economic empowerment targets, including by having proposed the Empowerment Transaction.

The Group achieved a Level 5 (2014: Level 6) B-BBEE rating at its annual audit in April 2015. The B-BBEE audit was carried out by BEE-BIZ, an accredited BEE verification agency, using the AgriBEE scorecard.

The Group has assessed the impact the new generic scorecard and the draft harmonised AgriBEE scorecard will have on its BEE status and has developed an action plan to maximise its score at the next audit.

B-BBEE scorecard

	2016		2015	
Element	**Weighting**	**Score**	Weighting	Score
Ownership	**20**	**10,25**	20	9,12
Management control	**10**	**5,25**	10	4,17
Employment equity	**15**	**1,63**	15	0,53
Skills development	**15**	**8,76**	15	6,69
Procurement	**20**	**13,67**	20	10,68
Enterprise development	**10**	**10**	10	10,00
Socio-economic development	**10**	**7,28**	10	11,00
Total score	**100**	**56,84**	100	52,19
Recognition level	**Level 5 – 80% contributor**		**Level 6 – 60% contributor**	

Environment, health and safety

Introduction

The Group is committed to develop, implement and maintain the best possible strategies to minimise the risks and to ensure the growth of the Group for the benefit of all stakeholders.

The Group has an objective to develop and provide products and services that have no undue environmental impact and are safe in their intended use; efficient in their consumption of energy and natural resources; and can be recycled, reused or disposed of safely. The Group always considers the environmental, health and safety impact on activities associated with the business. The Group makes a conscious effort in research and development to investigate opportunities to continually move toward products that have fewer environmental, health and safety impacts, and provide solutions to its customers' business needs. The Group's culture emphasises the role of the individual contributor in risk management and, as a result, it supports and promotes the precautionary principle.

To achieve this we are committed to create safe and healthy working conditions to minimise the risk of injury or disease to our employees, to prevent the loss of property and to maintain our environment. We believe that such an approach will generate and sustain significant environmental, social and financial benefits contributing to our objective of long-term sustainability.

In terms of the Group's action plans it is committed to:

1. conduct its business in compliance with environmental, health and safety laws and all relevant legislation, as well as codes of good practice pertaining to the poultry industry;
2. regard its staff members as its most important asset and therefore provide a safe and healthy environment for all employees, contractors and visitors to its facilities;
3. train, develop and engage its employees to understand their safety, health and environmental responsibilities and ensure accountability across all levels of the organisation;
4. maintain all plant, machinery and equipment to the highest possible standards to prevent pollution and minimise the impact of its operations on the environment;
5. strive to minimise the impact of its operations and therefore continuously assesses the possible environmental impacts and health and safety risks of its operations and implements risk mitigation measures to eliminate or control these risks to an acceptable level;
6. set clear standards for continual improvements through setting of environmental, health and safety targets for each operating division and constantly reviewing performance against these targets;
7. maintain and continuously improve its risk management systems, including conducting external assessments of such systems; and
8. engage in open communications with employees, shareholders, customers and other stakeholders and regularly report to these parties on its risk performance.

This policy is reviewed annually.

Environmental performance

The Group not only strives to maintain compliance with environmental legislation but aims for continual improvement and protection of the environment for future generations. This includes, but is not limited to:

- identifying and implementing opportunities to reduce the amount of water used in our production processes without compromising product safety and integrity;
- properly operating and maintaining our wastewater treatment facilities;
- reducing the amount of landfill waste through recycling efforts;
- identifying and implementing opportunities to reduce the amount of fuel (electricity, HFO, coal, etc) used in our production processes without compromising quality;
- relating our carbon footprint to our business strategy and identifying opportunities and possible initiatives to reduce our greenhouse gas emissions;
- evaluating new technologies that offer alternative fuels, reduce packaging waste, reduce the number of trucks on the road and conserve energy; and
- for the Group, protecting the environment, which is about more than maintaining compliance with the environmental laws.

Sustainability report (continued)

Environmental performance indicators	2016	2015	% change
Products consumed			
Water consumption (kℓ)	**1 244 031**	1 177 566	6
From boreholes (kℓ)	**73 195**	78 643	(7)
From municipal sources (kℓ)	**1 170 836**	1 098 923	7
Water discharged (kℓ)	**550 821**	501 173	10
Electricity (kWh'000)	**62 789**	61 162	3
Coal (tons)	**12 505**	7 733	62
Gas (kℓ)	**138**	145	(5)
Diesel (kℓ)	**583**	482	21
HFO (kℓ)	**1 554**	2 711	(43)
Cardboard (tons)	**2 477**	3 292	(25)
Plastic (tons)	**753**	865	(13)
Waste products			
Cardboard waste (tons)	**77**	84	(8)
Plastic waste (tons)	**30**	9	233
Renewable energy and other savings			
Energy saved due to conservation and efficiency improvements (kWh)	**1 500**	–	100
Recycled waste products			
Cardboard waste (tons)	**73**	84	(13)
Litter (cubic metres)	**80 701**	83 870	(4)
Plastic waste (tons)	**30**	9	233
Treated water (kℓ)	**564 557**	501 173	13
Treated water as a percentage of total water (%)	**44**	43	2
Other			
Number and volume of significant spills	–	–	–
Environmental non-compliance	–	1	(100)
Environmental prosecution and fines	–	–	–

Renewable energy, waste, waste reduction and recycling and water usage
Although the Group has trialled a number of energy-efficient renewable energy programmes, no significant progress has been made in implementing sustainable renewable energy sources.

The Group is continuously evaluating various alternatives in this regard.

No water sources have been significantly affected by the withdrawal and usage of water. Treated water at the Uitenhage abattoir is used for sanitation and cooling. Abattoir wastewater is treated to meet minimum municipal standards whereafter it is discharged into an approved municipal sewerage system.

At our newly acquired abattoir at Hartbeespoort the water is treated by means of the existing waste pond system. Management is currently investigating ways to improve the treatment of water to acceptable standards and have to this end consulted with water treatment specialists and the Department of Water Affairs.

Other operational areas' wastewater is discharged into approved stormwater catchment systems or treatment works. The quality prior to final discharge does not require any further treatment. The Group is not aware of any negative impact caused by the Group's water use or discharge.

The main types of physical waste and disposal methods are set out below and the quantities of each type are set out in the table above.

- **Organic waste:** Treated at the rendering plant at the Uitenhage abattoir and turned into animal feed. Organic waste from the Hartbeespoort abattoir is sold to a rendering contractor.
- **Mortalities:** This is as a result of birds dying before being slaughtered. In Uitenhage mortalities are disposed of at a registered landfill site operated by the local municipality. Mortalities at the Hartbeespoort abattoir are disposed of by the contract grower.
- **Chicken manure:** This is a by-product of the farming operation; sold as a fertiliser to pasture farmers in the surrounding areas.
- **Plastic and polypropylene bags:** This is as a result of the abattoirs' operations; disposed of at a registered landfill site operated by the Uitenhage and Tswane municipality.
- **Cardboard boxes, paper and hard plastic:** Recycled at Uitenhage.

The Group does not transport, import, export or treat any waste deemed hazardous under the terms of the Basel Convention Annexures I, II, III and VIII.

The Group has implemented the following formal initiatives to mitigate the environmental impact of its products and services apart from the recycling of poultry manure:

- An odour-control system was implemented at a broiler farm and at the rendering plant at Uitenhage.
- A disolved air flotation system, which reduces raw effluent contamination by 80% before discharge into the municipal sewer system is in operation at the Uitenhage abattoir.

During the year under review, the Group did not incur any material expenditure in respect of environmental protection systems.

Environmental assessments

As part of an overall plan to review sustainability issues, two environmental assessments were conducted:

Greening Self-Assessment Survey
The Uitenhage abattoir participated in the NMB Business Chamber's online Greening Self-Assessment Survey, developed by Greenleaf. This covered the following elements:

- Waste management.
- Energy management.
- Water management.
- Procurement.
- Greenhouse gas emissions.
- Energy conservation.

The outcome of the survey was that the Uitenhage abattoir achieved a qualifying score of 38,2%, which entitles the Uitenhage abattoir to the "Level 4 – Essential" recognition level.

Carbon footprint assessment
The Group appointed Global Carbon Exchange SA (Pty) Ltd T/A GCX Africa to conduct a baseline carbon footprint assessment for the Uitenhage operations, for the period 1 March 2014 – 28 February 2015. The assessment did not include the recently acquired Hartbeespoort abattoir.

The objectives for this assessment were:

- To be an environmentally responsible company, and do the right thing.
- To identify waste and energy reduction opportunities, and hence reduce operational costs.
- To generate internal awareness of and motivation for energy saving initiatives.
- As a secondary objective, to enhance brand value.
- Pre-emptive response to potential future regulatory and compliance obligations.

The result of the assessment shown in the table below, indicate that Sovereign's level of carbon emissions were below the threshold envisaged by the draft Carbon Tax Bill.

Type	% of total emissions
Scope 1	15,71
Scope 2	28,61
Scope 3	55,62
Other direct	0,06
Total	100,00

Scope 1 emissions are the direct emissions over which the Group is able to exercise direct control. The greenhouse gas Inventory in this category includes mobile fuels; stationary fuels; fugitive emissions from refrigeration gases used in chillers and air-conditioning systems; poultry manure management at all farms; Onsite wastewater treatment at the Uitenhage abattoir – 91% of the 26 697 tons CO_2e (11,98% of total Uitenhage operation emissions) produced by the Uitenhage operation was through stationary fuel consumption and are attributed to the use of coal and HFO in the broiler division and at the Uitenhage abattoir facilities. This has been identified as a key target area to address to reduce the Sovereign Group's emissions.

Scope 2 emissions represent carbon emissions generated from electricity consumption.

This is the second largest emissions source at 63 773 tons CO_2e (28,6% of total Uitenhage operation emissions). Eskom purchased electricity that has a high carbon content due to the predominant use of coal in its production (1,03kg CO_2e/kWh). This is another key area to target for emission reductions, achievable through energy-efficiency gains and introducing renewable energy as an alternative source.

Scope 3 emissions represent all indirect emissions which include: Embedded emissions in raw materials consumed in the manufacturing process (excluding added parts); third-party distribution; business travel (flights and car hire); packaging; paper usage; poultry manure management (indirect emissions); and water and waste.

Raw materials (feed) are the largest emission source at 67 188 tons CO_2e (30,1% of total Group emissions). Its size is due to the high carbon emissions incurred to produce 1 ton of purchased feed type (crop to sale) and the volumes purchased by the Group in its Uitenhage feed mill operations. Maize and soya oil cake alone contribute some 55 000 tons CO_2e. When feed emissions are combined with cooking oil consumption (production), raw materials are 75 423 tons CO_2e and 33,8% of total Group emissions.

Carbon tax
The draft Carbon Tax Bill exempts the agricultural sector from the first implementation phase (2020) due to measurement difficulties. This will give the sector time to ensure that emissions accounting is accurate and complete. In its current format the carbon tax will only apply to companies that have over 100 000 tons of scope 1 emissions from non-mobile fuel sources. The implication is that even if Sovereign Foods was not exempt on the basis of it being an agricultural company, it would still not reach the threshold for reporting or tax liability.

The recommendations arising from the assessment, which are under consideration, are to:

- embark on an energy management programme;
- investigate alternative energy or waste-to-energy systems;
- explore alternative manure management processes and systems; and
- set reduction targets, and monitor and measure performance.

Biodiversity and habitats
The Group owns no land in protected areas (Code PA1) and 3 234ha of land on 42 properties in areas of high biodiversity value outside protected areas (Codes CBA1, CBA2, ONA T3). Other than the Hartbeespoort abattoir, which is situated in the Gauteng Province, 3 211ha of this land is within 100km of Uitenhage in the Eastern Cape. The Group does not manage or lease any land in protected areas and areas of high biodiversity value outside protected areas. All the activity on this land is poultry farming and associated activities. Stormwater runoff and the impact of these activities is managed and mitigated in terms of submitted environmental management plans ("EMPs"). No significant habitats are protected or were restored. Although IUCN Red List species exist on land owned by the Group, the Group is not aware of any IUCN Red List species and national conservation list species with habitats in areas affected by the Group's operations.

Health and safety performance

Striving every day to provide a safe work environment for its employees and serve as responsible stewards of the environment are integral components to how the Group plans its days, does its work, monitors its performance and continuously improves.

The focus applied to health and safety over the past three years has been to work towards a reduction in the disabling injury frequency rate ("DIFR") that is the number of incidents per 200 000 man-hours worked. The Hartbeespoort abattoir will only be included as from the 2017 financial year.

	2016		2015	
Operation	**DIFR**	**Lost-time incidents**	DIFR	Lost-time incidents
Uitenhage abattoir	**0,15**	**4**	0,30	9
Uitenhage Agriculture	**0,64**	**8**	0,76	10
Weighted average	**0,31**	**12**	0,44	19

Employees and contract workers are represented in formal joint management-worker health and safety committees. Health and safety committees are established in every operation across the Group and comprise representatives from within each department within the divisional operation. These committees include both management and workforce representatives.

Health and safety is implemented across the Group through the appointment of sections 16(1) and 16(2) of the Occupational Health and Safety Act, No 85 of 1993. Appointees then delegate their responsibilities to divisional management who hold scheduled health and safety meetings and conduct regular internal health and safety compliance audits.

No provision is made for discussing health and safety topics with trade unions as there are no collective bargaining agreements in place.

Over the past several years the Group has implemented the NOSA Integrated Five Star audit system at its Uitenhage operations. This system provides for the management of safety, health and the environment ("SHE") in an integrated manner, based on the risk profile of any particular site, with an emphasis on effectiveness at an operational level. The NOSA system will be implemented at the Hartbeespoort abattoir at the appropriate time.

At the heart of the NOSA Integrated Five Star system standard audit guidelines lies a thorough, detailed evaluation of the principles and practices that keep an organisation safe, healthy and environmentally sustainable. Clients are graded at least once a year to determine the status of their safety, health and environmental performance and experience. The results of the audits are then displayed as star ratings. Overall, audit results will indicate possible performance weaknesses in the areas of risk assessment, human behaviour control, visible leadership, continuous improvement and safety, health and environmental standards integration.

NOSA rating

	2016		2015	
	Status	**Score**	Status	Score
Uitenhage Agriculture	**Integrated Five Star**	**91,0%**	Integrated Five Star	92%
Uitenhage abattoir	**Integrated Five Star**	**95,2%**	Integrated Five Star	92%

Product responsibility

Quality and safety

Every employee of the Group has an obligation to safeguard each other, their customers and the environment by aspiring to operate a safe, injury-free and healthy workplace producing food that is always safe to eat and to minimise our impact on the environment.

The Group's primary concern is that the food it produces is prepared to the appropriate standards using quality products and ingredients and, as the very minimum, it will comply with all statutory legislation, regulatory requirements and approved codes of practice.

To ensure best practice, the Group has developed a minimum operating standard and set of behaviours which will be practised at every location at which the Group operates. These are based on sound science, regulatory requirements, industry best practice and the requirements of SANS 10330:2007.

The Group will regularly measure compliance against these standards and implement performance objectives to assure its clients and customers that it is providing food which is safe to eat while meeting their quality expectations.

Specifically, the Group will require that:

- products are always prepared under sanitary conditions that do not expose them to the risk of contamination;
- all employees are provided with the information, training and tools necessary to do their job in a hygienic and compliant manner;
- employees comply with all Group food safety policies and procedures; and
- management assumes the role of supervision of our employees for compliance and conformance with these standards.

The Group will also expect similarly high standards from its suppliers and contractors.

It is the responsibility of executive management to ensure that the appropriate resources, including human and financial ones, are committed towards implementing this policy across all the Group's operations and communicating these policies and standards to all its employees. In addition, the Group will ensure that:

1. it continuously strives to improve the effectiveness of its Food Safety and Quality Management System. This is achieved by monitoring its performance against our established objectives, instituting appropriate corrective actions and through leadership that promotes employee involvement.

   This illustrates its commitment to provide safe food products and to continually improve in order to better serve its growing and demanding customer base;
2. its philosophy is applicable to the entire value chain, including the farming and feed-milling operations. The application of Supplier Quality Assurance principles, integration of processes and procedures throughout the supply chain and the implementation of a comprehensive product traceability system form part of the drive towards continuous improvement throughout the organisation; and
3. it empowers and develops its employees so that they accept the accountability to ensure that the quality and food safety criteria described in the company policies and procedures are strictly adhered to at all times.

The Group's food safety and quality performance is considered at key senior management meetings and the Quality Department reviews the Food Safety and Quality Policy annually to ensure that it continues to reflect the aims and aspirations of the Group and keeps up to date with legislative requirements. We will continue to seek appropriate external accreditations that validate the efficacy of our Food Safety and Quality Management System and conduct these assessments as frequently as required to ensure that we are progressing.

The Uitenhage abattoir terminated its HACCP certification after it received notice on 21 October 2015 that it complied with the minimum requirements of the Food Safety System Certification 22000 ("FSSC 22000"). The FSSC 22000 is the certification scheme for Food Safety Management Systems using the international and independent standards of ISO 22000 (Food Safety) and ISO/TS 22002-1 (Prerequisites for Food Safety). FSSC 22000 fills a gap between ISO 9001:2008 and HACCP and contributes to a better understanding and further development of Codex HACCP and enables the company to demonstrate due diligence. The Hartbeespoort abattoir's systems are aligned with HACCP and are expected to be compliant (i.e. formally accredited) by December 2016.

As the Group produces one type of product, i.e. poultry products in various cuts and packaging variations, the product life cycle is continuous. During the year under review, the Group received 238 complaints (2015: 213) regarding the Group's products. These were dealt with according to the Group's internal complaints policies and procedures. The Group does not produce any products that are low in saturated fats, trans-fats, sodium and sugars. Altogether 74% (2015: 77%) of the Group's products as measured by final sales volume are produced containing brine which includes phosphate, dextrose, salt and stabiliser; no other products are produced that contain increased fibre, vitamins, minerals, phytochemicals or functional food additives.

All packaging is compliant with the requirements of the Consumer Protection Act, No 68 of 2008, and Regulation 146 of the Foodstuffs Cosmetics and Disinfectants Act, No 54 of 1972. Labelling and product information on packaging includes, *inter alia*, information as to safe use, recycling implications and procedures, product declaration and ingredient specifications.

The Group's policy is to ensure that the information contained on its packaging exceeds the minimum legal requirements, and the Group believes that it has met the aim of this policy. During the period under review, the Group is not aware of any incidents of non-compliance with regard to its labelling and packaging specifications.

The Uitenhage abattoir received export accreditation from the Department of Agriculture in October 2012, which has resulted in the Group's products being exported regionally, and further opportunities are being explored.

The Group conducted a number of customer satisfaction surveys during the year and measures customer satisfaction on a regular basis. All marketing communications, including advertising, promotion and sponsorships, met the applicable legislation, standards and voluntary codes such as the Consumer Protection Act. During the period under review, the Group was not aware of any incidents of non-compliance with regard to its marketing communications nor in respect of breaches of customer privacy and loss of customer data, and there were no fines levied on the Group for non-compliance with legislation, standards and voluntary codes concerning the provision and use of its products.

Research and development and design

Research and development is the driving force behind increased profitability through improving production technologies and identifying market-leading product innovation opportunities.

The Group's research and development is firstly focused on optimising the quality and consumer value of its current product range and on increasing the production and yield efficiency of all products. Innovation is used across all production processes to ensure these objectives are met.

Secondly, it seeks to optimise its range of products offered to the consumer by creating products that have the potential to become category leaders through meeting unique consumer needs. These needs are identified across various protein categories and amalgamated to form detailed product innovation briefs. Markets are identified by monitoring trends and consumer needs through market intelligence obtained from research agencies such as Skuworks. In addition, trade data from the Group's sales and marketing team is used to identify these innovation opportunities and, together with competitive product analysis, is used to compile detailed production development specifications.

All product development is followed up with a detailed viability analysis:

- Only products that prove to be sustainable and add a significant margin to the bottom line are considered for production.
- Thorough in-house product testing is done before new products move to the production phase. A period of trial production, combined with rigorous quality checks, also ensures that the final product only reaches the market once approved to the highest standards.
- Packaging for new products is developed against the highest international standards and is fully compliant with the latest packaging legislation.

Consumers are informed of ingredients and nutritional information of the Group's products through the product packaging and labelling.

COMMUNITY SUPPORT

Donations, scholarships and sponsorships

In the year under review the Group contributed R273 123 to a number of community-based organisations.

The Sovereign Foods Corporate Social Investment (CSI) programme is an integral part of the company acting as a good corporate citizen. Through our CSI programme "Sovereign Cares", the company provides a helping hand by contributing to the sustainable development of rural and/or previously disadvantaged communities, and actively engages stakeholders in programmes that add value to the lives of those in the areas around Sovereign Foods.

During the year under review, Sovereign Cares assisted nine organisations in and around the Uitenhage, Despatch, Rocklands Valley and Port Elizabeth region. These organisations are Lukhanyiso Home, WE CARE, Zoey's Little Lamp Créche (Joe Slovo), the KwaNobuhle Community, KwaNobuhle Victim Support, the Early Church Movement, Siyaphambili Public Primary School and Rocklands Farm School.

KwaNobuhle Community

Sovereign Cares assisted the KwaNobuhle Community through providing financial support to academically deserving matriculants who could not afford tertiary education.

KwaNobuhle Victim Support

The KwaNobuhle Victim Support provides support services to members of the community who are victims of domestic abuse. They also conduct outreach programmes in the community and at schools to make individuals aware of the signs of domestic abuse and how to get assistance if you are being abused.

The company donated funds towards their outreach programmes.

Siyaphambili Public Primary School

The Siyaphambili Public Primary School, which is based in Motherwell, recently celebrated their 30th anniversary. To celebrate the impact the school has had on young minds, Sovereign Cares provided the school with a food voucher.

Sonwabise Community Development

The Sonwabise Community Development is a home for abandoned children. In 2015, Sovereign Cares donated funds towards providing the children with a Christmas party. Sovereign Cares continued with this initiative in 2016 by donating school shoes and funds for the monthly nutrition needs of the children.

Rocklands Farm School

The company has maintained a close relationship with the Rocklands Farm School for a number of years. The assistance given to the school includes provision of water as and when needed; assistance with structures, and with the provision of security personnel. In the year under review Sovereign Cares also donated funds towards providing school shoes for needy school children.

The Early Church Movement

The Early Church Movement is a soup kitchen in the Joe Slovo township in Uitenhage. The soup kitchen operates twice a week and provides disadvantaged individuals in the area with wholesome meals that they would otherwise not have received. The company donated funds towards the soup kitchen.

WE CARE

WE CARE is a non-profit organisation that focuses on community development and support in the northern areas of Port Elizabeth. They provide various initiatives for the community, including community health outreach programmes and feeding destitute children.

WE CARE received monetary donations from Sovereign Cares for two of their outreach programmes in 2015. The first outreach focused on providing healthcare and awareness by offering free services, such as testing for diabetes and high blood pressure, as well as providing a meal for attendees. The second outreach was conducted as a part of the NPO's initiative for Nelson Mandela International Day, where the company provided a monetary donation for the NPO to provide meals for the community. Gracious staff members also volunteered on the day by serving the meals. Health staff was also present to provide free testing and healthcare advice.

Lukhanyiso Home

Lukhanyiso Home is a part of the KwaNobuhle Self-Help and Resource Exchange ("SHARE"). The home is a place of safety for orphaned, abandoned and vulnerable children.

Lukhanyiso Home needed a boundary wall for its premises in order to be accredited as a place of safety. Sovereign Cares donated funds to build the boundary wall. The company has also donated food vouchers to help provide the children with nutritious meals.

Zoey's Little Lamp (Joe Slovo Community Crèche)

Zoey's Little Lamp is a non-profit organisation. It is a crèche for disadvantaged children from the Joe Slovo Township in Uitenhage. The organisation provides the children with basic instruction and meals.

In 2015, Sovereign Cares donated funds to Zoey's Little Lamp. This donation went towards the stipend that facilitators at the crèche currently receive. Staff members also contributed towards the crèche by donating chicken by filling in a flyer for the project.

Sustainability report (continued)

Human rights

The protection of human rights is woven into the fabric of the Group's activities and is not allocated to one department per se. The following items and actions concern the sphere of the protection of human rights:

- The Group seeks to redress the historical practices of inequality through preferential employment and procurement practices.
- Cognisance of human rights issues underlies Human Resources training material.
- The Group espouses the protection of human rights through its *Value #6: "We speak with candour and respect and value every team member regardless of position, age, gender or race".*

Reporting on our activities concerning the protection of human rights can be broken down into the following areas:

- Investments
  - Although the issues of human rights protection is not dealt with explicitly in our contract grower contracts, all contract growers are made aware through ongoing communication of the importance of the protection of human rights, and contract grower sites are monitored for human rights violations as part of the Group's overall monitoring programme.
  - The Group's permanent employees and workers employed via contract brokers are free to join a union as they so wish, and employee forums have been established in all operations to facilitate communication.
- Human Resources and training
  - The time spent on human rights training that is included in training on policies and procedures is not monitored and captured separately. The Group is therefore unable to report on the total hours spent on human rights training.
  - During the year under review, no incidents of possible discrimination were brought to the attention of the board. The board is not aware of any other incidents of discrimination for the period under review.
  - All loss control personnel are trained in the Group's policies and procedures concerning aspects of human rights that are relevant to the Group's operations.
- Child, forced and compulsory labour
  - No operations are identified as having a significant risk for child, forced or compulsory labour and the matter of child, forced or compulsory labour is addressed in the Group's recruitment policies and Code of Ethics.
  - No additional steps have been taken apart from those outlined above to contribute to the elimination of child, forced or compulsory labour.
- Freedom of association
  - The Group operates a total of 30 facilities split into four internal divisions/operations. None of these sites or divisions/operations have been identified as having a risk that the right to exercise freedom of association and collective bargaining may be at significant risk.
- Procurement
  - Our top 10 suppliers by value make up 62% of our procurement of goods and services. The company has a Supplier Code of Practice that sets out its standards for conducting business and each year suppliers are asked to verify that they are not complicit in human rights abuses.
  - No human rights abuses have been brought to the attention of the Group concerning any of the Group's suppliers and service providers for the year under review.
- Indigenous people
  - No incidents of violations concerning the rights of indigenous people have been brought to the board's attention.

Economic impact

Economic value generated and distributed

The table below sets out some of the material economic figures relating the Group's activities:

Economic performance indicators	2016 Rm	2015 Rm	Change Rm
Impact on suppliers			
Total paid to suppliers and service providers	**1 242**	1 180	62
Total contracted spend with contract farmers	**125**	15	110
Major sources of suppliers			
Grain	**279**	259	20
Proteins	**310**	347	(37)
Utilities	**67**	73	(6)
Packaging	**129**	116	13
Transport and diesel	**103**	95	8
Impact on community			
Corporate social responsibility spend (R'000)	**273**	–	273

The table below sets out the economic value generated and distributed by the Group for the period under review. Additional information relating to employee benefits is included in the Human resources and remuneration report on pages 43 to 49, and additional information relating to voluntary donations and community investments is included on page 38.

Economic value-added statement	2016 Rm	2016 %	2015 Rm	2015 %
Revenue	**1 727**		1 649	
Cost of goods and services	**1 242**		1 180	
Value added	**485**		469	
Non-operating income	**7**		5	
Total value added	**492**	**100**	474	100
Distributed as follows:				
To remunerate workers, employees and contract workers				
Salaries, wages and related benefits	**279**	**57**	293	62
To providers of finance				
Interest on borrowings	**11**	**2**	7	1
To the government	**83**	**17**	62	14
Deferred taxation	**35**	**7**	31	7
Employees' taxation	**48**	**10**	31	7
To replace assets				
Depreciation and impairments	**38**	**8**	34	7
To expand operations				
Attributable income	**81**	**16**	78	16
Total wealth created	**492**	**100**	474	100

The payments to government shown above exclude value-added tax of R73,9 million (2015: R81,8 million).

Climate change
The Group is exposed to climate change in the following manner:

Risks
- Adverse weather and temperature changes can lead to a reduced supply of maize, soya and other feed materials and therefore an increased cost of these items.
- Adverse weather and temperature changes can lead to a disruption in the supply of oil to global markets and this will have an effect of causing increased volatility in international maize and soya markets.
- Adverse weather and temperature changes could lead to a change in protein consumption patterns, which could lead to a disruption in the Group's markets.

Opportunities
- Adverse weather and temperature changes can lead to a reduction in the supply of poultry and protein products and therefore an increased demand for the Group's products.

Assistance received from government
During the period under review, the Group has not received any assistance directly from government.

Indirect economic impacts
It is difficult to quantify in monetary terms the indirect economic impact of the Group's activities with employees, contract workers, suppliers and customers. The indirect economic benefits would include support for extended families in impoverished areas from which the Group draws the majority of its contract labour.

Procurement and sourcing

The Group has put an enterprise-wide procurement and sourcing policy in place. This policy will cover, *inter alia*, preferential procurement, quality of the products sourced and the sustainability aspects of the suppliers and service providers used. Although questionnaires have been sent to all suppliers to assess their compliance with the Group's policy, some of these questionnaires are still outstanding and, as such, it is not possible at this stage to state what percentage of purchased volume from suppliers are compliant with the Group's sourcing policy.

All products and services are sourced according to recognised local and international quality standards such as ISO, HACCP and SANS where required by the Group's production and procurement requirements. Currently, however, this data is not collated and therefore we cannot state what percentage of purchased volume is verified as being in accordance with credible, internationally recognised responsible production standards, broken down by standard. The Group is not aware of any human rights violations at any of its suppliers during the period under review.

The Group attempts to procure as much materials and services as possible from local suppliers and at a minimum from within South Africa. The Group achieved a score of 13,67 (2014: 10,68) in the procurement section of its 2015 B-BBEE rating. In addition, as an organisation operating in the agricultural sector, the Group attempts to procure materials and services from suppliers in rural and/or impoverished areas wherever possible.

However, some materials and services are not economically viable to procure from South African suppliers. The split in the Group's procurement between materials and services purchased directly from South African sources and from sources outside South Africa (including capital equipment) is as follows:

	2016		2015	
	Rm	%	Rm	%
South African	1 200	97	1 136	96
Non-South African	42	3	44	4
Total	**1 242**	**100**	1 180	100

In addition, during the period under review, significant purchases by the Group of materials and services that originated outside South Africa but were procured from South African agents amounted to R281 million (2015: R230 million).

Animal welfare

As a poultry group, animal welfare is key to our long-term sustainability. The Group has an animal welfare policy and all employees who have contact with poultry are required to be cognisant of the policy and the correct practices associated with this policy. The Quantum Food Group, which supplies birds to the Hartbeespoort abattoir, has an Animal Welfare Policy and training programme for their staff and growers.

Breeding and genetics

All animals raised are of the species gallus dosmesticus. At the end of the year under review, approximately 25% were Cobb and 75% were Ross.

Animal husbandry

No physical alterations, such as beak or toe clipping, are carried out by the Group. When the birds are slaughtered they are stunned in a humane and controlled manner through the use of an industry standard electric stunner. Anaesthetic is not used.

As determined by the number of houses, including the parent stock operation and the broiler operation at Uitenhage, 91% of birds are raised in environmentally controlled houses and 9% are raised in open-sided houses.

Only industry standard accelerated growth promoters ("AGPs") are used in feed manufacture and these are withdrawn from the bird prior to slaughter. Medication is administered according to a carefully laid-out vaccination policy which is designed and monitored by the Group's in-house veterinarian. The Group does not use any anti-inflammatories or hormones.

Transportation, handling and slaughter

The Group adheres to a draft industry code of conduct on animal welfare which includes standards on transportation, handling and slaughter practices. The Group is not aware of any incidents of non-compliance with animal welfare laws and regulations during the period under review.

Human resources and remuneration report

Introduction

This report is consistent in its format and structure with previous years and seeks to provide stakeholders with insight into and an understanding of the Human Resources and remuneration philosophy and policies that are adopted and applied across the Group. Remuneration comprises a cash component, car allowance or company vehicle, where applicable, company contributions to a provident fund, bonuses and incentives paid to employees and executive directors, and fees paid to non-executive directors.

Human capital is one of the most important assets required to add value to the Group's business. The attraction and retention of appropriate skills is an area that requires continuous focus at the highest level of the organisation. In this regard, remuneration is one of the key drivers of aligning behaviour of human capital to the strategic intent of the Group.

Remuneration is determined and structured to compensate, attract and retain appropriately skilled staff while being aligned to the interests of the stakeholders.

Staff development

The Group strives to combat a skills shortage and to secure a competent and loyal workforce through the constant development of our employees. Various development initiatives have been implemented, such as the Apprentice Training Programme and a recently introduced Internship Programme.

The Group is continuously assessing this programme in order to ensure that it fulfils primary objectives and continuously identifies potential for development. The majority of staff have written development plans and job descriptions.

Grading system

During 2012, a grading system ("TASK") system was implemented for all permanent employees. This system has brought a great deal of stability and clarity to the Group's remuneration practices and policies.

Communication

Creating an engaged workforce is key to achieving sustainable returns. A culture of engagement is dependent on good communication, and to this end daily, weekly and quarterly meetings with the workforce on various levels are conducted. Workplace forums have been established in order to enhance this communication.

HIV/AIDS

A formal policy is in place to give employees and contract workers education, training and counselling on the prevention and risk-control aspects of serious diseases and in particular HIV/AIDS. The Uitenhage on-site clinic has been accredited by the Eastern Cape Department of Health as a Voluntary Counselling and Testing ("VCT") site.

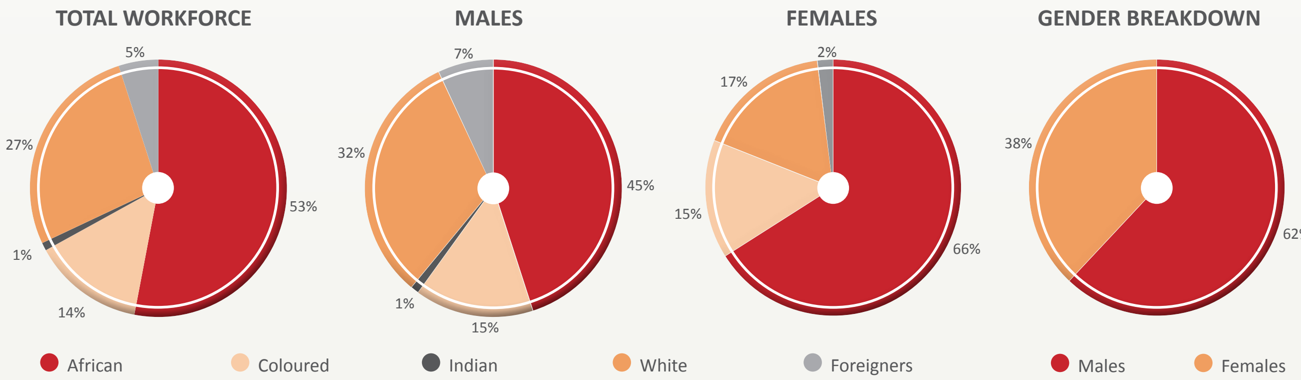
Diversity and employment equity

The Group subscribes fully to the principles of addressing historical inequalities through employing a diverse workforce. The tables below set out the diverse nature of our employees. These tables exclude non-executive directors and workers employed by contract labour brokers.

Employment equity statistics at 29 February 2016

	African		Coloured		Indian		White		Foreigners		
Occupational levels	M	F	M	F	M	F	M	F	M	F	Total
Top management	0	1	0	0	0	0	5	0	0	0	6
Senior management	3	2	0	1	1	0	31	9	0	0	47
Professionally qualified, experienced specialists and mid-management	7	7	7	4	1	0	31	5	3	0	65
Skilled technical and qualified workers, junior management, supervisors, foremen, superintendents	27	12	20	6	0	0	46	15	8	1	135
Semi-skilled and discretionary decision-making	118	75	32	27	0	0	25	14	18	3	312
Unskilled and defined decision-making	40	77	3	1	0	0	0	0	2	0	123
Non-permanent employees	1	2	1	0	0	0	3	3	1	0	11
Total	196	176	63	39	2	0	141	46	32	4	699

Employment equity statistics at 29 February 2016



Governance

Human resources and remuneration report (continued)

Employment equity statistics at 28 February 2015

Occupational levels	African		Coloured		Indian		White		Foreigners		Total
	M	F	M	F	M	F	M	F	M	F	
Top management	0	1	0	0	0	0	5	0	0	0	6
Senior management	2	2	1	1	1	0	31	9	0	0	47
Professionally qualified, experienced specialists and mid-management	8	4	5	5	1	0	33	5	3	0	64
Skilled technical and qualified workers, junior management, supervisors, foremen, superintendents	22	12	19	5	0	0	41	15	8	1	123
Semi-skilled and discretionary decision-making	102	73	28	28	0	0	31	12	20	3	297
Unskilled and defined decision-making	12	5	3	2	0	0	0	0	1	0	23
Non-permanent employees	3	3	1	0	0	0	6	3	0	0	16
Total	149	100	57	41	2	0	147	44	32	4	576

While the Group actively recruits and promotes African, Indian and Coloured candidates, as well as the disabled, all recruitments and promotions are based on merit. All employees are based in South Africa.

The Group's annual economic empowerment ("EE") review was carried out by the Department of Labour ("DoL") in January 2015 and the Group received an "unqualified" review report. No EE audit was conducted in the 2016 calendar year as the DoL is satisfied with the Group's EE Plan and implementation process.

The ratio of the cash component of male to female employees by employee category is set out below. Cash component excludes car allowances, incentives, bonuses, company contribution to provident fund and statutory costs.

Level	Headcount as at 29 February 2016		Ratio of male to female cash component	
	Males	Females	As at 29 February 2016	As at 28 February 2015
Top management	**5**	**1**	**1,3**	1,3
Senior management	**36**	**12**	**1,5**	1,4
Middle management	**50**	**17**	**1,0**	1,0
Junior management	**103**	**36**	**1,0**	1,0
Not in management	**240**	**199**	**1,1**	1,0

Employee turnover and lost time

The table below sets out "controllable" employee turnover figures which include dismissals and resignations by age group and gender for permanent employees. Not included in the table below is "uncontrollable" turnover which includes retrenchments, termination of temporary contracts, retirements and deaths. All employee turnover occurred within South Africa.

Age group (%)	For the 12 months ended 29 February 2016		For the 12 months ended 28 February 2015	
	Males	Females	Males	Females
18 – 25	**0,9**	**0,3**	1,2	0,0
26 – 35	**1,6**	**1,7**	3,5	1,6
36 – 45	**2,1**	**0,9**	1,4	1,4
46 – 55	**0,7**	**0,1**	0,5	0,7
56 – 65	**0,1**	**0,0**	0,2	0,0

No time was lost in any of the Group's operations due to illegal work stoppages during the period under review (2015: 87 hours).

Social performance indicators

The table below sets out various social performance indicators:

Social performance Indicators	2016	2015	Change
Full-time employees as at year-end	**699**	576	123
Employees acquired with Hartbeespoort abattoir	**123**	–	123
Net other full-time employment creation	**–**	10	(10)
Training expenditure (R'000)	**1 059**	1 906	(847)
Disabling injury frequency rate	**0,31**	0,44	(0,13)

A total of 7 740 hours (2015: 9 169 hours) of training was undertaken during the 2016 financial year, which equates to 12 hours (2015: 16 hours) per permanent employee as at 29 February 2016.

Remuneration governance

The board has a sub-committee, the Human Resources and Remuneration Committee, which comprises three independent non-executive directors, tasked with assisting the board in formulating and monitoring the implementation of the Group's transformation and remuneration policies. The Group's policies are applicable to all the subsidiaries.

Where appropriate, the Group utilises the services of independent consulting companies that specialise in remuneration and compensation, to assist with benchmarking of staff and directors' remuneration.

The composition of the sub-committee and the meetings attended are set out on page 23 of this report.

Remuneration philosophy

The Group is acutely aware of its dependence on appropriately qualified, trained and experienced personnel to achieve its goals. Furthermore, the demand, both locally and internationally, for scarce skills is ever-increasing.

As a result, the Group's remuneration philosophy needs to ensure that it:

- retains, develops and continues to attract people with the required skills necessary to enable the business to meet its current and future demands;
- develops a collaborative and single focused spirit among different business units that is directed towards attaining the Group's objectives and strategy rather than just individual or departmental success;
- clearly differentiates and rewards performance excellence while discouraging and dealing with below-par performance;
- achieves the appropriate balance between short- and long-term rewards;
- enables the payment of rewards and incentives out of a portion of the shareholder value created during any given period; and
- creates a sustainable leadership structure with the succession pool necessary for continuity, growth and one that in future becomes more representative of the demographics of South Africa.

The Group continues to strive for sustainable long-term growth and to this end a greater portion of management and executive remuneration is put "at risk" against the delivery of key long-term objectives and is linked to the performance of the Group over a rolling three-year period rather than being dependent on a single year's results or performance.

The Group's remuneration philosophy, policies and structures have been developed around these core principles and conform to the best practice guidelines contained in the King III Report on Corporate Governance for South Africa.

Remuneration policies and structures

The remuneration process and structure is reviewed annually in February for non-executive directors and contract workers and in September for other employees.

During the year under review, cost of living ("COL") adjustments were granted to non-executive directors effective 1 March 2015 and executive directors and staff effective 1 September 2015. Contract workers' rates were increased to comply with the agricultural sector's mimimum wage requirements effective 1 March 2015, and were then increased in excess of the minimum wage requirements in August 2015.

Formal letters of appointment have been signed with non-executive directors. Formal service contracts have been signed with executive directors and members of the Executive Committee, and notice periods in terms of these contracts are 90 days.

Appointment of directors

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

Non-executive directors

The board applies principles of good corporate governance relating to directors' remuneration and also keeps abreast of changing trends.

Non-executive directors' fees are recommended by the Human Resources and Remuneration Committee to the board who in turn proposes them to the company at a general meeting where they can be approved by the company's shareholders.

The Committee takes cognisance of market norms and practices, as well as the additional responsibilities placed on board members by new legislation and corporate governance principles.

Fees for the 2016 financial year were reviewed by the Human Resources and Remuneration Committee and board in February 2015 and approved by shareholders at the annual general meeting in August 2015.

Subsequent to the annual general meeting, the non-executive directors fees were revised by the board in October 2015 and approved by shareholders on 14 January 2016.

The Group's policy on fees for non-executive directors is that they should be fee-based and market-related, but not linked to share performance. No bonuses or share incentives are awarded as these can create a potential conflict of interest.

All travel, accommodation and subsistence expenses incurred by directors to attend board and committee meetings are paid for by the Group.

The proposed fees payable to the board and committee members for the 2017 year and authorised fees paid to the board and committee members for the 2016 year are shown in the tables below:

	Annual fees				
	Chairman		Member		Total (assuming all meetings are attended)
From 1 March 2015 to 31 October 2015	Annual retainer	Per meeting	Annual retainer	Per meeting	
Board	525 000	36 500	158 000	19 500	1 844 000
Audit and Risk Committee	170 000	17 000	85 000	9 000	601 000
Human Resources and Remuneration Committee	110 000	13 000	74 000	7 500	342 000
Social and Ethics Committee	66 000	9 000	33 000	4 000	183 000
Total (assuming all meetings are attended)	871 000	353 000	1 101 000	645 000	2 970 000

	Annual fees			
		Per meeting		
From 1 November 2015 to 29 February 2016	Annual retainer	Chairman	Member	Aggregate annual cap
Chairman of the board	300 000	15 000	–	375 000
Non-executive director (serving as a sub-committee chairman)	225 000	10 000	8 000	275 000
Non-executive director (not serving as a sub-committee chairman)	200 000	–	8 000	240 000
Total (assuming all meetings are attended)	725 000	125 000	40 000	890 000

Note: The revised rates came into effect on 1 October 2015 and were approved at a shareholders' meeting on 14 January 2016.

	Annual fees			
		Per meeting		
Year ended 28 February 2017	Annual retainer	Chairman	Member	Aggregate annual cap
Chairman of the board	321 000	16 050	–	401 250
Non-executive director (serving as a sub-committee chairman)	240 750	10 700	8 560	294 250
Non-executive director (not serving as a sub-committee chairman)	214 000	–	8 560	256 800
Aggregate annual cap	775 750	133 750	42 800	952 300

Note: In terms of a resolution adopted on 11 January 2016 the fees escalate annually at the beginning of each Sovereign financial year. CPI at 29 February 2016 was 7%.

Provident fund

All employees, apart from temporary and short-term contract employees, belong to the provident fund. The Group does not have its own provident fund but belongs to the NMG Umbrella Fund. The total percentage contributed to the fund is between 9% and 18,5% and is adjusted based on length of service. With the addition of Hartbeespoort, employees contributions are now at 2% and 6,5%.

The employer contributions range from 7% to 12%. The value of contributions for each executive director appears in the summary of directors' emoluments on page 48 and the value contributed to the provident fund in respect of all employees by the Group in respect of the year under review appears on page 76 of this report.

The performance of the funds invested in the umbrella fund is assessed at regular intervals by the Human Resources and Remuneration Committee.

Remuneration components

The Group determines remuneration along the following significant components:

Basic remuneration and employee benefits
For permanent employees, the Group uses a cost-to-company approach which includes a fixed monthly component, car allowance (where applicable) and contribution to provident fund. The Group does not subscribe to a medical aid scheme on behalf of employees but employees are encouraged to belong to a medical aid scheme.

For contract workers, the Group applies a fixed hourly wage rate adjusted for allowances where appropriate. A minimum hourly wage rate for farm workers is promulgated by government with effect from 1 March each year, and the Group has adopted this as the minimum wage rate across the Group's operations.

No retirement benefits are provided for contract workers and this applies across the Group.

Company vehicles
A number of employees have the use of company vehicles although this has largely been phased out in favour of a car allowance scheme.

Severance packages
Severance packages are made to employees on early termination of contracts or employment either through retrenchment or mutual termination.

Annual bonuses
Permanent employees do not receive a guaranteed annual bonus. Contract workers are paid a bonus which can amount to a maximum of three weeks' wages in December each year.

Company housing
Company housing is provided for employees according to their duties and is taxed accordingly.

Incentives

Incentive structures are used in the Group to encourage and reward superior performance at all levels of the organisation, but are more focused at the management and executive level.

As set out in the Director's Report, a new Executive Remuneration Policy has been proposed as part of the Empowerment Transaction. If the Empowerment Transaction is approved:

- The Executive Committee ("Exco") Short Term Incentive Scheme will be amended as set out below
- The Exco Long Term Incentive Scheme will fall away.

However, if the Empowerment Transaction is not approved then the Exco Short Term Incentive Scheme and Long Term Incentive Scheme remain unaffected.

Short-term incentives
Short-term incentives are recommended on an annual basis by the Human Resources and Remuneration Committee at its meeting in February each year for the following financial year. Currently, short-term incentives are not linked to social or environmental performance. Short-term incentives fall into two categories:

Paid monthly/quarterly
Incentives are paid to key sales, production and other staff on a monthly/quarterly basis in arrears for achieving or exceeding agreed sales, key performance indicator and cost targets.

Paid annually
An incentive equal to a maximum of one month's salary is paid to permanent employees in December each year when certain Group financial targets are met. During the year, a total of R3,6 million (2015: R6,5 million) was paid out or accrued for in annual bonuses to all permanent staff. Senior management, members of the Group Executive Committee and executive directors are not eligible for this incentive.

Incentives paid to senior management, members of the Exco and executive directors are currently based on Group financial performance. These are currently paid in arrears in May each year based on the audited financial statements for the prior financial year. For the year under review, the incentive is currently based on the Group's financial performance at an EBIT margin percentage level relative to a peer group which comprises other listed poultry companies.

As set out above, if the proposed Empowerment Transaction is approved then the Exco Short Term Incentive will be amended as follows:

- the maximum potential amount payable to each Exco member will be capped at 30% (thirty percent) of the relevant Exco member's annual total cost to company remuneration;
- the Human Resources and Remuneration Committee will, in its sole discretion, set the performance and any other conditions applicable to the new Short Term Incentive Scheme from time to time;
- regardless of whether the performance conditions are fulfilled, payments under the new Short Term Incentive Scheme will be made at the Human Resources and Remuneration Committee's sole discretion;
- payments under the new Short Term Incentive Scheme will be made in cash and no restrictions will apply on the application by recipients of such cash payments; and
- the terms listed above may not be changed without prior Shareholder approval.

As at year-end, no provision has been accrued for executive directors, Exco members or for senior management based on the performance of the Group in the 2016 financial year.

Long-term incentives
Employee Share Ownership Plan
The Group operates an Employee Share Ownership Plan which has been implemented primarily as a retention mechanism for senior management. Members of the Exco, executive directors and non-executive directors are excluded from the plan. The duration of the scheme is seven years and employees are awarded an allocation of shares at the initialisation of the plan. Shares awarded only vest if the share price of the Group at the end of the plan exceeds the share price at the date of the allocation of the shares.

As at 29 February 2016, 2 603 000 options have been allocated. A total of 925 000 shares have been purchased and a total of 1 678 000 shares are still to be purchased.

Exco Long Term Incentive Scheme
As set out above, if the proposed Empowerment Transaction is approved then the Exco Long Term Incentive Scheme will fall away in its entirety and have no further effect. However, if the Empowerment Transaction is not approved then the Long Term Incentive Scheme will remain in place as follows:

- Retention units are issued on an annual basis from 1 March each year and vest after three years.
- The number of retention units is linked to the Exco members' annual guaranteed remuneration relative to the Group's earnings per share at the time that the retention units are awarded.
- Awards are calculated based on growth in earnings per share versus the earnings per share at which the retention units were awarded.
- At the end of the three-year vesting period, any awards must be used to purchase shares on the JSE, which shares must be held for one year.

No provision has been made for Long Term Incentive Scheme payments in respect of the 2016 financial year as at 29 February 2016. A total of R13,8 million was paid out during 2016 which related to the 2015 financial year and had been provided for in the 2015 financial year.

Directors' and prescribed officers' remuneration for the 12 months ended 29 February 2016

The tables below set out the remuneration paid to executive and non-executive directors and prescribed officers for the years ended 29 February 2016 and 28 February 2015:

Executive directors

29 February 2016	Salary R'000	Performance-related bonus R'000**	Provident fund contributions R'000	Travel, car and entertainment allowance R'000	Total R'000
C Coombes	3 074	6 869	547	–	10 490
GG Walter*	1 464	4 725	136	–	6 325
BJ van Rensburg*	1 194	3 433	132	–	4 759
GL Coley	1 710	1 620	159	–	3 489
Total	7 442	16 647	974	–	25 063
28 February 2015					
C Coombes	2 729	–	505	276	3 510
GG Walter	2 107	–	211	–	2 318
BJ van Rensburg	1 573	–	189	171	1 933
GL Goley	1 544	–	154	–	1 698
Total	7 953	–	1 059	447	9 459

** GG Walter and BJ van Rensburg served as executive directors until they resigned as directors on 9 October 2015.*
*** The performance related bonus was accrued for in the 2015 financial year.*

Reconciliation between 2015 and 2016 remuneration	C Coombes R'000	GG Walter R'000	BJ van Rensburg R'000	GL Coley R'000	Total R'000
2015 total remuneration	3 510	2 318	1 933	1 698	9 459
Performance-related bonus	6 869	4 725	3 433	1 620	16 647
Resignation from board	–	(718)	(607)	–	(1 325)
Change in basic salary	111	–	–	171	282
2016 total remuneration	10 490	6 325	4 759	3 489	25 063

Non-executive directors

Fees for the year ended 29 February 2016	For services rendered as a member of the board R'000	For services rendered as a member of the Audit and Risk Committee R'000	For services rendered as a member of the Human Resources and Remuneration Committee R'000	For services rendered as a member of the Social and Ethics Committee R'000	For other meetings attended R'000	Total R'000
CP Davies	595	76	51	23	227	972
JA Bester	257	123	51	23	59	513
T Pritchard	327	76	–	–	20	423
Prof PM Madi*	190	18	77	48	–	333
LM Nyhonyha*	170	116	–	–	–	286
Total	1 539	409	179	94	306	2 527

** Prof PM Madi and LM Nyhonyha served as non-executive directors until they resigned as directors on 9 October 2015.*

Fees for the year ended 28 February 2015	For services rendered as a member of the board R'000	For services rendered as a member of the Audit and Risk Committee R'000	For services rendered as a member of the Human Resources and Remuneration Committee R'000	For services rendered as a member of the Social and Ethics Committee R'000	For other meetings attended	Total R'000
CP Davies	745	76	96	44	245	1 206
JA Bester	279	110	91	39	–	519
T Pritchard	279	110	–	–	–	389
Prof PM Madi	261	–	124	76	26	487
LM Nyhonyha	279	224	–	–	–	503
Total	1 843	520	311	159	271	3 104

Prescribed officers are defined as members of the Executive Committee of the Group and who are also not directors of the Group.

Prescribed officers

29 February 2016	Salary R'000	Performance-related bonus R'000	Provident fund contributions R'000	Travel, car and entertainment allowance R'000	Total R'000
GG Walter*	**768**	**–**	**72**	**–**	**840**
BJ van Rensburg*	**768**	**–**	**87**	**–**	**855**
E du Preez	**2 232**	**4 397**	**208**	**–**	**6 837**
TNS Maepa	**1 710**	**3 159**	**142**	**–**	**5 011**
Total	**5 478**	**7 556**	**509**	**–**	**13 543**
28 February 2015					
E du Preez	2 083	–	208	18	2 309
TNS Maepa	1 566	–	141	–	1 707
Total	3 649	–	349	18	4 016

* *GG Walter and BJ van Rensburg became prescribed officers after resigning as executive directors on 9 October 2015.*

The aggregate remuneration of the three highest paid employees who are not directors of the Group was R13 946 626 (2015: R6 517 040). One of these three employees is a prescribed officer. This remuneration included salary, performance-related bonuses, provident fund contributions and other benefits and allowances.

Directors' and prescribed officers' short-term and long-term incentives accrued

	2016			2015		
	Short-term incentive R'000	Long-term incentive R'000	Total R'000	Short-term incentive R'000	Long-term incentive R'000	Total R'000
Directors						
C Coombes	–	–	–	2 796	4 073	6 869
GG Walter	–	–	–	2 160	2 565	4 725
BJ van Rensburg	–	–	–	1 620	1 813	3 433
GL Coley	–	–	–	1 620	–	1 620
Prescribed officers						
E du Preez	–	–	–	2 160	2 237	4 397
TNS Maepa	–	–	–	1 620	1 539	3 159
Total	–	–	–	11 976	12 227	24 203

Details of directors' and prescribed officers' long-term incentive awards

In terms of the LTIS, the following "rights" were granted to directors and prescribed officers effective 29 February 2016:

	Vesting on 1 March 2016	Vesting on 1 March 2017	Vesting on 1 March 2018
Directors			
C Coombes	1 380 633	1 849 473	1 160 006
GL Coley	–	590 219	448 071
Prescibed officers			
E du Preez	655 483	835 923	597 428
TNS Maepa	548 875	699 969	448 071
BJ van Rensburg	554 393	707 005	448 071
GG Walter	745 556	950 790	597 428
Total	3 884 940	5 633 379	3 699 075

John Bester
Chairman – Human Resources and Remuneration Committee

Port Elizabeth
31 May 2016

Audited Annual Financial Statements

Approval of the annual financial statements

The annual financial statements for the year ended 29 February 2016 set out on pages 56 to 87 have been prepared under the supervision of GL Coley CA(SA) and have been audited in compliance with section 30(2)(a) of the Companies Act, No 71 of 2008. These financial statements have been approved by the board of directors and are signed on its behalf by:

Tom Pritchard
Independent Non-executive Chairman

Chris Coombes
Chief Executive Officer

Port Elizabeth
31 May 2016

Declaration by Company Secretary

The Company Secretary confirms that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act of South Africa, 2008, as amended, and that all such returns are true, correct and up to date.

Max Hoppe
Company Secretary

Port Elizabeth
31 May 2016

Audit and Risk Committee's report

This report has been prepared by the Audit and Risk Committee ("the Committee") in respect of the Sovereign Food Investments Limited 2016 financial year in compliance with section 94(7)(f) of the Companies Act, No 71 of 2008 ("the Companies Act" or "the Act").

The Committee's operation is guided by a comprehensive charter that is based on the requirements of the Act and King III and is approved by the board.

Membership

The shareholders approved the appointment of the Committee at the annual general meeting on 12 August 2016 in respect of the 2016 financial year.

During the year under review, Mr LM Nyhonyha resigned from the board on 9 October 2015 and his position on the Committee was filled by Mr JA Bester.

The Committee comprises solely independent non-executive directors.

The current members are:
JA Bester (Chairman)
T Pritchard
CP Davies

Attendance by members at meetings in 2015/2016 is set out on page 23 of this Integrated Report.

Execution of functions

The Audit and Risk Committee has executed its duties and responsibilities during the financial year in accordance with the terms of its charter as they relate to the Group's accounting, internal auditing, internal control and financial reporting practices.

The Committee has complied with all applicable Companies Act provisions and the JSE Listings Requirements.

External auditor and external audit
During the year under review:

The Committee, among other matters:

- nominated Deloitte and Touche as the external auditor and designated auditor respectively to the shareholders for appointment as auditor for the financial year ended 29 February 2016, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor. The Committee confirms that the auditor and the designated auditor are accredited by the JSE Limited;
- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor;
- reviewed the audit, evaluated the effectiveness of the auditor and its independence and evaluated the external auditor's internal quality control procedures;
- obtained an annual written statement from the auditor that its independence was not impaired;
- determined the nature and extent of all non-audit services provided by the external auditor and pre-approved all non-audit services undertaken by way of a policy on the use of non-audit services by the Group's auditor;
- obtained the assurance that no member of the external audit team was hired by the company during the year;
- obtained assurances from the external auditor that adequate accounting records were being maintained; and
- considered whether any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No 26 of 2005, and determined that there were none.

Financial statements
The Committee, among other matters:

- confirmed the going concern as the basis of preparation of the interim and annual financial statements;
- reviewed compliance with the financial conditions of loan covenants and determined that the capital of the company was adequate;
- examined and reviewed the interim and annual financial statements, as well as all financial information disclosed to the public prior to submission to and approval by the board;
- ensured that the annual financial statements fairly present the financial position of the company as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the company and the Group was determined to be a going concern;
- considered treatments, significant unusual transactions and accounting judgements;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed the external auditor's audit report;
- reviewed the representation letter relating to the Group financial statements which was signed by management;
- considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements; and
- met separately with management, external audit and internal audit.

Internal control and internal audit
The Committee, among other matters:

- reviewed and approved the Internal Audit Charter and annual audit plan and evaluated the independence, effectiveness and performance of the Internal Audit Department and compliance with its charter;
- considered the reports of the internal auditor and external auditor on the Group's systems of internal control, including financial controls, business risk management and maintenance of effective internal control systems;
- received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to significant internal audit findings;
- assessed the adequacy of the performance of the internal audit function and of the available internal audit resources and found them to be satisfactory; and

- based on the above, formed the opinion that there were no material breakdowns in internal control, including financial controls, business risk management and maintaining effective material control systems.

Risk management and information technology

The Committee, insofar as relevant to its functions:

- reviewed the Group's policies on risk assessment and risk management, including fraud risks and information technology risks as they pertain to financial reporting and the going-concern assessment, and found them to be sound; and
- considered and reviewed the findings and recommendations of the Risk Committee.

Legal and regulatory requirements impacting the financial statements

The Committee:

- reviewed with management legal matters that could have a material impact on the Group;
- reviewed with the company's internal counsel the adequacy and effectiveness of the Group's procedures to ensure compliance with legal and regulatory responsibilities; and
- considered reports provided by management, the internal auditor and the external auditor regarding compliance with legal and regulatory requirements.

Coordination of assurance activities

The Committee reviewed the plans and work outputs of the external and internal auditors and concluded that these were adequate to address all significant financial risks facing the business.

Chief Financial Officer

The Committee considered the appropriateness, the experience and expertise of the Chief Financial Officer and concluded that these were appropriate.

Independence of the external auditor

The Audit and Risk Committee is satisfied that Deloitte and Touche is independent of Sovereign Food Investments Limited after taking the following factors into account:

- Representations made by Deloitte & Touche to the Audit and Risk Committee.
- The auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from the company.
- The auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the auditor.
- The auditor's independence was not prejudiced as a result of any previous appointment as auditor.
- The criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

Annual financial statements

The Audit and Risk Committee reviewed the annual financial statements of Sovereign Food Investments Limited for the year ended 29 February 2016, and is of the view that they:

- comply with the relevant provisions of the Act and IFRS in all material respects; and
- fairly represent the consolidated and separate financial position at that date and the results of operations and cash flows for the year then ended.

The Committee has also satisfied itself of the integrity of the remainder of the Integrated Report.

The Committee has recommended the annual financial statements and Integrated Report for the year ended 29 February 2016 for approval to the Sovereign Food Investments Limited board. The board has subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

On behalf of the Audit and Risk Committee

John Bester
Chairman

Port Elizabeth
31 May 2016

Independent auditors' report

To the Shareholders of Sovereign Food Investments Limited

We have audited the consolidated and separate financial statements of Sovereign Food Investments Limited set out on pages 56 to 87, which comprise the statement of financial position as at 29 February 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Sovereign Food Investments Limited as at 29 February 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 29 February 2016, we have read the Directors' Report, the Audit Committee's report and the declaration by Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors ("IRBA") Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Sovereign Food Investments Limited for four years.

Deloitte & Touche

Deloitte & Touche
Registered Auditors

Per: PJ Schneider
Partner
31 May 2016

Deloitte & Touche Place
Ascot Office Park, 1 Conyngham Street
Greenacres, Port Elizabeth

Directors' report

Nature of business

Sovereign Food Investments Limited is the holding company of one principal operation within the broiler industry which covers breeding activities, broiler farming, food processing, animal feed milling and value-added poultry processing and trading. Further details are given in the Group structure on page 2 and in the Chairman's and CEO's report and the Financial overview on pages 12 to 19, as well as below.

Statement of directors' responsibility and approval

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

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

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

The directors have reviewed both the Group's and the company's cash flow forecast for the year to 28 February 2017 and, in light of this review and the current financial position, they are satisfied that both the Group and the company had or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the company's consolidated annual financial statements. The consolidated annual financial statements have been examined by the company's external auditors and their unqualified audit report is presented on page 53. The consolidated annual financial statements set out on pages 56 to 87, have been prepared on the going-concern basis.

Incorporation of the Group

Sovereign Food Investments Limited was incorporated on 8 May 1995 with the acquisition by the Group of 100% of the share capital of Crown Chickens Proprietary Limited and its operating subsidiaries and divisions, United Chix Proprietary Limited, Rocklands Animal Feeds Division, Rocklands Wholesaling, Rocklands Cold Distribution and Country Range Farm Products Proprietary Limited. At this time, the interest of minorities of 30% of the share capital in Country Range Farms Products Proprietary Limited was also acquired.

Dividend declared

The board has declared a dividend for the year ended 29 February 2016 of Nil cents per share (2015: 34,0 cents).

Holding company

Sovereign Food Investments Limited does not have a holding company. Refer to page 86 for a breakdown of the company's shareholders.

Year under review

The Group performed well during the year under review with a net profit after taxation of R81,2 million (2015: R77,6 million) on revenue of R1 726,6 million (2015: R1 648,6 million).

Further details on the performance of the Group can be found in the Chairman's and CEO's report and the Financial overview on pages 12 and 18 respectively.

Subsidiaries' income

The attributable interest of the company in the aggregate net profit after taxation of its subsidiaries was R44,8 million (2015: R64 million). The Group's interest in subsidiaries as set out on page 71 forms part of this report.

Directors and Secretary

The names of the directors and Secretary of the company at the date of this report are listed on pages 20 to 21. In terms of the Memorandum of Incorporation, Mr JA Bester retires by rotation and, being eligible, offers himself up for re-election.

During the year under review, the number of directors serving on the board was reduced from nine to five. Mr CP Davies resigned as chairman of the board on 10 October 2015 and was replaced by Mr T Pritchard.

Mr Davies will continue to serve on the board as an independent non-executive director.

Mr LM Nyhonyha and Professor MP Madi have voluntarily elected to step down from the board with effect from 9 October 2015. Until their respective resignations, Mr Nyhonyha served as chairman of the Audit and Risk Committee and Professor Madi served as Chairman of the Human Resources and Remuneration Committee and Social and Ethics Committee.

Following the resignation of Mr Nyhonyha and Professor Madi and in order to maintain the balance between non-executive directors and executive directors, including ensuring an outright majority of non-executive directors serving on the board, Messrs GG Walter and BJ van Rensburg volunteered to step down from the board with effect from 9 October 2015.

Mr John Bester was appointed Chairman of the Audit and Risk Committee and the Human Resources and Remuneration Committee and Social and Ethics Committee.

Corporate activity

On 31 May 2016, the Group proposed an Empowerment Transaction which, if approved and implemented, would result in a repurchase of up to 3 811 113 shares from existing shareholders. A newly formed BEE Trust will be issued with 24 635 386 shares. In terms of the transaction, a new Executive Remuneration Policy will also be adopted, which will replace the existing policy.

Directors' and prescribed officers' interests

At the year-end, the directors and prescribed officers in aggregate held direct and indirect beneficial interests in the ordinary shares in the company as per the table below:

Directors' and prescribed officers' interest for the year ended 29 February 2016

Director/prescribed officer	Direct	Indirect	Total
BJ van Rensburg	**134 000**	**–**	**134 000**
C Coombes	**314 000**	**269 895**	**583 895**
CP Davies	**7 575**	**–**	**7 575**
E du Preez	**159 000**	**–**	**159 000**
GG Walter	**279 200**	**–**	**279 200**
GL Coley	**35 200**	**–**	**35 200**
JA Bester	**63 237**	**19 788**	**83 025**
TNS Maepa	**109 500**	**–**	**109 500**
Total	**1 101 712**	**289 683**	**1 391 395**

Between the end of the financial year and the date of this report, there has been no change in the shareholding of directors or prescribed officers.

Directors' and prescribed officers' interest for the year ended 28 February 2015

Director/prescribed officer	Direct	Indirect	Total
C Coombes	–	269 895	269 895
CP Davies	7 575	–	7 575
GG Walter	96 700	–	96 700
GL Coley	21 700	–	21 700
JA Bester	63 237	19 788	83 025
Total	189 212	289 683	478 895

Mr ME Hoppe is the Company Secretary. The board has considered and is satisfied that the Company Secretary is competent and has the requisite qualifications and experience to effectively execute his duties.

The board confirms that the Company Secretary maintains an arm's length relationship with the board and the directors, taking into account that the Company Secretary is not a director of the company and is not related to any of the directors.

Accounting policies

1. Presentation of annual financial statements

Statement of compliance
The annual financial statements have been prepared in accordance with International Financial Reporting Standards, the SAICA financial reporting guides as issued by the Accounting Practices Committee and financial pronouncements as issued by the Financial Reporting Standards Council, the JSE listing requirements, and the Companies Act of South Africa. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

Basis for consolidation
In the context of these annual financial statements, "consolidated" as interpreted by IFRS10 is defined as "Group". Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control, so as to obtain benefits from their activities.

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

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

Investment in subsidiaries
All subsidiaries are 100% owned. Acquisitions are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit and loss as incurred.

Investments in subsidiaries are recorded at cost in the company.

Associates
Associates are entities over which the Group has significant influence but not control.

Investments in associates are accounted for using the equity method of accounting whereby the carrying amount of the investment is increased or decreased to recognise the Group's share of profit and losses in the associate. Unrealised gains and losses on transactions between the Group and the associate are eliminated. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables
The Group assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated based on economic conditions and other indicators present at the reporting date that correlate with payment defaults.

Allowance for slow-moving, damaged and obsolete stock
An allowance is made to write inventory down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct costs to sell on certain inventory items.

Fair value estimation
The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

Impairment testing
The recoverable amounts of individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change, which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate taxation determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated taxation audit issues based on estimates of whether additional taxes will be due. Where the final taxation outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income taxation and deferred taxation provisions in the period in which such determination is made.

The Group recognises the net future taxation benefit related to deferred income taxation assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income taxation assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing taxation laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred taxation assets recorded at the end of the reporting period could be impacted.

Residual values and useful lives

Plant and machinery

Due to the specialised nature of the Group's plant and machinery, the residual value attached to these assets has been estimated to be nil. The Group estimates that the useful life of the plant and machinery, being the period of time for which the assets can be utilised without significant modifications, replacements or improvements, is 20 years based on current levels of production and repairs and maintenance costs incurred.

Motor vehicles

The entity has a policy of utilising all motor vehicles for a period of 10 years. It is estimated that passenger vehicles have a residual value of between 10% and 15% of its initial purchase price.

1.2 Biological assets

Breeding stock, live broiler chickens and other livestock

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

The depreciation method used is to depreciate the breeding stock over the expected useful lives as from when they begin producing eggs at week 21, to week 64 when they are disposed of. Broilers are not depreciated.

Biological assets consist of broilers and parent stock layers. All broilers and parent stock are mature biological assets.

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

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

1.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset 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.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand-by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value. Land is presumed to have an indefinite useful life. No depreciation is provided on assets under the course of construction.

Depreciation is provided to write down property, plant and equipment as follows:

Item	Average useful life
Buildings	50 years
Plant and machinery	20 years
Furniture and fixtures	10 years
Commercial vehicles	10 years
Motor vehicles	10 years
Office equipment	10 years
Computer equipment	5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate in terms of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the de- recognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the de- recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1. Presentation of annual financial statements (continued)

1.4 Financial instruments

Classification

The Group classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss – held for trading.
- Loans and receivables.
- Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition.

Financial assets classified as at fair value through profit or loss, which are no longer held for the purposes of selling or repurchasing in the near term, may be reclassified out of that category:

- in rare circumstances; and
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through profit or loss category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are initially measured at cost, which includes directly attributable transaction costs.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement

Financial assets at *fair value through profit and loss* are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item in the consolidated statement of comprehensive income.

Net gains or losses on the financial instruments at fair value through profit or loss exclude dividends and interest.

Dividend income is recognised in profit or loss as part of other income when the Group’s right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Impairment of financial assets

At each reporting date the Group assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the Group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Impairment losses are recognised in profit or loss

Impairment losses are reversed when an increase in the financial asset’s recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss, except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write-off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to/(from) Group companies

These include loans to and from holding companies, fellow subsidiaries and are recognised initially at fair value plus direct transaction costs.

Loans to and from Group companies are classified as loans and receivables.

Loans to shareholders, directors, managers and employees
These financial assets are classified as loans and receivables.

Trade and other receivables
Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method less provision for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other payables
Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits that are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value, subject to set-off arrangements.

Bank overdraft and borrowings
Bank overdrafts and borrowings are initially measured at fair value net of transaction cost and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Derivatives
Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts, are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derivatives are classified as financial assets at fair value through profit or loss – held for trading.

1.5 Taxation

Income taxation assets and liabilities
Income taxation for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Income taxation liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the taxation rates (and taxation laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation assets and liabilities
A deferred taxation liability is recognised for all taxable temporary differences, except to the extent that the deferred taxation liability arises from the initial recognition of an asset or liability in a transaction which, at the time of the transaction, affects neither accounting profit nor taxable profit (taxation loss).

A deferred taxation asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred taxation asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which, at the time of the transaction, affects neither accounting profit nor taxable profit (taxation loss).

A deferred taxation asset is recognised for the carry forward of unused taxation losses and unused secondary taxation on companies credits to the extent that it is probable that future taxable profit will be available against which the unused taxation losses and unused secondary taxation on companies credits can be utilised.

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

Tax expenses
Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the taxation arises from:

- a transaction or event which is recognised, in the same or a different period, in other comprehensive income; or
- a business combination.

Current taxation and deferred taxes are charged or credited to other comprehensive income if the taxation relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current taxation and deferred taxes are charged or credited directly to equity if the taxation relates to items that are credited or charged, in the same or a different period, directly to equity.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

1. Presentation of annual financial statements (continued)

1.6 Leases (continued)

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the effective interest rate.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised in the statement of comprehensive income.

Where the fixed rate escalation is not in line with the general expected inflation norms, operating leases are accounted for on a straight-line basis over the lease term.

1.7 Inventories

Inventories are measured at the lower of cost and net realisable value on the first-in first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of assets

The Group assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the Group also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period; and
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent the impairment results in a decrease of the revaluation of the asset to its cost price if it had never been revalued. Any further decrease in the value of an asset will be an impairment loss.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit.
- Second, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset, other than goodwill attributable to a reversal of an impairment loss, does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation, other than goodwill, is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as wages, salaries, sick leave and annual leave), is recognised in the period in which the service is rendered and is not discounted.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

1.10 Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Contingent liabilities

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18 Revenue.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 23.

1.11 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

1.12 Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Group.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value-added taxation.

Interest is recognised, in profit or loss, using the effective interest method.

Dividends are recognised, in profit or loss, when the Group's right to receive payment has been established.

1.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.14 Translation of foreign currencies

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

1. Presentation of annual financial statements (continued)

1.14 Translation of foreign currencies (continued)

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.15 Segmental reporting

The Group operates as one reporting segment. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group is a producer of poultry products and only produces one product type. Revenue is primarily generated within the borders of South Africa. The internal reporting provided to the chief operating decision-maker is the same as that presented in the statement of comprehensive income and statement of financial position.

1.16 Share-based payments

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

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

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

Fair value is determined using the Black-Scholes or Monte Carlo pricing models, depending on which is applicable. The expected life used in these modes has been adjusted for the effects of non-transferability, exercise restrictions and behavioural considerations.

1.17 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

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

If the company reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments is deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchases, sale, issue or cancellation of the company's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of taxation, from the proceeds.

1.18 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

1.19 Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the entity over the net fair value of the identifiable net assets recognised.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year. None of these standards had a material impact on the Group's annual financial statements.

Standard	Amendment	Effective date
IAS 19: Employee Benefits	The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary	Annual periods beginning on or after 1 July 2014
IAS 40: Investment Property	Amendments resulting from Annual Improvements 2011-2013 Cycle (interrelationship between IFRS 3 and IAS 40)	Annual periods beginning on or after 1 July 2014
IAS 16: Property, Plant and Equipment	Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)	Annual periods beginning on or after 1 July 2014
IAS 38: Intangible Assets	Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)	Annual periods beginning on or after 1 July 2014
IAS 24: Related Party Disclosures	Amendments resulting from Annual Improvements 2010-2012 Cycle (management entities)	Annual periods beginning on or after 1 July 2014
IFRS 3: Business Combinations	Amendments resulting from Annual Improvements 2011-2013 Cycle (scope exception for joint ventures)	Annual periods beginning on or after 1 July 2014
IFRS 8: Operating Segments	Amendments resulting from Annual Improvements 2010-2012 Cycle (aggregation of segments, reconciliation of segment assets)	Annual periods beginning on or after 1 July 2014
IFRS 13: Fair Value Measurement	Amendments resulting from Annual Improvements 2011-2013 Cycle (scope of the portfolio exception in paragraph 52)	Annual periods beginning on or after 1 July 2014
IFRS 3: Business Combinations	Amendments resulting from Annual Improvements 2010-2012 Cycle (accounting for contingent consideration)	Annual periods beginning on or after 1 July 2014
IFRS 1: First- time adoption of International Financial Reporting Standards	Amendments resulting from Annual Improvements 2011-2013 Cycle (clarification on which versions of IFRSs can be used on initial adoption)	Annual periods beginning on or after 1 July 2014
IFRS 2: Share-based Payments	Amendments resulting from Annual Improvements 2010-2012 Cycle (definition of 'vesting condition')	Annual periods beginning on or after 1 July 2014

2. New standards and interpretations (continued)

2.2 Standards and interpretations not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective.

The Group expects to adopt these standards for the first time in the 2017 and latter annual financial statements.

Management will assess whether these standards will have a material impact on the Group's annual financial statements.

Standard	Amendment	Effective date
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations	Amendments resulting from Annual Improvements 2012-2014 Cycle (scope exception for joint ventures)	Annual periods beginning on or after 1 January 2016
IFRS 7: Financial Instruments: Disclosures	Amendments resulting from Annual Improvements 2012-2014 Cycle (scope exception for joint ventures)	Annual periods beginning on or after 1 January 2016
IFRS 9: Financial Instruments	Original issue (classification and measurement of financial assets)	No stated effective date
IFRS 9: Financial Instruments	Accounting for financial liabilities and derecognition	No stated effective date
IFRS 9: Financial Instruments	Amendments resulting from Annual Improvements 2012-2014 Cycle (scope exception for joint ventures)	Annual periods beginning on or after 1 January 2016
IFRS 9: Financial Instruments	Reissue to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the 'own credit' gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9	No stated effective date
IFRS 9: Financial Instruments	Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition	Effective for annual periods beginning on or after 1 January 2018
IFRS 10: Consolidated Financial Statements	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Effective date deferred indefinitely
IFRS 10: Consolidated Financial Statements	Amendments regarding the application of the consolidation exception	Effective date deferred indefinitely
IFRS 11: Joint Arrangements	Amendments regarding the accounting for acquisitions of an interest in a joint operation	Annual periods beginning on or after 1 January 2016
IFRS 12: Disclosure of Interests in Other Entities	Amendments regarding the application of the consolidation exception	Annual periods beginning on or after 1 January 2016
IFRS 14: Regulatory Deferral Accounts	Original issue	Annual periods beginning on or after 1 January 2016
IFRS 15: Revenue from Contracts with Customers	Original issue	Annual periods beginning on or after 1 January 2018
IFRS 16: Leases	Original issue	Annual periods beginning on or after 1 January 2019
IAS 1: Presentation of Financial Statements	Amendments resulting from the disclosure initiative	Annual periods beginning on or after 1 January 2016
IAS 7: Statement of Cash Flows	Clarification of disclosures	Annual periods beginning on or after 1 January 2017
IAS 12: Income Taxes	Amendments issued to clarify unrealised losses on debt instruments and future taxable profits.	Annual periods beginning on or after 1 January 2017
IAS 16: Property, Plant and Equipment	Amendments regarding the clarification of acceptable methods of depreciation and amortisation	Annual periods beginning on or after 1 January 2016
IAS 16: Property, Plant and Equipment	Amendments bringing bearer plants into the scope of IAS 16	Annual periods beginning on or after 1 January 2016

Standard	Amendment	Effective date
IAS 27: Separate Financial Statements	Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	Annual periods beginning on or after 1 January 2016
IAS 28: Investments in Associates and Joint Ventures	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Effective date deferred indefinitely
IAS 28: Investments in Associates and Joint Ventures	Amendments regarding the application of the consolidation exception	Annual periods beginning on or after 1 January 2016
IAS 34: Interim financial reporting	Amendments resulting from Annual Improvements 2012-2014 Cycle (scope exception for joint ventures)	Annual periods beginning on or after 1 January 2016
IAS 38: Intangible Assets	Amendments regarding the clarification of acceptable methods of depreciation and amortisation	Annual periods beginning on or after 1 January 2016
IAS 41: Agriculture	Amendments bringing bearer plants into the scope of IAS 16	Annual periods beginning on or after 1 January 2016

Statement of financial position

as at 29 February 2016

	Notes	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Assets					
Non-current assets		**926 357**	754 136	**233 738**	260 728
Property, plant and equipment	1	**924 716**	754 136	–	–
Loans to subsidiaries	2	–	–	**195 357**	222 171
Deferred taxation	7	–	–	**8 635**	8 811
Investment in subsidiaries	2	–	–	**29 746**	29 746
Investment in associate	2	**1 641**	–	–	–
Current assets		**533 692**	452 559	**9 419**	59
Inventories	3	**105 856**	71 873	–	–
Biological assets	3	**121 549**	111 881	–	–
Trade and other receivables	4	**196 528**	197 952	**9 383**	51
Cash and cash equivalents	14	**109 759**	70 853	**36**	8
Total assets		**1 460 049**	1 206 695	**243 157**	260 787
Equity and liabilities					
Share capital and premium	5	**244 596**	252 429	**249 541**	252 429
Share-based payments	26	**2 036**	1 459	–	–
Retained earnings/(accumulated loss)		**513 555**	458 335	**(8 969)**	(19 431)
Equity		**760 187**	712 223	**240 572**	232 998
Non-current liabilities		**335 203**	231 406	–	–
Interest-bearing borrowings	6	**122 515**	53 554	–	–
Deferred taxation	7	**212 688**	177 852	–	–
Current liabilities		**364 659**	263 066	**2 585**	27 789
Trade and other payables	8	**302 529**	191 111	**2 201**	1 377
Provisions	24	**12 451**	46 063	**384**	26 412
Current portion of interest-bearing borrowings	6	**49 679**	25 892	–	–
Total equity and liabilities		**1 460 049**	1 206 695	**243 157**	260 787

Statement of comprehensive income

for the year ended 29 February 2016

	Notes	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Revenue		**1 726 638**	1 648 631	**15 400**	13 200
Cost of sales		**1 416 637**	1 333 972	**–**	–
Gross profit		**310 001**	314 659	**15 400**	13 200
Other income	9	**–**	–	**46 000**	33 100
Operating expenses		**191 753**	203 763	**24 838**	40 164
Share of profit from associates	2	**1 641**	–	**–**	–
Profit before finance costs	9	**119 889**	110 896	**36 562**	6 136
Finance costs	10	**11 080**	7 466	**–**	–
Interest received	10	**(7 185)**	(4 673)	**(14)**	(2)
Profit before taxation		**115 994**	108 103	**36 576**	6 138
Taxation	11	**34 836**	30 507	**176**	(7 433)
Profit after taxation		**81 158**	77 596	**36 400**	13 571
Other comprehensive income for the year		**–**	–	**–**	–
Total comprehensive income for the year		**81 158**	77 596	**36 400**	13 571
Earnings per share					
Earnings per ordinary share (cents)	16	**108,3**	101,9		
Diluted earnings per ordinary share (cents)	16	**108,3**	101,9		
Headline earnings per ordinary share (cents)	16	**108,4**	103,3		
Diluted headline earnings per ordinary share (cents)	16	**108,4**	103,3		
Dividends per share					
Final dividend per share (cents)		**–**	34,0		

Financials

Statement of changes in equity

for the year ended 29 February 2016

		Group			
2016 **R'000**	Notes	**Share capital and premium**	**Share-based payments**	**Retained earnings**	**Total**
Balance at beginning of year		**252 429**	**1 459**	**458 335**	**712 223**
Total comprehensive income for the year		**–**	**–**	**81 158**	**81 158**
Shares purchased and held by a subsidiary	5	**(4 945)**	**–**	**–**	**(4 945)**
Shares purchased and held by Employee Share Ownership Plan	5	**(2 888)**	**–**	**–**	**(2 888)**
Dividends paid to shareholders		**–**	**–**	**(25 938)**	**(25 938)**
Net value of employee services	26	**–**	**577**	**–**	**577**
Balance at end of year		**244 596**	**2 036**	**513 555**	**760 187**
2015					
Balance at beginning of year		257 435	–	392 170	649 605
Total comprehensive income for the year		–	–	77 596	77 596
Shares repurchased	5	(16)	–	–	(16)
Shares purchased and held by Employee Share Ownership Plan	5	(4 990)	–	–	(4 990)
Dividends paid to shareholders		–	–	(11 431)	(11 431)
Net value of employee services	26	–	1 459	–	1 459
Balance at end of year		252 429	1 459	458 335	712 223

		Company			
2016 **R'000**	Notes	**Share capital and premium**	**Share-based payments**	**Accumulated loss**	**Total**
Balance at beginning of year		**252 429**	**–**	**(19 431)**	**232 998**
Total comprehensive income for the year		**–**	**–**	**36 400**	**36 400**
Shares purchased and held by Employee Share Ownership Plan	5	**(2 888)**	**–**	**–**	**(2 888)**
Dividends paid to shareholders		**–**	**–**	**(25 938)**	**(25 938)**
Balance at end of year		**249 541**	**–**	**(8 969)**	**240 572**
2015					
Balance at beginning of year		257 435	–	(21 571)	235 864
Total comprehensive income for the year		–	–	13 571	13 571
Shares repurchased	5	(16)	–	–	(16)
Shares purchased and held by Employee Share Ownership Plan	5	(4 990)	–	–	(4 990)
Dividends paid to shareholders		–	–	(11 431)	(11 431)
Balance at end of year		252 429	–	(19 431)	232 998

Statement of cash flows

for the year ended 29 February 2016

	Notes	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Cash flows from operating activities					
Cash generated from operations before working capital changes		**156 668**	147 395	**36 562**	6 136
Changes in working capital		**35 579**	(20 304)	**(7 722)**	10 306
Cash generated from operating activities	13	**192 247**	127 091	**28 840**	16 442
Net interest (paid)/received	10	**(3 895)**	(2 793)	**14**	2
Net cash flow from operating activities		**188 352**	124 298	**28 854**	16 444
Cash flows from investing activities					
Proceeds on the sale of property, plant and equipment		**166**	1 637	**–**	–
Net cash flow from investing in business combination	28	**(120 000)**	–	**–**	–
Net cash flow from investing in property, plant and equipment		**(88 589)**	(53 842)	**–**	–
Net cash flow from investing activities		**(208 423)**	(52 205)	**–**	–
Cash flows from financing activities					
Net cash flow from dividends paid to shareholders		**(25 938)**	(11 431)	**(25 938)**	(11 431)
Net cash flow from shares repurchased	5	**(4 945)**	(16)	**–**	(16)
Net cash flow from shares purchased for ESOP	5	**(2 888)**	(4 990)	**(2 888)**	(4 990)
Proceeds from borrowings		**120 000**	–	**–**	–
Payment on long-term borrowings		**(27 252)**	(26 174)	**–**	–
Net cash flow from financing activities		**58 977**	(42 611)	**(28 826)**	(16 437)
Net increase in cash and cash equivalents		**38 906**	29 482	**28**	7
Cash and cash equivalents at beginning of year		**70 853**	41 371	**8**	1
Net cash and cash equivalents at end of year	14	**109 759**	70 853	**36**	8

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
1. Property, plant and equipment				
Cost				
Land	**51 565**	45 735	**–**	–
Buildings	**499 606**	405 680	**–**	–
Assets not yet brought into production	**11 152**	19 500	**–**	–
Plant	**610 945**	492 318	**–**	–
Vehicles	**7 450**	8 020	**–**	–
Office equipment, furniture and fittings	**1 669**	1 669	**–**	–
Computer equipment	**7 029**	7 029	**–**	–
	1 189 416	979 951	**–**	–
Accumulated depreciation and impairment				
Land	**354**	354	**–**	–
Buildings	**79 637**	68 842	**–**	–
Assets not yet brought into production	**–**	–	**–**	–
Plant	**170 722**	142 512		
Vehicles	**5 453**	5 657	**–**	–
Office equipment, furniture and fittings	**1 505**	1 421	**–**	–
Computer equipment	**7 029**	7 029	**–**	–
	264 700	225 815	**–**	–
Net carrying value				
Land	**51 211**	45 381	**–**	–
Buildings	**419 969**	336 838	**–**	–
Assets not yet brought into production	**11 152**	19 500	**–**	–
Plant	**440 223**	349 806	**–**	–
Vehicles	**1 997**	2 363	**–**	–
Office equipment, furniture and fittings	**164**	248	**–**	–
Computer equipment	**–**	–	**–**	–
	924 716	754 136	**–**	–

	Land R'000	Buildings R'000	Assets not yet brought into production R'000	Plant R'000	Vehicles R'000	Office equipment, furniture and fittings R'000	Total R'000
Movement in property, plant and equipment							
2016							
Net carrying value at beginning of year	**45 381**	**336 838**	**19 500**	**349 806**	**2 363**	**248**	**754 136**
Additions	**869**	**35 483**	**11 152**	**41 085**	**–**	**–**	**88 589**
Additions through acquistion of business combination	**4 961**	**58 443**	**–**	**56 596**	**–**	**–**	**120 000**
Reallocations	**–**	**–**	**(19 500)**	**19 500**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**(244)**	**(78)**	**–**	**(322)**
Depreciation	**–**	**(10 795)**	**–**	**(26 520)**	**(288)**	**(84)**	**(37 687)**
Net carrying value at end of year	**51 211**	**419 969**	**11 152**	**440 223**	**1 997**	**164**	**924 716**
2015							
Net carrying value at beginning of year	46 541	347 107	–	339 537	3 436	350	736 971
Additions	–	–	53 842	–	–	–	53 842
Reallocations	–	–	(34 342)	34 342	–	–	–
Disposals	(1 160)	(152)	–	(523)	(534)	–	(2 369)
Impairments	–	–	–	(652)	(101)	–	(753)
Depreciation	–	(10 117)	–	(22 898)	(438)	(102)	(33 555)
Net carrying value at end of year	45 381	336 838	19 500	349 806	2 363	248	754 136

Included in land, buildings and plant are assets with a net book value of R386 497 714 (2015: R259 837 060) that have been encumbered as per note 23.

	Issued share capital		Group's effective holding		Book value of holding company's interest			
					Investment at cost		Loans to subsidiaries	
	2016 R	2015 R	**2016 %**	2015 %	**2016 R'000**	2015 R'000	**2016 R'000**	2015 R'000
2. Interest in affiliates								
Subsidiary companies								
Directly owned								
Sovereign Food Industries (Pty) Ltd	**36**	36	**100**	100	**29 746**	29 746	**88 918**	42 917
Indirectly owned								
Active								
Crown Chickens (Pty) Ltd	**5 005**	5 005	**100**	100	**–**	–	**106 439**	179 254
Inactive or dormant and in the process of being deregistered								
Pashia Farm (Pty) Ltd	**–**	100	**–**	100	**–**	–	**–**	–
Chicken Barn Holdings (Pty) Ltd	**–**	100	**–**	100	**–**	–	**–**	–
United Chix (Pty) Ltd	**1 000**	1 000	**100**	100	**–**	–	**–**	–
					29 746	29 746	**195 357**	222 171

These loans are unsecured, have no fixed terms of repayment and bear Nil (2015: Nil) interest. All subsidiaries of the Group were incorporated in South Africa. Pashia Farm (Pty) Ltd and Chicken Barn Holdings (Pty) Ltd, previously dormant companies within the Group, were deregistered during 2016.

	Group		Company	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Interest in associate				
Sov Foods Factory Shop (Pty) Ltd				
Cost	**–**	–	**–**	–
Share of post-acquisition profits	**1 641**	–	**–**	–
	1 641	–	**–**	–

The Group's interest in Sov Foods Factory Shop (Pty) Ltd is 35%. No consideration was paid for this share. The financial year end of the associate is 29 February 2016.

Other

Employee Share Ownership Scheme

The Employee Share Ownership Scheme ("ESOP") is a trust that was established in 2014 as a retention scheme for employees in management positions. The trustees of the trust are three of Sovereign Food Investment Limited's non-executive directors and the beneficiaries are all employees of the Group. The sole business of the trust is to purchase shares in the holding company in order to award the relevant employees once their shares vest. The purchase of these shares is through a loan granted by the holding company. The ESOP has been consolidated into the Group's accounts and all shares purchased by the ESOP are accounted for as treasury shares.

		Group		Company	
		2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
3.	**Inventories and biological assets**				
	Inventories				
	Raw materials and consumables	**59 313**	51 668	**–**	–
	Finished products	**46 543**	20 205	**–**	–
		105 856	71 873	**–**	–
	Biological assets				
	Balance at beginning of year	**111 881**	106 042	**–**	–
	Purchases	**27 850**	24 552	**–**	–
	Net decrease due to biological growth/slaughter/depreciation	**(18 182)**	(18 713)	**–**	–
	Balance at end of year	**121 549**	111 881	**–**	–

As at 29 February 2016, the Group had 4,4 million (2015: 4,4 million) broilers on hand and 0,5 million (2015: 0,5 million) female laying stock on hand.

Certain items of inventory have been encumbered as stated in note 6.

		2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
4.	**Trade and other receivables**				
	Trade receivables	**181 743**	183 490	**–**	–
	Less: Provision for impairment of trade receivables	**(1 632)**	(1 207)	**–**	–
	Net trade receivables	**180 111**	182 283	**–**	–
	Prepayments	**14 533**	3 105	**9 383**	51
	Sundry receivables	**1 884**	12 564	**–**	–
		196 528	197 952	**9 383**	51
	The fair values of trade and other receivables are as follows:				
	Trade receivables	**180 111**	182 283	**–**	–
	Prepayments	**14 533**	3 105	**9 383**	51
	Sundry receivables	**1 884**	12 564	**–**	–
		196 528	197 952	**9 383**	51
	Movement on the provision for impairment of trade receivables is as follows:				
	Balance at beginning of year	**1 207**	1 628	**–**	–
	Increase/(decrease) in provision for receivables impairment	**426**	(120)	**–**	–
	Receivables written off during the year as uncollectable	**(1)**	(301)	**–**	–
	Balance at end of year	**1 632**	1 207	**–**	–

Included in prepayments is an amount of R9 081 140 that relates to transaction costs on the proposed Empowerment transaction. Once the transaction has been completed, these costs will be capitalised to equity. In the event of the transaction not being successful, these costs will be expensed in the Statement of Comprehensive Income.

The creation and release of provision for impaired receivables has been included in operating expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the gross value of each class of receivable mentioned above.

The Group carries credit insurance against possible default. As at the reporting date R70 659 401 (2015: R70 744 312) of trade receivables was covered under credit insurance.

In order to evaluate sales concentration risk, the Group reviews sales to customers who comprise more than 10% of total sales by value. The Group had sales by value to one customer of 39%, and to another customer of 12%; no other customers comprised more than 10% of total sales by value.

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
4. Trade and other receivables (continued)				
Ageing profile of trade receivables:				
Less than three months	**179 517**	181 933	**–**	–
Greater than three months	**2 226**	1 557	**–**	–
Total	**181 743**	183 490	**–**	–
Trade receivables that are less than two months past due are not considered impaired. As at 29 February 2016, R5 427 064 (2015: R6 173 821) were past due but not impaired. These relate to customers for whom no default is expected.				
As at 29 February 2016, trade receivables with a gross value of R181 742 321 (2015: R183 490 015) of a subsidiary were ceded as security to a financial institution for a loan (see note 6). Further to this, the same trade receivables are subject to a revisionary cession to another financial institution (see note 6).				
Credit quality of trade receivables				
The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.				
Group 1 – new customers (less than six months)	**10 896**	10 864	**–**	–
Group 2 – existing customers (more than six months, not in default)	**169 215**	171 419	**–**	–
Group 3 – exisiting customers (more than six months, with some defaults but where all defaults were fully recovered)	**–**	–	**–**	–
	180 111	182 283	**–**	–
5. Share capital and premium				
Authorised				
150 000 000 (2015: 150 000 000) ordinary shares with no par value	**1 500**	1 500	**1 500**	1 500
Issued				
76 222 266 ordinary shares with no par value (2015: 76 222 266 shares)	**762**	762	**762**	762
Movement in share capital and premium				
Balance at beginning of year	**252 429**	257 435	**252 429**	257 435
Shares repurchased and deregistered	**–**	(16)	**–**	(16)
Shares held as treasury shares – purchased by a Subsidiary	**(4 945)**	–	**–**	–
Shares held as treasury shares – purchased by the ESOP	**(2 888)**	(4 990)	**(2 888)**	(4 990)
Balance at end of year	**244 596**	252 429	**249 541**	252 429
Comprised of:				
Issued share capital and premium	**257 419**	257 419	**257 419**	257 419
Shares held as treasury shares – purchased by a Subsidiary	**(4 945)**	–	**–**	–
Shares held as treasury shares – purchased by the ESOP	**(7 878)**	(4 990)	**(7 878)**	(4 990)
	244 596	252 429	**249 541**	252 429

R Nil (2015: 3 350) shares were repurchased out of the market and deregistered at an average price of R Nil (2015: R4,70) per share for a total cost of R Nil (2015: R15 750).

634 800 (2015: Nil) shares were repurchased out of the market by a subsidiary at an average price of R7,79 (2015: R Nil) per share for a total cost of R4 945 000 (2015: R Nil).

350 000 (2015: 575 000) shares were purchased for the Employee Share Ownership Scheme ("ESOP") out of the market at an average price of R8,25 (2015: R8,68) per share for a total cost of R2 887 500 (2015: R4 990 666). Refer to note 27.

		Group		Company	
		Number of shares	Number of shares	**Number of shares**	Number of shares
5.	**Share capital and premium (continued)**				
	Reconciliation of shares in issue				
	Balance at beginning of year	**76 222 266**	76 225 616	**76 222 266**	76 225 616
	Repurchased during the year	**–**	(3 350)	**–**	(3 350)
	Balance at end of year	**76 222 266**	76 222 266	**76 222 266**	76 222 266
	Number of shares held as:				
	Issued shares	**76 222 266**	76 222 266	**76 222 266**	76 222 266
	Treasury shares	**(1 559 800)**	(575 000)	**–**	–
		74 662 466	75 647 266	**76 222 266**	76 222 266
	Treasury shares				
	Treasury shares are held by the ESOP and a Subsidiary Company				
	Reconciliation of issued to authorised shares				
	Not under the control of the directors until the next annual general meeting	**73 777 734**	73 777 734	**73 777 734**	73 777 734
	Ordinary shares in issue	**76 222 266**	76 222 266	**76 222 266**	76 222 266
	Authorised ordinary shares	**150 000 000**	150 000 000	**150 000 000**	150 000 000

		Group		Company	
		2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
6.	**Interest-bearing borrowings**				
	Secured				
	Loan 1				
	Secured loan repayable in monthly capital instalments of R86 151 (2015: R86 151). Interest is charged at a rate that fluctuates with prime lending rates less 1,25% (2015: less 1,25%) per annum. Secured by first mortgage bond and specific notarial bond over certain land, buildings, equipment, inventory and trade debtors with a carrying value of R574 136 574 (2015: R452 505 757).	**954**	1 895	**–**	–
	Loan 2				
	Two secured loans were repaid in monthly capital instalments of R426 733 (2015: R426 733). Interest was charged at a rate that fluctuated with prime lending rates less 1,25% (2015: less 1,25%) per annum. The loan was secured by first mortgage bond and specific notarial bond over certain land, buildings, equipment, inventory and trade debtors with a carrying value of R574 136 574 (2015: R452 505 757).	**–**	4 607	**–**	–
	Loan 3				
	Three secured loans repayable in monthly capital instalments of R1 403 313 (2015: R1 403 313). Interest is charged at a rate that fluctuates with prime lending rates less 1.25% (2015: less 1.25%) per annum. Secured by first mortgage bond and specific notarial bond over certain land, buildings, equipment, inventory and trade debtors with a carrying value of R574 136 574 (2015: R452 505 757).	**37 840**	53 007	**–**	–
	Loan 4				
	Secured loan repayable in monthly instalments including finance charges of R120 840 (2015: R119 605). Interest is charged at a rate that fluctuates with prime lending rates less 1,7% (2015: less 1,7%). Secured by first mortgage bond and specific notarial bond over certain land, buildings and equipment with a carrying value of R15 087 756 (2015: R18 453 842).	**4 946**	5 963	**–**	–
	Loan 5				
	Secured loan repayable in monthly instalments including finance charges of R283 216 (2015: R280 320). Interest is charged at a rate that fluctuates with prime lending rates less 1,7% (2015: less 1,7%). Secured by first mortgage bond and specific notarial bond over certain land and buildings with a carrying value of R12 538 760 (2015: R18 174 007).	**11 591**	13 974	**–**	–

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
6. Interest-bearing borrowings (continued)				
Loan 6				
Secured loan repayable in monthly capital installments of R2 million. Interest is charged at a rate that fluctuates with prime lending rates less 1,46%. Secured by first ranking mortgage bond over certain land and buildings with a carrying value of R94 032 594.	**116 863**	–	**–**	–
	172 194	79 446	**–**	–
Less: Current portion included in current liabilities	**49 679**	25 892	**–**	–
	122 515	53 554	**–**	–
Details of land and building mortgages are contained in a register, setting out the information required by Regulation 25 (3) of the Companies Regulations, 2011, which is available for inspection by members or their duly authorised agents at the registered office of the Company. A copy of the register will be posted on request to members of the public.				
Fair value of financial liabilities carried at amortised cost				
Secured loans	**172 194**	79 446	**–**	–
	172 194	79 446	**–**	–

The fair values of the financial liabilities were determined as follows:

Market related interest rates are charged on secured loans and finance leases. These rates include a credit risk margin and the directors therefore consider the fair value to approximate the carrying value.

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
7. Deferred taxation				
Deferred taxation comprises:				
Capital allowances	**201 410**	182 999	**–**	–
Livestock	**50 628**	45 780	**–**	–
Provisions and other temporary differences	**(4 209)**	(13 151)	**(107)**	(7 279)
Tax losses	**(35 141)**	(37 776)	**(8 528)**	(1 532)
	212 688	177 852	**(8 635)**	(8 811)
The movement in deferred taxation was as follows:				
Balance at beginning of year	**177 852**	147 345	**(8 811)**	(1 378)
Current charge/(reversal)	**34 836**	30 507	**176**	(7 433)
Temporary differences	**32 609**	13 881	**7 288**	(7 111)
Decrease/(increase) in tax loss	**2 227**	16 626	**(7 112)**	(322)
Balance at end of year	**212 688**	177 852	**(8 635)**	(8 811)
The Group has the following "tax shield" against future taxable income:				
Assessed losses	**125 504**	134 914	**30 457**	5 471
Unutilised s12(B) accelerated capital expenditure allowance	**37 161**	29 293	**–**	–
Unutilised s12(C) accelerated capital expenditure allowance	**45 277**	–	**–**	–
Unutilised s13(1) accelerated capital expenditure allowance	**55 521**	–	**–**	–
Unutilised s11(e) wear and tear allowance	**765**	1 340	**–**	–
	264 228	165 547	**30 457**	5 471
8. Trade and other payables				
Trade payables	**289 352**	171 460	**238**	10
Accruals	**13 177**	19 651	**1 963**	1 367
Payroll and other related costs	**10 961**	17 560	**779**	847
Other	**2 216**	2 091	**1 184**	520
	302 529	191 111	**2 201**	1 377

The average credit period taken for trade purchases is 67 days (2015: 42 days). The directors consider that the carrying amount of trade and other payables approximate their fair value.

Included in trade payables is an amount of R8,1 million (2015: R27,0 million) in respect of a dispute with a local service provider. Refer to note 23.

Notes to the financial statements (continued)

for the year ended 29 February 2016

		Group		Company	
		2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
9.	**Profit before finance costs**				
	Income before finance costs is arrived at after taking into account:				
	Expense items/(income)				
	Dividends received	**–**	–	**(46 000)**	(33 100)
	Share-based payments	**577**	1 459	**–**	–
	Impairment of plant and equipment	**–**	753	**–**	–
	Depreciation of property, plant and equipment	**37 687**	33 555	**–**	–
	Operating leases of property, vehicles, office and other equipment	**19 072**	20 128	**120**	120
	Staff costs and contract workers	**278 527**	293 493	**11 949**	38 228
	Unrealised profit on derivative instruments	**(957)**	(10 569)	**–**	–
	Unrealised (profit)/loss on foreign exchange contracts	**(713)**	518	**–**	–
	Loss on sale of property, plant and equipment	**156**	732	**–**	–
10.	**Net finance costs**				
	Interest on debt (bank borrowings)	**11 080**	7 466	**–**	–
	Interest received (short-term bank deposit)	**(7 185)**	(4 673)	**(14)**	(2)
		3 895	2 793	**(14)**	(2)
11.	**Taxation**				
	Current taxation				
	SA normal taxation	**–**	–	**–**	–
	– current year	**–**	–	**–**	–
	– prior year under/(over) provision	**–**	–	**–**	–
	Deferred taxation	**34 836**	30 507	**176**	(7 433)
	– current year	**34 836**	28 727	**176**	(7 433)
	– prior year adjustment	**–**	1 780	**–**	–
	Taxation charge/(credit)	**34 836**	30 507	**176**	(7 433)
	The estimated taxation losses of certain subsidiaries available for set-off against future taxable income amounts to R125,5 million (2015: R134,9 million).				
	Reconciliation of taxation rate	**%**	%	**%**	%
	Normal rate of Company taxation	**28,0**	28,0	**28,0**	28,0
	Permanent differences				
	Non-taxable income	**(0,4)**	–	**(35,2)**	(151,0)
	Non-deductible costs	**2,4**	0,1	**7,8**	0,0
	Tax loss raised/(utilised)	**–**	0,1	**(0,1)**	1,9
	Effective taxation rate	**30,0**	28,2	**0,5**	(121,1)
12.	**Retirement benefit information**				
	The Company provides, through a Group defined contribution provident fund scheme, retirement benefits for all permanent employees. These funds are subject to the Pension Funds Act, 1956, as amended. Contributions are at the rate of between 15,5% and 18,5% of pensionable emoluments of which members pay 6,5%.				
	Total value of current service contributions to the schemes	**11 299**	10 900	**1 331**	1 059
	Proportion of total permanent employees covered	**100%**	100%	**100%**	100%

	Group		Company	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
13. Cash generated from operating activities				
Profit before taxation	**115 994**	108 103	**36 576**	6 138
Interest received	**(7 185)**	(4 673)	**(14)**	(2)
Finance costs	**11 080**	7 466	**–**	–
Depreciation and impairment	**37 687**	34 308	**–**	–
Loss on disposal of asset	**156**	732	**–**	–
Income from associate	**(1 641)**	–	**–**	–
Movement on share option schemes	**577**	1 459	**–**	–
Operating profit before working capital changes	**156 668**	147 395	**36 562**	6 136
Working capital changes				
Increase in inventories	**(33 983)**	(10 143)	**–**	–
Increase in biological assets	**(9 668)**	(5 839)	**–**	–
Decrease/(increase) in accounts receivable	**1 424**	(70 494)	**(9 332)**	(3)
Increase/(decrease) in accounts payable and provisions	**77 806**	66 172	**(25 204)**	25 530
(Increase)/decrease in amounts owing from subsidiaries	**–**	–	**26 814**	(15 221)
Total working capital changes	**35 579**	(20 304)	**(7 722)**	10 306
Cash generated from operating activities	**192 247**	127 091	**28 840**	16 442
14. Cash and cash equivalents				
Bank balances and cash on hand	**109 759**	70 853	**36**	8
Net cash	**109 759**	70 853	**36**	8
The credit quality of cash at bank and short-term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings.				
Credit rating				
BBB-	**105 644**	–	**36**	–
Baa2	**4 033**	–	**–**	–
zaAAA	**–**	66 233	**–**	8
zaAA	**–**	4 510	**–**	–
Bank balances	**109 677**	70 743	**36**	8
Cash on hand	**82**	110	**–**	–
Net cash	**109 759**	70 853	**36**	8

Notes to the financial statements (continued)

for the year ended 29 February 2016

		Group		Company	
		2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
15.	**Capital commitments**				
	Authorised				
	Contracted	**5 400**	49 600	**–**	–
	Not contracted for	**–**	59 500	**–**	–
	To be expended within one year	**5 400**	109 100	**–**	–
	This capital expenditure will be financed as follows:				
	Cash generated from current operations	**5 400**	85 100	**–**	–
	Long-term finance	**–**	24 000	**–**	–
		5 400	109 100	**–**	–
16.	**Earnings and dividends per share**				
	The calculation of earnings per ordinary share, diluted earnings per ordinary share, headline earnings per share and diluted headline earnings per share is based on the following:				
16.1	**Earnings per ordinary share**				
	Earnings attributable to ordinary shareholders (R'000)	**81 158**	77 596	**–**	–
	Weighted average ordinary shares in issue	**74 942 172**	76 128 079	**–**	–
	Earnings per ordinary share (cents)	**108,3**	101,9	**–**	–
16.2	**Diluted earnings per ordinary share**				
	Earnings attributable to ordinary shareholders (R'000)	**81 158**	77 596	**–**	–
	Weighted average diluted ordinary shares in issue	**74 942 172**	76 128 079	**–**	–
	Diluted earnings per ordinary share (cents)	**108,3**	101,9	**–**	–
16.3	**Headline earnings per ordinary share**				
	Headline earnings attributable to ordinary shareholders (R'000)	**81 270**	78 665	**–**	–
	Weighted average ordinary shares in issue	**74 942 172**	76 128 079	**–**	–
	Headline earnings per ordinary share (cents)	**108,4**	103,3	**–**	–
16.4	**Diluted headline earnings per ordinary share**				
	Headline earnings attributable to ordinary shareholders (R'000)	**81 270**	78 665	**–**	–
	Weighted average diluted ordinary shares in issue	**74 942 172**	76 128 079	**–**	–
	Diluted headline earnings per ordinary share (cents)	**108,4**	103,3	**–**	–

		Profit from ordinary activities R'000	Taxation R'000	Net profit R'000
16.5	**Reconciliation between earnings and headline earnings**			
	For the year ended 29 February 2016			
	As per annual financial statements	**115 994**	**(34 836)**	**81 158**
	Disposal and impairment of property, plant and equipment	**156**	**(44)**	**112**
	Headline profit	**116 150**	**(34 880)**	**81 270**
	For the year ended 28 February 2015			
	As per annual financial statements	108 103	(30 507)	77 596
	Disposal and impairment of property, plant and equipment	1 485	(416)	1 069
	Headline profit	109 588	(30 923)	78 665

16.6 Dividends per share

A dividend of Nil cents per share (2015: 34 cents per share) was declared by the board of directors on 31 May 2016.

17. Related parties

17.1 Holding company

Sovereign Food Investments Limited does not have a holding company.

17.2 Identity of related parties with whom material transactions have taken place

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

17.3 Types of related-party transactions

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

17.4 Related-party transactions

Material transactions with the company

Loans to and from related parties	Refer to note 2
Management fees from subsidiaries	R15,4 million (2015: R13,2 million)
Directors' and key management's remuneration	Refer to note 20

Material transactions with the Group

- Goods and services to the value of R58 626 278 (2015: R 18 054 010) were sold to Sov Factory Shop (Pty) Ltd. Sovereign has a 35% interest in this entity. At year-end R5 446 733 (2015: R6 309 551) was outstanding. This balance is included in Trade Receivables. All sales are on commercial terms.
- Goods and services to the value of R628 072 771 (2015: R752 887 695) were sold to The Spar Group Limited of which Prof PM Madi is a non-executive director. At year-end R59 043 366 (2015: R87 107 786) was still outstanding. Prof PM Madi served as a non-executive director on the Sovereign Food Investments Ltd until his resignation on 9 October 2015. All sales are on commercial terms.
- Goods and services to the value of R Nil (2015: R72 871) were purchased from and R Nil (2015: R4 865) sold to Oasis Outdoor Adventure & Clay Target Club of which E du Preez is the Chairman. At year-end there were no outstanding balances (2015: R Nil) between the parties. All sales are on commercial terms.

18. Borrowing powers

The Memorandum of Incorporation ("MOI") of the Company and its subsidiaries state that the directors may borrow such sums as they deem fit. The directors have exercised due diligence in effecting these borrowing powers and, as such, the directors have not exceeded their borrowing powers as authorised by the MOI.

19. Risk management

19.1 Capital risk management

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

The capital structure of the Group comprises equity attributable to equity holders of Sovereign Food Investments Limited consisting of issued ordinary share capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity, and cash and cash equivalents as disclosed in note 14, and borrowings as disclosed in note 6.

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

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

The Group's gross gearing ratio as at 29 February 2016 was 23% (2015: 11%).

19.2 Interest rate risk

The Group borrows at both fixed and floating rates of interest. The Group's policy is to keep sufficient borrowings at fixed rates of interest so as to mitigate interest rate risk. Based on simulations performed, the impact per annum on post-tax profit and equity of a 0,5% adjustment to the interest rate would be a maximum of R619 898 (2015: R286 006). The simulation has been run for all liabilities that represent major interest-bearing loans. These simulations are performed on a quarterly basis to verify that the maximum loss potential is within the thresholds set by senior management.

19.3 Credit risk

No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Reputable financial institutions are used for investing and cash-handling purposes. At statement of financial position date, there were three significant concentrations of credit risk, one which accounted for 32% (2015: 48%), one which accounted for 15% (2015: 12%) and another which accounted for 13% (2015: 0%) of the outstanding trade receivables.

The Group has a policy of insuring specific trade receivables with reputable insurance companies. At statement of financial position date, R70 659 401 (2015: R70 744 312) was covered under such policies.

19. Risk management (continued)

19.4 Price risk

The Group is exposed to commodity price risk. To manage its price risk, the Group enters into commodity futures to hedge changes in the market prices of its inputs.

19.5 Commodity futures

Certain derivative instruments are utilised with the intention of managing a portion of the Group's future strategic raw material purchases. As at 29 February 2016, the Group held a net long position of Nil tons (2015: 7 148 tons) of SAFEX futures contracts in respect of white and yellow maize which carried an unrealised R Nil (2015: R11 053 818) mark-to-market gain as at year-end and held a long position of 6 600 tons (2015: 4 700 tons) of SAFEX futures contracts in respect of soya beans which carried an unrealised R956 749 (2015: R484 700 loss) mark-to-market gain as at year-end.

19.6 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and access to cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines. The Group's policy has throughout the year been that, to ensure continuity of funding, at least 10% of its borrowings should mature in more than five years. At the year-end, none (2015: 0%) of the Group's borrowings were due to mature in more than five years. Short-term flexibility is achieved by overdraft facilities. The Group has R139 million in unutilised overdraft facilities available.

	Within one year R'000	Between two to five years R'000	More than five years R'000	Total R'000
The maturity profile of the financial liabilities is analysed below:				
Group				
2016				
Borrowings	**49 679**	**122 515**	**–**	**172 194**
Trade and other payables	**298 349**	**–**	**–**	**298 349**
Total	**348 028**	**122 515**	**–**	**470 543**
2015				
Borrowings	25 892	53 554	–	79 446
Trade and other payables	181 241	–	–	181 241
Total	207 133	53 554	–	260 687
Company				
2016				
Trade and other payables	**1 768**	**–**	**–**	**1 768**
Total	**1 768**	**–**	**–**	**1 768**
2015				
Trade and other payables	1 254	–	–	1 254
Total	1 254	–	–	1 254

19.7 Biological asset risk

The Group is exposed to financial risks arising from changes in poultry prices. The Group does not anticipate that poultry prices will decline significantly in the foreseeable future. The Group has not entered into derivative contracts to manage the risk of a decline in poultry prices. The Group reviews its outlook for poultry prices on a regular basis in considering the need for active financial risk management.

The simulations are performed on a quarterly basis to determine the impact of a decline in poultry prices on Group consolidated results.

Based on simulations performed, the impact on post-tax profit and equity per annum of a 5% variation in poultry prices would be R62,2 million (2015: R59,4 million).

19.8 Fair values

The fair values of loans and receivables and financial liabilities are substantially identical to the carrying values reflected in the statement of financial position, except for borrowings which are carried at amortised cost. Derivative instruments are designated financial assets/liabilities at fair value through profit or loss and are classified as Level 2 inputs based on the fair value hierarchy.

19. Risk management (continued)

19.9 Exchange rate risk

The Group is exposed to financial risks arising from changes in exchange rates relating to purchases directly from foreign suppliers. The Group enters into forward exchange contracts to manage the risk of a weakening in the exchange rate. The Group reviews its outlook on exchange rate risk on a regular basis in considering the need for active financial risk management. The simulations are performed on a quarterly basis to determine the impact of a weakening of the exchange rate on Group consolidated results.

Based on simulations performed, the impact on post-tax profit and equity per annum of a 5% variation in exchange rates would be R2,1 million (2015: R2,2 million).

The Group limits exposure to fluctuations in exchange rates through the implementation of an effective hedging policy. The financial instruments most commonly utilised to limit exposure to exchange rate risk are forward exchange cover contracts. At year-end there were six (2015: nine) open forward exchange cover contracts with a total exposure of USD4 467 120 and Euro Nil (2015: USD900 000 and Euro 2 000 000) and which carried an unrealised mark-to-market gain of R713 496 (2015: R517 607 loss). The average exchange rate on these contracts was R16,61: USD1,00. The total value of foreign creditors at year end was USD272 840 (2015: USD266 780).

20. Directors' and prescribed officers' remuneration

Refer to the Human resources and remuneration report on pages 43 to 49.

21. Property, rentals and operating leases

Operating lease commitments

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

The Group also leases various plant and machinery, vehicles and computer equipment under cancellable operating lease agreements. The Group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 9.

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

	Up to one year R'000	Two to five years R'000	More than five years R'000	Total R'000
For the year ended 29 February 2016				
Future minimum lease payments	**18 389**	**18 317**	**1 654**	**38 360**
For the year ended 28 February 2015				
Future minimum lease payments	14 778	18 872	6 622	40 272

22. Material purchasing contracts

At 29 February 2016, the Group had entered into a raw material supply contract for the coming year. This contract was for a minimum of 6 000 metric tons of soya beans. The price at which this contract will be effected is dependent on the market price of the commodity on the purchase date.

23. Contingent assets and liabilities and guarantees and securities held

Contingent assets and liabilities

During the year the Group, together with a number of other companies (High Energy User Group ("HEUG")) in the Nelson Mandela Bay Metropole ("NMBM") successfully managed to resolve the dispute between themselves and the NMBM relating to charges levied between 1 July 2012 and 30 June 2015. This resulted in a credit of R38 million being received from NMBM. R27 million of this credit related to the provision from the previous year, whilst R11 million related to additional credits granted.

The Group has again, together with the HEUG, raised a dispute with the NMBM in connection with charges levied from 1 July 2015 onwards. Although the group believes it will be successful in this dispute, in order to be prudent the Group has provided for the amount in dispute in full. As at year-end the Group had provided R8,1 million (2015: R27,0 million) in relation to the dispute. This has been disclosed under trade and other payables. Refer to note 8.

Guarantees and securities held

Breeder farms

- First Continuous Covering Mortgage Bond for R7,0 million and a Second Continuous Covering Mortgage Bond for R14,0 million (Total R21,0 million) over the following properties:
  - Portion 158 of the farm Geduldtsrivier no 411, Uitenhage (18,0248 hectares).
  - Portion 5 of the farm Slipper no 467, Uitenhage (38,5616 hectares).
  - Remainder of portion 7 (portion of portion 1) of the farm Rietheuwel no 296, Uitenhage (12,848 hectares).

Unlimited suretyship by United Chix (Pty) Ltd, supported by:

- First Continuing Covering Mortgage Bond for R3,0 million and a Second Continuing Covering Mortgage Bond for R6,0 million over portion 35 of Farm Witteklip no 466, Uitenhage.

Abattoirs (refer note 1 and note 6, loans 1, 2 and 3)

- Covering Bond B2606/2006 and Notarial Collateral Bond BN2607/2006 registered for the amount of R100,0 million as well as Covering Bond B115614/2007 and Notarial Collateral Bond BN116009/2007 registered for the amount of R165,0 million given by Crown Chickens (Pty) Ltd over all the company's immovable (Erf 12082 Uitenhage) and moveable assets.
- Deed of Cession dated 1 November 2007 whereby Crown Chickens (Pty) Ltd cedes all its rights, title and interest in their insurance policy(ies) in respect of the above interests to the Land Bank.
- In terms of section 30 of the Land Bank Act all agricultural produce and all products manufactured therefrom is subject to a pledge in favour of the Land Bank working capital overdraft and may be dealt with in the normal course of the business.

Jeffreys Bay Farm (refer to note 1 and note 6, loan 5)

- Bond over portion 1 of Farm 854 Jeffreys Bay for an amount of R43,0 million.
- Special Notarial Mortgage Bond with a general clause over all moveable assets at portion 1 of Farm no 854 Jeffreys Bay for an amount of R43,0 million.
- First Continued Covering Mortgage.

Hillside Farm (refer to note 1 and note 6, loan 4)

- First Continued Covering Mortgage Bond over portion 173 (portion of portion 29) of Farm Mauritzkraal no 501 – consolidated with portion 210 (portion of portion 29) to form portion 211 of Farm Mauritskraal no 501 for an amount of R35,0 million.
- Special Notarial Mortgage Bond with a general clause over specified, unencumbered moveable assets at Hillside, Uitenhage for an amount of R35,0 million.

Wincanton Farm (refer note 1 and note 6, loan 6)

- First ranking mortgage bond over portion 7 & 8 (portion of portion 3) of farm Bosch Hoogte no 327, Uitenhage Road, Eastern Cape Province.

Accurate Farm (refer note 1 and note 6, loan 6)

- First ranking mortgage bond over portion 76 (portion of portion 55) and portion 177 (portion of portion 80) of the farm Brakkefontein no 416, Uitenhage Road, Eastern Cape Province.

Debtors Cession (refer note 4 and note 6 (loans 1, 2 and 3))

- Deed of Cession whereby Crown Chickens (Pty) Ltd cedes "*in securitatem debiti*" all its rights, title and interest, as stipulated in the deed of Cession dated 1 December 2005 to the Land Bank.
- Cession of Reversionary Cession: All present and future debtors in respect of Crown Chickens (Pty) Ltd.

Sureties provided

- The Group stood surety for two BEE contract grower commercial loans. During the year under review, the Group purchased the farm relating to the one loan, and as a result the value of this loan was R Nil at year end (2015: R15 447 326). The second loan had a capital value of R8 742 438 (2015: R9 433 862) as at 29 February 2016. In the event that the Group is called upon to repay the loan, the Group has recourse to the farming assets of the BEE contract grower to recoup any potential losses.

For the year ended 29 February 2016	Carrying amount at beginning of year R'000	Additional provisions R'000	Used/ reversed during the year R'000	Carrying amount at end of year R'000
24. Provisions				
Group				
Bonuses and incentives	36 981	986	(36 981)	986
Legal settlements	3 000	–	–	3 000
Leave pay	6 082	8 465	(6 082)	8 465
	46 063	9 451	(43 063)	12 451

Analysis of total provisions	2016 R'000	2015 R'000
Current	12 451	46 063

For the year ended 29 February 2016	Carrying amount at beginning of year R'000	Additional provisions R'000	Used/ reversed during the year R'000	Carrying amount at end of year R'000
Company				
Bonuses and incentives	25 790	–	(25 790)	–
Leave pay	622	384	(622)	384
	26 412	384	(26 412)	384

Analysis of total provisions	2016 R'000	2015 R'000
Current	384	26 412

Bonus and incentives
The Group provides for bonuses and incentives based on an analysis of incentive and bonus programmes in place for the year ended 29 February 2016. As at 29 February 2016, the Group had provided R985 531 (2015: R36 981 230) in respect of these programmes.

Legal settlements
The Group has provided R3 million (2015: R3 million) for legal disputes.

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

25. Events after the reporting date

On 31 May 2016, the Group proposed a transaction which, if approved, would result in a repurchase of up to 3 811 113 shares from existing shareholders. A newly formed BEE Trust would then be issued with 24 635 386 shares. In terms of the transaction, a new Executive Remuneration Policy will also be adopted.

Subsequent to year end the Group defended a hostile corporate action. The costs of the defence will be recognised in the 2017 financial year.

There are no other subsequent events that have not been disclosed elsewhere in this report that would have a material effect on the financial position of the Group or Company as at 29 February 2016.

26. Share-based payments

Employee Share Ownership Scheme ("ESOP")

The ESOP is classified as an equity-settled scheme.

	2016 R'000	2015 R'000
Cumulative share-based payment expenses recognised	**2 036**	1 459

Overview

Members of senior management, who are not members of the Executive Committee, have been awarded share options in terms of the ESOP. The shares are deemed to have been purchased on 16 October 2013 by the company on behalf of the employee at a price of R5,65. The cost of these shares to the employee will be offset through the 90% of the dividends paid out on those shares purchased by the Group between the date of the options being awarded and the vesting date, whilst the remaining 10% is to be paid to the employees.

Vesting conditions

40% of the options will vest at the end of the third year, should the employee leave the employ of the Group at this stage. This percentage increases each year, until year seven when 100% of the options vest. The ESOP will purchase the shares over the seven-year period, at which point all options will vest.

As at 29 February 2016, 2 603 000 options have been allocated. A total of 925 000 shares have been purchased and a total of 1 678 000 shares are still to be purchased by the Trust.

Details of the awards outstanding are as follows:

Awards granted on 16 October 2013	2 950 000
Outstanding at 28 February 2015	2 660 500
Outstanding at 29 February 2016	2 603 000

The calculated fair values and significant inputs into the valuation models were as follows:

Award price	R5,65
Strike price	R5,65
Expected volatility	35%

Volatility was calculated based on historical volatility. The risk free rate used in the model was sourced from the Bond Exchange of South Africa.

A dividend yield of 3,1% was used in the model. The scheme has a life of seven years.

The valuation of the shares was calculated using a Monte Carlo simulation, and this expense is being amortised over the vesting period of the shares.

Long-term Incentive Scheme ("LTIS")

The Group operates a Long Term Incentive Scheme under which members of the Executive Committee are granted "retention units" to potentially receive a cash payment with which to purchase ordinary shares in the Group, which "retention units" vest/become exercisable (and then translate into a cash payment) three years after the date of grant. The vesting of the "retention units" (translating into a cash payment) is dependant on the Group meeting an earnings based target and any cash received from the retention units has to be used to purchase shares in the Group (on the JSE) and the recipient must then hold them for a period of one year. The "retention units" are fully cash settled.

If the proposed Empowerment Transaction is approved then the Executive Committee Long Term Incentive Scheme will fall away in its entirety.

	LTIS retention units	
	2016	2015
Outstanding at beginning of year	**13 621 924**	8 668 934
Granted during year	**3 699 075**	5 633 379
Redeemed during the year	**(4 103 605)**	–
Reduction during the year	–	(602 204)
Expired during year	–	(78 185)
Outstanding at end of the year*	**13 217 394**	13 621 924

* *If the proposed Empowerment Transaction is approved then no retention units will be outstanding at the end of the year as all existing retention units will be forfeited.*

No charge has been taken in respect of the year ended 29 February 2016. A charge of R13 813 481 was taken in respect of the year ended 28 February 2015.

	Group			Company	
	Loans and receivables at amortised cost R'000	Financial liabilities at amortised cost R'000	Financial receivables/ liabilities at fair value through profit and loss R'000	Loans and receivables at amortised cost R'000	Financial liabilities at amortised cost R'000
27. Financial instruments by category					
2016					
Assets per the statement of financial position:					
Trade and other receivables	**180 325**	**–**	**1 670**	**–**	**–**
Cash and cash equivalents	**109 759**	**–**	**–**	**36**	**–**
Loans to subsidiary	**–**	**–**	**–**	**195 357**	**–**
Total	**290 084**	**–**	**1 670**	**195 393**	**–**
Liabilities per the statement of financial position:					
Trade and other payables	**–**	**298 349**	**–**	**–**	**1 768**
Borrowings	**–**	**172 194**	**–**	**–**	**–**
Loans from subsidiaries	**–**	**–**	**–**	**–**	**–**
Total	**–**	**470 543**	**–**	**–**	**1 768**
2015					
Assets per the statement of financial position:					
Trade and other receivables	184 278	–	10 569	–	–
Cash and cash equivalents	70 853	–	–	8	–
Loans to subsidiary	–	–	–	222 171	–
Total	255 131	–	10 569	222 179	–
Liabilities per the statement of financial position:					
Trade and other payables	–	181 241	–	–	1 254
Overdraft	–	–	–	–	–
Borrowings	–	79 446	–	–	–
Loans from subsidiaries	–	–	–	–	–
Total	–	260 687	–	–	1 254

28. Business combinations

	R'000
Assets acquired at the date of acquisition of the Hartbeespoort plant	
Non-current assets	
Property, plant and equipment	**120 000**

The Group purchased an abattoir at Hartbeespoort during the year under review from Quantum Foods Proprietary Limited, taking control of operations on 19 October 2015. This acquisition was made in order to further the Group's strategy through growing into new markets. The purchase consisted of land, buildings and plant and equipment.

These assets have been recorded at their fair value in accordance with IFRS 3 (Business combinations). The purchase was financed through additional borrowings.

The fair values have been determined based on a valuation on the open market value of the assets, performed by a professional valuator. The purchase price has been allocated as follows:

	R'000
Land	**4 961**
Buildings	**58 443**
Plant and equipment	**56 596**
	120 000

29. Reclassification

The comparatives for cost of sales and operating expenditure, as presented in the statement of comprehensive income, have been reclassified to align with internal reporting. The reclassification had no effect on comprehensive income as previously reported.

Shareholders' spread analysis

Type of shareholders	Number of shareholders	Number of shares	% of shares issued
Public	1 119	38 764 872	50,86%
Non-public	11	37 457 394	49,14%
Total	1 130	76 222 266	100,00%
Analysis of non-public shareholders			
Pursuant to the JSE Listings Requirements and to the best knowledge of the directors, after reasonable inquiry, the spread of shareholders at 29 February 2016 is as follows:			
1. Directors of the Company or any of its subsidiaries (see page 55 for directors' individual shareholdings)	4	420 012	0,55%
2. Any associate of the above	2	289 683	0,38%
3. The trustee of any employee share scheme or pension fund established for the benefit of any director or employees of the Company and its subsidiaries	1	925 000	1,21%
4. Treasury shares held by Crown Chickens (Pty) Ltd, a wholled owned subsidiary of the company	1	634 800	0,83%
5. Any person that is interested in 10% or more of the securities of the relevant class unless the JSE determines that, in all the circumstances, such person can be included in the public (See list of shareholders who hold more than 10% of the issued share capital below).	3	35 187 899	46,16%
6. Employees of the issuer, where restrictions on trading in the issuer's listed securities, in any manner or form, are imposed by the issuer on such employee	–	–	–
Total	11	37 457 394	49,14%
Shareholders and/or fund managers who hold more than 5% of the issued share capital			
Prudential Investment Managers (South Africa) (Pty) Limited	1	17 325 222	22,73%
Sanlam Investment Management	1	9 216 653	12,09%
RAC Investment Holdings (Pty) Limited	1	8 646 024	11,34%
Old Mutual Investment Group (Pty) Limited	1	5 572 741	7,31%
Total	4	40 760 640	53,48%
A competitor and persons directly related to the controlling shareholder/s of the competitor jointly held	1	7 430 173	9,75%
Total	1	7 430 173	9,75%

Share performance statistics

	2016	2015	2014	2013	2012
Share price (cents)					
High	**950**	950	580	600	600
Low	**550**	500	455	350	385
Average	**774**	746	526	485	515
Closing	**700**	880	540	460	574
Ordinary shares in issue at year-end	**76 222 266**	76 222 266	76 225 616	77 378 951	79 395 734
Number of shares traded	**21 851 829**	20 095 807	20 645 547	18 267 484	29 138 239
Value of shares traded (R'000)	**171 871**	154 655	106 274	88 099	140 220
Number of shares traded as a percentage of shares issued	**28,7%**	26,4%	27,1%	23,6%	36,7%
Earnings yield	**14,0%**	9,4%	11,1%	13,6%	10,4%

Shareholders' diary

Financial year-end	February
Annual general meeting	Thursday, 4 August 2016
Announcement of interim results	October 2016
Announcement of final results	May 2017

Annual general meeting

Notice of the seventeenth annual general meeting of the company

Sovereign Food Investments Limited
Incorporated in the Republic of South Africa
Registration number 1995/003990/06
JSE code: SOV ISIN: ZAE 000009221
("Sovereign Foods" or "the Company" or "Group")

A. Notice of meeting

Notice is hereby given that the seventeenth annual general meeting ("meeting") of shareholders of the company will be held at the Sun International Boardwalk Hotel, Beach Road, Summerstrand, Port Elizabeth, 6019 at 10:00 on Thursday, 4 August 2016.

This notice of meeting includes the attached proxy form.

B. Attendance and voting

The date on which a person must be registered as a shareholder in the company's register for purposes of being entitled to attend and vote at the meeting is Friday, 22 July 2016 ("record date"). The last day to trade, in order to be eligible to vote at the meeting is Tuesday, 19 July 2016.

If you are a registered shareholder as at the record date, you may attend the meeting in person. Alternatively, you may appoint a proxy (who need not be a shareholder of the company) to represent you at the meeting. Any appointment of a proxy may be effected by using the attached proxy form and, in order for the proxy to be effective and valid, must be completed and delivered in accordance with the instructions contained in the attached proxy form.

If you are a beneficial shareholder and not a registered shareholder as at the record date:

- and wish to attend the meeting, you must obtain the necessary letter of authority to represent the registered shareholder of your shares from your Central Securities Depository Participant ("CSDP") or broker;
- and do not wish to attend the meeting but would like your vote to be recorded at the meeting, you should contact the registered shareholder of your shares through your CSDP or broker and furnish them with your voting instructions; and
- you must not complete the attached proxy form.

Kindly note that, in terms of section 63(1) of the Companies Act, 71 of 2008 ("Companies Act"), meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licences and passports.

C. Electronic participation

Shareholders or their proxies may participate in (but not vote at) the meeting by way of telephone conference call. If they wish to do so they:

- must contact the Company Secretary (by email at the address mhoppe@sovfoods.co.za) by no later than Monday, 1 August 2016 in order to obtain a pin number and dial-in details for that conference call;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the meeting.

Shareholders and their proxies will not be able to vote telephonically at the meeting and will still need to appoint a proxy or representative to vote on their behalf at the meeting.

D. Purpose of the meeting

The purpose of this meeting is to:

- present the Directors' report and the audited annual financial statements of the company and the Group for the year ended 29 February 2016;
- present the Audit and Risk Committee report;
- present the Social and Ethics Committee report, as set out in the Governance ethics and compliance report;
- consider any matters raised by shareholders; and
- consider and if deemed fit to pass, with or without modification, the resolutions set out below:

1. Ordinary Resolution 1 – Adoption of the annual financial statements

To receive and adopt the company's financial statements for the year ended 29 February 2016, including the Directors' report and Audit and Risk Committee report contained therein.

Note: Copies of the complete annual financial statements for the year ended 29 February 2016 can be obtained from the Sovereign Foods' website at http://www.sovereignfoods.co.za/investors.

In order for Ordinary Resolution 1 to be adopted, the support of more than 50% of the votes cast by shareholders present or represented by proxy at this meeting is required.

2. Ordinary Resolution 2 – Re-election of director/s retiring by rotation

To re-elect Mr JA Bester who is due to retire as a non-executive director to the board ("board") of the company, by way of rotation of directors in terms of the company's Memorandum of Incorporation:

A brief curriculum vitae of Mr Bester is provided on page 20 of the Integrated Report 2016.

In order for Ordinary Resolution 2 to be adopted, the support of more than 50% of the votes cast by shareholders present or represented by proxy at this meeting is required.

3. Ordinary Resolution 3 – Re-election of independent auditor and designated auditor

To confirm the appointment of Deloitte and Touche to serve as auditors of the company until the next meeting and to note that Mr Paul Schneider will be the audit partner who will undertake the audit of the company for the ensuing year.

In order for Ordinary Resolution 3 to be adopted, the support of more than 50% of the votes cast by shareholders present or represented by proxy at this meeting is required.

4. Ordinary Resolutions 4.1 to 4.3 – Election of members of the Audit and Risk Committee

To appoint the following independent non-executive directors as members of the Audit and Risk Committee:

4.1 JA Bester *(Chairman) (subject to his re-election to the board)*;

4.2 T Pritchard; and

4.3 CP Davies.

Explanation:

In terms of the King III Report, the Audit and Risk Committee and Risk must comprise of at least three independent non-executive directors and further in terms of Regulation 42 of the Companies Regulations at least one-third of the members of a company's Audit and Risk Committee must have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or Human Resource management.

In terms of the guidance letter on Corporate Governance dated 30 September 2014 issued by the Issuer Regulation Division of the JSE Limited ("JSE") regarding the appointment of an Audit and Risk Committee, if a listed company has an independent non-executive Chairman of the board, he may be a member of the Audit and Risk Committee, subject to the following provisions:

- All the other members of the Audit and Risk Committee (at least two) are independent non-executive directors;
- He/she may not be the Chairman of the Audit and Risk Committee;
- The dual role (Chairman of the board and member of the Audit and Risk Committee) is specifically disclosed to shareholders at the meeting referred to in section 94(2) of the Act; and
- Shareholders approve the appointment of the Chairman to the Audit and Risk Committee at the meeting.

A brief curriculum vitae of the independent non-executive directors offering themselves for re-election as members of the Audit and Risk Committee are provided on page 20 of the Integrated Report 2016.

Each of ordinary resolutions 4.1 to 4.3 will be considered by way of a separate vote.

For each such resolution to be adopted, the support of more than 50% of the votes cast by shareholders present or represented by proxy at this meeting is required.

5. Ordinary Resolution 5 – Non-binding advisory vote on the company's Executive Remuneration Policy

To resolve as a non-binding ordinary resolution that the company's Executive Remuneration Policy (excluding the remuneration of the non-executive directors for their services as directors and members of board committees) as set out in the Human Resources and Remuneration report of the Integrated Report 2016 be and is hereby endorsed.

Explanation:

In terms of the principles contained in the King III Report, an advisory vote should be obtained from shareholders on the company's annual remuneration policy. This vote allows shareholders to express their views on the remuneration policies adopted and on their implementation, but will not be binding on the company.

6. Special Resolution 1 – Financial assistance to related or inter-related companies

Resolved that, in accordance with section 45 of the Companies Act, the board be and is hereby authorised by way of a general authority to, at any time and from time to time during the period of two years commencing on the date of this special resolution provide any direct or indirect financial assistance (as contemplated in section 45(1) of the Companies Act) in any form or amount to any company which is related or inter-related to Sovereign Food Investments Limited (from time to time and for the time being), as defined in the Companies Act, on such terms and conditions that the board may determine.

Explanation:

Special Resolution 1 is required in terms of section 45 of the Companies Act to grant the board the authority to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any company which is related or inter-related to Sovereign Food Investments Limited. The special resolution does not authorise the provision of financial assistance to a director or prescribed officer of the company.

The board undertakes that:

- it will not adopt a resolution to authorise such financial assistance, unless the directors are satisfied that immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test as contemplated in the Companies Act; and
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

The percentage of voting rights that will be required for Special Resolution 2 to be adopted is at least 75% of the votes exercised on the resolution, by shareholders present or represented by proxy.

7. Special Resolution 2 – General authority to repurchase shares

Resolved that the directors be authorised by way of a general authority, to facilitate an acquisition by the company or any of its subsidiaries, from time to time, from any person of up to 10% of the company's ordinary issued share capital in terms of section 48 of the Companies

Act and the JSE Listings Requirements, provided that a subsidiary may not hold more than 10% of the company's issued share capital. Such general approval shall be valid until the next meeting of the company, provided that it shall not extend beyond 15 months from the date of the passing of this special resolution.

Explanation:
It is recorded that in terms of the JSE Listings Requirements, the company may only make a general repurchase of securities if:

- the company is enabled by its Memorandum of Incorporation to acquire such shares;
- the repurchase of shares is effected through the order book operated by the JSE's trading system and done without any prior understanding or arrangement between the company and the counterparty;
- acquisitions in the aggregate, in any one financial year, may not exceed 10% of the company's issued share capital as at the date of this authority (being 7 622 226);
- repurchases are not made at a price of more than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the repurchase;
- an announcement containing full details of the share repurchase is published in accordance with the JSE Listings Requirements, as soon as the company or subsidiary has acquired shares constituting, on a cumulative basis, 3% of the number of the ordinary shares in issue at the time the authority is granted and for each subsequent 3% purchase thereafter;
- at any point in time, the company may only appoint one agent to effect any repurchase on the company's behalf;
- there is a resolution by the board of directors which resolved that they authorised the repurchase and that the company and its subsidiaries passed the solvency and liquidity test and that since the test was done there have been no material changes to the financial position of the Group; and
- the company or subsidiary do not repurchase any shares during a prohibited period, as defined by the JSE Listings Requirements, unless a repurchase programme is in place, where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been provided to the JSE in writing, prior to the commencement of the prohibited period.

Statement of board's intent
Should Special Resolution 2 above be approved by shareholders, the directors contemplate continuing the share repurchase programme that was initially approved by shareholders on 7 August 2012 and renewed on 7 August 2013 and 12 August 2014. During the period of the share repurchase programme, the issued share capital reduced from 79 395 734 shares to 76 222 266 shares.

The percentage of voting rights that will be required for Special Resolution 2 to be adopted is at least 75% of the votes exercised on the resolution, by shareholders present or represented by proxy.

Additional disclosure required in terms of the JSE Listings Requirements relating to Special Resolution 2

Solvency and liquidity statement
The directors of the company shall not make any repurchase under this general authority unless they are of the opinion, that after considering the effect of the repurchase of the maximum number of the company's shares in terms of the general authority to be provided in terms of Special Resolution 2 they are satisfied that the company has passed the solvency and liquidity test envisaged in the Companies Act for a period of the repurchase and that:

- the company and the Group will be able in the ordinary course of business to pay its debts;
- the assets of the company and the Group, recognised and measured in accordance with the accounting policies used in in the latest audited financial statements which comply with the Companies Act, will be in excess of the liabilities of the company and the Group;
- the share capital and reserves of the company and the Group will be adequate for ordinary business purposes; and
- the working capital of the company and the Group will be adequate for ordinary business purposes.

The company undertakes to advise its sponsor before embarking on a general repurchase, in order to enable the sponsor to discharge its duties.

Additional information
The following information, some of which may be found elsewhere in the Integrated Report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of the general authority to repurchase the company's shares:

- Information relating to the directors and management of the company can be found on page 20 of the Integrated Report 2016.
- Information relating to the major shareholders of the company can be found on page 86 of the Integrated Report 2016.
- Information relating to the company's share capital can be found on pages 73 and 74 of the Integrated Report 2016.
- Information relating to the directors' interests in the company can be found on page 55 of the Integrated Report 2016.

Directors' responsibility statement
The directors whose names appear on page 20 of the Integrated Report 2016, collectively and individually accept responsibility for the accuracy of the information pertaining to Special Resolution 2 and certify that to the

best of their knowledge and belief there are no facts that have been omitted, which would make any statement false or misleading and that all reasonable inquiries to ascertain such facts have been made and that Special Resolution 2 contains all information required by the JSE Listings Requirements.

Material changes

Other than the facts and developments reported in the Integrated Report 2016, there have been no material changes in the affairs or the financial position of the company and its subsidiaries since the date of signature of the Audit and Risk Committee report and up to the date of this notice.

Litigation statement

There are no legal or arbitration proceedings which may have, or have had, during the twelve month period preceding the date of this notice, a material effect on the financial position of the company and the company is not aware of any such pending or threatened proceedings.

E. Other business

To transact such other business as may be transacted at a meeting.

By order of the board

Max Hoppe
Company Secretary

Port Elizabeth
31 May 2016

Administration

Sovereign Food Investments Limited

Registration number 1995/003990/06
Website: http://www.sovereignfoods.co.za
E-mail: info@sovfoods.co.za

Registered office/postal address

9 Kruis River Road
Uitenhage, 6229
PO Box 124
Uitenhage, 6230
Eastern Cape

Sponsors

One Capital
PO Box 784573
Sandton, 2146
Gauteng

Transfer Secretaries

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

Company Secretary

ME Hoppe

Auditors

Deloitte & Touche
Ascot Office Park
Conyngham Street
Greenacres
Port Elizabeth, 6000
Practice number 926973-0007

Principal Attorneys

Pagdens Inc
PO Box 132
Port Elizabeth, 6000
Registration number 1989/001124/21

Form of proxy

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

For the sole use by the following holders of ordinary shares in the company at the seventeenth annual general meeting ("meeting") of the company, to be held at the Sun International Boardwalk Hotel, Beach Road, Summerstrand, Port Elizabeth at 10:00 on Thursday, 4 August 2016, namely:

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

Forms of proxy can either be completed and delivered to the company's transfer secretaries, Computershare Investor Services (Pty) Ltd, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received not later than 10:00 on Monday, 1 August 2016 or handed to the chairman of the meeting before a proxy exercises any votes at the meeting.

I/We

Being the holder/s of ordinary shares in the company, hereby appoint (see note 1)

1. or failing him/her

2. or failing him/her

3. the chairman of the meeting

as my/our proxy to attend and speak for me and vote for me/ us on my/our behalf at the meeting (and at any adjournment thereof) to be held at 10:00 on Thursday, 4 August 2016, at the Sun International Boardwalk Hotel, Beach Road, Summerstrand, Port Elizabeth for the purpose of considering and, if deemed fit, passing, with or without notification, the following resolutions to be considered at the meeting, in accordance with the following instructions (see note 3):

	Number of votes (one vote per share)		
As per notice of annual general meeting	For	Against	Abstain
Ordinary Resolution 1 To receive and adopt the company's financial statements for the year ended 29 February 2016			
Ordinary Resolution 2 To re-elect Mr JA Bester as a non-executive director to the board			
Ordinary Resolution 3 To confirm the appointment of Deloitte & Touche to serve as auditors of the company			
Ordinary Resolution 4 To appoint the following independent non-executive directors as members of the Audit and Risk Committee: 4.1 JA Bester			
4.2 T Pritchard			
4.3 CP Davies			
Ordinary Resolution 5 To pass a non-binding advisory vote on the company's Executive Remuneration Policy			
Special Resolution 1 To allow the company to provide any direct or indirect financial assistance as contemplated in section 45 of the Companies Act to any one or more related or inter-related companies			
Special Resolution 2 To grant the directors the general authority to repurchase up to 10% of the company's issued shares			

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

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

Please see the notes on the reverse side hereof

Signed at on 2016

Signature

Assisted by me (where applicable)

Please read the below summary of the rights contained in section 58 of the Companies Act and the below notes to this form of proxy.

Summary of rights contained in section 58 of the Companies Act

In terms of section 58 of the Companies Act:

- a shareholder of a company may, at any time and in accordance with the provisions of section 58 of the Act, appoint any individual (including an individual who is not a shareholder) as a proxy to participate in, and speak and vote at, a shareholders' meeting on behalf of such shareholder;
- a proxy may delegate her or his authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing such proxy (see note 12 below);
- irrespective of the form of instrument used to appoint a proxy, the appointment of a proxy is suspended at any time and to the extent that the relevant shareholder chooses to act directly and in person in the exercise of any of such shareholder's rights as a shareholder (see note 6 below);
- any appointment by a shareholder of a proxy is revocable, unless the form of instrument used to appoint such proxy states otherwise;
- if an appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by: (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy and to the relevant company;
- a proxy appointed by a shareholder is entitled to exercise, or abstain from exercising, any voting right of such shareholder without direction, except to the extent that the relevant company's Memorandum of Incorporation, or the instrument appointing the proxy, provides otherwise (see note 3 below);
- if the instrument appointing a proxy or proxies has been delivered by a shareholder to a company, then, for so long as that appointment remains in effect, any notice that is required in terms of the Companies Act or such company's Memorandum of Incorporation to be delivered to a shareholder must be delivered by such company to:
  - the relevant shareholder; or
  - the proxy or proxies, if the relevant shareholder has: (i) directed such company to do so, in writing and (ii) paid any reasonable fee charged by such company for doing so;
- if a company issues an invitation to its shareholders to appoint one or more persons named by the company as a proxy, or supplies a form of proxy instrument:
  - the invitation must be sent to every shareholder entitled to notice of the meeting at which the proxy is intended to be exercised;
  - the invitation or form of proxy instrument supplied by the company must:
- bear a reasonably prominent summary of the rights established in section 58 of the Companies Act;
- contain adequate blank space, immediately preceding the name(s) of any person(s) named in it, to enable a shareholder to write the name and, if desired, an alternative name of a proxy chosen by the shareholder; and
- provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour of or against any resolution(s) to be put at the meeting, or is to abstain from voting;
  - the company must not require that the proxy appointment be made irrevocable; and
  - the proxy appointment remains valid only until the end of the meeting at which it was intended to be used, subject to the seventh bullet point above.

Notes

Shareholders who have dematerialised their ordinary shares with a CSDP or broker, other than "own name" registrations, must arrange with the CSDP or broker concerned to provide them with the necessary authorisation to attend the meeting or the shareholder concerned must instruct them as to how they wish to vote. This must be done in terms of the agreement entered into between the shareholders and the CSDP or broker concerned.

1. Each shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (none of whom need to be Sovereign shareholders) to participate, speak and vote in place of that shareholder at the meeting.
2. A shareholder may insert the name of the proxy or the names of two alternative proxies of the shareholder's choice in the space provided with or without deleting "the chairman of the meeting", but any such deletion must be initialled by the shareholder. The person whose name appears first on the form of proxy and has not been deleted shall be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box/es provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the meeting as he/she deems fit in respect of all the shareholders' votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by him/her, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
4. Where there are joint holders of shares and if more than one of such joint holder is present or represented, then the person whose name appears first in the register in respect of such shares or the proxy, as the case may be, shall alone be entitled to vote in respect thereof.
5. It is requested that for the purposes of the meeting, forms of proxy be lodged with or posted to the company's transfer secretaries, Computershare Investor Services (Pty) Ltd, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received not later than 10:00 on Monday, 1 August 2016. Shareholders who are unable to attend any adjourned meeting may lodge their form of proxy for such adjourned meeting not less than 24 hours prior to the holding of the adjourned meeting. Any form of proxy not received by the company's transfer secretaries in accordance with the above must be handed to the chairman at the meeting before a proxy may exercise any voting rights of a shareholder at the meeting.
6. Any alteration, deletion or correction made to this form or proxy must be signed and not merely initialled by the signatory/ies. The completion of any blank spaces need not be signed or initialled.
7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the meeting.
8. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
9. The chairman of the meeting may reject or accept a proxy form which is completed and/ or received other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.
10. A minor must be assisted by a parent or guardian.
11. A proxy may delegate the authority received from the holder to a further person(s), subject to any restriction set out in this form of proxy.
12. If this form of proxy has been delivered to the company in accordance with paragraph 5, then, for as long as that appointment remains in effect, any notice that is required in terms of the Companies Act or the company's Memorandum of Incorporation to be delivered by the company to a shareholder, must be delivered by the company to the shareholder or alternatively, if a shareholder has directed the company to do so in writing and has paid any reasonable fees charged by the company for doing so, to such shareholder's proxy/ies.
13. Except if a shareholder provides in this form of proxy that a proxy appointment is irrevocable, a shareholder may revoke the proxy appointment by: (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy/ies and to the company's transfer secretaries, Computershare Investor Services (Pty) Ltd, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received before the replacement proxy/ies exercise(s) any rights of the holder at the meeting or any adjournment thereof.
14. The revocation of a proxy appointment constitutes a complete and final cancellation of the authority of the proxy/ies to act on behalf of the shareholder as of the later of: (i) the date stated in the revocation instrument, if any; or (ii) the date on which the revocation instrument was delivered as required in paragraph 13 above.

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