

# DIRECTORS' REPORT

for the year ended 30 September 2014

## Principal activities and business review

Pioneer Food Group Ltd ("the Company") and its subsidiaries are involved in the manufacturing of food, beverages and related products for human and animal consumption. The various segments are highlighted in the operational review in the integrated report.

## Financial results

The annual financial statements on pages 5 to 154 set out fully the financial position as at 30 September 2014 and the results of operations and the cash flows for the year ended 30 September 2014. Further information is provided in the financial review in the integrated report.

## Share capital

The authorised share capital consists of 400,000,000 (2013: 400,000,000) ordinary shares of 10 cents each and 18,130,000 (2013: 18,130,000) class A ordinary shares of 10 cents each. At year-end 231,691,881 (2013: 231,006,847) ordinary shares and 6,043,940 (2013: 7,367,360) class A ordinary shares are in issue.

The movement in issued share capital is disclosed in note 22 to the annual financial statements. During the year the Company issued the following listed ordinary shares of 10 cents each: 685,034 (2013: 692,361) at an average of R97.47 (2013: R71.64) per share in terms of the management share appreciation rights scheme.

There was no movement (2013: Nil) in the treasury shares held by a subsidiary. This subsidiary held 17,982,056 (2013: 17,982,056) ordinary shares at year-end.

The number of ordinary shares held by the Pioneer Foods management share incentive trust at year-end is 1,110,213 (2013: 1,422,116). A number of 311,903 (2013: 1,123,817) ordinary shares were sold by the share incentive trust for R6,261,671 (2013: R18,666,600). No ordinary shares were issued to the trust (2013: Nil).

The Company bought back and cancelled 1,323,420 (2013: 830,760) class A ordinary shares during the year at a premium of R56.56 (2013: R39.31) per share in addition to the par value of R0.10 per share.

## Treatment of Quantum Foods as an asset held for sale

Shareholders were advised on SENS on 5 September 2013 of the Board's intent to restructure the Company's interest in the Quantum Foods segment, which includes the South African business units and two foreign African subsidiaries, Bokomo Uganda (Pty) Ltd and Quantum Foods Zambia Ltd, that produce and sell eggs, chicken products, animal feed and commercial laying hens. Further announcements on SENS in this regard were issued on 5 September 2014 and 18 September 2014.

Pioneer Foods unbundled its interests in Quantum Foods to its shareholders and subsequently listed Quantum Foods as a separate entity on the JSE on 6 October 2014.

Accordingly, Quantum Foods has been treated as an "asset held for sale" and as "discontinued operations" in terms of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations for the year ended 30 September 2014 and for the comparative year ended 30 September 2013.

## Borrowings

The Group entered into supplier contracts in terms of which equipment was capitalised to comply with the requirements of IFRIC 4 – Determining Whether an Arrangement Contains a Lease. The balance outstanding at 30 September 2014 on these borrowings was R25,006,986.

Pioneer Foods obtained a R300 million vehicle and asset finance facility during the year. This facility will be used to finance the replacement of the Group's bakery delivery vehicle fleet. The vehicles are acquired in terms of instalment sale agreements. These borrowings are secured by the vehicles acquired in terms of these agreements. At 30 September 2014 new borrowings obtained in terms of these facilities amounted to R40,672,385.

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for the year ended 30 September 2014 (continued)

No other major borrowings were obtained by Group legal entities. For further detail of the borrowings obtained refer to note 25 of the annual financial statements. For the carrying amounts of property, plant and equipment, inventories, biological assets and trade and other receivables encumbered refer to notes 12, 18 and 20 of the annual financial statements respectively.

### Dividends

A final gross dividend of 156 cents (2013: 86 cents) per ordinary share was declared. This is in addition to the interim gross dividend of 65 cents (2013: 46 cents) per ordinary share.

The interim dividend for the year amounted to R144,979,200 (2013: R102,327,653) and the final dividend for the year will be approximately R348,210,549 (2013: R191,550,639). The exact amount will be dependent on the number of shares in issue at the record date. These amounts include the dividends paid or payable to the Pioneer Foods Broad-Based BEE Trust.

The 10,599,988 Pioneer Foods shares issued to the Pioneer Broad-Based BEE Trust during April 2012, are entitled to 20% of the gross interim and final dividends per share as indicated above, i.e. 13.0 cents per share (2013: 9.2 cents) and 31.2 cents (2013: 17.2 cents) respectively. This gross interim dividend for the year amounts to R1,377,998 (2013: R975,199) and the final dividend for the year will amount to R3,307,196 (2013: R1,823,198).

The dividend is payable on 2 February 2015 to shareholders recorded as such in the share register of the Company on 30 January 2015 (the record date). The last date of trading cum dividend will be 23 January 2015.

### Dividend in specie – unbundling of Quantum Foods

Shareholders were advised on SENS on 5 September 2014 and 18 September 2014 that the Board has resolved to proceed with the unbundling of its interest in Quantum Foods and to list Quantum Foods as a separate entity on the JSE. Quantum Foods was listed on the JSE on 6 October 2014. The unbundling has been accounted for as a *dividend in specie* at fair value in accordance with IFRIC 17 – Distributions of Non-cash Assets to Owners. IFRIC 17 requires distributions within its scope to be measured at the fair value of the assets to be distributed at the date when the dividend is appropriately authorised and is no longer at the entity's discretion. Consequently an amount of R1,242,220,000, representing the fair value of the interest in Quantum Foods attributable to external shareholders, has been accounted for as a dividend payable to shareholders at 30 September 2014. Refer to note 12 for the methods used to measure the fair value.

### Directors

The directors of the holding company, Pioneer Food Group Ltd, are responsible for the activities and reports related to the Group. Full details of the directors appear in the integrated report.

### Special resolutions passed

#### Annual general meeting of shareholders ("AGM")

At the AGM held at Lemoenkloof Guest House, Paarl on Friday, 14 February 2014, the following special resolutions were passed by the Company:

Special resolution one, for the approval of the remuneration payable by the Company to its non-executive directors for their services as non-executive directors for the period 1 April 2014 to 31 March 2015;

Special resolution two, for the approval of a general authority to the Board of Directors of the Company for the Company to grant direct and indirect financial assistance to any company forming part of the Company, including in the form of loans or the guaranteeing of their debts; and

Special resolution three, for the approval of an authority to the Board of Directors of the Company for the Company to provide direct and indirect financial assistance for the purpose of the subscription or purchase of any option, or any securities issued or to be issued by the Companies or a related or inter-related company.

### Quantum Foods organisational restructuring and unbundling

A number of resolutions were taken by Pioneer Foods and Quantum Foods legal entities during the organisational restructuring and unbundling process which included the following:

A resolution by Quantum Foods (Pty) Ltd to increase its authorised share capital and to approve the issue of additional shares to Pioneer Foods (Pty) Ltd and ultimately to Quantum Foods Holdings Ltd.

Resolutions by Quantum Foods Holdings Ltd to increase its authorised share capital, for conversion of its par value shares to no par value, to change its name to the current name, to change its legal status from a private company to a public company, to approve the remuneration payable to the directors of this company and to approve the issue of additional shares to Pioneer Food Group Ltd. The subscription price of these shares was used to capitalise Quantum Foods Zambia Ltd.

A resolution by Bokomo Zambia Ltd to approve the distribution of funds from share premium to its shareholder, Pioneer Foods (Pty) Ltd.

### Groceries: Beverages and Groceries: Bokomo Foods organisational restructuring

The Bokomo Foods and Beverages divisions of Pioneer Foods were merged into the Groceries business. The following special resolutions were taken by Retail Brands InterAfrica (Pty) Ltd ("RBI") in the process of organisational restructuring to facilitate this merger:

A resolution by RBI to acquire the assets of Continental Beverages (Pty) Ltd in exchange for the issue of ordinary no par value shares.

A resolution by RBI to acquire the assets of Ceres Fruit Juices (Pty) Ltd in exchange for the issue of ordinary no par value shares.

A resolution by RBI to acquire the assets of the Groceries division of Pioneer Foods (Pty) Ltd in exchange for the issue of ordinary no par value shares.

Resolutions by RBI to increase its authorised ordinary share capital, for conversion of its par value ordinary shares to no par value ordinary shares and to change the name of this company.

No other special resolutions with a significant impact on the Group were passed by the Company or any of the Group subsidiaries.

### Litigation statement

Refer to note 32 (contingent liabilities) to the annual financial statements for detail on the status of the disputes with the egg contract growers and the broiler and breeder farms. No other litigation matters with potential material consequences existed at the reporting date.

### Events after the reporting period

Other than the matters raised in note 46 to the annual financial statements, no other events occurred after the reporting date that may have a material effect on the Group.

### Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90(6) of the Act.