

## Company

Rainbow Chicken Limited is listed on the JSE Securities Exchange in the Food Producers and Processors sector. Its ultimate controlling shareholder is Remgro Limited. Rainbow is the largest chicken producer in South Africa. It is a fully-integrated broiler producer that breeds and rears its own livestock, processes, distributes and markets fresh, frozen, value-added and further-processed chicken nationally and internationally. Rainbow is now entering one of the most exciting eras in its 45-year history. Our brands distinguish us in the marketplace.

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**RAINBOW**  
CHICKEN LIMITED

### OUR BRANDS



"GRADE A QUALITY,  
GRADE A TASTE"

Rainbow is a high-quality range designed and developed to suit the diverse needs of South African consumers. From whole birds to portions and budget chicken products, both fresh and frozen, the brand is renowned for its good value, variety, convenience and top quality goodness.



"THEY TASTE SO  
GOOD 'COS THEY  
EAT SO GOOD"

Farmer Brown is a premium-quality, fresh chicken brand that provides discerning South African consumers with succulent whole birds and portions and convenient, fresh, value-added products. One of South African's preferred fresh chicken brands for over 26 years.



"GREAT VALUE,  
GREAT TASTE"

Bonny Bird is a value-for-money brand and is well positioned across all consumer groups, particularly those with large families who require reliable, Grade A chicken products at a reasonable price. Bonny Bird is available in both fresh and frozen portions, whole birds and Individually Quick Frozen (IQF) chicken pieces.



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



"PARTNERED  
CHICKEN  
SOLUTIONS"

Rainbow FoodSolutions is the leading poultry supplier to the South African foodservice industry. Supplying the entire spectrum of foodservice outlets, from hospitals to large staff canteens and Quick Service Restaurants, Rainbow FoodSolutions is focused on delivering world-class food solutions anywhere in South Africa. Major customers include KFC, Chicken Licken, Nando's, Steers and Compass SA.



"Superior chicken  
in every way"

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



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

Nobody knows chicken consumers like we do...

Significant investment has been made in our brands over the past year.

Consumer understanding is at the heart of our brand strategy.

This allows us to differentiate, innovate and communicate with our customers and consumers in relevant and sometimes surprising ways.

### New Rainbow packaging



### Wacky and wonderful

The "Safe my Mate" campaign has served a dual purpose. It was used as a reactive and reassuring print media communication following the outbreak of avian flu in Asia, and also features on giant billboards close to Rainbow's processing plants.



The "walky" giving a "thumbs up" also celebrated FIFA's announcement of South Africa as host of the Soccer World Cup in 2010.



### Chicken Dust

**Chicken Dust** is traditional township fast-food that, despite its apt if unappetising tag, tastes delicious. In typically amusing township lingo, it describes chicken cooked on open fires and sold to passing customers. **Rainbow's** marketing team was exposed to this popular chicken meal and realised that these vendors presented an excellent win-win branding and sales incentive opportunity. Through a loyalty programme, **Rainbow** has given away branded braais to selected vendors, as well as items such as chicken bags, serviettes, aprons and caps. The loyalty programme has been very successful. Starting in KwaMashu in KZN, it has now been extended to Gauteng.

### Advertising that flies

**Rainbow** entered a new era of marketing with the flighting of its first ever television commercial. The two adverts show chickens doing their best to break into a **Rainbow** chicken farm but being foiled by a Quality Control officer. They have proven to be a hit – **AdTrack**, a research tool that measures an advert's in-market awareness, liking, message take-out and brand linkage, puts them in the top 25% of most-liked television commercials ever produced in South Africa.



If it's chicken, it must be **Rainbow**



Buy a chicken take-away from any of South Africa's fast-food outlets and you can be almost certain you're eating **Rainbow** chicken. **Rainbow FoodSolutions** is the leading producer and supplier of chicken to the country's foodservice industry. It is the key supplier to the Quick Service Restaurants sector eg **KFC**, **Chicken Licken**, **Nando's**, **Steers**, and **Hungry Lion**.

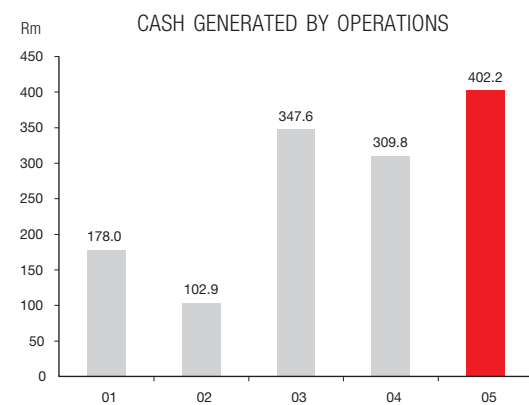
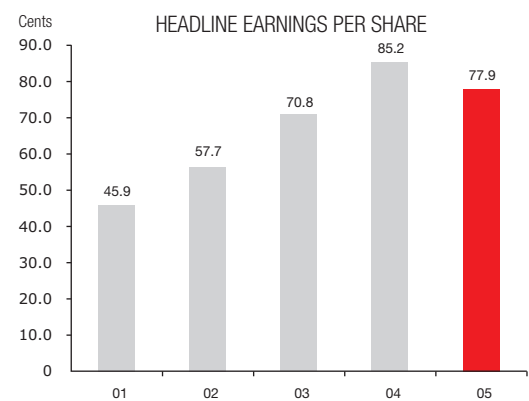
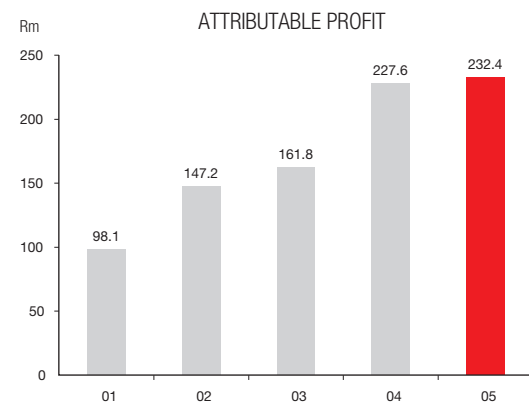
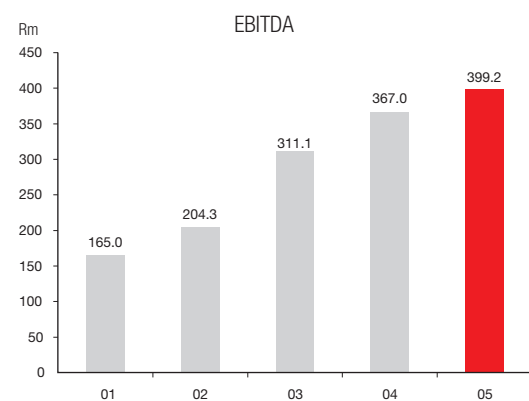


### New Farmer Brown packaging



## Financial Highlights

		2005	2004
Revenue	(Rm)	4 027.0	3 830.0
EBITDA	(Rm)	399.2	367.0
Attributable profit	(Rm)	232.4	227.6
Headline earnings	(Rm)	213.0	227.5
Headline earnings per share	(cents)	77.9	85.2
Headline earnings per share - diluted	(cents)	75.7	82.4
Cash generated by operations	(Rm)	402.2	309.8
Capital expenditure	(Rm)	200.0	87.0
Closing share price	(cents)	650	545



## Chairman's Report

M H Visser



### COMMENDABLE PERFORMANCE

Rainbow's underlying results reflect the initial successes of its customer focused, integrated supply chain strategy.

The past year was characterised by higher consumer demand, stable chicken price realisations, strong cash-flow generation and significant strategic investment in assets, brands and people to position the business for sustainable earnings growth.

The main challenges faced were managing maize positions in a price-softening market, increased chicken competition with significantly increased levels of imports on the back of the stronger rand, avian influenza both locally and abroad, the three week national strike, and the acquisition and integration of **Vector**. I am pleased to report that all of these challenges were admirably met.

The poor bird performance resulting from the Group's feed being contaminated by a supplier's product was contained to a limited period only. Aside from being a major distraction for the business, this exceptional incident had a material impact on **Rainbow's** results, but all operations are now back on track and committed to regaining the lost momentum.

Despite the feed contamination issue which caused an estimated pre-taxation loss of R80 million, the performance for the year was pleasing considering the significant investments being made in the business.

### INVESTING FOR THE FUTURE

The investments in the past year demonstrate the Board's commitment to the customer focused, integrated supply chain strategy, aimed at improving profit margins on a sustainable basis.

The R455 million acquisition of **Vector** is one of the key enablers towards achieving this strategy. **Vector** has distributed the bulk of **Rainbow's** products for over 34 years. The closer alignment of **Vector's** operations with **Rainbow** and its supply chain initiatives is expected to deliver both synergistic benefits and new customer opportunities for **Rainbow**.

The R156 million Further Processing Plant in Hammarsdale is on course for commission in October 2005.

### SUSTAINABILITY

Having returned the business to profitability with the objective of achieving above-average returns for shareholders within an acceptable and managed risk profile, it is appropriate that the Board turns its attention to the broader definition of sustainability. To this end the following areas are acknowledged as important to the long-term success of **Rainbow**:

- Economic performance
- Broad-based black economic empowerment
- Product stewardship
- Environmental performance
- Human capital, including employee profile, health and safety, HIV/AIDS, training and skills development, employee satisfaction, remuneration and industrial relations
- Community
- Animal welfare

**Rainbow** is committed to all aspects of sustainability, and the detailed Sustainability Report on pages 10 to 16 reflects the steady progress being made.

### CORPORATE GOVERNANCE

**Rainbow** is fully committed to the principles outlined in the King II report on corporate governance and recognises that the primary responsibility for corporate governance rests firmly with the Board.

The effective operation of the Board and various committees is attributable to the skills and commitment of a diverse but complementary team. I thank Desmond Loch Davis for his valuable contribution over the many years of service to **Rainbow** and welcome Robert Field and Don Vale who joined the Board on 28 July 2004.

In addition, I would like to thank Peter Mageza for his valuable contribution during his tenure.

### PROSPECTS

Indications are that the macroeconomic environment will remain stable with sound fiscal disciplines and a lower interest rate contributing to consumer spend remaining fairly positive over the period. A strong rand and excess maize stocks should translate into lower feed raw material input costs.

However, a negative earnings contribution is expected from the new Further Processing Plant as it will only be commissioned midway through the period. Further to this, as mentioned at the time of concluding the acquisition, **YUM! (KFC)** changed its distribution partner and therefore **Vector's** profit contribution will be lower in the year ahead, offset in the second half to some extent by the inclusion of certain **Rainbow** volumes not previously distributed by **Vector**.

The Group expects to report earnings growth for the upcoming financial year, albeit off a compromised base.

M H Visser  
Non-executive Chairman

## Chief Executive's Review

M Dally



*"It's all about chicken"*

### OVERVIEW AND MARKET CONDITIONS

**Rainbow** remains the biggest volume producer in South Africa at approximately four million birds per week. It is a consumer and customer focused, fully integrated broiler producer that breeds and rears its own livestock and processes and markets fresh, frozen, value-added and further processed chicken nationally and internationally.

**Rainbow** estimates the size of the total chicken market in South Africa to be approximately R11 billion. Total market volume growth over the past year is estimated at 10% of which approximately 7% relates to local producers and the balance attributable to a 48% growth in imports. The foodservice channel, which represents almost a third of **Rainbow's** chicken business, grew by approximately 12%.

The Group's strategic focus as an integrated chicken producer was rewarded with a pleasing underlying performance for the 12 months to 31 March 2005. Bird performance was impacted negatively by the Group's feed being contaminated for a limited period by a supplier's product. This reduced pre-taxation earnings by some R80 million and caused headline earnings to decrease by 6.3% over the comparable period. Without this impact the Group would have reported headline earnings growth of approximately 19%.

The macroeconomic environment remained stable over the review period. The stronger rand, government's fiscal policies and the continued improvement in the living standards of the majority of South Africans contributed towards higher consumer demand and steady chicken price realisations.

However, these factors have also sustained higher levels of imports. With the rand at current levels certain channels within the local poultry market remain at risk of being over-supplied with low-price chicken.

**Rainbow** has remained true to its feed raw material procurement strategy, which includes a mix of short-, medium- and long-term instruments. Feed raw material prices, particularly maize, softened significantly with the year-on-year closing SAFEX price for yellow maize approximately 50% lower at the end of the financial year. However, the Group was unable to benefit in full from this reduction as a result of certain long positions held in maize, and to a lesser extent soya. Within the defined procurement strategy the Group will look to maximise the current low input prices. Looking forward the Group remains comfortable with its overall procurement position relative to the market and its competitors.

### TAKING THE GROUP FORWARD

The Group's performance has improved significantly over recent years, clearly manifesting the success of the turnaround where the focus was on agriculture, processing and cost cutting. In supporting the latter, an element of underinvestment was entertained.

The Group is becoming more consumer and customer focused and intends leveraging its integrated supply chain to target profitable product categories and channels. Further investment in **Rainbow's** assets, brands and people is necessary to position the business for long-term sustainability.



### Our strategic framework can be summarised as follows:

#### What have we done?

To ensure a return to profitability we focused on:

- Maximising key performance indicators in agriculture
- Improving processing yields
- Reduction in headcount and plant closures
- Increasing share of the foodservice channel

#### Where are we?

Much improved, but earnings remain variable.

- Chicken is still predominantly sold on price and a function of managing stock levels
- Divisional emphasis has inhibited the realisation of supply chain integration benefits
- There is still a degree of underinvestment

**Our future focus** is to create consistent sustainable demand at an acceptable profit margin and shareholders' return. The following are the five key focus areas going forward:

#### 1. Consumer Insight

*The consumer is at the heart of our business.*

Consumer insight entails a thorough understanding of the market and what consumers want. We will realise the opportunities identified through innovation and differentiation of our brands and appropriate brand investment.

#### 2. Customer Focus

*Our customers are our partners in business.*

Customer focus enables us to identify route-to-market opportunities that are attractive to us, broaden our customer base, grow the chicken category profitably, and leverage **Rainbow FoodSolutions** opportunities.

#### 3. Integrated Supply Chain

*Striving for an optimised solution.*

**Rainbow** is creating an appropriate and integrated supply chain to efficiently service targeted chicken demand across all channels. Business component areas within the Group previously operated independently, putting divisional interest above Group interest. This inhibited the business from enjoying the benefits inherent in its national presence and scale.

#### 4. Catch-Up Investment

*Part of ensuring long-term sustainability.*

Further catch-up investment in assets, brands and people is required. Replacement capital expenditure, research and development facilities and management information systems are the remaining key areas of investment.

#### 5. Behaviour and Culture Change

*Pursuit of a common purpose.*

Behaviour and culture change throughout the Group will ensure a progression from the largely production-driven focus of the past to the consumer and customer focus of the future, and from the silos of divisional interest to the pursuit of a common Group purpose.

### REVIEW OF OPERATIONS

In line with the Group's strategic intent, and enabled by significant investment, **Rainbow** now operates as an integrated supply chain. Focus is on the production of the lowest cost, right-sized bird and while all areas of the business understand their role in achieving this, the full benefits will only materialise over the next two years. Management evaluation requirements have similarly been adjusted and the Group's internal financial reporting reflects this "cost chain".

The Group has invested significantly in understanding consumers and demand patterns. Numerous marketing initiatives have been undertaken to build brand awareness and innovate in line with consumer requirements. The first ever television commercials for the **Rainbow** brand were ranked amongst the top 25% of most-liked television commercials ever produced in South Africa.

**Rainbow FoodSolutions**, whose aim is to delight customers by providing a total chicken solution, has customer teams who work closely with the Quick Service Restaurant industry, contract caterers, accommodation sector, mines and state institutions to develop tailored chicken solutions that meet their individual requirements. **Rainbow FoodSolutions** was recognised by various customers, winning the "Chicken and Overall Supplier of the Year" award from **Nando's**, "Supplier Excellence" award from **KFC** and "Supplier of the Year" award from the **Compass Group**.

**Rainbow's** exports have been limited to customised products to customers such as **KFC** and **Nando's** in the Middle and Far East. When avian flu broke out in Asia, our global supplier status enabled us at very short notice to assist **KFC** in Singapore and Hong Kong. Following the outbreak of avian flu in ostrich flocks in the Eastern Cape, a voluntary ban on exports of all poultry products from South Africa was initiated and **Rainbow's** supply was terminated immediately.

The Rustenburg processing plant, the Group's biggest facility, was upgraded in March 2005. Rustenburg is now a focused, high volume "frozen only" plant, well positioned to service Gauteng, South Africa's biggest frozen chicken market, at improved economies of scale.

The fresh production that previously took place at Rustenburg has been outsourced to a third party producer, **Sangiro**, a key strategic partner with a specialised fresh business.

The R156 million Further Processing Plant being constructed in Hammarsdale remains on schedule for commission in October 2005. This investment holds exciting opportunities for the realisation of the Group's branded and value-added chicken strategy.

The Western Cape processing plant based in Worcester is currently upgrading its fresh and value-added capacity. This will enable better servicing of the Western Cape, South Africa's biggest fresh market, with both the **Farmer Brown** and **Rainbow** brands as well as the supply to **Woolworths**. The Worcester plant was recently awarded HACCP certification from the SABS, being the first chicken processor in South Africa to be awarded this globally recognised food safety management tool.

The Group recognises the importance of an integrated Enterprise Resource Planning (ERP) system to effectively manage its complex supply chain and expects to initiate the roll-out of such a system in the 2006 financial year. In addition, the Group is implementing a poultry management IT system, initially in the Western Cape, that will provide an important management tool for the agricultural business. Ultimately this software will be integrated into the new ERP system.

The **Vector** acquisition has bedded down well and their results have been consolidated as from October 2004. **Vector's** results for the period are in line with expectation, but being part of **Rainbow's** integrated supply chain, as with **Cobb** and **Epol**, their results will not be shown separately. **Vector** recently renewed its five year contract with a significant principal. As mentioned previously, **Vector** remains committed to servicing its other principals who stand to benefit from **Rainbow's** customer focused supply chain initiatives.

The **Cobb** 500 breed continues to perform well and the new line has been successfully introduced across all of **Rainbow's** agricultural operations.

**Epol** was negatively impacted by the feed contamination issue as well as the volatile and declining maize prices, but is expected to reverse this position in the coming year. In January 2005 **Epol** was awarded ISO 9001:2000 certification for all their sites. This is a first for the feed industry in South Africa. The structure of the ISO 9001 quality management system is process orientated and, through specific quality objectives, defines the business approach towards the quality of product, clients, suppliers, staff and the consequences

of all work performed. The management of **Epol** is committed to maintaining and improving this management system with the aim of enhancing customer satisfaction as well as complying with all legal and regulatory requirements.

**FINANCIAL REVIEW**

As stated above, the Group's results were negatively impacted by the feed contamination issue. The cause of the poor bird performance was identified in January 2005 after extensive testing revealed the presence of a contaminant in a supplier's product that is included in the Group's feed. The full impact of this loss is included in the current year's results. The Group's insurance policies provide cover in respect of certain of the losses and a letter of demand has been lodged on the supplier to recover the damages suffered by the Group. Management is satisfied that this is a non-recurring external influence and that existing risk management and quality control processes were effective in identifying the problem and containing losses.

**Chicken revenue** increased by 5.5% to R3.3 billion (2004: R3.1 billion) on the back of a 6.0% improvement in price realisations. Chicken volumes decreased by 0.5%, affected by the feed issue and to a lesser extent the three week national strike in May/June 2004. Group revenue increased by 5.1% to R4.0 billion (2004: R3.8 billion).

Revenue (Rm)	2005	2004	%
Chicken	3 281	3 109	5.5
External sales: Cobb, Epol & Vector	746	721	3.5
Reported Revenue	4 027	3 830	5.1

**EBITDA** includes a non-recurring profit of R9.0 million (2004: R0.1 million) on disposal of fixed assets and a R16.0 million (2004: nil) release of impairment provisions in respect of increased valuations of dormant properties that are either to be sold or brought back into use. Excluding these items, headline EBITDA increased by 2.0% to R374.1 million (2004: R366.8 million) and **headline EBITDA** margin declined to 9.3% (2004: 9.6%). Chicken cost of production increased by 7.0% partly as a result of a 30.4% increase in depreciation arising out of recent capex investments. The average feed cost was 2.1% higher than last year.

The effective **taxation** rate was slightly lower at 32.3% (2004: 33.1%).

**Headline earnings** decreased by 6.3% to R213.0 million (2004: R227.5 million) with fully diluted **headline earnings per share** declining by 8.1% to 75.7 cents per share (2004: 82.4 cents per share).

**Cash generated by operations** remains strong at R402.2 million (2004: R309.8 million), with the improvement largely attributable to lower working capital requirements. The cash balance at the end of the period was lower than the previous year due to the R454.9 million acquisition of **Vector**, which was funded from the Group's cash resources and increased capital expenditure. As a result, interest income was also lower at R27.1 million (2004: R37.2 million).

The **higher capital expenditure** levels reflect both strategic investments and the underinvestment in previous years. The Group expects that further above-average capital expenditure levels will be necessary to ensure the business is adequately invested for the future. During the year R200.0 million (2004: R87.0 million) was spent, of which R58.2 million related to the new Further Processing Plant. An additional amount of R134.1 million (2004: R33.6 million) has been contracted and committed but not spent, whilst R32.3 million (2004: R159.4 million) has been approved but not contracted.

**Return on equity** decreased to 18.4% (2004: 21.1%).

**SUSTAINABILITY**

**Rainbow** is, for the first time, including non-financial information in its annual report and we believe this will provide valuable insights into how we run our business.

Issues such as food safety, biosecurity, avian flu and animal welfare remain high on the international agenda for our industry.

For us, an emphasis on the non-financial aspects of our performance – also termed “sustainability” – means maximising the benefits created by **Rainbow** for all our stakeholders through the way in which we conduct our business. We are striving for excellence in all we do, rather than merely achieving minimum compliance. It is our value-creating activities that underpin our financial performance. Given **Rainbow's** role in the wider social system in which we operate, both through our approximately 6 500 employees and our role in the local and national economy, our long-term survival is inextricably linked to the sustainability of the country.

This year we began to develop the framework for managing our non-financial performance. This framework is based on our core values, allowing us to align such value-creating activities to our internal business strategies, targets and processes. Furthermore this process allows us to ensure that the management system is developed and implemented in a manner that is appropriate to the company's purpose, culture and operational circumstances.

Being a first-time reporter, there will be gaps in our report, but they give rise to improvement targets which we will work towards achieving in the future. There are also, however, issues that we have always managed and which form an integral part of our business, such as food safety and the welfare of the birds, that we have not reported on previously.

**IFRS REPORTING**

The Group will adopt International Financial Reporting Standards (IFRS) with effect from 1 April 2005. An intensive process is under way to assess the impact of these new standards on our financial reporting and requirements of our accounting systems. We have identified seven key areas, namely:

- IAS 1 - Presentation of financial statements
- IAS 2 - Inventories
- IAS 16 - Property, plant and equipment
- IAS 17 - Leases
- IFRS 1 - First time adoption of International Financial Reporting Standards
- IFRS 2 - Share-based payments
- IFRS 3 - Business combinations (including IAS 38 Intangible Assets and IAS 36 Impairment of Assets)



Full disclosure of the impact of applying the new standards on the Group results will be reported in the 2006 financial year interim results.

**CONCLUSION**

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

M Dally  
Chief Executive Officer



**ECONOMIC PERFORMANCE**

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

In generating economic value for our shareholders, **Rainbow** provides a quality and affordable food source to the South African nation and creates jobs both within the business and along our supply chain. We are committed to the carrying on of business through fair commercial competitive practices, and to trading with customers and suppliers who share our values and subscribe to the same high ethical business practices.

**BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

**Rainbow** welcomes the legislation pertaining to broad-based black economic empowerment. While awaiting the finalisation of the agricultural sector charter, under which the components of our business activities fall, we have proactively managed our BEE performance in line with the Department of Trade and Industry (DTI) scorecard and our activities will also be subject to the Code of Good Practice on Broad-Based Black Economic Empowerment. Our performance in preferential procurement has been especially pleasing: of our R470 million (non-commodity) supplier spend, approximately R115 million was with empowerment partners. Our performance in other areas, such as black persons in executive management or on the Board, will be the focus of further transformation efforts.

The BEE sub-committee of the Board is currently in a process of evaluating empowerment options with a view to achieving full BEE compliance.

**Empowering Contract Growers**

Within the context of BEE, through our contract growers initiative, **Rainbow** aims to facilitate the participation of previously disadvantaged persons in the poultry industry. The **Rainbow** Board has identified BEE contract growing as a strategic vehicle for delivering a win-win proposition in supporting both the growth of **Rainbow** and local economies. We currently work with three BEE contract growers.



The Lawrence family owns the Impro farming operation in Worcester.

VALUE ADDED STATEMENT	%	2005 R'000	%	2004 R'000
Revenue		4 026 998		3 830 032
Paid suppliers		(2 777 297)		(2 799 539)
Value added by operations		1 249 701		1 030 493
Net finance income		27 078		37 181
<b>TOTAL VALUE ADDED</b>		<b>1 276 779</b>		1 067 674
Applied as follows:				
<b>TO PAY EMPLOYEES</b>				
Salaries, wages and benefits	49.4	630 984	42.6	454 707
<b>TO PAY PROVIDERS OF CAPITAL</b>				
Interest paid	0.1	1 068	6.3	66 839
Dividends paid	6.5	83 493	6.3	66 839
<b>TAXATION</b>				
Normal tax	25.8	329 202	30.1	321 583
VAT	8.7	110 718	10.6	112 764
PAYE	10.9	139 307	14.0	149 061
Rates & taxes and RSC levies	5.5	70 708	4.9	51 957
	0.7	8 469	0.7	7 801
<b>RE-INVESTED IN THE BUSINESS</b>				
Depreciation and amortisation	18.2	232 032	21.0	224 545
Retained earnings	6.5	83 091	6.0	63 742
	11.7	148 941	15.1	160 803
	<b>100.0</b>	<b>1 276 779</b>	100.0	1 067 674



Potential growers are subject to due diligence. It is also crucial that we help them understand the risks and demands of livestock farming. **Rainbow**, through direct involvement of divisional directors and finance managers, provides support to the contract growers in developing their business plan. Should applicants be successful, we provide ongoing mentoring and training to ensure transfer of skills in all areas from Best Operating Practices (BOPs), animal welfare, biosecurity through to bookkeeping.

**PRODUCT STEWARDSHIP**

"From farm to fork", our products are subject to the highest standards in food safety, quality and traceability.

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

**Hazard Analysis Critical Control Point (HACCP)**

HACCP is an internationally recognised system devised by the food industry that focuses on food safety. Compliance with HACCP is integrated in our Total Quality Management System and all **Rainbow's** processing plants operate according to the HACCP procedures. Once HACCP certification is achieved, SABS conducts annual HACCP audits to verify compliance.



A first in South Africa - HACCP certification at Worcester processing plant

**European Union (EU) Standards**

Our approach is to comply with and benchmark ourselves continuously against EU standards as the most recognised international standard. EU standards are applicable to all aspects of our operations, including production flow, building specifications, personnel flow, protective clothing, ablutions, change rooms, laundry, canteen facilities, packaging and labelling. When we design new facilities or upgrade existing ones, great care is taken to meet EU standards. This endorses our controls and management practices ensuring product safety. The focus is on monitoring, recording and controlling the entire supply chain, "from farm to fork".

**Good Manufacturing Process**

**Epol** abides by the Good Manufacturing Process (ISO 9001: 2000) which controls the use of additives and veterinary medicines, levels of undesirable substances and products, as well as hygienic work methods in the control of bacteriological conditions. Adherence to this Code is verified by internal and external audits. Microbiological analysis is conducted by accredited independent laboratories and is part of the daily monitoring system. Quality Controllers monitor each batch produced, to verify compliance to specification.



**Epol** is also participating in a pathogen reduction programme to ensure safe products "from farm to fork".

**Quality**

Across all our operations we have implemented comprehensive, world-class quality assurance programmes to ensure sterile and pathogen-free raw materials and production environments.

Regular reviews are conducted to ensure these programmes are adhered to. These include reviews of our compliance with good manufacturing practices, housekeeping and hygiene, pest control, process control, protective clothing, foreign matter, preventative maintenance, external and internal facility conditions, as well as adherence to the Meat Safety Act and the Abattoir Act. State veterinarians have unrestricted access to our processing plants to conduct animal welfare audits or inspections.

Monitoring includes daily inspections of staff, equipment and facilities, microbiological analysis of food contact surfaces and hands, as well as products and residue to verify product safety. Batch quality checks of products to verify adherence to product specifications are also conducted. Salmonella testing is conducted twice weekly to monitor the quality of our feed.

Each processing plant has well-equipped laboratories and well-trained staff. Certified and qualified meat inspectors are in place in the processing plants, together with inspectors from the Muslim Judicial Council and J'amiatul Ulama in KwaZulu-Natal. In addition, government environment health officers are based at the processing plants to ensure adherence to the relevant acts and regulations.



**Staff Training**

Training programmes focusing on food and job safety are conducted on a monthly basis within the **Rainbow** Group, and on induction of new staff members. During the last year, 1 321 people were trained on a national basis on courses ranging from fire fighting to HACCP. In addition, refresher training is provided annually or, if required, more frequently.

**Certification**

The **Rainbow** Worcester and Hammarsdale processing plants have been awarded export certification. **Rainbow** Veterinary Laboratories achieved ISO 17025 accreditation by the South African National Accreditation Standards (SANAS). HACCP certification was awarded to the Worcester plant in 2004. All processing plants are Halal certified.

**Epol** was this year awarded ISO 9001:2000 Quality Management System certification of all their sites. The certification audit was conducted by Deutsche Gesellschaft zur Zertifizierung (accredited certification body), and annual audits will be done to ensure continuing compliance.

**Use of Antibiotics**

Antibiotics are only used in treatment as stipulated under the SAPA Code of Practice, the Fertilisers and Farm Feeds Agricultural Act 36 of 1947 and the Medicines and Related Substances Control Act 101 of 1965. These regulations prohibit unnecessary administration of antibiotics to healthy flocks. Should we need to use antibiotics, we adhere to the recommended withdrawal period of five to six days prior to slaughter. Antibiotic residues are tested routinely, both through in-house laboratory tests and samples tested by Onderstepoort Veterinary Institute.

**Feed**

Our chickens are grain fed. They are omnivores, and so their feed consists of grain and a protein source (approximately 70% corn and 30% protein). **Rainbow** chickens are not fed hormones to promote their growth, or for any other reason.

**Procurement of Raw Material**

**Epol** only purchases raw material from approved suppliers that have similar total quality management systems. Certificates of analysis (COAs) are submitted with each batch of incoming raw material and these batches are verified against the specifications. All raw materials can be traced through to the finished product. Hygiene and housekeeping audits and inspections are conducted to ensure compliance to food safety requirements, while microbiological analysis is performed to verify hygiene standards and product quality.

**Meeting Customer Requirements**

Our customers require us to meet very high quality standards. Certain customers audit our adherence to their specifications. Independent third parties conduct annual supplier audits at **Rainbow** processing plants for **KFC**, **Nando's**, **Pick 'n Pay**, **Woolworths** and **Wimpy**. These supplier audits focus on two main areas, namely food safety and quality management.

Food safety is based on HACCP standards, while Quality Management is based on ISO 9000. The STAR (Supplier Tracking Assessment & Recognition) Audit is the strictest and the pass rate is 90%. **Rainbow** has passed all supplier audits in the review period.

**Product Labelling**

Labelling is done in accordance with legislation which stipulates a number of requirements including nutritional content and freezing instructions. **Rainbow** supports a labelling and code system that facilitates full product traceability "from farm to fork", to ensure complete consumer safety and trust in the final product.

**Industry Collaboration**

**Rainbow** actively participates in Food Safety Initiatives run by the Consumer Goods Council of South Africa (CCGSA) and the Southern African Poultry Association (SAPA), to support all efforts to ensure food safety nationally.

**Consumer Care Service**

Our website at [www.rainbowchicken.co.za](http://www.rainbowchicken.co.za) received on average 2 500 visits per month during the 2005 financial year. **Rainbow** provides both online and phone-in customer complaints services. We operate share call numbers for our **Farmer Brown** and **Rainbow** products. Calls are handled at a central point, logged and an email sent to the relevant Quality Assurance manager who then contacts the consumer. If necessary, testing of the product is undertaken at our laboratory. This process is designed to implement relevant action in order to continuously improve the quality of our products.

Consumer Helpline Statistics (April 2004 - March 2005)				
Analysis of Calls Logged				
Total	Complaints	Compliments	Prank	Queries
862	712	19	64	67

**Awards**

**Rainbow FoodSolutions** was recognised by various customers during the year, winning the "Chicken and Overall Supplier of the Year" award from **Nando's**, "Supplier Excellence" award from **KFC**, and the "Supplier of the Year" award from the **Compass Group**. **Rainbow FoodSolutions** received a "Best Supplier" commendation in the medium company category at the recent Hostex exhibition in Johannesburg in March 2005. **Rainbow** was also awarded "Silver Arrow" status in the Annual Survey on Fast Moving Consumer Goods Manufacturers rated by Retailers and Wholesalers.

**ENVIRONMENTAL PERFORMANCE**

We take full responsibility for environmental performance by charging every **Rainbow** person to ensure effective use of resources and limit our impact on the environment. In addition we favour suppliers and partners who share our values with regard to the protection of the environment.

In total, **Rainbow** owns, leases, or manages approximately 9 600 hectares for its facilities. At each site, an environmental officer is responsible for measuring and managing our environmental impacts on an ongoing basis.



**Environmental Risks**

Our main environmental risks, which include outbreaks of fire, effluent discharge and chemical storage are managed on an ongoing basis.

**Non-Compliance, Prosecution and Fines**

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

**Waste**

The main types of waste that our operations generate are waste water, cardboard and plastic. Other waste, including litter and by-products, is effectively put to use in cattle feed and fertilisers.

Waste by Type and Destination		
Waste Type	Volumes	Destination
Waste water (kl)	2 436 476	Effluent plants
Cardboard waste (tons)	193	Recycle/Landfill
Litter (m <sup>3</sup> )	749 381	Sold
By-products (tons)	13 172	Reused
Plastic waste (tons)	112	Recycled

**HUMAN CAPITAL**

We respect individuals and nurture them, by empowering them to grow and investing in their ongoing development, for both their own and that of our business' benefit. We encourage teamwork, dedication and innovation.

**Employee Profile**

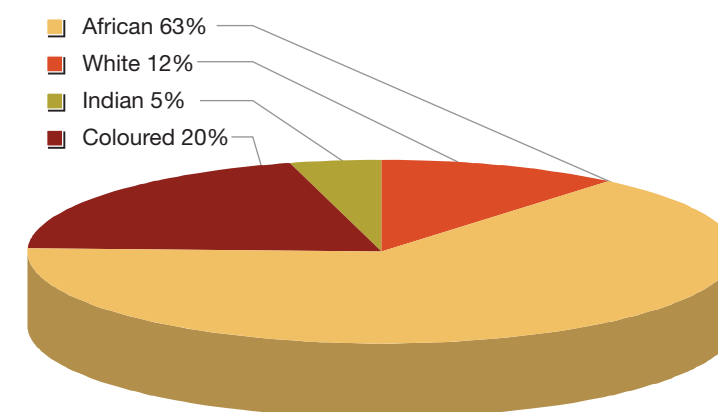
**Rainbow** provides permanent direct employment to 6 375 people. We are committed to the principles embodied in the Employment Equity Act, and therefore our objectives are to equalise opportunities for all our employees, eradicate any form of discrimination that may exist and strive towards being staffed on a basis that is demographically representative of the society in which we operate.

Employment Equity forums meet within the regions on a quarterly basis and monitor performance against targeted equity plans. Targets set in 2000 were easily exceeded in the junior and middle management levels, but were disappointing at the senior management and executive levels. Foundations set for this programme early in 2005 should assist to create a sustainable culture of diversity management and a faster pace of progress in this area.

Employment Statistics (incl Vector) Actuals as at March 2005

Category	Race								Total		
	African		Indian		Coloured		White		Gender		
	M	F	M	F	M	F	M	F	M	F	Total
Executive Directors	1	-	-	-	-	-	11	1	12	1	13
Senior Managers	2	-	-	-	-	-	55	10	57	10	67
Middle Managers	42	9	60	10	33	13	183	110	318	142	460
Other	2 334	1 666	158	55	727	523	208	164	3 427	2 408	5 835
Total (number)	2 379	1 675	218	65	760	536	457	285	3 814	2 561	6 375
Total (%)	37	26	4	1	12	8	7	5	60	40	100

Employee Profile 2005



**Health and Safety**

Occupational Health and Safety officers are in every **Rainbow** operation. Centralised monitoring of incidents has been implemented for more effective Group-level reporting.

The health risks to the company and its employees include risk of transmission of diseases from bird to human and vice versa, as well as employees' exposure to chemicals, feathers, grain, wood dust and noise. These are effectively managed through continuous washing of factory floors, protective guarding on equipment, the use of protective clothing and ear protection where necessary. All statutory regulations are complied with. A disaster evacuation plan is in place to ensure the effective management of any hazardous exposure from a chemical leak.

All operations have implemented appropriate health protection programmes. These formalised protection programmes ensure that employees are educated concerning all hazards. Entrance and exit medicals and audiograms are a legal requirement for those employees who will be exposed to noise over 85 dB.

We operate well-equipped clinics at our processing plants. Medical support, clinic services and testing are permanently available to staff. These services are performed by registered nurses and include pre-employment, audiometric and post-employment testing as well as emergency, injury and illness treatment and counselling.

All operations have either National Occupational Safety Association (NOSA), International Standards Organisation (ISO) or Occupational Health and Safety Act System (OHSAS) grading in place, and have improved their monitoring status for health and safety considerably over the prior year.

Health and safety committees are in place at all sites, and further training is provided to our staff. It includes first aid, advanced occupational health and safety courses, HIV/AIDS peer training and training on health and safety communication systems.

The most serious injuries during the year were falls which resulted in fractures, chicken vaccination needle-stick injuries and hand

lacerations. The number of incidents vary for each operation and is dependent on the actual man-hours worked per the month of occurrence. The national DIFR (Disabling Incident Frequency Rate – a rolling 12 month record of disabling accidents/diseases) for the entire Group is under two. This falls within a NOSA four-star rating.

**HIV/AIDS**

Our HIV/AIDS strategy is driven by our Strategic Road Map and Balanced Scorecard. The Road Map contains our Policy statement, which endorses the Group's commitment to contributing to combating HIV/AIDS, assigns formal responsibility to an executive level member for oversight in this regard, and a quarterly Board review of the programmes. An HIV/AIDS Corporate Steering Committee is responsible for developing the details of such programme, and ongoing review of progress. The Corporate Steering Committee is assisted by Workplace Committees at the various sites and operations.

Voluntary Counselling and Testing (VCT) is available at all operating sites. The participation varies across the Group, being exceptionally good within **Vector** at over 80%, and disappointing within the other operations at less than 20%. In our HIV/AIDS education and awareness initiatives around the Group, the involvement of people living with AIDS has proved a powerful tool for strengthening the education process. Such initiatives are undertaken together with community-based organisations in areas close to operations, via support for youth forums and local organisations. Assistance for home-based care and care for the dying form part of the programme. In KZN a close partnership has developed with Lily of the Valley, where **Rainbow** has sponsored a home for HIV/AIDS orphans. Support is also given to The Dream Centre in Pinetown, a hospice for those with AIDS.

In our drive for effective management of the HIV/AIDS pandemic, **Rainbow** has formed collaborative partnerships with a number of authoritative external experts, including the University of KwaZulu-Natal's Health, Economic and HIV/AIDS Research Division (HERD) and the Durban Chamber of Commerce in its drive for effective management of the HIV/AIDS pandemic. A scorecard monitors our progress and ensures greater awareness.



*Lily of the Valley*



*Employees receiving their training certificates*

**Training and Skills Development**

In the continuous development and training of our employees, **Rainbow** will seek to measure the impact of its training, in the application of newly acquired skills upon the delivery of greater capabilities and capacity.

**Leadership and Management Development**

We invested R1 426 300 over the reporting period in developing future **Rainbow** leaders. Currently 128 employees are participating in either the leadership development or the management development programme. 43 learners completed the leadership programme in 2004 with an overall pass rate of 72%.

**Learnerships**

In total 148 employees attended four learnerships, namely professional driving, forklift driving, hygiene and health and safety. Where a programme is inadequately supported internally, unemployed qualifying candidates are invited to supplement numbers, with a view to making them employable and thus contribute to the reduction of unemployment.

**Adult Basic Education and Training (ABET)**

ABET programmes have also been run nationally and have provided an opportunity for 227 employees to develop their numeracy and literacy skills. In the last year, 57 learners improved their ABET levels. Emphasis will continue to be placed on increasing the number of participants. Our investment in this area was R454 000. Close co-operation with SETA is part of this programme.

**Bursaries**

Bursaries to the value of R100 000 were provided to the children of employees in the bargaining group in the current year. The aim is to assist with tertiary education for deserving children. There are

no rigid restrictions in the choice of area of study, but preference is given to areas that are of value to the business. The rationale is to reduce the risk of post-qualification joblessness.

With this as the basis, the focus in the future is a further alignment of learning initiatives to the strategic goals, and a focus upon the competency development within critical job families. The skills development programme has delivered an initial set of competencies, which require focus within processing and agriculture. During the course of 2005 the business will complete a full skills audit and focused long-term skills development plan, directly linked to our succession plans and diversity focus.

**Remuneration**

**Rainbow's** wage rate is above the industry average. **Rainbow** provides entry-level job opportunities for previously disadvantaged individuals with no prior training.

**Industrial Relations**

**Rainbow** subscribes to the principle of freedom of association as spelled out in the Labour Relations Act. To this end, 47% of the headcount of 6 375 belongs to Union interest groups. The interest group members are COSATU or NACTU affiliates.

A national working forum meets quarterly over and above the National Bargaining Forum to deal with issues that do not traditionally fall under the ambit of the Bargaining Forum such as HIV/AIDS and Employment Equity.

For the current reporting period, the chicken operations suffered a three week strike over wages. Good relations with labour have since been restored and remain constructive.

**COMMUNITY**

Our belief is to engage with and support the communities in which we operate in order that both our business and the South African community on which we depend, may grow and flourish. We aim to do this through targeted activities that will stimulate local economic development.

Our philosophy is not one of philanthropy. We rather seek to engage with partners and internalise learning from our external activities to raise awareness and address issues within the Group. Increasingly, we aim for these activities to be part of our broader BEE strategy. Our corporate social investment activities have been largely focused on HIV/AIDS initiatives around the country. Each operation partners with a number of community-based organisations. In the Western Cape we are involved in a project specifically focusing on substance abuse. In addition, the company supports a number of early childhood learning centres, mainly in the communities in which operations are located. These include a crèche in Mpumalanga Township (near Hammarsdale) and a primary school in Commisiedrift, which is situated on one of our farms.

**ANIMAL WELFARE**

**Rainbow** has always regarded animal welfare as a high priority. **Rainbow** complies with the SAPA Code of Practice, which was negotiated with the SPCA and the Animal Protection Act. **Rainbow** undergoes internal audits and frequent monitoring on these issues. State veterinarians have unrestricted access to our processing plants to conduct audits or inspections with regard to animal welfare. The SPCA conducts inspections unannounced and at random. An independent third party conducts annual audits in accordance with Animal Welfare and the British Poultry Council's Assured Chicken Production standard.

International interest and concern about the treatment of commercial livestock is increasing. Interest groups like PETA (People for the Ethical Treatment of Animals) operate internationally and rally support for the awareness of animal rights. Customers and consumers have become more aware than ever before that care needs to be taken in the rearing and processing of livestock. Consequently we have

increasing requests for information on where our chickens were reared, under what conditions, incidents of outbreaks of diseases, what they are fed and what medicines are used.

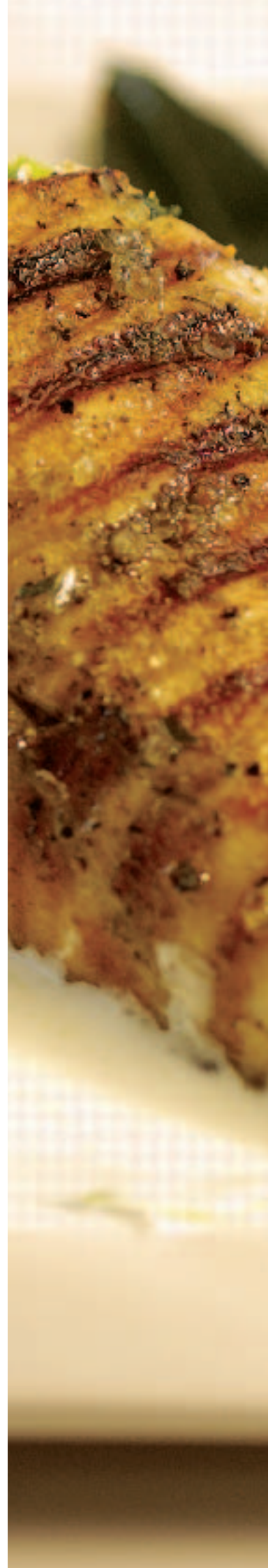
**Rainbow** is also currently participating in a project with **KFC**, further refining standards for animal welfare. An independent third party will conduct annual audits in accordance with Animal Welfare standards as developed and documented by **KFC's** Centre of Excellence (Dallas, Texas) and the British Poultry Council's Assured Chicken Production Standard. These scheduled audits will ensure consistent auditing and application of animal welfare standards throughout our operations.

The strict biosecurity measures to which we adhere, ensure the health of our chickens. Only essential visitors are granted access to the sites and are subject to a number of measures including the provision of barrier footwear.

Flock inspections are carried out at least twice daily. Our stockmen are appropriately trained and handle our birds in a compassionate and positive manner. Slaughtering of our chickens is conducted in a humane, expeditious manner according to the SAPA Code of Practice and Animal Protection Act and in line with the British Poultry Council's Assured Chicken Production Standard.

**Cobb-Vantress International** continues to research and improve its recommendations regarding the welfare of the birds. Monitoring the health status of all birds is controlled at all levels of production. In order to produce a healthy bird under the best environmental conditions we use top quality litter and adhere to stocking density, lighting, feeding and watering best practices.

Our birds are reared in climate-controlled houses to protect them against fluctuating seasonal and weather conditions. The environment is carefully controlled and maintained in order to ensure birds of a high quality are produced. Within the poultry houses, the chickens are free to roam and have easy access to clean water and nutritious feed 24 hours a day. We work in conjunction with veterinary advisers on an ongoing basis to ensure the birds' optimal health is maintained.



**Can you imagine** life without **Rainbow** chicken

**Rainbow** subscribes to the highest standards of corporate governance in all of its dealings with its stakeholders. This means that we will be transparent and accountable to all those affected by our business.

The Board subscribes to the values of and accepts the inclusive approach to good corporate governance espoused in the King II report. The Directors recognise that good corporate governance is essentially about leadership and that there exists the need to conduct the enterprise with integrity and in compliance with best international practices, whilst taking cognisance of the value systems of the countries in which it operates. The Board and individual directors accept their duty and responsibility to ensure that the principles set out in the code of corporate practices and conduct as defined in the King II report are observed.

**COMPLIANCE**

In keeping with its commitment to corporate governance, the Board has assessed its state of compliance and having gone through a process for the last three years has now reached full compliance with the Code of Corporate Practices and Conduct.

**STAKEHOLDER RELATIONS**

We subscribe to a partnership approach in the way in which we conduct our business. **Rainbow** seeks to constructively engage its key stakeholders with the view to learning from such interactions and responding to their needs through our core business activities. We interact with key stakeholders in our business through a number of formal and informal vehicles, including participation in industry forums, the investor relations function and consumer helplines. We will continue to emphasise open and transparent dialogue in order to anticipate trends and make changes where possible to the way we currently operate.

**Key Stakeholders**

- Shareholders and other providers of capital
- Business partners and customers
- Local community
- Government and Regulators
- Industry
- Consumers
- Staff and unions
- Suppliers

**Dialogue Channels & Processes**

- Annual General Meeting
- Investor Relations
- Sales teams
- Selected projects
- Regular meetings with municipalities
- Corporate Affairs, Legal and Investor Relations functions
- SAPA and CGCSA representation
- Consumer helplines
- Confidential helpline
- Direct relationships with suppliers

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

Consumers are becoming increasingly proactive with regard to issues such as health and safety, our farming practices, product quality, product recall, Proudly South African status and animal welfare. Our employees and unions expect fair labour practices, job security, safety at work, career paths and upliftment of their communities.

We recognise that we have an important role to play in our industry, including technological development, improvement of manufacturing standards and over and above compliance with legislation, facilitating relevant industry self-regulation.

Miles Dally is a member of the Board of the Consumer Goods Council of South Africa (CGCSA), where collaboration between retailers and manufacturers through the Efficient Consumer Response (ECR) initiative, focuses on the development and implementation of industry best practices for the benefit of consumers. We also have numerous company representatives participating in the South African Poultry Association (SAPA).

Through our developing framework for managing non-financial performance, we have taken all of these issues into account in our strategy, moving closer to the end consumers of our products.

The Group is committed to reporting on stakeholder issues through the most appropriate medium and in the most appropriate manner.

**CODE OF ETHICS**

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

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

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

**CORPORATE CODE OF CONDUCT**

- The Group is committed to:
- The highest standards of integrity and behaviour in all of its dealings with its stakeholders and society at large
  - Carrying on of business through fair commercial competitive practices
  - Trading with customers and suppliers who subscribe to ethical business practices
  - Non-discriminatory employment practices and the promotion of employees to realise their potential through training and development of their skills
  - Being proactive toward environmental, social and sustainability issues

**ECONOMIC PERFORMANCE**

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

In generating economic value for our shareholders, **Rainbow** provides a quality and affordable food source to the South African nation and creates jobs both within the business and along our supply chain. We are committed to the carrying on of business through fair commercial competitive practices, and to trading with customers and suppliers who share our values and subscribe to the same high ethical business practices.

**BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

**Rainbow** welcomes the legislation pertaining to broad-based black economic empowerment. While awaiting the finalisation of the agricultural sector charter, under which the components of our business activities fall, we have proactively managed our BEE performance in line with the Department of Trade and Industry (DTI) scorecard and our activities will also be subject to the Code of Good Practice on Broad-Based Black Economic Empowerment. Our performance in preferential procurement has been especially pleasing: of our R470 million (non-commodity) supplier spend, approximately R115 million was with empowerment partners. Our performance in other areas, such as black persons in executive management or on the Board, will be the focus of further transformation efforts.

The BEE sub-committee of the Board is currently in a process of evaluating empowerment options with a view to achieving full BEE compliance.

**Empowering Contract Growers**

Within the context of BEE, through our contract growers initiative, **Rainbow** aims to facilitate the participation of previously disadvantaged persons in the poultry industry. The **Rainbow** Board has identified BEE contract growing as a strategic vehicle for delivering a win-win proposition in supporting both the growth of **Rainbow** and local economies. We currently work with three BEE contract growers.



The Lawrence family owns the Impro farming operation in Worcester.

VALUE ADDED STATEMENT	%	2005 R'000	%	2004 R'000
Revenue		4 026 998		3 830 032
Paid suppliers		(2 777 297)		(2 799 539)
Value added by operations		1 249 701		1 030 493
Net finance income		27 078		37 181
<b>TOTAL VALUE ADDED</b>		<b>1 276 779</b>		1 067 674
Applied as follows:				
<b>TO PAY EMPLOYEES</b>				
Salaries, wages and benefits	49.4	630 984	42.6	454 707
<b>TO PAY PROVIDERS OF CAPITAL</b>				
Interest paid	6.6	84 561	6.3	66 839
Dividends paid	0.1	1 068		
	6.5	83 493	6.3	66 839
<b>TAXATION</b>				
Normal tax	25.8	329 202	30.1	321 583
VAT	8.7	110 718	10.6	112 764
PAYE	10.9	139 307	14.0	149 061
Rates & taxes and RSC levies	5.5	70 708	4.9	51 957
	0.7	8 469	0.7	7 801
<b>RE-INVESTED IN THE BUSINESS</b>				
Depreciation and amortisation	18.2	232 032	21.0	224 545
Retained earnings	6.5	83 091	6.0	63 742
	11.7	148 941	15.1	160 803
	<b>100.0</b>	<b>1 276 779</b>	100.0	1 067 674



Potential growers are subject to due diligence. It is also crucial that we help them understand the risks and demands of livestock farming. **Rainbow**, through direct involvement of divisional directors and finance managers, provides support to the contract growers in developing their business plan. Should applicants be successful, we provide ongoing mentoring and training to ensure transfer of skills in all areas from Best Operating Practices (BOPs), animal welfare, biosecurity through to bookkeeping.

**PRODUCT STEWARDSHIP**

"From farm to fork", our products are subject to the highest standards in food safety, quality and traceability.

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

**Hazard Analysis Critical Control Point (HACCP)**

HACCP is an internationally recognised system devised by the food industry that focuses on food safety. Compliance with HACCP is integrated in our Total Quality Management System and all **Rainbow's** processing plants operate according to the HACCP procedures. Once HACCP certification is achieved, SABS conducts annual HACCP audits to verify compliance.



A first in South Africa - HACCP certification at Worcester processing plant

**European Union (EU) Standards**

Our approach is to comply with and benchmark ourselves continuously against EU standards as the most recognised international standard. EU standards are applicable to all aspects of our operations, including production flow, building specifications, personnel flow, protective clothing, ablutions, change rooms, laundry, canteen facilities, packaging and labelling. When we design new facilities or upgrade existing ones, great care is taken to meet EU standards. This endorses our controls and management practices ensuring product safety. The focus is on monitoring, recording and controlling the entire supply chain, "from farm to fork".

**Good Manufacturing Process**

**Epol** abides by the Good Manufacturing Process (ISO 9001: 2000) which controls the use of additives and veterinary medicines, levels of undesirable substances and products, as well as hygienic work methods in the control of bacteriological conditions. Adherence to this Code is verified by internal and external audits. Microbiological analysis is conducted by accredited independent laboratories and is part of the daily monitoring system. Quality Controllers monitor each batch produced, to verify compliance to specification.



**Epol** is also participating in a pathogen reduction programme to ensure safe products "from farm to fork".

**Quality**

Across all our operations we have implemented comprehensive, world-class quality assurance programmes to ensure sterile and pathogen-free raw materials and production environments.

Regular reviews are conducted to ensure these programmes are adhered to. These include reviews of our compliance with good manufacturing practices, housekeeping and hygiene, pest control, process control, protective clothing, foreign matter, preventative maintenance, external and internal facility conditions, as well as adherence to the Meat Safety Act and the Abattoir Act. State veterinarians have unrestricted access to our processing plants to conduct animal welfare audits or inspections.

Monitoring includes daily inspections of staff, equipment and facilities, microbiological analysis of food contact surfaces and hands, as well as products and residue to verify product safety. Batch quality checks of products to verify adherence to product specifications are also conducted. Salmonella testing is conducted twice weekly to monitor the quality of our feed.

Each processing plant has well-equipped laboratories and well-trained staff. Certified and qualified meat inspectors are in place in the processing plants, together with inspectors from the Muslim Judicial Council and J'amiatul Ulama in KwaZulu-Natal. In addition, government environment health officers are based at the processing plants to ensure adherence to the relevant acts and regulations.



**BOARD OF DIRECTORS**

**Composition of the Board**

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

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

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

The Board gives strategic direction to the Group and ensures that succession of non-executive directors is planned. The Chairman is not independent but the roles of Chairman and Chief Executive Officer are separate and a clear division of responsibility exists. Details of the directorate are provided on pages 22 and 23 of the annual report.

There are no contracts of service between any of the directors and the Group or any of its subsidiaries.

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

Under the chairmanship of Mr M H Visser, the Board meets six times a year and has a formal schedule of matters reserved to it as recorded in its Board charter. The Board retains full and effective control over the Group and monitors executive management in implementing plans and strategies through a structured approach to reporting and accountability under the auspices of an executive committee.

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

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

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

The process to entrench the principles of good corporate practice and governance throughout the Group commenced under the auspices of the audit committee.

The Board and its committees are supplied with complete and timely information which enables them to discharge their responsibilities and have unrestricted access to all Group information, records, documents and property. Non-executive directors have access to management and may even meet separately with management, without the attendance of executive directors. The information needs of the Board are well defined and regularly monitored. All directors have access to the advice and services of the Company Secretary and there is an agreed procedure by which directors may obtain independent professional advice at the Group's expense, should they deem this necessary.

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

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

Board oversight of non-financial risks, performance management and ongoing monitoring forms part of the terms of reference of the risk committee. We have policies in place governing all aspects of non-financial performance, including quality, animal welfare and food safety. These form part of the **Rainbow** Procedure Manual, which directs our daily operations.

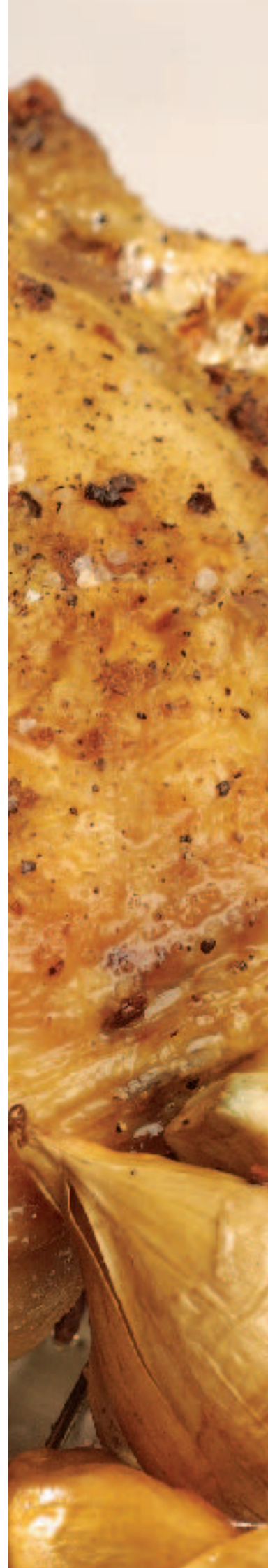
Through the risk committee, the Board identifies the key risk areas and key performance indicators for the Group.

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

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

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

The remuneration committee determines the remuneration of directors at levels sufficient to attract, retain and incentivise individuals of quality. Only non-executive directors receive fees for their services



on the Board and on Board committees. Executive directors are remunerated in terms of their contracts of employment with the Group.

The record of attendance of each director at **Rainbow** Chicken Limited Board meetings for the financial year ended 31 March 2005 is as follows:

- ✓ attendance
- absence with apologies
- N/A not a director at that meeting date

	19/05/2004	28/07/2004	22/09/2004	24/11/2004	26/01/2005	17/03/2005
M H Visser	✓	✓	✓	✓	✓	✓
W E Bührmann	✓	✓	✓	✓	✓	-
M Dally	✓	✓	✓	✓	✓	✓
R H Field	N/A	✓	✓	✓	✓	✓
M Griessel	✓	✓	-	✓	✓	✓
L J Grobler	✓	✓	✓	✓	✓	✓
D J Loch Davis	-	✓	Resigned as director (29/07/2004)			
N P Mageza	✓	-	-	-	✓	-
J B Magwaza	✓	-	✓	✓	-	✓
N Phillips	-	✓	✓	✓	✓	✓
D W Vale	N/A	✓	✓	✓	✓	✓

**BOARD COMMITTEES**

Several committees have been established to assist the Board in discharging its responsibilities. The committees facilitate high standards of governance. Specific responsibilities have been formally delegated to Board committees with defined terms of reference, duration and function, clearly agreed upon reporting procedures and written scope of authority documented in formal charters. There is transparency and full disclosure from the Board committee to the Board, except where mandated otherwise by the Board. Board committees are free to take independent outside professional advice as and when necessary and in future will be subject to regular evaluation by the Board to ascertain their performance and effectiveness.

The principal Board committees are as follows:

**Executive committee**

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

**Audit committee**

The audit committee is chaired by Mr N Phillips and its other members are Messrs W E Bührmann, N P Mageza and D W Vale. The Chief Executive Officer, the Chief Financial Officer, the Group Internal Audit Manager, the Company Secretary and external auditors are invited to attend every meeting. Other members of the Board and management team attend, as required. The committee meets separately with the external auditors and the Group Internal Audit Manager twice a year without management present.

The committee meets three times a year and is responsible for reviewing the interim and final financial statements, internal financial control procedures, accounting policies, compliance and regulatory matters, recommending the appointment of external auditors and other related issues. All members of the audit committee have the required financial knowledge and experience to oversee and guide the Board and the Group in respect of the audit and corporate governance disciplines.

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

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

The record of attendance at **Rainbow** Chicken Limited audit committee meetings for the financial year ended 31 March 2005 is as follows:

- ✓ attendance
- absence with apologies
- \* attendance by invitation of the audit committee Chairman
- N/A not a member of audit committee at meeting date

	18/05/2004	23/11/2004	25/01/2005
N Phillips	-	✓	✓
W E Bührmann	✓	✓	✓
M Dally	*	*	*
R H Field	N/A	*	*
L J Grobler	*	N/A	N/A
D J Loch Davis	-	N/A	N/A
N P Mageza	✓	-	✓
D W Vale	N/A	✓	✓
M H Visser	*	*	*
D G Zwigelaar	*	*	N/A

**Risk committee**

The risk committee is chaired by Mr N Phillips and its other members are Messrs M Dally, R H Field, Dr M Griessel, N P Mageza and D W Vale. The Group Internal Audit Manager and the Company Secretary are invited to attend every meeting.

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

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

The record of attendance at Rainbow Chicken Limited risk committee meetings for the financial year ended 31 March 2005 is as follows:

- ✓ attendance
- absence with apologies

	22/09/2004	16/03/2005
N Phillips	✓	✓
M Dally	-	✓
R H Field	✓	✓
M Griessel	-	✓
N P Mageza	-	-
D W Vale	✓	✓

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

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

Risk is not only viewed from a negative perspective. The review process also identifies areas of opportunity, such as where effective risk management can be turned into competitive advantage.

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

In addition to the Group's other compliance and enforcement activities, the committee recognises the need for a confidential reporting

process ("whistle-blowing") covering fraud and other risks. This "whistle-blowing hotline" continues to function effectively. Staff and other parties may anonymously report concerns. Procedures are in place for the independent investigation of matters reported and for appropriate follow-up action.

**Remuneration committee**

The remuneration committee consists of three non-executive directors. The Chairman of the Group, Mr M H Visser, is the Chairman of the remuneration committee. The other members are Messrs J B Magwaza and N Phillips. The remuneration committee meets at least twice a year. The committee is responsible for the assessment and approval of the remuneration strategy for the Group, the determination of short- and long-term incentive pay structures for Group executives, the positioning of senior executive pay levels relative to local and international industry benchmarks and the assessment and authorisation of specific reward proposals for the Group's executive directors and those executives reporting directly to the Chief Executive Officer. The objective of the remuneration philosophy is to employ the necessary skills for the company to achieve its business goals and to base remuneration on personal and company performance in accordance with competitive market practices.

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

A schedule setting out directors' remuneration and equity interest appears in the annual financial statements in note 28 on page 48.

The remuneration committee's overall purpose is to ensure that employees are rewarded for their contribution to the Group's operating and financial performance at levels which take account of industry, market and country benchmarks, as well as the requirements of collective bargaining. In order to ensure retention of key skills and to promote an identity of interests with shareholders, share incentives are considered to be critical elements of executive incentive pay.

The record of attendance at Rainbow Chicken Limited remuneration committee meetings for the financial year ended 31 March 2005 is as follows:

- ✓ attendance

	18/05/2004	22/09/2004	16/03/2005
M H Visser	✓	✓	✓
M Dally	✓	✓	✓
J B Magwaza	✓	✓	✓
N Phillips	✓	✓	✓

**Nomination committee**

The remuneration committee acts as the nomination committee. The Board considers its composition, retirements and appointments of additional and replacement directors.

Executive directors are appointed to the Board on the basis of skill, experience and level of contribution to the Group and are responsible



for the running of the business. Non-executive directors are selected on the basis of industry knowledge, professional skills and experience.

The Board is responsible for ensuring that nominees are not disqualified from being directors and prior to their appointment investigate their backgrounds along the lines of the approach required for listed companies by the JSE.

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

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

**GOING CONCERN**

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

**ACCOUNTABILITY AND AUDIT Auditing and Accounting**

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

**Internal Financial Controls**

The directors are responsible for ensuring internal control systems exist to provide reasonable assurance regarding the safeguarding of assets and the prevention of their unauthorised use or disposition, proper accounting records are maintained and the financial and operational information used in the businesses are reliable.

**Internal Audit Function**

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

The internal audit function assists the Group through a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. It provides:

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

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

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

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

**Relations with Shareholders**

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

The Group makes every effort to ensure that information is distributed via a broad range of communication channels having regard for security and integrity whilst bearing in mind the need that critical financial information reaches all shareholders simultaneously.

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

Rainbow complies with Section 3.84 of the JSE Listings Requirements relating to corporate governance.

## Directorate

### Non-Executive Directors

#### **M H (Thys) Visser (51) #**

Non-executive Chairman  
CA (SA)

**Appointed:** January 1997

**Directorships:** Deputy Chairman and Chief Executive Officer of Remgro Limited, British American Tobacco plc, Distell Group Limited, Nampak Limited, Unilever Bestfoods Robertsons (Holdings) Limited LLC.

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

#### **W E (Emil) Bührmann (50) \***

Non-executive Director  
CA (SA)

**Appointed:** December 2000

**Directorships:** Dorbyl Limited, Gencor Limited, Medi-Clinic Corporation Limited, Remgro Limited, Trans Hex Group Limited, Transvaal Sugar Limited

Emil is a Chartered Accountant who qualified with Deloitte & Touche in Bloemfontein. After several years of audit experience, he joined Rembrandt Group Limited as an investment manager in 1987. In 1998 he was appointed as an Executive Director, a position he still holds.

#### **Dr. M (Munro) Griessel (66) •**

Non-executive Director (independent)  
PhD (Animal Science)

**Appointed:** November 2002

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

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

#### **N P (Peter) Mageza (50) \*•**

Non-executive Director (independent)  
CA (SA)

**Appointed:** November 2002 (resigned April 2005)

**Directorships:** ABSA Bank Limited

Peter started his career within the audit environment for Coopers & Lybrand. Thereafter he held various positions within the automotive industry in both the public and private sector. In January 2000 he joined ABSA, where he held the position of Managing Executive of ABSA's Vehicle and Asset Finance division. He was appointed as Group Executive Director of ABSA Bank Limited in December 2003. Peter is also a Fellow of The Association of Chartered Certified Accountants (ACCA).

#### **J B (JB) Magwaza (62) #**

Non-executive Director (independent)  
MA (UK)

**Appointed:** November 2002

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

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

#### **N (Noel) Phillips (70) \*#•**

Non-executive Director (independent)  
BComm, Rhodes University; PMD, Harvard Business School

**Appointed:** August 1996

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

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

#### **D W (Don) Vale (64) \*•**

Non-executive Director (independent)  
MA (Oxon); FCA (UK); FCMA (UK)

**Appointed:** July 2004

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

### Executive Directors

#### **M (Miles) Dally (48) •**

Chief Executive Officer  
BComm

**Appointed:** February 2003

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

Miles joined Unilever from university in 1980 before joining Robertsons in 1983. He served as Group Managing Director of Robertsons Holdings (Proprietary) Limited from 1995 to 2002, and over this period held a number of international directorships. After the unbundling of Robertsons Holdings he accepted the position of Chief Executive Officer at Rainbow. He has been appointed to the Board of the Consumer Goods Council of South Africa and recently to Business Against Crime KZN.

#### **R H (Rob) Field (33) •**

Chief Financial Officer  
CA (SA)

**Appointed:** July 2004

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

Rob is a Chartered Accountant who qualified with Deloitte & Touche. Following his articles he spent two years as an audit manager in the Durban office. In 1999 he joined Robertsons Homecare (Proprietary) Limited as Commercial Director, responsible for finance and manufacturing. He joined Rainbow in May 2003 as Group Financial Manager and was promoted to his current position in July 2004.

#### **L J (Louis) Grobler (54)**

Commercial Director  
CA (SA), CA (Canada)

**Appointed:** November 1996

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

Louis is a Chartered Accountant who qualified with Deloitte & Touche, later becoming a partner with PricewaterhouseCoopers before branching into commerce and industry. His experience covers various industries, having served in both public practice and commerce and industry. He is the Chairman of SAPA, the poultry industry's representative body.

\* Member of the audit committee

# Member of the remuneration and nomination committee

• Member of the risk committee

## Executive Management

**M (Miles) Dally**  
Managing Director

**R H (Rob) Field**  
Financial Director

**L J (Louis) Grobler**  
Commercial Director

**D (David) Hood**  
Distribution Director

**P L (Paul) McLaughlin**  
Director Northern Region

**D L (Debbie) Nortje**  
Marketing Director

**M P W (Michael) Rogowski**  
Director Western Cape

**P C (Patrick) September**  
Human Resources Director

**M P (Marthinus) Stander**  
Technical and FoodSolutions Director

**P C (Phil) Tozer**  
Sales Director - Retail and Wholesale

**S D (Stephen) van Huyssteen**  
Director KwaZulu-Natal

**C J (Chris) van Niekerk**  
Feedmilling Director

**C E (Charles) Vauquin**  
Agricultural Director

	2005 R'000	2004 R'000	Restated 2003 R'000	Restated 2002 R'000	2001 R'000
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**GROUP BALANCE SHEETS**
**Employment of capital**

Property, plant and equipment	<b>922 144</b>	589 953	567 976	527 925	529 037
Trademarks	<b>1 205</b>	2 005	2 807	28 182	32 493
Goodwill	<b>287 444</b>				
Deferred taxation	<b>16 023</b>				
Long-term receivables	<b>441</b>				
Net current assets	<b>376 948</b>	792 154	531 163	344 144	174 014
	<b>1 604 205</b>	1 384 112	1 101 946	900 251	735 544

**Capital employed**

Ordinary shareholders' equity	<b>1 337 811</b>	1 181 625	974 740	850 639	712 467
Preference share capital		500	500	500	500
Interest bearing debt – long-term	<b>651</b>	1 694	3 469	4 848	
– short-term	<b>1 264</b>	1 496	3 573	3 052	
Post-retirement medical obligation	<b>62 574</b>	33 596	30 131	28 960	14 221
Deferred taxation	<b>201 905</b>	165 201	89 533	12 252	8 356
	<b>1 604 205</b>	1 384 112	1 101 946	900 251	735 544

**GROUP INCOME STATEMENTS**

Revenue	<b>4 026 998</b>	3 830 032	3 748 520	3 035 671	2 491 392
Operating profit before depreciation and amortisation	<b>399 165</b>	366 967	311 121	204 265	164 990
Depreciation and amortisation	<b>(83 091)</b>	(63 742)	(59 159)	(51 997)	(52 442)
Trademark impairment			(21 064)		
Operating profit	<b>316 074</b>	303 225	230 898	152 268	112 548
Net finance income	<b>27 078</b>	37 181	13 554	993	(13 845)
Profit before taxation	<b>343 152</b>	340 406	244 452	153 261	98 703
Taxation	<b>(110 718)</b>	(112 764)	(82 549)	(6 008)	(547)
Profit after taxation	<b>232 434</b>	227 642	161 903	147 253	98 156
Preference dividends	<b>(58)</b>	(62)	(62)	(62)	(62)
Attributable profit	<b>232 376</b>	227 580	161 841	147 191	98 094

## Definitions, Ratios and Statistics

### Definitions

#### SHAREHOLDERS' RATIOS

##### Basic earnings per share

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

##### Basic earnings per share - diluted

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

##### Headline earnings per share

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

##### Headline earnings per share - diluted

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

##### Fully diluted dividend cover

Diluted headline earnings per share divided by dividends per share.

##### Net asset value per share

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

#### INCOME STATEMENT INFORMATION

##### EBITDA margin

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

##### Operating profit margin

Operating profit expressed as a percentage of revenue.

##### Headline earnings

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

#### BALANCE SHEET INFORMATION

##### Total assets

Non-current and current assets.

##### Total liabilities

Non-current and current liabilities.

##### Net assets

Total assets less total liabilities.

#### SOLVENCY AND LIQUIDITY

##### Return on total assets

Profit before taxation expressed as a percentage of total assets.

##### Return on equity

Attributable profit expressed as a percentage of the average ordinary shareholders' interest.

##### Return on net assets

Operating profit before interest and taxation expressed as a percentage of net assets.

##### Net asset turn

Revenue divided by net assets.

### Ratios and Statistics

2005 2004 2003 2002 2001

#### SHAREHOLDERS' RATIOS

Basic earnings per share	cents	85.0	85.2	62.5	57.4	38.3
Basic earnings per share - diluted	cents	82.5	82.5	60.2	54.7	38.0
Headline earnings per share	cents	77.9	85.2	70.8	57.7	45.9
Headline earnings per share - diluted	cents	75.7	82.4	68.3	55.0	45.5
Dividends per share	cents	30.5	29.0	24.0	14.0	
Fully diluted dividend cover	times	2.5	2.8	2.8	3.9	
Net asset value per share	cents	485.7	438.6	371.0	331.2	278.2

#### INCOME STATEMENT INFORMATION

EBITDA margin	%	9.5	9.6	8.3	6.7	6.6
Operating profit margin	%	7.8	7.9	6.2	5.0	4.5
Headline earnings	Rm	213.0	227.5	183.4	148.0	117.4

#### BALANCE SHEET INFORMATION

Total assets	Rm	2 274	1 832	1 646	1 270	1 055
Total liabilities	Rm	936	650	671	419	342
Net assets	Rm	1 338	1 182	975	851	713
Number of employees at year-end		6 375	5 239	5 561	6 191	6 591

#### SOLVENCY AND LIQUIDITY

Return on total assets	%	15.1	18.6	14.9	12.1	9.4
Return on equity	%	18.4	21.1	17.7	18.8	14.8
Return on net assets	%	23.6	25.7	23.7	17.9	15.8
Net asset turn	times	3.0	3.2	3.8	3.6	3.5

#### SHARE INFORMATION

Number of ordinary shares						
- weighted average in issue	000	273 387	266 973	259 106	256 299	256 119
- fully diluted weighted average in issue	000	281 587	275 891	268 658	269 120	258 044
- at year-end	000	275 449	269 384	262 709	256 837	256 119
Market share price						
- at year-end	cents	650	545	325	290	180
- high	cents	795	550	398	350	198
- low	cents	495	325	210	170	60
Number of shares traded	000	57 696	64 234	26 076	20 861	33 432
Value of shares traded	Rm	359.0	268.5	77.4	54.8	41.1

## Annual Financial Statements

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## Approval of the Annual Financial Statements

for the year ended 31 March 2005

The Directors are responsible for the preparation and integrity of the annual financial statements of the Company and the Group and other information included in this report which has been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The Directors are also responsible for the systems of internal control.

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

In preparing the financial statements, the Group has used appropriate accounting policies, supported by reasonable and prudent judgements and estimates, and has complied with all applicable accounting standards. The Directors are of the opinion that the financial statements fairly present the financial position of the Company and the Group at 31 March 2005 and the results of its operations for the year then ended. The Directors are also of the opinion that the Group will continue as a going concern in the year ahead.

The annual financial statements were approved by the Board of Directors on 18 May 2005 and are signed on their behalf by:



**M H VISSER**  
Non-executive Chairman



**M DALLY**  
Chief Executive Officer

## Certificate by the Company Secretary

I hereby certify that in respect of the year ended 31 March 2005, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of section 268 G (d) of the Companies Act of 1973 as amended, and that all such returns are true, correct and up to date.



**S B Heath**  
Company Secretary  
Westville  
18 May 2005

### TO THE MEMBERS OF RAINBOW CHICKEN LIMITED

We have audited the Company and Group annual financial statements of Rainbow Chicken Limited set out on pages 31 to 52 for the year ended 31 March 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

### SCOPE

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

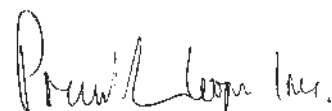
An audit includes:

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

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

### AUDIT OPINION

In our opinion, these financial statements fairly present, in all material respects, the financial position of the Company and the Group at 31 March 2005 and the results of its operations and cash flow information for the year then ended in conformity with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa.



PricewaterhouseCoopers Incorporated

Registered Accountants and Auditors  
Chartered Accountants (SA)  
Durban  
18 May 2005

for the year ended 31 March 2005

### NATURE OF BUSINESS

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

### STATED CAPITAL

There was no change in the authorised share capital of the company during the year under review. The issued share capital increased by 6 065 226 ordinary shares during the year due to share options being exercised.

At the balance sheet date, unexercised options had been granted to beneficiaries of the Rainbow Share Incentive Trust in respect of 15 421 627 (2004: 19 082 059) shares. These options are granted at the discretion of the directors.

Shareholders will be asked to consider an ordinary resolution at the forthcoming annual general meeting to place the unissued shares of the company under the control of the directors until the following annual general meeting.

### DIVIDENDS

Dividends declared and paid are as follows:

#### Ordinary Shares

Number 63 amounting to R26 049 000 (9.5 cents per ordinary share) declared on 24 November 2004 and paid on 17 January 2005.  
Number 64 amounting to R57 844 000 (21.0 cents per ordinary share) declared on 18 May 2005 and payable on 27 June 2005.

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

Last date to trade ordinary shares "CUM" dividend	Friday	17 June 2005
Ordinary shares trade "EX" dividend	Monday	20 June 2005
Record date	Friday	24 June 2005
Payment date	Monday	27 June 2005

Share certificates may not be dematerialised or rematerialised between Monday, 20 June and Friday, 24 June 2005 (both dates inclusive).

#### 12.5% Cumulative Preference Shares

Number 76 amounting to R31 250, declared and paid on 30 June 2004.  
Number 77 amounting to R26 495, declared and paid on 31 December 2004.

### SUBSIDIARIES

Details of Rainbow Chicken Limited's interest in its subsidiaries are set out in note 1 on page 52. The aggregate profit after taxation, so far as concerns the interest of the Company in its subsidiaries, amounts to R232 434 000 (2004: R227 642 000).

### HOLDING COMPANY

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

### DIRECTORS AND SECRETARY

The names of the company's directors and secretary are listed on pages 22, 23 and 29. Mr D J Loch Davis resigned from the Board on 28 July 2004. The Board wishes to express its sincere appreciation for his valuable contribution. With effect from 28 July 2004 Mr R H Field was appointed as Group Financial Director and Mr D W Vale was appointed as non-executive director. Mr L J Grobler's new role as Commercial Director has enabled the Group to dedicate additional resources to key strategic projects.

Mr N P Mageza resigned from the Board on 25 April 2005. The Board wishes to express its sincere appreciation for his valuable contribution during his tenure.

### DIRECTORS' SHAREHOLDING

At the date of this report, the directors in aggregate held direct beneficial interests in 133 000 (2004: 60 000) ordinary shares in the Company and had indirect beneficial interests in 4 680 (2004: 4 820) ordinary shares. Details of directors' shareholdings are set out in note 28 on page 49.

### SUBSEQUENT EVENTS

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

## Group Balance Sheet

at 31 March 2005

	Note	2005 R'000	2004 R'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1	922 144	589 953
Trademarks	2	1 205	2 005
Goodwill	3	287 444	
Deferred taxation	9	16 023	
Long-term receivables		441	
<b>Total non-current assets</b>		<b>1 227 257</b>	591 958
<b>Current assets</b>			
Inventories	4	260 493	244 823
Biological assets	5	238 656	216 672
Trade and other receivables	6	425 442	296 077
Derivative instruments	14	178	
Taxation receivable		15 799	
Cash		106 007	482 286
<b>Total current assets</b>		<b>1 046 575</b>	1 239 858
<b>Total assets</b>		<b>2 273 832</b>	1 831 816
<b>Equity and Liabilities</b>			
<b>Capital and reserves</b>			
Stated capital	7	1 105 959	1 098 714
Retained income		231 852	82 911
Ordinary shareholders' equity		1 337 811	1 181 625
Preference share capital	8		500
<b>Total shareholders' equity</b>		<b>1 337 811</b>	1 182 125
<b>Non-current liabilities</b>			
Deferred taxation	9	201 905	165 201
Post-retirement medical obligation	10	62 574	33 596
Interest bearing debt - long-term	11	651	1 694
<b>Total non-current liabilities</b>		<b>265 130</b>	200 491
<b>Current liabilities</b>			
Trade and other payables	12	597 845	348 510
Provisions	13	44 394	50 843
Interest bearing debt - short-term	11	1 264	1 496
Derivative instruments	14	15 980	3 970
Taxation payable		11 408	44 381
<b>Total current liabilities</b>		<b>670 891</b>	449 200
<b>Total equity and liabilities</b>		<b>2 273 832</b>	1 831 816

## Group Income Statement

for the year ended 31 March 2005

	Note	2005 R'000	2004 R'000
Revenue		4 026 998	3 830 032
Operating profit before depreciation and amortisation		399 165	366 967
Depreciation and amortisation	15	(83 091)	(63 742)
Operating profit	16	316 074	303 225
Net finance income	17	27 078	37 181
Profit before taxation		343 152	340 406
Taxation	18	(110 718)	(112 764)
Profit after taxation		232 434	227 642
Preference dividends		(58)	(62)
Attributable profit		232 376	227 580
Basic earnings - cents per share	21	85.0	85.2
Basic earnings - cents per share - diluted	21	82.5	82.5
Headline earnings - cents per share	20	77.9	85.2
Headline earnings - cents per share - diluted	21	75.7	82.4
Dividends - cents per share		30.5	29.0

## Group Statement of Changes in Equity

for the year ended 31 March 2005

	Stated capital R'000	Retained income/ (accumulated loss) R'000	Preference share capital R'000	Total R'000
<b>Balance at 1 April 2003 restated</b>	<b>1 090 423</b>	<b>(115 683)</b>	<b>500</b>	<b>975 240</b>
Change in accounting policy - AC 133		37 791		37 791
Retained income for the year		160 803		160 803
Attributable profit for the year		227 580		227 580
Ordinary dividends paid		(66 777)		(66 777)
Issue of shares	8 291			8 291
<b>Balance at 1 April 2004</b>	<b>1 098 714</b>	<b>82 911</b>	<b>500</b>	<b>1 182 125</b>
Retained income for the year		148 941		148 941
Attributable profit for the year		232 376		232 376
Ordinary dividends paid		(83 435)		(83 435)
Issue of shares	7 245			7 245
Preference shares redeemed			(500)	(500)
<b>Balance at 31 March 2005</b>	<b>1 105 959</b>	<b>231 852</b>		<b>1 337 811</b>

## Group Cash Flow Statement

for the year ended 31 March 2005

	Note	2005 R'000	2004 R'000
<b>Cash flows from operating activities</b>			
Operating profit before working capital changes	A	<b>374 109</b>	366 845
Working capital changes	B	<b>28 136</b>	(57 054)
Cash generated by operations		<b>402 245</b>	309 791
Net finance income		<b>27 078</b>	37 181
Dividends paid	C	<b>(83 493)</b>	(66 839)
Taxation paid	D	<b>(146 009)</b>	(8 249)
<b>Net cash inflow from operating activities</b>		<b>199 821</b>	271 884
<b>Cash flows from investing activities</b>			
Replacement capital expenditure		<b>(20 311)</b>	(18 506)
Expansion capital expenditure		<b>(179 668)</b>	(68 447)
Proceeds on disposal of property, plant and equipment		<b>13 543</b>	2 158
Decrease in long-term receivables		<b>30</b>	
Acquisition of subsidiary	E	<b>(395 164)</b>	
<b>Net cash outflow from investing activities</b>		<b>(581 570)</b>	(84 795)
<b>Cash flows from financing activities</b>			
Issue of shares		<b>7 245</b>	8 291
Decrease in interest bearing debt		<b>(1 275)</b>	(3 852)
Preference shares repaid		<b>(500)</b>	
<b>Net cash inflow from financing activities</b>		<b>5 470</b>	4 439
<b>Net (decrease)/increase in cash</b>		<b>(376 279)</b>	191 528
Cash at the beginning of the year		<b>482 286</b>	290 758
<b>Cash at the end of the year</b>		<b>106 007</b>	482 286

## Notes to the Group Cash Flow Statement

for the year ended 31 March 2005

	2005 R'000	2004 R'000
<b>A. Operating profit before working capital changes:</b>		
Operating profit	316 074	303 225
Adjusted for:		
Depreciation and amortisation	83 091	63 742
Profit on disposal of property, plant and equipment	(9 022)	(122)
Asset impairment provision released	(16 034)	
	<b>374 109</b>	366 845
<b>B. Working capital changes:</b>		
Decrease/(increase) in inventories	34 763	(36 512)
Increase in biological assets	(21 984)	(3 145)
Decrease in trade and other receivables	106 832	65 883
Increase in post-retirement medical obligation	3 372	3 465
Decrease in trade, other payables and provisions	(106 679)	(90 715)
Increase in derivative liabilities	11 832	3 970
	<b>28 136</b>	(57 054)
<b>C. Dividends paid:</b>		
Ordinary dividends	83 435	66 777
Preference dividends	58	62
	<b>83 493</b>	66 839
<b>D. Taxation paid:</b>		
Unpaid/(paid in advance) at the beginning of the year	44 381	(662)
Subsidiary acquired	11 624	
Charged to the income statement	85 613	53 292
Normal taxation	75 176	44 937
STC	10 437	8 355
Paid in advance/(unpaid) at the end of the year	4 391	(44 381)
	<b>146 009</b>	8 249
<b>E. Acquisition of subsidiary:</b>		
Property, plant and equipment	202 990	
Long-term receivables	471	
Deferred taxation asset	26 613	
Inventories	50 433	
Cash	61 448	
Trade and other receivables	439 418	
Post-retirement medical obligation	(25 606)	
Deferred taxation liability	(22 189)	
Trade and other payables	(547 499)	
Provisions	(5 287)	
Taxation payable	(11 624)	
	<b>169 168</b>	
Goodwill on acquisition	287 444	
Cash acquired	(61 448)	
	<b>395 164</b>	

## Accounting Policies

for the year ended 31 March 2005

The Group and Company financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and incorporate accounting policies which, with the exception of AC140 (Business Combinations), and the revised standards AC128 (Impairment of Assets) and AC129 (Intangible Assets), are consistent with those of the previous financial period (refer to note 22 on page 45).

### BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group enterprises are eliminated on consolidation.

### INTANGIBLE ASSETS

#### Goodwill

On the acquisition of an investment, fair values at the date of acquisition are attributed to the identifiable assets, liabilities and contingent liabilities acquired. The goodwill or negative goodwill is the difference between the cost of investments and the fair value of attributable net assets of the subsidiary companies, joint ventures and associates at the acquisition dates. Goodwill is reported in the balance sheet as a non-current asset and is subject to an annual impairment test. It is allocated to cash-generating units for the purpose of impairment testing. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Where the net assets of subsidiary companies at the date of acquisition exceed the cost of investments acquired, this excess is accounted for as negative goodwill. Negative goodwill is recognised immediately in the income statement in the period in which it arises.

#### Trademarks

The cost of trademarks that are established and developed by the Group itself are expensed as incurred. The value thereof is consequently not reflected in the annual financial statements. The cost of trademarks that have been purchased are written off on a straight-line basis over their expected useful lives, subject to an annual impairment test.

#### Research and Development Costs

Research and development costs are written off in the income statement as incurred. Where the asset recognition criteria have been met, development expenditure is capitalised and written off over the expected useful life of the product, subject to an annual impairment test.

Trademarks and research and development costs with infinite useful lives are not amortised but are subject to an annual impairment test. Any impairment is recognised immediately in the income statement.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant, machinery, vehicles and furniture are stated at historical cost less accumulated depreciation. Depreciation is provided on buildings, plant, machinery, vehicles and furniture at rates that

reduce the cost thereof to an estimated net realisable value over the expected useful life of the asset. Land is not depreciated. Where assets are identified as being impaired, that is when the recoverable amount has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value.

Leased assets are capitalised at fair value and are depreciated over the shorter of the period of the lease or the period over which the particular category of asset is otherwise depreciated. Lease finance charges are charged to the income statement over the term of the relevant lease using the effective interest rate method.

The rates of depreciation used are:

Buildings	2.0%/3.33%
Plant and machinery	10.0%/20.0%
Vehicles	20.0%/25.0%
Furniture	10.0%/16.67%

### BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale) are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised.

### INVENTORIES

Processed chicken is valued at the lower of cost, determined on a first-in first-out basis, and net realisable value. Costs include all direct production costs and an appropriate portion of overheads. For this purpose, the cost of chicken is its fair value at the time of harvest.

Finished goods, raw materials and consumables are valued at the lower of cost, determined on a first-in first-out basis, and net realisable value. Costs include expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

### BIOLOGICAL ASSETS

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

Biological assets are measured at their fair value less estimated closure point-of-sale costs at reporting dates. Fair value is determined based on market prices or, where market prices are not available, by reference to the present value of expected net cash flows.

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

### REVENUE

Revenue includes gross distribution commission and the invoiced price of goods sold, after the deduction of incentive rebates, but before volume discounts and discounts allowed in terms of distribution agreements. Value Added Taxation and inter-company transactions are not included in the determination of revenue.

for the year ended 31 March 2005

**DEFERRED TAXATION**

Deferred taxation is calculated using taxation rates applicable at the balance sheet date. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred taxation assets are raised only to the extent that their recoverability is probable.

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

**FOREIGN CURRENCY**

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the dates of the transactions. Foreign currency monetary items at year-end are translated to South African rand at the rates of exchange ruling at that date.

Exchange differences that arise as a result thereof are accounted for in the income statement together with realised exchange differences on forward exchange contracts.

**PROVISIONS**

Provisions are recognised when the company has a legal or constructive obligation as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. Provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to balance sheet date.

**EMPLOYEE BENEFITS****Retirement Funds**

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

For the defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement to spread the regular costs over the service lives of employees in accordance with advice of qualified actuaries who carry out a full valuation of the plan every three years. The pension obligation is measured as the present value of the estimated future cash outflows using the interest rates of government securities that have terms to maturity approximating the terms of the related liability.

Surplus arising in the defined benefit scheme is not recognised on the balance sheet of the Group due to the current uncertainty as to the entitlement thereto as the Surplus Apportionment Plan is currently being developed.

All actuarial gains and losses are spread forward over the remaining service lives of the employees. The Group's contribution to the

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

**Post-Retirement Medical Benefits**

The Group provides post-retirement medical benefits to its retirees. The entitlement to post-retirement medical benefits is based on the employees remaining in service up to retirement age and the completion of a minimum service period.

The projected unit credit method of valuation is used to calculate the liability for post-retirement medical benefits. Full provision is created for the actuarially determined liability for future medical benefits of existing and retired employees. These benefits are actuarially valued every year.

**FINANCIAL INSTRUMENTS**

Financial instruments recognised on the balance sheet include derivative instruments, investments, trade and other receivables, cash and cash equivalents, trade and other payables and interest bearing debt. Financial instruments are initially measured at cost, which includes transaction costs, when the Group is party to a contractual arrangement. Subsequent measurement of financial instruments is set out below.

**Derivative Instruments**

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

**Held-to-Maturity Investments**

Investments are held at amortised cost using the effective interest method after deducting accumulated impairment losses.

**Trade and Other Receivables**

Short duration receivables with no stated interest rate are measured at original invoice amount, less accumulated impaired losses. Other receivables are stated at amortised cost.

**Held-for-Trading and Cash Equivalent Investments**

Held-for-trading and cash equivalent investments are measured at fair value.

**Financial Liabilities**

Financial liabilities are measured at amortised cost, except for held-for-trading financial liabilities and derivatives, which are held at fair values.

**Offset**

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

for the year ended 31 March 2005

**1. Property, plant and equipment**

	Cost R'000	2005 Accumulated Depreciation R'000	Carrying Value R'000	Cost R'000	2004 Accumulated Depreciation R'000	Carrying Value R'000
Land and buildings	603 420	137 103	466 317	484 521	120 457	364 064
Plant, machinery and furniture	867 002	552 858	314 144	642 927	447 983	194 944
Vehicles	132 401	79 226	53 175	13 640	10 229	3 411
Capitalised leased assets - plant	301	224	77	301	169	132
Capitalised leased assets - vehicles	3 873	2 372	1 501	4 748	2 288	2 460
Capital work-in-progress	86 930		86 930	24 942		24 942
	<b>1 693 927</b>	<b>771 783</b>	<b>922 144</b>	1 171 079	581 126	589 953

	Land & buildings R'000	Plant, machinery & furniture R'000	Capital work-in progress R'000	Vehicles R'000	Total R'000
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**Cost:**

At the beginning of the year	484 521	643 228	24 942	18 388	1 171 079
Additions	19 442	106 442	59 898	14 197	199 979
Subsidiary acquired	82 559	116 385	2 097	75 982	277 023
Fair value adjustment on subsidiary acquired	20 542	22 257		31 783	74 582
Disposals	(3 644)	(21 009)	(7)	(4 076)	(28 736)

At the end of the year

**Accumulated depreciation:**

At the beginning of the year	120 457	448 152		12 517	581 126
Disposals	(689)	(20 376)		(3 150)	(24 215)
Subsidiary acquired	8 414	73 563		66 638	148 615
Asset impairment release	(3 066)	(12 968)			(16 034)
Depreciation	11 987	64 711		5 593	82 291

At the end of the year

Carrying value at 31 March 2005

Capitalised leased assets, with a book value of R1 581 000 (2004: R2 592 000), are encumbered as security for the secured finance lease obligations. Refer to note 11.  
A register of land and buildings is available for inspection at the registered office of the company.

**2. Trademarks**

	Cost or Valuation R'000	2005 Accumulated Amortisation R'000	Carrying Value R'000	Cost or Valuation R'000	2004 Accumulated Amortisation R'000	Carrying Value R'000
Trademarks	50 500	49 295	1 205	50 500	48 495	2 005

**Cost:**

At the beginning of the year	50 500
Additions	
Disposals	

At the end of the year

**Accumulated amortisation:**

At the beginning of the year	48 495
Additions	
Disposals	
Amortisation	800

At the end of the year

Carrying value at 31 March 2005

Finite life/Infinite life	Finite life
Amortisation rate	6.67%
Method of amortisation	Straight line
Is intangible title restricted in any way	No
Carrying amount pledged as security	Nil

Trademarks comprise Farmer Brown, Bonny Bird, Farm Fare and Epol, all of which were acquired on acquisition of Bonny Bird Farms (Proprietary) Limited and Epol (Proprietary) Limited in 1991.

for the year ended 31 March 2005

	2005 R'000	2004 R'000
<b>3. Goodwill</b>		
Surplus over the fair value of net assets acquired during the year	<b>287 444</b>	
Carrying value at the end of the year	<b>287 444</b>	
Goodwill relates to the acquisition of Vector Logistics (Proprietary) Limited. No impairment was required in the current year.		
Analysis of fair value and previous carrying value at acquisition date:		
	Fair Value R'000	Carrying Value R'000
Property, plant and equipment	202 990	128 408
Investments and loans	471	471
Deferred taxation asset	26 613	26 342
Inventory	50 433	50 433
Cash	61 448	61 448
Trade and other receivables	439 418	437 147
Post-retirement medical benefit	(25 606)	(25 056)
Deferred taxation liability	(22 189)	
Trade and other payables	(547 499)	(547 499)
Provisions	(5 287)	(4 315)
Taxation payable	(11 624)	(11 624)
	169 168	115 755
Cash paid	456 612	
Goodwill on acquisition	287 444	
Acquisition date	October 2004	
Percentage held	100%	
Method of payment	Cash	
Net profit since acquisition	32 859	
Headline earnings since acquisition	32 859	
Pro-forma revenue as if acquisition at the beginning of the year	374 124	
Pro-forma net profit as if acquisition at the beginning of the year	65 390	
Pro-forma headline earnings as if acquisition at the beginning of the year	65 390	
<b>4. Inventories</b>		
Processed chicken	<b>34 875</b>	30 851
Finished goods	<b>63 956</b>	8 389
Raw materials	<b>144 780</b>	177 188
Consumables	<b>16 882</b>	28 395
	<b>260 493</b>	244 823
The cost of inventory included above which has been written down to net realisable value amounts to R5 682 000 (2004:R2 904 000).		
<b>5. Biological assets</b>		
<b>Breeding stock</b>		
Carrying value at the beginning of the year	<b>138 982</b>	125 433
Gain arising from cost inputs	<b>385 217</b>	367 893
Decrease due to harvest	<b>(376 917)</b>	(364 954)
Fair value adjustment	<b>1 324</b>	10 610
Carrying value at the end of the year at fair value	<b>148 606</b>	138 982
<b>Broiler stock</b>		
Carrying value at the beginning of the year	<b>77 690</b>	88 094
Gain arising from cost inputs	<b>1 989 901</b>	1 928 543
Decrease due to harvest	<b>(1 980 699)</b>	(1 935 160)
Fair value adjustment	<b>3 158</b>	(3 787)
Carrying value at the end of the year at fair value	<b>90 050</b>	77 690
Total carrying value at the end of the year at fair value	<b>238 656</b>	216 672



	2005 R'000	2004 R'000
<b>6. Trade and other receivables</b>		
Trade receivables	<b>398 675</b>	285 499
Prepayments	<b>5 939</b>	524
Other receivables	<b>20 828</b>	10 054
	<b>425 442</b>	296 077

**7. Stated capital****Authorised**

575 525 772 (2004: 575 525 772) ordinary shares of no par value

**Issued ordinary shares of no par value**

	Number of shares	2005 R'000	2004 R'000
Balance at the beginning of the year	269 383 853	<b>1 098 714</b>	1 090 423
Shares issued during the year	6 065 226	<b>7 245</b>	8 291
Balance at the end of the year	275 449 079	<b>1 105 959</b>	1 098 714

The unissued ordinary shares are under the control of the directors until the forthcoming annual general meeting, and 15 421 627 (2004: 19 082 059) unexercised options have been granted to employees in terms of the Rainbow Share Incentive Trust. Refer to note 27.

**8. Preference share capital****Authorised**

500 000 cumulative 12,5% preference shares of no par value

**Issued**

500 000 cumulative 12,5% preference shares of no par value

500

The preference shares were redeemed as a result of the acquisition of Vector Logistics (Proprietary) Limited.

**9. Deferred taxation****Deferred taxation liability movement:**

Balance at the beginning of the year	<b>165 201</b>	89 533
AC 133 transitional adjustment		16 196
Subsidiary acquired	<b>22 189</b>	
Charge for the year - temporary differences	<b>14 515</b>	59 472
Balance at the end of the year	<b>201 905</b>	165 201

**Deferred taxation liability comprises:**

Trademarks, property, plant and equipment	<b>158 047</b>	123 360
Inventories and biological assets	<b>76 014</b>	70 448
Provisions	<b>(28 676)</b>	(26 733)
Derivative liability	<b>(3 749)</b>	(1 044)
Other	<b>269</b>	(830)
	<b>201 905</b>	165 201

**Deferred taxation asset movement:**

Balance at the beginning of the year		<b>(26 613)</b>
Subsidiary acquired		<b>10 590</b>
Charge for the year - temporary differences		<b>(16 023)</b>
Balance at the end of the year		<b>(16 023)</b>

**Deferred taxation asset comprises:**

Trademarks, property, plant and equipment	<b>14 305</b>
Provisions	<b>(31 029)</b>
Other	<b>701</b>
	<b>(16 023)</b>

for the year ended 31 March 2005

	2005 R'000	2004 R'000
<b>10. Post-retirement medical obligation</b>		
The obligation of the Group to pay medical aid benefits after retirement is no longer part of the conditions of employment for Rainbow employees engaged after 1 October 2003 and for Vector employees engaged after 1 January 1997. The last evaluation dates were 31 December 2004 for Rainbow and 31 December 2003 for Vector. A number of pensioners and current employees, however, remain entitled to this benefit. The entitlement to this benefit is dependent upon the employee remaining in service until retirement age. The unfunded liability for post-retirement medical aid benefits is determined actuarially each year and comprises:		
Balance at the beginning of the year	33 596	30 131
Subsidiary acquired	25 606	
Recognised as an expense in the current year	3 372	3 465
Interest costs	3 577	3 872
Current service costs	1 646	2 486
Benefits paid	(1 299)	(959)
Net actuarial gain	(552)	(1 934)
Balance at the end of the year	62 574	33 596
The principal actuarial assumptions are:		
Discount rate	8.5%	8.0%
Expected rates of return of planned assets	8.5%	8.0%
Health care cost inflation	6.5%	6.0%

**11. Interest bearing debt**

Total borrowings	1 915	3 190
Less amount payable within one year disclosed as short-term debt	(1 264)	(1 496)
	651	1 694
Present value of finance lease liabilities:		
Within one year	1 264	1 496
Two to five years	651	1 694
	1 915	3 190
Secured over assets with a book value of:		
Plant and equipment	79	132
Vehicles	1 502	2 460
	1 581	2 592
Finance leases have varying interest rates between 15% and prime linked escalations. No limit has been placed in the Articles of Association on the borrowing powers of the company.		

**12. Trade and other payables**

Trade payables	488 103	284 110
Accruals	30 252	31 936
Other payables	79 490	32 464
	597 845	348 510

**13. Provisions**

	*Legal Disputes R'000	Leave Pay R'000	Onerous Lease Agreements R'000	2005 R'000	2004 R'000
Balance at the beginning of the year	30 000	20 843		50 843	80 673
Subsidiary acquired		4 052	1 235	5 287	
Provisions raised		3 914		3 914	1 905
Provisions utilised	(13 849)		(299)	(14 148)	(31 735)
Provisions reversed	(1 502)			(1 502)	
Balance at the end of the year	14 649	28 809	936	44 394	50 843

\*Litigation is in progress against the Group. The information required by AC 130 (Provisions, Contingent Liabilities and Contingent Assets) is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation.



	2005 R'000	2004 R'000
<b>14. Derivative instruments</b>		
<b>Derivative assets</b>		
Forward exchange contracts	178	
<b>Derivative liabilities</b>		
Forward exchange contracts	23	490
SAFEX options	11 392	
SAFEX futures contracts	4 565	3 480
	15 980	3 970
<b>15. Depreciation and amortisation</b>		
Trademarks	800	802
Buildings	11 987	13 237
Plant, machinery and furniture	64 711	48 351
Vehicles	5 593	1 352
	83 091	63 742
<b>16. Operating profit</b>		
Revenue	4 026 998	3 830 032
Cost of sales*	3 030 567	3 078 026
Gross profit	996 431	752 006
Administration expenses	289 086	186 218
Marketing and selling expenses	69 405	42 524
Distribution expenses	258 313	155 171
Other expenses	63 553	64 868
Operating profit	316 074	303 225
<b>Disclosable items:</b>		
Fair value adjustments on biological assets	4 482	6 823
Fair value adjustments on maize contracts	12 497	3 480
Operating lease charges	9 846	4 278
Land and buildings	4 332	914
Plant and machinery	2 303	281
Other	3 211	3 083
Technical consultants' fees	6 401	4 259
Foreign exchange profits - realised	(1 239)	(460)
Foreign exchange profits - unrealised	(318)	(703)
Foreign exchange losses - realised	3 139	4 990
Foreign exchange losses - unrealised	61	1 390
Staff costs	630 984	454 707
Administration fee paid to group company	3 286	3 000
Profit on disposal of property, plant and equipment	(9 022)	(122)
Asset impairment provision release	(16 034)	
Land and buildings	(3 066)	
Plant, machinery and furniture	(12 968)	
Auditors' remuneration	3 240	2 236
Fees for the audit	2 619	1 852
Prior year under provision	306	
Fees for other services	315	384
* Prior year cost of sales has been restated as a result of the expanded disclosure of administration, marketing and selling, and distribution expenses.		
<b>17. Net finance income</b>		
Call funds with Group company	7 137	8 402
Call funds with financial institutions	21 009	29 437
	28 146	37 839
Call borrowings from Group company	(393)	
Interest paid on overdraft	(500)	(219)
Interest paid on finance leases	(175)	(439)
	27 078	37 181

for the year ended 31 March 2005

	2005 R'000	2004 R'000
<b>18. Taxation</b>		
<b>Taxation charge</b>		
Current taxation - South African normal taxation	74 291	42 359
- Foreign taxation	73	
- Prior year underprovision	812	2 578
Deferred taxation - South African	26 916	59 472
- Foreign	139	
- Prior year overprovision	(1 950)	
Secondary taxation on companies	10 437	8 355
	<b>110 718</b>	<b>112 764</b>
<b>Reconciliation of taxation rate</b>	<b>%</b>	<b>%</b>
Normal rate of taxation	30.0	30.0
Adjusted for:		
Secondary taxation on companies	3.0	2.5
Capital gains	0.2	0.1
Prior year underprovision - current	0.2	0.7
Prior year overprovision - deferred	(0.6)	
Non-taxable recoupment	(0.3)	
Non-taxable items	(0.2)	(0.2)
Effective rate of taxation	<b>32.3</b>	<b>33.1</b>

**19. Commitments**

<b>Capital expenditure</b>		
Contracted and committed	134 076	33 570
Approved but not contracted	32 279	159 413
	<b>166 355</b>	<b>192 983</b>
To be spent within one year	166 355	142 983
The capital expenditure will be financed from available resources.		
<b>Operating leases</b>		
Due within one year	10 575	5 202
Due - two to five years	13 667	4 330
	<b>24 242</b>	<b>9 532</b>
<b>In respect of:</b>		
Property	13 181	2 821
Plant and equipment	6 691	
Other	4 370	6 711
	<b>24 242</b>	<b>9 532</b>

**20. Headline earnings per share**

Attributable profit for the year	232 376	227 580
Asset impairment provision released	(11 224)	
Profit on disposal of property, plant and equipment	(8 110)	(122)
Headline earnings	<b>213 042</b>	<b>227 458</b>
Headline earnings per share (cents)	<b>77.9</b>	<b>85.2</b>

**21. Earnings per share**

Earnings per share are calculated using the weighted average number of ordinary shares in issue during the year. In the case of basic earnings per share the weighted average number of ordinary shares in issue during the year is 273 387 109 (2004: 266 973 080) and in respect of diluted earnings per share the fully diluted weighted average number of ordinary shares is 281 587 035 (2004: 275 890 798).

**22. Change in accounting policy**

With effect from 1 April 2004, the Group adopted AC140 (Business Combinations), and the revised standards AC128 (Impairment of Assets) and AC129 (Intangible Assets). In terms of the provisions of these accounting standards, goodwill arising from a business combination for which the agreement date is on or after 31 March 2004, will not be amortised but carried at cost less accumulated impairment losses. Previously goodwill was amortised over its useful life (20 years). In accordance with these standards, this change is being adopted prospectively. This has no effect on headline earnings but it has the effect of increasing the 2005 profit before taxation by R7 186 100.

**23. Restatement of comparative figures - diluted earnings per share**

Rainbow previously calculated fully diluted basic and headline earnings per share numbers on a basis that added a notional benefit to earnings and divided this by the weighted average number of ordinary shares in issue, including all share options. In order to comply with AC 104 (Earnings per share), the comparatives have been restated to reflect the effect of the number of shares that will be regarded as an issue of shares for no consideration, based on the difference between the estimated fair value of the shares at the date of delivery and the offer value.

	2004 Previously Reported	2004 Restated
Basic earnings per share - diluted (cents)	80.0	82.5
Headline earnings per share - diluted (cents)	80.8	82.4

**24. Retirement benefit plans****Pension and provident fund schemes**

The Group contributes towards retirement funds for all permanent employees who are required to be a member of a Group implemented scheme. These schemes are governed by the Pension Fund Act 1956. Their assets consist primarily of listed shares, fixed income securities, property investments and money market instruments and are held separately from those of the Group. The scheme assets are administered by a board of trustees, each of which includes elected employee representatives.

**Defined benefit pension scheme**

The Rainbow Pension Fund is a hybrid scheme. This scheme is actuarially valued at intervals of not more than three years using the projected unit credit method. The last statutory valuation of the scheme was as at 31 March 2004, and the fund was found to be in a sound financial position. The Pension Funds Second Amendment Bill was enacted with effect 7 December 2001. This Bill requires that the actuarial valuation at 31 March 2004, together with a plan for the apportionment on a fair basis to past and current members of the fund, of any surplus established by this valuation date must be approved by the Financial Services Board (FSB). While the valuation has been completed, the apportionment plan, which will determine the entitlement of any party, is currently being developed and neither can as yet be submitted to the FSB. Accordingly, due to the uncertainty regarding entitlement, no surplus has been recognised on the Group's balance sheet.

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

	2005 R'000	2004 R'000
Fair value of scheme assets	5 455	4 819
Present value of obligation	5 320	4 588
Surplus	135	231
Amounts charged to the income statement	537	460
The principal actuarial assumptions are:		
Investment return	15.0%	15.0%
Future salary increases	13.5%	13.5%
Future pension increases	10.0%	10.0%
Discount factor	15.0%	15.0%

**Defined contribution pension and provident schemes**

There are seven defined contribution schemes, as listed below. During the current year, the Epol Provident Fund was merged with the Rainbow Provident Fund. The latest audited financial information of these schemes all reflect a satisfactory state of affairs. Contributions for the year were as follows:

Rainbow Pension Fund	6 298	5 377
Rainbow Provident Fund	21 103	18 437
Epol Pension Fund	1 635	1 436
Epol Provident Fund		1 626
I & J Retirement Fund	1 189	
I & J Provident Fund	2 626	
Namflex Pension Fund	132	
	<b>32 983</b>	<b>26 876</b>

for the year ended 31 March 2005

**25. Financial risk management**

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

**Credit risk**

Credit risk primarily relates to trade receivables and cash investments. The Group deposits cash surpluses with financial institutions of high quality credit standing. The granting of credit is controlled by well established criteria which are reviewed on an annual basis. At 31 March 2005, the Group did not consider there to be any significant concentration of credit risk which had not been adequately provided for.

**Interest rate risk**

The Group is exposed to interest rate risk on its cash deposits and loan liabilities, which can impact on the cash flows of these instruments. The exposure to interest rate risk is managed through the Group's cash management system which enables the Group to maximise returns whilst minimising risk.

**Foreign currency risk**

In the normal course of business the Group enters into transactions denominated in foreign currencies. As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. The Group utilises forward exchange contracts to minimise foreign currency exchange risk in terms of its risk management policy. All forward exchange contracts are supported by underlying transactions.

The Group's forward exchange contracts do not constitute designated hedges. Their fair values are disclosed in note 14.

Forward exchange contracts to buy foreign currency	Average rate	Foreign contract value 000	Forward value R'000	Fair value R'000
EURO	7.99	106	847	23

Trade and other payables include net payables of R4 574 380 (2004: R4 847 100) in respect of purchases due in foreign currencies.

**Liquidity risk**

The Group has no risk of illiquidity as evidenced by its unutilised borrowing capacity.

	2005 R'000	2004 R'000
Total banking and loan facilities	533 000	253 000
Actual borrowings		
Unutilised portion	533 000	253 000

Rainbow Chicken Limited binds itself in favour of the following banking institutions as surety in solidum for and co-principal debtor jointly and severally with Rainbow Farms (Proprietary) Limited for facilities granted by:

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

**Commodity price and procurement risk**

Commodity price risk arises from the risk of an adverse effect on current or future earnings from fluctuations in the prices of commodities. To stabilise prices for the Group's substantial commodity requirements, commodity options and futures contracts are used, including forward purchase contracts. Rainbow Farms (Proprietary) Limited has entered into forward purchase agreements with various counterparties to procure approximately 25% to 35% of the company's maize requirement for the forthcoming financial year. The delivery period is planned from May 2005 to December 2005, which correlates with the company's normal procurement requirements. These commitments are of a recurring nature in the normal course of operations.

Rainbow Farms (Proprietary) Limited further utilises derivative instruments to hedge its exposure to commodity price risks. These instruments comprise commodity options and futures contracts and are utilised to normally procure an additional 20% to 30% of the company's maize requirements for the forthcoming year. The delivery period is planned from May 2005 to December 2005.

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

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

**25. Financial risk management (continued)****Commodity price and procurement risk (continued)**

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

The fair value at year-end of the commodity futures and options contracts was:

	Tons	2005 R'000	2004 R'000
Maize options	54 300	11 392	
Maize futures	34 900	4 565	3 480
		15 957	3 480

**26. Contingent liabilities**

Legal actions pending	1 293	12 811
Guarantees	36 997	25 828
Employee reinstatement		7 409
	38 290	46 048

**27. Share options**

Details of share options issued in terms of the Rainbow Share Incentive Trust are as follows:

Option price (cents)	Date options granted	Options at 31 March 2004	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options at 31 March 2005
94	22 May 2000	7 257 115		(5 066 343)	(135 234)	2 055 538
150	7 December 2000	83 816				83 816
191	15 February 2001	96 571				96 571
210	16 May 2001	924 163		(448 562)		475 601
238	1 August 2001	117 648		(58 824)		58 824
285	27 February 2002	3 253 649		(491 497)	(53 638)	2 708 514
345	28 January 2003	334 837				334 837
345	1 February 2003	3 623 188				3 623 188
355	19 May 2003	3 391 072			(265 214)	3 125 858
510	21 May 2004		2 640 972		(42 124)	2 598 848
530	1 August 2004		197 732			197 732
690	6 December 2004		62 300			62 300
		19 082 059	2 901 004	(6 065 226)	(496 210)	15 421 627

Options are exercisable in three equal tranches, from years two, three and four after the grant date.

Options granted to employees have a ten year contractual life and are forfeited if not exercised before termination of employment subject to the discretion of the trustees.

A compensation cost is not recognised for the fair value of the above share options granted. The value of share options outstanding at year end amounts to R50 584 365 (2004: R44 318 999)

for the year ended 31 March 2005

**28. Directors' emoluments and interests****Directors' emoluments**

The directors' emoluments for the year ended 31 March 2005 are as follows:

	Basic Salary R'000	Bonuses* '000	Pension contribution R'000	Other benefits R'000	Total 2005 R'000
<b>Executives</b>					
M Dally	2 668	1 240	236	53	<b>4 197</b>
L J Grobler	1 102	200	80	39	<b>1 421</b>
R H Field**	752		54	22	<b>828</b>
	<b>4 522</b>	<b>1 440</b>	<b>370</b>	<b>114</b>	<b>6 446</b>

The directors' emoluments for the year ended 31 March 2004 are as follows:

	Basic Salary R'000	Bonuses* R'000	Pension contribution R'000	Other benefits R'000	Total 2004 R'000
<b>Executives</b>					
M Dally	2 254	150	203	46	2 653
L J Grobler	995	300	72	33	1 400
S M Parsons***	369	350	28	151	898
	<b>3 618</b>	<b>800</b>	<b>303</b>	<b>230</b>	<b>4 951</b>

\* Bonuses paid relate to the previous financial year

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

\*\*\* Mr S M Parsons resigned from the Board on 12 September 2003 and disclosure therefore only reflects emoluments up to this date

**Non-executives**

	Services as director	
	2005 R'000	2004 R'000
<b>Current</b>		
M H Visser*	80	82
W E Bührmann*	42	40
Dr M Griessel	45	26
D J Loch Davis	25	40
N P Mageza	60	38
J B Magwaza	45	35
N Phillips	100	60
D W Vale	45	
	<b>442</b>	<b>321</b>
<b>Past</b>		
N J L Hancock		27
Total	<b>442</b>	<b>348</b>

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

**28. Directors' emoluments and interests (continued)****Directors' interests**

Options granted to executive directors and unexpired or unexercised as at 31 March 2005 are as follows:

	Option price (cents)	Options at 31 March 2004	Options granted during the year	Options exercised during the year	Options at 31 March 2005	Exercise price (cents)	Gain on options exercised (R'000)
M Dally	345	3 623 188			<b>3 623 188</b>		
		3 623 188			<b>3 623 188</b>		
L J Grobler	94 285 355 510	696 500 424 291 231 983		(300 000)	<b>396 500</b> <b>424 291</b> <b>231 983</b> <b>138 791</b>	674	1 740
		1 352 774	138 791	(300 000)	<b>1 191 565</b>		1 740
R H Field	355 510 530	202 297	48 307 197 732		<b>202 297</b> <b>48 307</b> <b>197 732</b>		
		202 297	246 039		<b>448 336</b>		
Total		5 178 259	384 830	(300 000)	<b>5 263 089</b>		1 740

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

The aggregate beneficial holdings as at 31 March 2005 of those directors of the Company holding issued ordinary shares of the Company are detailed below:

	2005		2004	
	Direct shares '000	Indirect shares '000	Direct shares '000	Indirect shares '000
<b>Executive directors</b>				
M Dally	100		60	
R H Field	33			
<b>Non-executive directors</b>				
M Griessel		5		5
	<b>133</b>	<b>5</b>	60	5

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

**29. Segmental reporting**

As the company operates as a vertically integrated chicken producer, segmental reporting is not required by AC 115 (Segment Reporting).

**30. Related party transactions**

Related party relationships exist between the company, fellow subsidiaries and the holding company. All purchasing and selling transactions are concluded at arm's length.

**Company**

As detailed in note 1 to the Company Financial Statements on page 52, the company has concluded certain lending transactions with these related parties. In addition, the holding company provides strategic, management and administrative support to the Group in return for an administration fee which is based on costs incurred. This is disclosed in note 16. Included in payables is an amount owing to the holding company of R1 76 476 (2004: receivable R862 585).

**Directors**

Details of directors' emoluments and shareholding in the company are disclosed in note 28 as well as in the Report of the Directors.

**Shareholders**

Details of the major shareholders of the company appear on page 53.

## Company Balance Sheet

as at 31 March 2005

	Note	2005 R'000	2004 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	1	1 094 672	1 089 965
<b>Total non-current assets</b>		<b>1 094 672</b>	1 089 965
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Stated capital	2	1 105 959	1 098 714
(Accumulated loss)		(11 287)	(9 249)
Ordinary shareholders' equity		1 094 672	1 089 465
Preference share capital	3		500
<b>Total shareholders' equity</b>		<b>1 094 672</b>	1 089 965

## Company Income Statement

for the year ended 31 March 2005

	Note	2005 R'000	2004 R'000
Operating profit	4	81 455	65 511
Profit before taxation		81 455	65 511
Taxation			
Profit after taxation		81 455	65 511
Preference dividends		(58)	(62)
Attributable profit		81 397	65 449

## Company Statement of Changes in Equity

for the year ended 31 March 2005

	Stated capital R'000	Accumulated loss R'000	Preference share capital R'000	Total R'000
<b>Balance at 1 April 2003</b>	<b>1 090 423</b>	<b>(7 921)</b>	<b>500</b>	<b>1 083 002</b>
Accumulated loss for the year		(1 328)		(1 328)
Attributable profit for the year		65 449		65 449
Ordinary dividends paid		(66 777)		(66 777)
Issue of shares	8 291			8 291
<b>Balance at 1 April 2004</b>	<b>1 098 714</b>	<b>(9 249)</b>	<b>500</b>	<b>1 089 965</b>
Accumulated loss for the year		(2 038)		(2 038)
Attributable profit for the year		81 397		81 397
Ordinary dividends paid		(83 435)		(83 435)
Issue of shares	7 245			7 245
Preference shares redeemed			(500)	(500)
<b>Balance at 31 March 2005</b>	<b>1 105 959</b>	<b>(11 287)</b>		<b>1 094 672</b>

## Company Cash Flow Statement

for the year ended 31 March 2005

	Note	2005 R'000	2004 R'000
<b>Cash flows from operating activities</b>			
Cash generated by operations		81 455	65 511
Dividends paid	A	(83 493)	(66 839)
Net cash outflow from operating activities		(2 038)	(1 328)
<b>Cash flows from financing activities</b>			
Issue of shares		7 245	8 291
Preference shares repaid		(500)	
Increase in investment in subsidiaries		(4 707)	(6 963)
Net cash inflow from financing activities		2 038	1 328
Net increase in cash			

## Notes to the Company Cash Flow Statement

for the year ended 31 March 2005

	2005 R'000	2004 R'000
<b>A. Dividends paid:</b>		
Ordinary dividends	83 435	66 777
Preference dividends	58	62
	<b>83 493</b>	66 839

## Notes to the Company Financial Statements

for the year ended 31 March 2005

	Issued Share Capital R	Effective Holding		Book value of company's interest in: Shares			
		2005 %	2004 %	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>1. Investment in subsidiaries</b>							
<b>Directly owned:</b>							
Rainbow Farms Investments (Proprietary) Limited	99 900	100	100	100	100		
Rainbow Farms (Proprietary) Limited	40 000	100	100	1 142	1 142	1 093 430	1 088 723
Rainbow Nominees (Proprietary) Limited	1	100	100				
<b>Indirectly owned:</b>							
Vector Logistics (Proprietary) Limited	50	100					
Vector Logistics Limited (Namibia)	100 000	100					
Practitrade (Proprietary) Limited	100	100					
Farmer Brown (Proprietary) Limited	1	100	100				
East End Court (Proprietary) Limited	1	100	100				
Bonny Bird Farms (Proprietary) Limited	312	100	100				
Epol (Proprietary) Limited	78 000	100	100				
				<b>1 242</b>	1 242	<b>1 093 430</b>	1 088 723

The above loan is unsecured, interest free and repayable at an unspecified date.  
None of the above companies are listed.

### 2. Stated capital

#### Authorised

575 525 772 (2004: 575 525 772) ordinary shares of no par value

#### Issued ordinary shares of no par value

	Number of shares		
Balance at the beginning of the year	269 383 853	<b>1 098 714</b>	1 090 423
Shares issued during the year	6 065 226	<b>7 245</b>	8 291
Balance at the end of the year	275 449 079	<b>1 105 959</b>	1 098 714

The unissued ordinary shares are under the control of the directors until the forthcoming annual general meeting and 15 421 627 (2004: 19 082 059) unexercised options have been granted to employees in terms of the Rainbow Share Incentive Trust.

### 3. Preference share capital

#### Authorised

500 000 cumulative 12.5% preference shares of no par value

#### Issued

500 000 cumulative 12.5% preference shares of no par value 500

The preference shares were redeemed as a result of the acquisition of Vector Logistics (Proprietary) Limited.

### 4. Operating profit

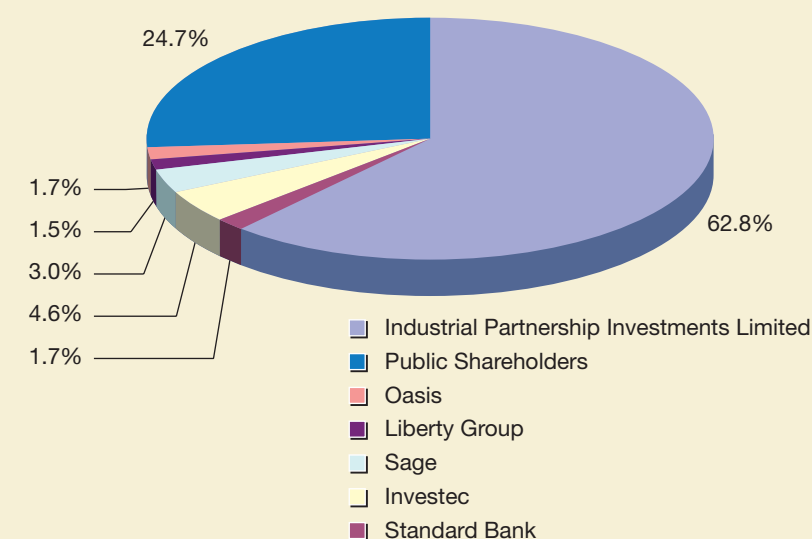
Dividends received from subsidiaries	83 493	66 839
Non-executive directors' fees	(443)	(348)
Listed company expenses	(1 595)	(980)
	<b>81 455</b>	65 511

## Ordinary Shareholders' Analysis

Distribution of Ordinary Shareholders	Number of shareholders	% of shareholders	Number of shares held	% of shares issued
Public shareholders	6 576	99.9	102 331 058	37.2
Non-public shareholders:				
Directors of Rainbow and its subsidiaries	3	0.1	137 680	
Holding company	1		172 846 261	62.8
Rainbow Pension Fund	1		134 080	
	<b>6 581</b>	<b>100.0</b>	<b>275 449 079</b>	<b>100.0</b>

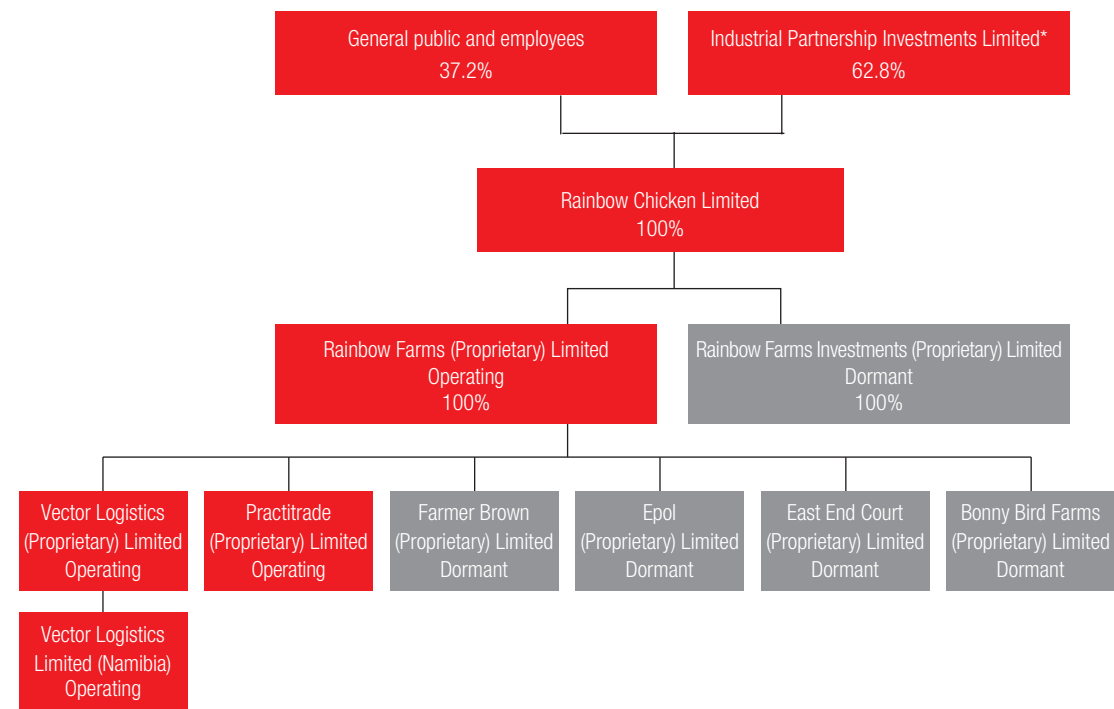
### Shareholdings Over One Percent (Beneficial)

	Number of shares	% of shares
Industrial Partnership Investments Limited	172 846 261	62.8
Investec	12 599 164	4.6
Sage	8 293 100	3.0
Oasis	4 722 154	1.7
Standard Bank	4 667 162	1.7
Liberty Group	3 990 560	1.5



Shareholder Spread	Number of shareholders	Shareholder spread	Number of shares held	% of shares issued
	4 321	1 - 1 000 shares	1 267 800	0.5
	1 805	1 001 - 10 000 shares	6 647 888	2.4
	340	10 001 - 100 000 shares	10 561 477	3.8
	89	100 001 - 1 000 000 shares	28 610 534	10.4
	26	1 000 001 - shares and over	228 361 380	82.9
	<b>6 581</b>		<b>275 449 079</b>	<b>100.0</b>

## Group Structure



\* Wholly owned subsidiary of Remgro Limited

## Shareholders' Diary

Financial year-end 31 March  
Annual general meeting 19 July 2005

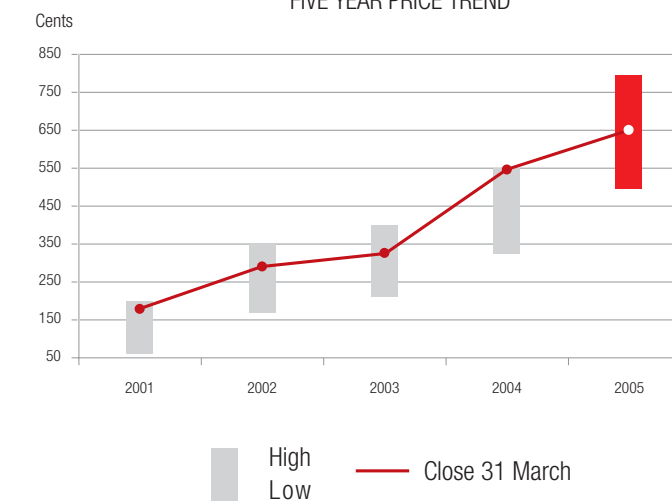
**FINANCIAL REPORTS**  
Announcement of results for the year May  
Annual financial statements posted June  
Interim report for the half year to September November

**FUTURE DIVIDENDS**  
Interim dividend  
- Declaration November  
- Payment January  
Final dividend  
- Declaration May  
- Payment June

## Corporate Information

<b>Company Registration Number:</b>	1966/004972/06
<b>JSE Share code:</b>	RBW
<b>ISIN code:</b>	ZAE000019063
<b>Registered Office:</b>	One The Boulevard Westway Office Park Westville 3630
<b>Postal Address:</b>	P. O. Box 2734 Westway Office Park Westville 3635
<b>Transfer Secretaries:</b>	Computershare Investor Services 2004 (Proprietary) Limited 70 Marshall Street Johannesburg 2001  P. O. Box 61051 Marshalltown 2107
<b>Company Secretary:</b>	S B Heath
<b>Auditors:</b>	PricewaterhouseCoopers Incorporated
<b>Listing:</b>	JSE Securities Exchange South Africa Sector: Food Producers and Processors
<b>Sponsor:</b>	RAND MERCHANT BANK (a division of FirstRand Bank Limited) CORPORATE FINANCE
<b>Bankers:</b>	ABSA Bank Limited
<b>Website:</b>	<a href="http://www.rainbowchicken.co.za">www.rainbowchicken.co.za</a>

SHARE PRICE PERFORMANCE  
FIVE YEAR PRICE TREND



## Notice to Shareholders

Notice is hereby given that the 39th annual general meeting of shareholders of Rainbow Chicken Limited will be held at One The Boulevard, Westway Office Park, Westville, KwaZulu-Natal on Tuesday 19 July 2005 at 09h00 for the following business:

1. To receive and consider the Group and Company annual financial statements for the year ended 31 March 2005.
2. To elect directors in place of Dr M Griessel and Messrs J B Magwaza and D W Vale, who retire by rotation in accordance with the articles of association and who, being eligible, offer themselves for re-election. Details of each of these retiring directors are set out on page 22 of the 2005 Annual Report.
3. To consider and, if deemed fit, to pass the following ordinary resolution with or without modification:  
"Resolved that the authorised but unissued ordinary shares in the capital of the company remain under the control of the directors who shall be authorised to issue these shares at such times and on such terms as they may determine, subject to section 221 of the Companies Act, Act 61 of 1973 (as amended), the Articles of Association of the company, and the Listings Requirements of the JSE Securities Exchange South Africa (JSE)."
4. To confirm the re-appointment of the auditors until the next annual general meeting and to authorise the directors to approve the amount of their remuneration for the forthcoming year.
5. To transact such other business as may be transacted at an annual general meeting.

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

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

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

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

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

By order of the Board



S B Heath  
Company Secretary  
Registered Office  
One The Boulevard  
Westway Office Park  
Westville 3635

## Form of Proxy

### RAINBOW CHICKEN LIMITED

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

#### THIS FORM OF PROXY IS ONLY FOR USE BY:

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

\* See explanatory note 3 overleaf

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

of \_\_\_\_\_  
(Address)

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

holder/s of \_\_\_\_\_ ordinary shares

in the company, hereby appoint (see instruction 1 overleaf)

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

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

3. the chairman of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the company to be held at One The Boulevard, Westway Office Park, Westville, KwaZulu-Natal on Tuesday 19 July 2005 at 09h00 and at any adjournment thereof as follows:

	IN FAVOUR OF	AGAINST	ABSTAIN
1. Receipt and consideration of annual financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Election of directors			
2.1 Re-election of director – Dr M Griessel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Re-election of director – J B Magwaza	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Re-election of director – D W Vale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Control of authorised but unissued shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Re-appointment of auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Other business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

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

Signature \_\_\_\_\_

(Please read the notes overleaf)

Notes

1. A member entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a registered member of the company.
2. Every member present in person or by proxy and entitled to vote at the annual general meeting of the company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds. In the event of a poll, every member shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by such member bears to the aggregate amount of the nominal value of all the shares issued by the company.
3. Members registered in their own name are members who elected not to participate in the Issuer-Sponsored Nominee Programme and who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertificated shares are to be registered in the electronic subregister of members **in their own names**.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.
6. The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this form of proxy must be initialled by the signatory/ies.
8. The chairman of the annual general meeting may accept any form of proxy which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

Instructions on signing and lodging the form of proxy:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the proxy will be exercised by the chairman of the annual general meeting. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A member's voting instructions to the proxy must be indicated by the insertion of an "X", or the number of votes exercisable by the member, in the appropriate spaces provided overleaf. Failure to do so will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by him/her or by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. To be valid, the completed forms of proxy must be deposited at the registered office of the company or posted to the Company Secretary, P.O. Box 2734, Westway Office Park, Westville, 3635 or lodged with the transfer secretaries of the company, Computershare Investor Services 2004 (Proprietary) Limited at 70 Marshall Street, Johannesburg, 2001, South Africa, or posted to the transfer secretaries at P. O. Box 61051, Marshalltown, 2107, to be received by them not later than Friday 15 July 2005 at 09h00 (South African time).



RAINBOW CHICKEN LIMITED