

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2014

## 1. CORPORATE INFORMATION

Clover Industries Limited (the "Company") is a company incorporated and domiciled in South Africa. The consolidated financial statements of the Group for the year ended 30 June 2014 comprise the Company and its subsidiary companies (together referred to as the "Group") and the Group's interest in jointly controlled entities. The companies within the Group have co-terminous year-ends. The consolidated financial statements of Clover Industries Limited for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the Directors on 15 September 2014. The Group's operations and principal activities are set out in the Directors' report.

## 2. BASIS OF ACCOUNTING

### 2.1 Basis of preparation

#### a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and their interpretations adopted by the International Accounting Standards Board.

#### b. Preparation

The consolidated financial statements are presented in Rands, which is the Group's functional currency, rounded to the nearest thousand. They are prepared on the historical-cost basis unless otherwise stated. The carrying values of the recognised assets and liabilities that are designated hedged items in fair value hedges, and are otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.3. The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless stated otherwise.

### c. Basis of consolidation

#### Subsidiaries and business combinations

Subsidiaries are entities controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;



- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### Transactions eliminated on consolidation

Intra-group balances and unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Impairment losses on transactions are recognised immediately if the loss provides evidence of a reduction in the recoverable amount of current assets.

#### Non-controlling interest

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

#### Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains

and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

#### d. Changes in accounting policies and disclosures

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- **IFRS 7** Financial Instruments: Disclosures – Enhanced Disclosure on Financial Assets and Financial Liabilities (effective 1 January 2013)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group does not have any netting arrangements or similar agreements therefore these amendments will not impact the Group's financial position or performance and became effective for annual periods beginning on or after 1 January 2013.



- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)**  
 IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 requires management to exercise significant judgement to determine which entities are controlled and, therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard became effective for annual periods beginning on or after 1 January 2013. No changes to the control conclusions were made as a consequence of applying IFRS 10.

- IFRS 11 Joint Arrangements (effective 1 January 2013)**  
 IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (“JCEs”) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard in the current period impacted the financial position of the Group. This is due to the cessation of proportionate consolidating the joint venture to equity accounting for this investment.

Clover Industries indirectly held a 51,0% interest in Clover Fonterra through Clover SA. Clover Fonterra is involved in the marketing and distribution of dairy -related products.

Clover Industries indirectly holds a 50,1% interest in Clover Manhattan through Clover SA. Clover Manhattan is involved in the manufacture, marketing and distribution of water and Iced Tea products.

Under IAS 31 Investment in Joint Ventures (prior to the transition to IFRS 11), the Group’s interest in Clover Fonterra and Clover Manhattan were classified as a jointly controlled entity and the Group’s share of the assets, liabilities, revenue, income and expenses were proportionally consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest to be a joint venture and it is required to be accounted for using the equity method. As a result Clover had to restate its comparative figures. Refer to note 4.

The effect of applying IFRS 11 is as follows:

#### Clover Fonterra

|   | For the<br>year ended<br>June 2013<br>R'000 | For the<br>year ended<br>June 2012<br>R'000 |
|---|---|---|
| <b>Impact on the statement of consolidated comprehensive income</b> |   |   |
| Decrease in reported revenue  | (146 268)                                   | (168 816)                                   |
| Decrease in cost of sales   | 116 075                                     | 142 031                                     |
| Decrease in gross profit  | (30 193)                                    | (26 785)                                    |
| (Decrease)/increase in other operating income                       | (79)  | 28  |
| Decrease in selling and distribution costs                          | 10 508                                      | 9 510                                       |
| Decrease in operating profit  | (19 764)                                    | (17 247)                                    |
| Decrease in finance income  | –   | (44)  |
| Decrease in finance costs   | 12  | 212   |
| Increase in share of profits of joint venture                       | 14 221                                      | 12 297                                      |
| Decrease in profit before tax                                       | (5 531)                                     | (4 782)                                     |
| Decrease in income tax expense                                      | 5 531                                       | 4 782                                       |
| Net impact on profit after tax                                      | –   | –   |
| <b>Impact on the statement of consolidated financial position</b>   |   |   |
| Increase in investment in joint venture                             | 32 963                                      | 22 038                                      |
| Decrease in deferred tax asset (non-current)                        | (727)                                       | (370)                                       |
| Decrease in inventories and trade receivables (current)             | (35 062)                                    | (57 763)                                    |
| Decrease in cash and short-term deposits (current)                  | (13 503)                                    | (2 357)                                     |
| Decrease in trade and other payables (current)                      | 15 247                                      | 38 032                                      |
| Decrease in income tax payable (current)                            | 674   | 70  |
| Decrease in provisions (current)                                    | 408   | 350   |
| Net effect on equity  | –   | –   |
| <b>Impact on the consolidated statement of cash flows</b>           |   |   |
| Operating   | (14 221)                                    | (12 297)                                    |

## Clover Manhattan

|   | For the<br>year ended<br>June 2013<br>R'000 | For the<br>year ended<br>June 2012<br>R'000 |
|---|---|---|
| <b>Impact on the statement of consolidated comprehensive income</b> |   |   |
| Decrease in reported revenue  | (17 282)                                    | (37 546)                                    |
| Decrease in cost of sales   | 11 770                                      | 25 056                                      |
| Decrease in gross profit  | (5 512)                                     | (12 490)                                    |
| Decrease in other operating income                                  | –   | (282)                                       |
| Decrease in selling and distribution costs                          | 5 514                                       | 10 896                                      |
| Decrease in operating profit  | 2   | (1 876)                                     |
| Decrease in finance income  | (1)   | (4)   |
| Increase in share of profits of joint venture                       | (248)                                       | 1 120                                       |
| Decrease in profit before tax                                       | (247)                                       | (760)                                       |
| Decrease in income tax expense                                      | 247   | 760   |
| Net impact on profit after tax                                      | –   | –   |
| <b>Impact on the statement of consolidated financial position</b>   |   |   |
| Increase in investment in joint venture                             | –   | 949   |
| Decrease in inventories and trade receivables (current)             | –   | (8 171)                                     |
| Decrease in trade and other payables (current)                      | –   | 7 222                                       |
| Net effect on equity  | –   | –   |
| <b>Impact on the consolidated statement of cash flows</b>           |   |   |
| Operating   | 248   | (1 120)                                     |

- **IFRS 12** Disclosure of Interest in Other Entities (effective 1 January 2013)  
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in Notes 3, 4 and 30. This standard became effective for annual periods beginning on or after 1 January 2013.

- **IFRS 13** Fair Value Measurement (effective 1 January 2013)  
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 29.

## 2.2 Standards, interpretations and amendments issued that are not yet effective

At the date of authorisation of the Group annual financial statements for the year ended 30 June 2014, the following standards and interpretations were in issue but not yet effective:

- IAS 16 Property, Plant and Equipment (amended) (effective 1 January 2016);
- IAS 19 Defined Benefit Plans: Employee Contributions (amended) (effective date 1 January 2014);
- IAS 36 Disclosure requirements for the recoverable amount of impaired assets (amended) (effective date 1 January 2014);
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (amended) (effective date 1 January 2014);
- IAS 41 Agriculture (as revised in June 2014) (effective 1 January 2016);
- IFRS 9 Financial instruments (Effective date 1 January 2018); and
- Improvements to IFRS (issued in December 2013).

The standards must be implemented for annual periods beginning on or after the effective dates.

The Directors are of the opinion that the impact of the application of the standards will be as follows:

- **IAS 16** Property, Plant and Equipment (amendment)  
The IASB issued amendments to IAS 16 Property, Plant and Equipment prohibiting the use of revenue-based depreciation methods for fixed assets and limiting the use of revenue-based amortisation methods for intangible assets. The Group does not make use of revenue-based depreciation and amortisation methods for fixed assets and intangible assets respectively. Therefore the amendments to IAS 16 will have no effect on the Group. The amendments are effective prospectively. The amendment becomes effective for annual periods beginning on or after 1 January 2016.



- **IAS 19** Defined Benefit Plans: Employee Contributions (amended)  
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit.

The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee's salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee's age. The Group is currently assessing the full impact of the amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2014.

- **IAS 36** Disclosure requirements for the recoverable amount of impaired assets  
The IASB has issued amendments to IAS 36 - Impairment of Assets, to clarify the disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

The amendments clarify the IASB's original intention: that the scope of these disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The Group is currently assessing the full impact of the amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2014.

- **IAS 39** Novation of Derivatives and Continuation of Hedge Accounting (amended)  
The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover novations:

- That arise as a consequence of laws or regulations, or the introduction of laws or regulations;
- Where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties; and
- That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception.

The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries.

For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting. The Group is currently assessing the full impact of the amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2014.

- **IFRS 9** Financial Instruments (Amendment)

The International Accounting Standards Board (IASB) has published the final version of IFRS 9 'Financial Instruments' bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This version adds a new expected loss impairment model and limited amendments to classification and measurement for financial assets. The Group is currently assessing the full impact of the amendments. The Standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after 1 January 2018.

#### Improvements to IFRS (December 2013)

- **IAS 16** Property, plant and equipment and IAS 38 Intangible assets (effective 1 July 2014);
- **IAS 24** Related Parties (effective 1 July 2014);
- **IAS 40** Investment Property (effective 1 July 2014);
- **IFRS 2** Share-based Payment (effective 1 July 2014);
- **IFRS 3** Business Combinations (effective 1 July 2014);
- **IFRS 8** Operating Segments (effective 1 July 2014); and
- **IFRS 13** Fair Value Measurement (effective 1 July 2014).

## 2.3 Significant accounting judgements and estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that might require a material adjustment to the carrying amount of the asset or liability affected in the future.

### Judgements

In the process of applying the Group's consolidated accounting policies, management has made judgements, which may have significant effects on the amounts recognised in the financial statements. Such judgements are disclosed in the relevant notes to the consolidated financial statements.

### Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### Property, plant and equipment

The carrying values of property, plant and equipment are based on management's estimates of the useful lives and residual values. These estimates are based on product life cycles and assessments by engineering and other specialist staff. Refer to note 11.

### Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Refer to note 13.

### Share-based payments – equity

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The Group is currently using the Hull-White Trinomial Lattice model. This also requires determining the most appropriate inputs to the valuation model and making assumptions about them. Refer to note 31.

### Share-based payments – cash-settled

The cost of cash-settled transactions is measured initially at fair value at the grant date using a modified version of the Hull-White Trinomial Lattice model, taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and including the settlement date with changes in fair value recognised in profit or loss.

### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

### Income tax expense

Taxes are a matter of interpretation and subject to changes. The Group makes use of tax experts to advise on all tax matters. Estimations of normal company tax and Capital Gains Tax ("CGT") are based on the advice and management's interpretation thereof.

### Long service bonus provision and defined-benefit pension plan

The cost of the long service bonus provision and defined-benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer to note 33.

### Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow ("DCF") model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See note 29 for further disclosures.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor (refer to notes 3 and 13 for details).

### Leave pay provision

Management applied their judgement to perform the current, non-current split regarding the leave pay provision. This judgement is based on management's best estimate of the pattern of leave usage over the last five years per the leave management system as well as expected future developments. Consenting that legally, though unlikely, the full leave balance may be called upon in the next 12 months. The leave entitlement regulation limits the number of leave days that can be carried forward, this was also factored in to determine those leave days expected to be taken in the next 12 months.



## 2.4 Summary of significant accounting policies

### a. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables as well as derivative and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes interest-bearing loans and borrowings, trade payables, liabilities to banks, finance lease payables and derivative financial liabilities.

#### Measurement

Financial instruments are generally recognised as soon as the Group becomes a party under the contractual regulations of the financial instruments. In general, financial assets and financial liabilities are offset and the net amount presented in the statement of financial position, when and only when, the entity currently has a legally enforceable right to set-off the recognised amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. No set-off has occurred during the current and previous financial year.

#### Derecognition

A financial asset (or, where applicable a part of financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- The Group has transferred its right to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement with the asset. Continuing involvement that takes a form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

#### Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed the amortised cost that would have been recognised had no impairment been recognised in the past. Any subsequent reversal of an impairment loss is recognised in profit or loss. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

#### Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. If an available-for-sale asset is impaired the cumulative loss (an amount comprising the difference between its cost, net of any principal payment and amortisation, and its current fair value, less any impairment loss

previously recognised in profit or loss) is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss; increases in their fair value after impairment are recognised in OCI. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

#### **a. (i) Financial assets**

##### **Initial recognition**

When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. All regular-way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the risks and rewards of ownership are passed to the Group. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention within the marketplace.

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

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains and losses on investments held-for-trading are recognised in profit or loss.

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

Loans and accounts receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees and transaction costs that are an integral part of the effective interest rate. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

##### **Available-for-sale financial investments**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in other comprehensive income until the investment is derecognised or determined to be

impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

##### **Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

#### **a. (ii) Financial liabilities**

##### **Trade and other payables**

Short-term trade payables are non-interest-bearing and carried at the original invoice amount.

##### **Interest-bearing loans and borrowings**

All loans, borrowings and financial liabilities are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process. Finance cost are expensed through profit or loss as incurred.

#### **b. Financial statements of foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to rand at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to rand at rates approximating the foreign exchange rates ruling at the date of the transaction.

#### **c. Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to rand at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Exchange differences arising on translation of foreign subsidiaries during consolidation are recognised in OCI.

#### **d. Derivative financial instruments**

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial



instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are re-measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price for contracts with similar maturity profiles. The change in the fair value of the hedging derivative is recognised in profit or loss. The change in the fair value of the hedged instrument attributable to the risk hedged is recorded as part of the carrying value of the hedged instrument and is also recognised in profit or loss. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

#### e. Property, plant and equipment

##### Owned assets

Plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing significant parts of such plant and equipment when that cost is incurred if the recognition criteria are met. When each major service and/or inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. The carrying amount of the replaced part or service is derecognised. All buildings are measured at cost less accumulated depreciation and accumulated impairment losses. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the asset is derecognised. The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, at each financial year-end.

##### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the item of property, plant and equipment. Significant parts and inspections are separately depreciated. Land is not depreciated. The estimated useful lives are as follows:

Buildings: 10 to 50 years

Plant: 3 to 30 years

Furniture and equipment: 3 to 15 years

Vehicles: 5 to 20 years

##### Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

##### Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease (those leases that do not transfer substantially all the risks and rewards) payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

##### Group as a lessor

Leases where the Group retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

#### f. Investment properties

Investment properties are properties which are held either to earn rental income or capital appreciation or both. Investment properties are initially measured at cost, including transaction costs. Investment properties are subsequently measured at cost less accumulated depreciation and accumulated impairment. They are tested for impairment if there is an indication of impairment. The estimated useful lives of investment properties are 10 to 50 years and are depreciated using the straight-line basis. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. The carrying amount of the replaced part or service is derecognised. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal. Transfers are made to investment property when, and only when, there is a change in use, evidenced by the ending of owner-occupation, commencement of an operating lease to another party or construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

## **g. Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangible assets are not capitalised and expenditure is charged in profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

### **Trademarks, patents, customer lists and software licences**

Trademarks, patents and software licences are measured on initial recognition at cost. Following initial recognition they are amortised on a straight-line basis over a period of five to fifteen years. Impairment testing is done annually or more frequently when an indication of impairment exists. Gains or losses arising from the de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

### **Research and development cost**

Research and development costs are recognised in profit or loss as incurred.

## **h. Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

### **Raw materials: purchase cost on a first-in, first-out basis.**

Finished goods and work in progress: cost of direct materials and labour and a portion of manufacturing overheads, based on normal operating capacity but excluding finance cost.

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

## **i. Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable value. An asset's recoverable value is the higher of an asset's or cash-generating unit's fair value less cost of disposal and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or a group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in previous years. Such a reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## **j. Redeemable cumulative preference shares**

The component of the cumulative preference shares that exhibits characteristics of a liability is recognised as a liability in the statement of financial position. The corresponding dividends on those shares are charged as interest expense in profit or loss. On issue of the preference shares, the fair value of the liability component is determined using cost of capital and this amount is carried as a long-term liability on the amortised cost basis until cleared on conversion or redemption. The remainder of the amount after deduction of the debt component is recognised and included in shareholders' equity net of transaction costs. The carrying amount of the equity component is not re-measured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.



### k. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. To reflect the time value of money the group recognises the present value of the expected outflows required to settle the obligation using a current pre-tax discounting rate that reflects the risks specific to the liability. The increase in the provision due to the passage of time is recognised as a finance cost.

### l. Retirement benefits

It is the policy of the Group to provide for pension liabilities by payments to separate funds, independent of the Group, and contributions are recognised in profit or loss. Surpluses are not accounted for if they accrue to members of the fund.

#### Defined benefit fund

The Group operates a defined benefit pension plan in South Africa, which requires contributions to be made to a separately administered fund.

The Group also provides certain additional post employment healthcare benefits to employees in the United States. These benefits are unfunded.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Net interest expense or income.

#### Defined contribution funds

Obligations for contributions to defined contribution pension and provident plans are recognised as an expense in profit or loss as incurred. A corresponding liability is included in trade payables for unpaid contributions at year end.

#### Medical aid

The obligation in respect of post-retirement health care is the sole responsibility of the retired employee. Therefore there is no Group obligation or liability in this regard.

### m. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, taking into account discounts.

Revenue consists of distribution, sales and marketing services rendered; contract manufacturing; and rental income. The following specific recognition criteria must also be met before revenue is recognised:

#### Sales of products

Invoiced product sales are recognised as turnover, excluding value-added taxation. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue comprises invoiced gross sales of products, less discounts and provisions for product claims.

#### Services rendered

Revenue from the rendering of services is recognised based on the stage of completion of the service.

#### Finance income

Revenue is recognised as interest accrues (using the effective interest rate – that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). The Group deposits surplus funds at financial institutions and does not act as a supplier of finance to third parties. Interest received is recognised as finance income.

#### Dividends received

Dividends are recognised when the right to receive payment is established.

#### Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the rental income. The rental of properties does not form part of the core business of the Group. Income in this regard is recognised as other operating income.

### n. Cost of sales

Cost of sales consists of the following:

- Cost of raw milk, ingredients and packaging;
- Milk collection cost;
- Manufacturing direct and indirect costs;
- Primary distribution costs; and
- Charges against sales.

#### **o. Finance costs**

Finance costs are recognised as an expense when incurred.

#### **p. Taxes**

##### **Current taxation**

Current taxation assets and liabilities for the current and previous periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The taxation rates and taxation laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### **Deferred taxation**

Deferred tax is provided using the statement of financial position method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment

would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

##### **Value-added taxation (VAT)**

Revenues, expenses, assets and liabilities are recognised net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. Receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

#### **q. Segment reporting**

The operating segments are based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

#### **r. Share-based compensation**

The Group operates an equity-settled, as well as a cash-settled share-based compensation plan.

##### **Equity-settled share-based compensation plan**

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is



recognised in employee benefits expense. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification. When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

#### Cash-settled share-based compensation plan

The cost of a cash-settled transaction is measured initially at fair value at the grant date using a modified version of the Hull-White Trinomial Lattice model taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and including the settlement date with changes in fair value recognised in profit or loss.

#### s. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group capitalised borrowing costs for all eligible assets where construction was commenced on or after 1 July 2009.

#### t. Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties. Involvement of external valuers is decided upon by management after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major

inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Management, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### u. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is used to reduce the cost of the asset.

#### v. Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### w. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects

whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining



the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

#### x. Investment in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint venture are accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2014  
R'0002013  
R'000

### 3. BUSINESS COMBINATION AND ACQUISITION OF NON-CONTROLLING INTEREST

#### 3.1 Acquisition of interest in Clover Waters (Proprietary) Limited

As communicated in our prior year annual report, Clover entered into an agreement with Nestlé (South Africa) (Proprietary) Limited to form a new entity, Clover Waters (Proprietary) Limited, that acquired Nestlé's Gauteng-based Doornkloof property, bottled water manufacturing facility and water rights. This newly formed entity will have the right by way of licence, to manufacture, distribute, market and sell bottled mineral water under Nestlé's Purelife, Valvita and Schoonspruit brands as well as Iced Tea under the Nestea brand. These brands will complement Clover SA's Aquartz bottled water and Manhattan Iced Tea brands which will also be manufactured, distributed and sold by Clover Waters.

Clover SA effectively holds 70% of the shares in Clover Waters and Nestlé (South Africa) 30%. The effective date of the transaction was 1 August 2013, and was funded by means of an assets for share swap arrangement to the value of R35,0 million.

The Group has elected to measure the non-controlling interest in Clover Waters (Proprietary) Limited at fair value on initial recognition.

Non-controlling interest has been classified as a Level 3 fair value.

The fair value of non-controlling interest has been determined by obtaining an independent valuation on the property, plant and equipment and by utilising the discounted cash flow (DCF) method to value the intangible assets.

The independent valuers ("The Property Partnership") determined the fair value of land and buildings by using the capitalisation of future rentals technique. It was based on an expected net annual rental income of R3,7 million and a rental capitalisation into perpetuity factor of 12,5%.

The plant and machinery's fair values were determined by calculating the net replacement value of the plant and machinery. This was calculated by obtaining gross replacement values for the plant and machinery and adjusting it to take into consideration the expected useful lives of the plant and machinery and its current condition.

The discounted cash flow valuation of the intangible assets were based on the following inputs: estimated annual free cash flow of R3,9 million, free cash flow growth per annum of 7,5% and a discount rate of 15,36%.

The fair value of the identifiable assets and liabilities of Clover Waters (Proprietary) Limited as at the date of acquisition were:

#### Assets

Property, plant and equipment  
Intangible assets

|               |          |
|---------------|----------|
| 58 445        | –        |
| 39 287        | –        |
| <b>97 732</b> | <b>–</b> |

#### Liabilities

Deferred tax liability  
Income tax payable

|                 |          |
|-----------------|----------|
| (14 009)        | –        |
| (6 985)         | –        |
| <b>(20 994)</b> | <b>–</b> |

#### Total identifiable net assets at fair value

Non-controlling interest measured at fair value  
Discount on acquisition

|          |   |
|----------|---|
| 76 738   | – |
| (21 025) | – |
| (20 716) | – |

#### Purchase consideration transferred

|               |          |
|---------------|----------|
| <b>34 997</b> | <b>–</b> |
|---------------|----------|

#### Purchase consideration transferred

Net cash acquired with subsidiary  
Net assets transferred as consideration

|        |   |
|--------|---|
| –      | – |
| 34 997 | – |

#### Total consideration

|               |          |
|---------------|----------|
| <b>34 997</b> | <b>–</b> |
|---------------|----------|

No goodwill was recognised on the acquisition, however, expected synergies include supply chain efficiencies, administration and shared service efficiencies, optimisation of sourcing arrangements and distribution channels. Refer to note 30 for additional information.



### 3.2 Acquisition of interest in The Real Juice Co Holdings (Proprietary) Limited

On 1 October 2012, Clover acquired 100% of the issued shares of The Real Juice Co Holdings (Proprietary) Limited. A cash consideration of R73,7 million was paid to AVI Limited and funded from own resources.

The primary motivation for the acquisition was to extend Clover's footprint in the Western Cape and grow Clover's presence as one of the market-leading beverage businesses in South Africa.

The fair value of the identifiable assets and liabilities of The Real Juice Co Holdings (Proprietary) Limited as at the date of acquisition was:

#### Assets

|                               |   |        |
|-------------------------------|---|--------|
| Property, plant and equipment | – | 14 511 |
| Intangible assets             | – | 30 511 |
| Deferred tax asset            | – | 9 713  |
| Inventories                   | – | 7 611  |
| Trade and other receivables   | – | 29 635 |
| Cash and cash equivalents     | – | 3 130  |

2014  
R'0002013  
R'000

– 95 111

#### Liabilities

|                                   |   |          |
|-----------------------------------|---|----------|
| Trade payables and other payables | – | (21 425) |
|                                   | – | (21 425) |

#### Total identifiable net assets at fair value

|                                 |   |   |
|---------------------------------|---|---|
| Goodwill arising at acquisition | – | – |
|---------------------------------|---|---|

#### Consideration, settled in cash

– 73 686

#### Cash flow on acquisition

|                                   |   |          |
|-----------------------------------|---|----------|
| Net cash acquired with subsidiary | – | 3 130    |
| Cash paid                         | – | (73 686) |

#### Net cash outflow

– (70 556)

No goodwill was recognised on the acquisition, however, expected synergies include supply chain efficiencies, administration and shared service efficiencies, optimisation of sourcing arrangements and distribution channels.

### 3.3 Acquisition of additional interest in Clover Manhattan (Proprietary) Limited

On 1 November 2012, Clover acquired the remaining 49,9% interest in Clover Manhattan (Proprietary) Limited for a cash consideration of R24,7 million, funded from own resources.

As communicated during the listing of Clover, part of the listing proceeds were earmarked to buy out non-controlling interests in Clover's businesses where possible.

The fair value of the identifiable assets and liabilities of Clover Manhattan (Proprietary) Limited as at the date of acquisition was:

#### Assets

Intangible assets

#### Liabilities

Deferred tax liability

#### Total identifiable net assets at fair value

Goodwill arising on acquisition

Original investment at cost

Gain on fair valuing of existing investment due to gaining control

#### Consideration for additional 49,9% interest, settled in cash

Cash flow on acquisition

Net cash acquired with subsidiary

Cash paid

#### Net cash outflow

|  | 2014<br>R'000 | 2013<br>R'000 |
|--|---------------|---------------|
|--|---------------|---------------|

|  |   |        |
|--|---|--------|
|  | – | 28 494 |
|--|---|--------|

|  |   |        |
|--|---|--------|
|  | – | 28 494 |
|--|---|--------|

|  |   |         |
|--|---|---------|
|  | – | (7 979) |
|--|---|---------|

|  |   |         |
|--|---|---------|
|  | – | (7 979) |
|--|---|---------|

|  |   |        |
|--|---|--------|
|  | – | 20 515 |
|--|---|--------|

|  |   |        |
|--|---|--------|
|  | – | 23 966 |
|--|---|--------|

|  |   |         |
|--|---|---------|
|  | – | (3 034) |
|--|---|---------|

|  |   |          |
|--|---|----------|
|  | – | (16 747) |
|--|---|----------|

|  |   |        |
|--|---|--------|
|  | – | 24 700 |
|--|---|--------|

|  |   |   |
|--|---|---|
|  | – | – |
|--|---|---|

|  |   |          |
|--|---|----------|
|  | – | (24 700) |
|--|---|----------|

|  |   |          |
|--|---|----------|
|  | – | (24 700) |
|--|---|----------|

|  |   |          |
|--|---|----------|
|  | – | (24 700) |
|--|---|----------|

Goodwill arising on acquisition represents the value paid for Clover Manhattan in excess of the fair value of its net assets at acquisition date. Synergies are expected from the combining of operations of Clover and Clover Manhattan, which include production efficiencies and optimisation of sourcing arrangements.

#### 4. INTEREST IN JOINT VENTURES

Up to 31 October 2012, Clover Industries indirectly held a 50,1% interest in Clover Manhattan (Pty) Ltd. Effective 1 November 2012, Clover Manhattan (Pty) Ltd became a full subsidiary of Clover SA. Clover Manhattan, was involved in the manufacture, marketing and distribution of iced tea. With effect from 1 January 2013 the Clover Manhattan business was transferred into Clover SA by way of a dividend and Clover Manhattan (Pty) Ltd was subsequently applied for to be deregistered.

The Group has classified the interest in Clover Manhattan as a joint venture despite the fact that the Group owns more than 50% of the issued share capital. The shareholder's agreement is set out in such a way that unanimous consent between the two shareholders is required for any decisions regarding the relevant activities of the investee. Therefore the Group concluded that they have joint control over the investee.

Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

| GROUP         |                           |  | COMPANY       |               |
|---------------|---------------------------|--|---------------|---------------|
| 2014<br>R'000 | 2013<br>Restated<br>R'000 |  | 2014<br>R'000 | 2013<br>R'000 |
|               |                           | <b>Clover Manhattan</b>                                    |               |               |
|               |                           | <b>Joint venture's statement of financial position</b>     |               |               |
| –             | –                         | Current assets   |               |               |
| –             | –                         | Current liabilities  |               |               |
|               |                           | <b>Joint venture's revenue and profit</b>                  |               |               |
| –             | 34 495                    | Revenue  |               |               |
| –             | (23 494)                  | Cost of sales  |               |               |
| –             | (11 005)                  | Sales, marketing, distribution and administrative expenses |               |               |
| –             | (1)                       | Other operating costs                                      |               |               |
| –             | 2                         | Finance income   |               |               |
| –             | (3)                       | Loss before tax  |               |               |
| –             | (490)                     | Income tax expense   |               |               |
| –             | (493)                     | <b>Loss for the period</b>                                 |               |               |
| –             | 50.1%                     | Portion of the Group's ownership                           |               |               |
| –             | (247)                     | Group's share of loss for the year                         |               |               |

Clover Industries indirectly holds a 51% interest in Clover Fonterra through Clover SA. Clover Fonterra is involved in the marketing and distribution of dairy-related products.

The Group has classified the interest in Clover Fonterra as a joint venture despite the fact that the Group owns more than 50% of the issued share capital. The shareholder's agreement is set out in such a way that unanimous consent between the two shareholders is required for any decisions regarding the relevant activities of the investee. Therefore the Group concluded that they have joint control over the investee.

Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

| GROUP            |                           |   | COMPANY       |               |
|------------------|---------------------------|---|---------------|---------------|
| 2014<br>R'000    | 2013<br>Restated<br>R'000 |   | 2014<br>R'000 | 2013<br>R'000 |
|                  |                           | <b>Clover Fonterra</b>  |               |               |
|                  |                           | <b>Joint venture's statement of financial position</b>  |               |               |
| <b>139 494</b>   | 130 003                   | Current assets including cash and cash equivalents R10,2 million (2013: R26,4 million) and inventory R105,2 million (2013: R98,5 million) |               |               |
| <b>1 453</b>     | 1 426                     | Non-current assets including deferred tax R1,4 million (2013: R1,4 million)   |               |               |
| <b>(72 191)</b>  | (66 796)                  | Current liabilities including trade and other payables of R71,3 million (2013: R64,7 million)   |               |               |
| <b>68 756</b>    | 64 633                    | Equity (Net asset value)  |               |               |
| <b>51%</b>       | 51%                       | Portion of the Group's ownership  |               |               |
| <b>35 066</b>    | 32 963                    | Carrying amount of the investment   |               |               |
|                  |                           | <b>Joint venture's revenue and profit</b>   |               |               |
| <b>380 453</b>   | 286 800                   | Revenue   |               |               |
| <b>(316 544)</b> | (227 597)                 | Cost of sales   |               |               |
| <b>(25 012)</b>  | (20 604)                  | Sales, marketing, distribution and administrative expenses  |               |               |
| <b>(59)</b>      | 155                       | Other operating income/(expenses)   |               |               |
| <b>123</b>       | (26)                      | Net finance income/(cost)   |               |               |
| <b>38 961</b>    | 38 728                    | Profit before taxation  |               |               |
| <b>(10 909)</b>  | (10 844)                  | Income tax expense  |               |               |
| <b>28 052</b>    | 27 884                    | <b>Profit for the year</b>  |               |               |
| <b>51%</b>       | 51%                       | Portion of the Group's ownership  |               |               |
| <b>14 306</b>    | 14 221                    | Group's share of profit for the year  |               |               |
| <b>12 297</b>    | 3 296                     | Dividend received   |               |               |



## 5. SEGMENT REPORTING

The Group's manufacturing, distribution, other assets and liabilities are totally integrated between the different product groups. The Chief Executive Officer (the Chief Operating Decision Maker) is of the opinion that the operations for individual manufacturing, distribution and product groups are substantially similar to one another and that the risks and returns are likewise similar. As a result thereof, the business of the Group is considered to be a single segment, namely Clover Industries Limited ("CIL")

Group operations outside of South Africa are not material and therefore not disclosed separately.

The following information regarding the Group's product groups, for which no discrete financial information is available, are presented on a voluntary basis. The Group comprises the following main product groups:

- The dairy fluids products is focused on providing the market with quality dairy fluid products;
- The dairy concentrated products consist of cheese, butter, condensed milk and retail milk powders;
- The ingredients products consist of bulk milk powders, bulk butter, bulk condensed milk, bulk creamers, calf feed substitutes, whey powder and buttermilk powder;
- The non-alcoholic beverages products focus on the development and marketing of non-alcoholic, value-added branded beverages products; and
- Other consists of Clover Industries Ltd holding company and Lactolab (Pty) Ltd that render laboratory services.

| 30 June 2014<br>Segmental report                         | Dairy fluids<br>R'000 | Dairy<br>concentrated<br>products<br>R'000 | Ingredients<br>R'000 | Non-alcoholic<br>beverages<br>R'000 | Other<br>R'000 | CIL Group<br>R'000 |
|--|-----------------------|--|----------------------|-------------------------------------|----------------|--------------------|
| <b>External revenue</b>                                  |                       |  |                      |                                     |                |                    |
| Sale of products   | 3 858 841             | 1 128 758                                  | 265 599              | 1 930 094                           | 9 358          | 7 192 650          |
| Sale of raw milk   | 511 485               | –  | –                    | –                                   | –              | 511 485            |
| Charges against sales                                    | (74 531)              | (28 281)                                   | (9 934)              | (38 240)                            | –              | (150 986)          |
| Cost of material and packaging                           | (2 609 818)           | (716 398)                                  | (160 253)            | (901 316)                           | (2 012)        | (4 389 797)        |
| Milk collection cost                                     | (246 721)             | (64 420)                                   | (26 534)             | (17 063)                            | –              | (354 738)          |
| <b>Margin on material</b>                                | <b>1 439 256</b>      | <b>319 659</b>                             | <b>68 878</b>        | <b>973 475</b>                      | <b>7 346</b>   | <b>2 808 614</b>   |
| Reconciliation of margin on material to operating profit |                       |  |                      |                                     |                |                    |
| <b>Margin on material</b>                                |                       |  |                      |                                     |                | <b>2 808 614</b>   |
| Revenue from rendering of services                       |                       |  |                      |                                     |                | 822 040            |
| Rental income  |                       |  |                      |                                     |                | 4 062              |
| Direct and indirect manufacturing cost                   |                       |  |                      |                                     |                | (962 982)          |
| Primary distribution cost                                |                       |  |                      |                                     |                | (432 688)          |
| <b>Gross profit</b>                                      |                       |  |                      |                                     |                | <b>2 239 046</b>   |
| Net other costs  |                       |  |                      |                                     |                | (1 940 734)        |
| Restructuring cost                                       |                       |  |                      |                                     |                | (16 036)           |
| <b>Operating profit</b>                                  |                       |  |                      |                                     |                | <b>282 276</b>     |
| Net financing cost                                       |                       |  |                      |                                     |                | (57 809)           |
| Tax expense  |                       |  |                      |                                     |                | (49 791)           |
| Depreciation and amortisation                            |                       |  |                      |                                     |                | (124 244)          |
| <b>Assets and liabilities</b>                            |                       |  |                      |                                     |                |                    |
| Assets   |                       |  |                      |                                     |                | 4 609 592          |
| Liabilities  |                       |  |                      |                                     |                | 2 336 851          |



| 30 June 2013<br>Restated<br>Segmental report             | Dairy fluids<br>R'000 | Dairy<br>concentrated<br>products<br>R'000 | Ingredients<br>R'000 | Non-alcoholic<br>beverages<br>R'000 | Other<br>R'000 | CIL Group<br>R'000 |
|--|-----------------------|--|----------------------|-------------------------------------|----------------|--------------------|
| <b>External revenue</b>                                  |                       |  |                      |                                     |                |                    |
| Sale of products   | 3 404 737             | 1 054 741                                  | 264 344              | 1 870 962                           | 10 572         | 6 605 356          |
| Sale of raw milk   | 420 508               | –  | –                    | –                                   | –              | 420 508            |
| Charges against sales                                    | (41 979)              | (14 785)                                   | (8 577)              | (23 473)                            | –              | (88 814)           |
| Cost of material and packaging                           | (2 254 890)           | (658 293)                                  | (169 953)            | (849 454)                           | (2 415)        | (3 935 005)        |
| Milk collection cost                                     | (216 417)             | (54 223)                                   | (29 104)             | (16 608)                            | –              | (316 352)          |
| <b>Margin on material</b>                                | 1 311 959             | 327 440                                    | 56 710               | 981 427                             | 8 157          | 2 685 693          |
| Reconciliation of margin on material to operating profit |                       |  |                      |                                     |                |                    |
| <b>Margin on material</b>                                |                       |  |                      |                                     |                | 2 685 693          |
| Revenue from rendering of services                       |                       |  |                      |                                     |                | 801 755            |
| Rental income  |                       |  |                      |                                     |                | 5 292              |
| Direct and indirect manufacturing cost                   |                       |  |                      |                                     |                | (875 817)          |
| Primary distribution cost                                |                       |  |                      |                                     |                | (496 416)          |
| <b>Gross profit</b>                                      |                       |  |                      |                                     |                | 2 120 507          |
| Net other costs  |                       |  |                      |                                     |                | (1 713 131)        |
| Restructuring cost                                       |                       |  |                      |                                     |                | (35 750)           |
| <b>Operating profit</b>                                  |                       |  |                      |                                     |                | 371 626            |
| Net financing cost                                       |                       |  |                      |                                     |                | (46 717)           |
| Tax expense  |                       |  |                      |                                     |                | (99 022)           |
| Depreciation and amortisation                            |                       |  |                      |                                     |                | (105 722)          |
| <b>Assets and liabilities</b>                            |                       |  |                      |                                     |                |                    |
| Assets   |                       |  |                      |                                     |                | 4 417 937          |
| Liabilities  |                       |  |                      |                                     |                | 2 302 512          |

| GROUP   |                           |   | COMPANY       |               |
|---|---------------------------|---|---------------|---------------|
| 2014<br>R'000   | 2013<br>Restated<br>R'000 |   | 2014<br>R'000 | 2013<br>R'000 |
| <b>6. INCOME AND EXPENSES</b>   |                           |   |               |               |
| <b>6.1 Cost of sales</b>  |                           |   |               |               |
| (150 986)   | (88 814)                  | Charges against sales   |               |               |
| (3 443 072)   | (3 127 437)               | Cost of raw materials   |               |               |
| (946 725)   | (807 568)                 | Packaging costs   |               |               |
| (354 738)   | (316 352)                 | Milk collection cost  |               |               |
| (962 982)   | (875 817)                 | Manufacturing direct and indirect cost  |               |               |
| (432 688)   | (496 416)                 | Primary distribution cost   |               |               |
| <b>(6 291 191)</b>  | <b>(5 712 404)</b>        | <b>Total cost of sales</b>  |               |               |
| Included in cost of sales are operating expenses as indicated below:  |                           |   |               |               |
| Depreciation, amortisation and impairment   |                           |   |               |               |
| 75 756  | 64 082                    | • Depreciation and impairment of property, plant and equipment                                    |               |               |
| 2 967   | 4 369                     | • Amortisation and impairment of trademarks, patents and licences                                 |               |               |
| <b>78 723</b>   | <b>68 451</b>             | <b>Total depreciation, impairment and amortisation included in cost of sales</b>                  |               |               |
| <b>Total inventories, raw material and finished product written off or provided for included in cost of sales</b> |                           |   |               |               |
| <b>19 617</b>   | <b>18 922</b>             |   |               |               |
| <b>6.2 Other operating income</b>   |                           |   |               |               |
| –   | 11 680                    | Profit on sale of property, plant and equipment   |               |               |
| <b>21 279</b>   | <b>13 689</b>             | Realised foreign exchange gains   |               |               |
| –   | 6 531                     | Unrealised foreign exchange gains   |               |               |
| <b>4 775</b>  | <b>3 755</b>              | Scrap and sales to staff  |               |               |
| –   | 3 406                     | Profit on share appreciation rights forward purchases   |               |               |
| <b>20 716</b>   | –                         | Discount on acquisition of property, plant and equipment by Clover Waters through issue of shares |               |               |
| –   | 16 747                    | Gain on fair valuing of existing investment in joint venture due to gaining control               |               |               |
| <b>430</b>  | <b>2 558</b>              | Consulting income for IT services rendered  |               |               |
| –   | –                         | Fees for the cession of milk rights   |               |               |
| <b>1 716</b>  | <b>3 494</b>              | Sundry*   | <b>45 892</b> | <b>45 411</b> |
| <b>48 916</b>   | <b>61 860</b>             | <b>Total other operating income</b>   | <b>42</b>     | <b>–</b>      |
|   |                           |   | <b>45 934</b> | <b>45 411</b> |

\* Sundry income consist of a number of immaterial items.



| GROUP         |                           |   | COMPANY       |               |
|---------------|---------------------------|---|---------------|---------------|
| 2014<br>R'000 | 2013<br>Restated<br>R'000 |   | 2014<br>R'000 | 2013<br>R'000 |
|               |                           | <b>6.3 Other operating expenses</b>   |               |               |
| (5 449)       | (5 915)                   | Provision for consumable stock obsolescence   |               |               |
| (5 102)       | –                         | Loss on sale of property, plant and equipment   |               |               |
| (1 860)       | –                         | Loss on share appreciation rights forward purchases   |               |               |
| (2 433)       | (2 615)                   | Additional provision on impairment of trade receivables   |               |               |
| (4 241)       | –                         | Unrealised foreign exchange loss  |               |               |
| (4 488)       | (4 041)                   | Sundry*   |               |               |
| (23 573)      | (12 571)                  | <b>Total other operating expenses</b>   |               |               |
|               |                           | <b>6.4 Operating profit</b>   |               |               |
|               |                           | Operating profit before finance income/(cost) has been determined after taking into account the following expenses: |               |               |
|               |                           | <b>Other expenses</b>   |               |               |
| (23 796)      | (20 685)                  | Development expenses  |               |               |
|               |                           | Rentals   |               |               |
| (26 261)      | (32 077)                  | ● land and buildings  |               |               |
| (29 918)      | (26 432)                  | ● equipment   |               |               |
| (312 636)     | (292 801)                 | ● vehicles  |               |               |
| (1 864)       | (5 103)                   | ● machines  |               |               |
| (1 106)       | (921)                     | ● other   |               |               |
|               |                           | Direct operating expenses of investment properties earning rental income  |               |               |
| (171)         | (98)                      | ● maintenance.  |               |               |
| (395 752)     | (378 117)                 | <b>Total other expenses</b>   |               |               |
|               |                           | <b>Personnel expenses</b>   |               |               |
| (1 375 415)   | (1 263 141)               | Wages, salaries, bonuses and car allowances   |               |               |
| (21 446)      | (18 811)                  | Company contributions   |               |               |
| (76 964)      | (76 275)                  | Pension contributions   |               |               |
| (29 568)      | (26 780)                  | Medical aid fund contributions  |               |               |
| (46 959)      | (39 403)                  | Other personnel expenses  |               |               |
| (7 174)       | (17 184)                  | Retrenchment cost   |               |               |
| (1 557 526)   | (1 441 594)               | <b>Total personnel expenses</b>   |               |               |

\* Sundry operating expenses consist of a number of immaterial items.

| GROUP           |                           |  | COMPANY        |                 |
|-----------------|---------------------------|--|----------------|-----------------|
| 2014<br>R'000   | 2013<br>Restated<br>R'000 |  | 2014<br>R'000  | 2013<br>R'000   |
|                 |                           | <b>Auditors' remuneration</b>  |                |                 |
| (9 173)         | (9 919)                   | Audit fees current year  | (1 890)        | (1 750)         |
| (350)           | (250)                     | Prior year under provision   |                |                 |
| (330)           | (265)                     | Other fees   |                |                 |
| <b>(9 853)</b>  | <b>(10 434)</b>           | <b>Total auditors' remuneration</b>  | <b>(1 890)</b> | <b>(1 750)</b>  |
|                 |                           | <b>Depreciation, amortisation and impairment</b>   |                |                 |
| (45 113)        | (31 979)                  | Depreciation and impairment of property, plant and equipment   | (1)            | (1)             |
| (624)           | (114)                     | Depreciation of investment properties  |                |                 |
| (7 728)         | (5 178)                   | Amortisation and impairment of trademarks, patents and licences  |                |                 |
| (3 920)         | (4 377)                   | Scrapping and impairment of property, plant and equipment  |                |                 |
| <b>(57 385)</b> | <b>(41 648)</b>           | <b>Total depreciation and amortisation included in selling, distribution, restructuring and administrative expense</b> | <b>(1)</b>     | <b>(1)</b>      |
|                 |                           | <b>6.5 Finance income</b>  |                |                 |
| 275             | 393                       | Bank interest  | 1 593          | 1 695           |
| 5 079           | 5 239                     | Interest received on call deposits   |                |                 |
| 1 880           | 4 083                     | Other  | 1 600          | 3 713           |
| <b>7 234</b>    | <b>9 715</b>              | <b>Total finance income</b>  | <b>3 193</b>   | <b>5 408</b>    |
|                 |                           | <b>6.6 Finance cost</b>  |                |                 |
| (7 863)         | (6 875)                   | Bank loans and overdrafts  |                |                 |
| (54 859)        | (28 811)                  | Debtors' securitisation  |                |                 |
| -               | (20 346)                  | Preference dividends transferred to finance cost   | -              | (20 346)        |
| (2 321)         | (400)                     | Other  |                |                 |
| <b>(65 043)</b> | <b>(56 432)</b>           | <b>Total finance cost</b>  | <b>-</b>       | <b>(20 346)</b> |
|                 |                           | <b>6.7 Restructuring cost</b>  |                |                 |
| (7 174)         | (17 184)                  | Restructuring cost has been determined after taking into account the following expenses:                               |                |                 |
| (4 801)         | (14 043)                  | Retrenchment cost  |                |                 |
| (141)           | (49)                      | Relocation of existing assets as part of Cielo Blu   |                |                 |
| (3 920)         | (4 377)                   | Listing fees for new shares issue  | (49)           | (49)            |
| -               | (97)                      | Scrapping and impairment of property, plant and equipment  |                |                 |
|                 |                           | Other  |                |                 |
| <b>(16 036)</b> | <b>(35 750)</b>           | <b>Total restructuring cost</b>  | <b>(49)</b>    | <b>(49)</b>     |



| GROUP  |                           |   | COMPANY         |                 |
|--|---------------------------|---|-----------------|-----------------|
| 2014<br>R'000                                    | 2013<br>Restated<br>R'000 |   | 2014<br>R'000   | 2013<br>R'000   |
| <b>7. TAXES</b>                                  |                           |   |                 |                 |
| 7.1 The major components of the tax expense are: |                           |   |                 |                 |
| <b>Local income tax</b>                          |                           |   |                 |                 |
| Current income tax                               |                           |   |                 |                 |
| (8 861)  | (75 869)                  | ● current year  | (10 652)        | (10 979)        |
| 8 921  | (1 834)                   | ● previous year   |                 |                 |
| Deferred income tax                              |                           |   |                 |                 |
| (30 636)   | (10 755)                  | ● current year  | 49              | (59)            |
| (5 873)  | –                         | ● previous year   |                 |                 |
| (915)  | –                         | Withholding tax   |                 |                 |
| <b>Foreign taxation</b>                          |                           |   |                 |                 |
| Current income tax                               |                           |   |                 |                 |
| (12 179)   | (5 500)                   | ● current year  |                 |                 |
| (160)  | (385)                     | ● previous year   |                 |                 |
| Deferred taxation                                |                           |   |                 |                 |
| (88)   | (2 055)                   | ● current year  |                 |                 |
| –  | (2 604)                   | ● previous year   |                 |                 |
| –  | (20)                      | Other   |                 |                 |
| (49 791)   | (99 022)                  | <b>Total income tax expense</b>   | <b>(10 603)</b> | <b>(11 038)</b> |
| 91 579   | 113 478                   | <b>Estimated taxation losses available for reduction of future taxable income</b> |                 |                 |
| %  | %                         | <b>7.2 Reconciliation of income tax rate</b>                                      | %               | %               |
| 28,00  | 28,00                     | Standard income tax rate  | 28,00           | 28,00           |
| Adjusted for:                                    |                           |   |                 |                 |
| (3,04)   | 0,74                      | Permanent differences*  | (15,20)         | 30,00           |
| 1,40   | 0,81                      | Loss on foreign subsidiaries not deductible                                       |                 |                 |
| –  | (0,04)                    | Effect of lower tax rate on Capital Gains tax and base costs                      |                 |                 |
| (1,47)   | 1,61                      | Prior year adjustments: over/under provision                                      |                 |                 |
| (1,67)   | (1,17)                    | Share of JV profit equity accounted   |                 |                 |
| (2,58)   | (0,62)                    | Additional deferred tax asset recognised on assessed loss                         |                 |                 |
| 0,22   | (0,11)                    | Other   | –               | –               |
| 20,86  | 29,22                     | <b>Effective income tax rate</b>  | <b>12,80</b>    | <b>58,00</b>    |

\* Learnership allowances, share based payment provisions and discount on acquisition of property, plant and equipment by Clover Waters through issue of shares.

| GROUP                  |                        |   | COMPANY                |                        |
|------------------------|------------------------|---|------------------------|------------------------|
| 2014                   | 2013                   |   | 2014                   | 2013                   |
|                        |                        | <b>8. EARNINGS AND HEADLINE EARNINGS PER SHARE</b>                                |                        |                        |
| <b>182 478 589</b>     | 179 267 674            | 8.1 Diluted weighted average number of ordinary shares                            |                        |                        |
| <b>9 288 819</b>       | 13 482 512             | Weighted average number of issued ordinary shares                                 |                        |                        |
|                        |                        | Increase in number of shares as a result of unexercised share appreciation rights |                        |                        |
| <b>191 767 408</b>     | 192 750 186            | Diluted weighted average number of ordinary shares                                |                        |                        |
| <b>R'000</b>           | <b>R'000</b>           | 8.2 Profit for the year   | <b>R'000</b>           | <b>R'000</b>           |
| <b>186 666</b>         | 238 626                | Profit for the year attributable to equity holders of the parent company          |                        |                        |
| <b>Cents per share</b> | <b>Cents per share</b> | 8.3 Earnings per share  | <b>Cents per share</b> | <b>Cents per share</b> |
| <b>102,3</b>           | 133,1                  | Basic   |                        |                        |
|                        |                        | Attributable to equity holders of the parent                                      |                        |                        |
| <b>97,3</b>            | 123,8                  | Diluted   |                        |                        |
|                        |                        | Attributable to equity holders of the parent                                      |                        |                        |



| GROUP                  |                        |   | COMPANY                |                        |
|------------------------|------------------------|---|------------------------|------------------------|
| 2014<br>R'000          | 2013<br>R'000          |   | 2014<br>R'000          | 2013<br>R'000          |
|                        |                        | <b>8.4</b>  |                        |                        |
|                        |                        | <b>Headline earnings per share</b>  |                        |                        |
|                        |                        | <b>Headline earnings attributable to equity holders of the parent company</b>                                 |                        |                        |
| <b>186 666</b>         | 238 626                | Profit for the year attributable to equity holders of the Parent Company                                      |                        |                        |
|                        |                        | <b>Gross remeasurements excluded from headline earnings</b>   |                        |                        |
| <b>5 102</b>           | (11 680)               | Loss/(Profit) on sale of property, plant and equipment  |                        |                        |
| <b>(20 716)</b>        | –                      | Discount on acquisition of property, plant and equipment by Clover Waters through issue of shares             |                        |                        |
| <b>6 215</b>           | –                      | Non-controlling interest's portion in discount on acquisition of PPE by Clover Waters through issue of shares |                        |                        |
| –                      | (16 747)               | Gain on fair valuing of existing investment in joint venture due to gaining control                           |                        |                        |
| <b>11 915</b>          | 4 377                  | Impairment and scrapping of plant and equipment   |                        |                        |
|                        |                        | <b>Taxation effects of remeasurements</b>   |                        |                        |
| <b>(505)</b>           | 1 544                  | (Loss)/Profit on sale of property, plant and equipment  |                        |                        |
| <b>(1 213)</b>         | (1 226)                | Impairment and scrapping of plant and equipment   |                        |                        |
| <b>187 464</b>         | 214 894                | <b>Headline earnings attributable to equity holders of the parent company</b>                                 |                        |                        |
| <b>Cents per share</b> | <b>Cents per share</b> | <b>Headline earnings per share</b>  | <b>Cents per share</b> | <b>Cents per share</b> |
| <b>102,7</b>           | 119,9                  | <b>Basic</b>  |                        |                        |
|                        |                        | Attributable to equity holders of the parent  |                        |                        |
| <b>97,8</b>            | 111,5                  | <b>Diluted</b>  |                        |                        |
|                        |                        | Attributable to equity holders of the parent  |                        |                        |

| GROUP  |                 |                          | COMPANY         |                 |
|--|-----------------|--------------------------|-----------------|-----------------|
| 2014<br>R'000  | 2013<br>R'000   |                          | 2014<br>R'000   | 2013<br>R'000   |
| <b>9. DIVIDENDS DECLARED AND PAID</b>                      |                 |                          |                 |                 |
| During the year equity dividends were declared as follows: |                 |                          |                 |                 |
| <b>69 342</b>  | 41 912          | To ordinary shareholders | <b>69 342</b>   | 41 912          |
| Cents per share  | Cents per share |                          | Cents per share | Cents per share |
| <b>38,0</b>  | 23,4            | To ordinary shareholders | <b>38,0</b>     | 23,4            |



| GROUP         |               |  | COMPANY       |               |
|---------------|---------------|--|---------------|---------------|
| 2014<br>R'000 | 2013<br>R'000 |  | 2014<br>R'000 | 2013<br>R'000 |
|               |               | <b>10. ASSETS CLASSIFIED AS HELD-FOR-SALE</b>  |               |               |
| 359           | 423           | Net book value at the beginning of the year    |               |               |
| 3 417         | 1 749         | Transfer to assets classified as held-for-sale |               |               |
| –             | (1 813)       | Disposals                                      |               |               |
| <b>3 776</b>  | 359           | <b>Carrying value</b>                          |               |               |

Certain properties are classified as assets held-for-sale following the decision of the Group's Management to sell certain properties no longer required for Group operations. The fair value of the disposal group exceeds the carrying value.

Sales are expected to be realised within the next six months.

There are existing sales agreements for both the Mayfair (manufacturing and distribution facility) and Welkom (distribution depot) properties and we are waiting for the properties to be registered in the purchasers' names.