



**country**  
**FOODS**  
harvesting nature

## **Country Foods Prospectus 2007**



## Country Foods Limited

(formerly Africa's Best 346 Limited)

(Incorporated in the Republic of South Africa)

(Registration number 2005/018743/06)

(JSE code: CFO ISIN: ZAE000105052)

("Country Foods" or "the company")

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# Prospectus

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**Prepared and issued in terms of the Listings Requirements ("the Listings Requirements") of JSE Limited ("JSE") and the Companies Act, 1973 (Act 61 of 1973), as amended ("Act"), relating to a private placement of Country Foods ordinary shares by way of an offer by the company for the subscription of 30 000 000 ordinary shares in the issued share capital of the company at an issue price of 100 cents per ordinary share, thereby raising R30 million before expenses and the subsequent listing of the ordinary shares of Country Foods on the Alternative Exchange ("ALT<sup>x</sup>") of the JSE.**

Opening date of private placement (09:00)	Tuesday, 25 September 2007
Closing date of private placement (12:00) *	Wednesday, 26 September 2007
Proposed listing date on ALT <sup>x</sup> (09:00) ("the listing date")	Wednesday, 3 October 2007

\* Shareholders wishing to receive shares in dematerialised form must advise their Central Securities Depository Participant ("CSDP") or broker of their acceptance of the offer to subscribe for or to purchase shares in the manner and cut-off time stipulated by their CSDP or broker.

This prospectus is not an invitation to the general public to subscribe for or to purchase shares in Country Foods. This is an offer to selected private individuals, corporations and institutions to subscribe for or to purchase shares in Country Foods and is issued in compliance with the Listings Requirements and the Act for the purpose of providing information to the public and investors with regard to Country Foods. This is a single primary listing on ALT<sup>x</sup>.

At the date of listing, the authorised share capital of Country Foods will comprise 500 000 000 ordinary shares having a par value of 0.1 cent each. After the private placement and at the date of the listing the issued share capital of Country Foods will consist of 126 455 449 ordinary shares of 0.1 cent each.

The ordinary shares issued and sold in terms of the private placement will rank *pari passu* with all other ordinary shares issued by Country Foods. Applications for shares in Country Foods must be for a minimum of 5 000 ordinary shares and in multiples of 1 000 ordinary shares thereafter.

Approval of Country Foods' application for the listing of 126 455 449 ordinary shares on ALT<sup>x</sup> under the abbreviated name "Country", share code "CFO" and ISIN ZAE000105052 has been granted by the JSE, subject to the required spread of public shareholders in terms of the Listings Requirements being obtained pursuant to the private placement. It is anticipated that the listing of the ordinary shares on the JSE will become effective from the commencement of business on Wednesday, 3 October 2007.

**The shares will only be traded in electronic form and, as such, all shareholders who elect to receive shares in certificated form will have to dematerialise their certificated shares should they wish to trade therein.**

The directors of Country Foods, whose names are set out in Annexure 1 to this prospectus, accept, collectively and individually, full responsibility for the accuracy of the information given herein and certify that, to the best of their knowledge and belief, no facts have been omitted which would make any statement false or misleading and that they have made all reasonable enquiries to ascertain such facts and that this prospectus contains all information required by law and the Listings Requirements.

KPMG Inc., Registered Auditors, whose reports are included in this prospectus, have given and have not, prior to the registration of this prospectus, withdrawn their written consent to the inclusion of their reports in the form and context in which they appear. The Designated Adviser, attorneys, commercial banker and transfer secretaries, whose names are set out in this prospectus, have given and have not, prior to the registration of this prospectus, withdrawn their written consents to the inclusion of their names in the capacities stated and, where applicable, to their reports being included in this prospectus.

An English copy of this prospectus, accompanied by the documents referred to under "Documents available for inspection" as set out in paragraph 35 of this prospectus, was registered by the Registrar of Companies on 21 September 2007 in terms of section 155(1) of the Act.

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### Designated Adviser



### Auditors and reporting accountants



### Attorneys



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Date of issue: 21 September 2007

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## CORPORATE INFORMATION

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### Directors

V I Zwane (*Chairperson*) \*  
R G Casaletti  
R H Liversage  
P B Swanevelder  
J C Fourie \*

\* Non-executive

### Company secretary and registered office

Loredana Alba Comuzio  
21 Central Street  
Houghton, 2198  
(PO Box 1838, Houghton, 2041)  
Telephone: (011) 483 3920  
Facsimile: (011) 483 3810

### Designated Adviser

Exchange Sponsors (Pty) Limited  
(Registration number 1999/024433/07)  
39 First Road  
Hyde Park, 2196  
(PO Box 411216, Craighall, 2024)  
Telephone: (011) 447 2951  
Facsimile: (011) 447 1929

### Auditors and reporting accountants

KPMG Inc.  
(Registration number 1999/021543/20)  
KPMG Crescent  
85 Empire Road  
Parktown, 2193  
(Private Bag 9, Parktown, 2122)  
Telephone: (011) 647 7111  
Facsimile: (011) 647 8000

### Attorneys

Fluxmans Inc.  
(Registration number 2000/024775/21)  
11 Biermann Avenue  
Rosebank, 2196  
(Private Bag X41, Saxonwold, 2196)  
Telephone: (011) 328 1700  
Facsimile: (011) 880 2261

### Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited  
(Registration number 2004/003647/07)  
Ground Floor  
70 Marshall Street  
Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)  
Telephone: (011) 370 5000  
Facsimile: (011) 688 5210

### Commercial banker

ABSA Bank Limited  
(Registration number 1986/004794/06)  
Business Bank  
1st Floor Block D  
Eastgate Office Park  
South Boulevard  
Bruma, 2026  
(PO Box 206, Bruma, 2026)  
Telephone: (011) 621 6000  
Facsimile: (011) 616 4212

**Date of incorporation:** 2 June 2005

**Place:** Pretoria

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## DETAILS OF OFFER

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The details of offer are a summary only. For a full appreciation, this prospectus should be read in its entirety. The definitions commencing on page 10 of this prospectus apply *mutatis mutandis* to the details of offer.

### 1. INCORPORATION AND HISTORY

- 1.1 Country Foods Limited was incorporated as a public company on 2 June 2005 with the name Africa's Best 346 Limited and changed its name to Country Foods Holding Limited on 29 September 2006 and again changed its name to Country Foods Limited on 15 April 2007.
- 1.2 Edulis was incorporated 33 years' ago on 3 December 1974, when the Casaletti Family saw the opportunity to commercialise wild mushrooms that grew in pine forests of South Africa's Eastern Highveld. Exclusive mushroom harvesting rights were then negotiated with local Forestry Farmers in the areas of Amsterdam, Lothair and Warburton in the Mpumalanga Province. At the same time Edulis established its first processing facility in Amsterdam.
- 1.3 The operations of Country Mushrooms were established in 1986 by an Italian family and two managers who left the employ of Denny Mushrooms, one being Morris Gilbert, on the Wattlewood Farm near Kempton Park, Gauteng.
- 1.4 In 1988 the proprietors of the Country Mushrooms business completed construction of 22 growing rooms for cultivated mushrooms. In 1999 the capacity was increased with the construction of a further five growing rooms.
- 1.5 The business conducted by Fruitime was established on 1 October 1989 as a manufacturer and distributor of a wide variety of fruit juices and associated beverages. Fruitime Fruit Juices (Pty) Limited was incorporated as a company on 2 June 1997 and acquired this business. Fruitime secures the highest quality fruit juices from Bronpro in Mpumalanga through a supply agreement at market-related rates.
- 1.6 In 1994 the Edulis operations were regionalised with an international marketing and distribution infrastructure to mainly supply international wholesalers and/or distributors. Edulis thereafter established processing facilities in Swaziland, Zimbabwe and Malawi. Edulis has exclusive product off-take agreements with these operations.
- 1.7 The Country Mushrooms business was acquired by Abfood Products (Pty) Limited (Registration number 1990/005362/07), Standard Bank Limited and Morris Gilbert in 1996 from the Italian family. This was followed in 1997 by a management buy-out of Standard Bank Limited's equity stake.
- 1.8 Country Mushrooms (Pty) Limited was incorporated on 10 September 2001 and between 2001 and 2004 Country Mushrooms acquired the entire issued share capital of Mushroom Cordon Bleu (Pty) Limited, an operation that was started in 1984. This cultivated mushroom operation is situated on the Aalwyne Farm near Kempton Park and has 19 growing rooms, with a production capacity of 22 500 kilograms brown and white mushrooms per week.
- 1.9 Forest Products, a New York subsidiary of Edulis, was established in 2005 to distribute and market its products in North America. This operation ensures the distribution of luxury wild, exotic and processed products to wholesalers, hotels, food services and restaurants. Approximately 30% of the products sold by Forest Products in the USA are imported from Edulis in South Africa, with the remaining 70% imported under distribution agreements from the EU and the Far East.
- 1.10 Edulis Gourmet commenced operations in December 2005 to distribute luxury food products as well as wild and exotic mushrooms and truffles to the local market in South Africa to supermarkets, hotels, restaurants and the food services industry. Edulis Gourmet has recently become the exclusive distributor of international brands such as Bonduelle of France, Faverger Chocolates of Switzerland, Greci Foods, Urbani and Valsele of Italy. Edulis Gourmet offers the majority of products required in the food services industry.
- 1.11 The Midlands processing facility of Edulis with the name Midlands Mushroom Farms (Pty) Limited, which was incorporated on 27 May 2003 and funded by Edulis and strategic partners KERPEF for an investment cost of R20 million, commenced operations in October 2006.
- 1.12 Country Foods acquired the entire issued share capital and all shareholders' loan accounts of Edulis, Country Mushrooms and Fruitime with effect from 30 September 2006 in "share-for-share" transactions.

## **2. NATURE OF THE COMPANY'S BUSINESS AND INDUSTRY**

### **2.1 Edulis**

- 2.1.1** Edulis has been a processor, distributor, exporter and importer of mushrooms, fruits and vegetables since 1974, during which period it has gained invaluable experience in cryogenic freezing, dehydration and processing operations on a global basis.
- 2.1.2** Edulis exports approximately 90% of its processed products to the EU and the USA.
- 2.1.3** In addition to its own processing facilities, the group has recently become the exclusive distributor and producer under licence for some frozen and canned food brands in the EU.
- 2.1.4** Edulis has cryogenic freezing and processing operations in the Midlands of KwaZulu-Natal, Mpumalanga and Swaziland.
- 2.1.5** In June 2007 the newly commissioned, state of the art processing facility in Midlands, KwaZulu-Natal was awarded its HACCP certification which will enable the group to increase the supply of finished value-added products directly to supermarkets in South Africa, the EU and the USA.

### **2.2 Country Mushrooms**

- 2.2.1** Country Mushrooms is a grower, distributor and marketer of fresh cultivated mushrooms and value-added processed mushroom products and other fresh produce.
- 2.2.2** Country Mushrooms cultivates both white button and brown mushrooms on the Wattlewood Farm and Aalwyne Farm, close to Kempton Park, in Gauteng. The capacity of Country Mushrooms is 46 growing rooms, with production of over 48 000 kilograms white and brown cultivated mushrooms per week making it approximately the second largest cultivated mushroom supplier in South Africa.
- 2.2.3** Country Mushrooms has a market share of 12% in South Africa and has the capacity to increase its market share to 18% in fresh cultivated mushroom sales.

### **2.3 Fruitime**

- 2.3.1** Fruitime manufactures, markets and distributes a wide variety of fruit juices and associated beverages to the supermarkets on a national and regional basis.
- 2.3.2** Fruitime has strategically placed distributors throughout South Africa to facilitate the distribution of the Fruitime range nationally. Fruitime has extended its product range into the bottled water sector and launched Aquatime still and sparkling waters as well as an exciting range of flavoured sparkling waters.
- 2.3.3** Fruitime has constantly gained market share in a competitive environment. With the commissioning of its new Elo Pak, long life bottling plant, Fruitime is well-placed to continue its growth pattern.
- 2.3.4** Through Country Foods, Fruitime has obtained the exclusive rights to brand its fruit juices and fruit flavoured drinks with the names and logos of the South African Football Team (Bafana Bafana) for the 2010 FIFA World Cup.

## **3. PROSPECTS**

In the opinion of the directors of the company, based on experience and market information available, the prospects of the group are good for the following reasons:

### **3.1 Export opportunities**

- 3.1.1** Through its network of associated offshore companies and distributors, Country Foods is ideally positioned to increase its range of exported products and continue to expand its direct sales to supermarket chains.
- 3.1.2** The USA market, through the group's New York subsidiary Forest Products, provides significant growth opportunities to Country Foods. The HACCP certification of Midlands will enable the group to supply finished value-added products directly to supermarkets in the EU and the USA.

**3.1.3** Country Mushrooms owns farm land near Kempton Park, which is ideally situated for the development of horticultural products. With its close proximity to the OR Tambo International Airport and making use of the Edulis international distribution network, the opportunity exists to develop a horticultural range of off-season vegetables and herbs for the local and international markets.

**3.1.4** The commissioning of the Long Life Fruit Juice plant of Fruitime will increase export opportunities to neighbouring countries, the EU and the USA.

### 3.2 HACCP and EUREPGAP

In addition to full certification of the Midlands processing plant, certification of all remaining processing facilities, are well under way. HACCP and EUREPGAP accreditation are expected for all Country Mushrooms facilities by the end of July 2008 followed closely by the Edulis Mpumalanga facility. This will enhance the corporate profile of the group.

## 4. SUMMARY OF HISTORICAL AND FORECAST INCOME STATEMENTS

The summarised historical and forecast financial information of Country Foods for the period ended 31 March 2007, the financial years ending 30 September 2007 and 30 September 2008, the preparation of which is the responsibility of the directors, are set out below. This financial information must be read in conjunction with the independent reporting accountants' report thereon reproduced in Annexures 3 and 10.

<b>Extracts from the historical and forecast income statements</b>	<b>Reviewed 31 March 2007 6 months R'000</b>	<b>Forecast 30 September 2007 12 months R'000</b>	<b>Forecast 30 September 2008 12 months R'000</b>
<b>Revenue</b>	<b>89 675</b>	<b>181 991</b>	<b>209 632</b>
<b>Gross profit</b>	<b>31 274</b>	<b>71 218</b>	<b>81 965</b>
Other income	–	731	465
Operating costs	(15 136)	(46 712)	(50 923)
<b>EBITDA</b>	<b>16 138</b>	<b>25 237</b>	<b>31 507</b>
Depreciation	(3 176)	(5 238)	(5 141)
Amortisation of intangible assets	(625)	(1 237)	(1 237)
<b>Profit before interest and taxation</b>	<b>12 337</b>	<b>18 762</b>	<b>25 129</b>
Net interest paid	(3 530)	(4 607)	(27)
<b>Profit before taxation</b>	<b>8 807</b>	<b>14 155</b>	<b>25 102</b>
Taxation	(1 484)	(2 088)	(5 328)
<b>Profit after taxation</b>	<b>7 323</b>	<b>12 067</b>	<b>19 774</b>
Outside shareholders' interest	(1 690)	(860)	(1 707)
<b>Earnings attributable to ordinary shareholders</b>	<b>5 633</b>	<b>11 207</b>	<b>18 067</b>
<b>Reconciliation of headline earnings:</b>			
Profit attributable to ordinary shareholders	5 633	11 207	18 067
<b>Headline earnings attributable to ordinary shareholders</b>	<b>5 633</b>	<b>11 207</b>	<b>18 067</b>
<i>Pro forma</i> weighted average shares in issue on which earnings are based	80 515 928	92 236 364	126 455 449
<i>Pro forma</i> earnings per share (cents)	7.0	12.2	14.3
<i>Pro forma</i> headline earnings per share (cents)	7.0	12.2	14.3

**Note:**

The assumptions upon which the forecast income statements are based are set out in paragraph 12.1.3 of this prospectus.

## 5. PURPOSE OF THE PRIVATE PLACEMENT AND THE LISTING

**5.1** The purpose of the private placement is to:

- raise capital and to have the flexibility of listed shares in order to allow the group to take advantage of any acquisitive opportunities that may arise in the future that will complement the group's businesses thereby accelerating its growth;

- procure greater access to the capital markets;
- enhance investor and general public awareness of Country Foods, its activities and specialised skills;
- attract and retain intellectual capital through the incentive of meaningful equity participation;
- broaden Country Foods' shareholder base and to obtain a spread of at least 100 shareholders who are required to hold a minimum of 10% of the entire issued share capital of Country Foods for the purpose of the listing of Country Foods' ordinary shares on ALT<sup>x</sup>;
- afford members of the investing public, clients and business associates of Country Foods the opportunity to participate directly in the income stream of Country Foods, as well as in the future capital growth of its assets;
- raise the group's profile leading to new business opportunities.

**5.2** The private placement consists of an offer by Country Foods for the subscription of 30 000 000 ordinary shares at an issue price of 100 cents per share. A total amount of R30 000 000, before issue and listing expenses, will be raised by the company in terms of the private placement by way of an offer for subscription to selected private individuals, corporations and institutions. The proceeds of the private placement will allow the group to accelerate its growth as set out in paragraph 3 above.

**5.3** Those private individuals, corporations and institutions who have been invited to apply should do so by completing the attached private placement application form in accordance with the provisions of this prospectus and the instructions contained in the private placement application form.

**5.4** No offer will be made to the general public in terms of the private placement. The private placement will be made to selected private individuals, corporations and institutions only.

**5.5** Subject to the achievement of the required spread of public shareholders, the JSE has formally approved the listing of 126 455 449 ordinary shares in the share capital of Country Foods on ALT<sup>x</sup> with effect from commencement of business on Wednesday, 3 October 2007. The shares will trade under the abbreviated name "Country", with the JSE code "CFO" and ISIN ZAE000105052.

## **6. DETAILS OF THE PLACEMENT**

### **6.1 Salient features**

**6.1.1** The salient features of the private placement are as follows:

Offer price per ordinary share (cents)	100
Par value per ordinary share (cents)	0.1
Premium per ordinary share (cents)	99.9
Number of ordinary shares offered by the company for subscription in terms of the private placement	30 000 000
Issue consideration to be received by the company, before expenses	R30 million

**6.1.2** The opening and closing dates of the private placement are as follows:

Opening date of the private placement (09:00)	Tuesday, 25 September 2007
Closing date of private placement (12:00)	Wednesday, 26 September 2007
Proposed listing date on ALT <sup>x</sup> (09:00)	Wednesday, 3 October 2007

The private placement will not be underwritten and is not subject to a minimum subscription being achieved. Applications for shares in Country Foods must be for a minimum of 5 000 ordinary shares and in multiples of 1 000 ordinary shares thereafter.

## **7. COPIES OF THIS PROSPECTUS**

Copies of this prospectus, in English, may be obtained during business hours, from Tuesday, 25 September 2007 from the registered office of Country Foods, and the offices of Exchange Sponsors (Pty) Limited and the transfer secretaries, details of which are set out in the "Corporate information" section of this prospectus.

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## IMPORTANT DATES AND TIMES

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**2007**

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Abridged prospectus released on SENS on	Tuesday, 25 September
Opening date of the private placement (09:00) on	Tuesday, 25 September
Closing date of private placement (12:00) on	Wednesday, 26 September
Listing of Country Foods on ALT <sup>x</sup> (09:00) on	Wednesday, 3 October
Accounts at CSDP or broker updated in respect of dematerialised shareholders on or about <sup>(1)</sup>	Wednesday, 3 October
Posting of share certificates in respect of certificated shareholders on or about	Wednesday, 3 October
Refund of surplus private placement application monies received (where applicable) on	Thursday, 4 October

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**Notes:**

- (1) CSDP's effect payment on a delivery versus payment basis.
- (2) The above dates are subject to change. Any such change will be released on SENS.
- (3) Shareholders wishing to receive shares in dematerialised form must advise their CSDP or broker of their acceptance of the offer to subscribe for or to purchase shares in the manner and cut-off time stipulated by their CSDP or broker.

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## DEFINITIONS

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In this prospectus, its annexures and the attachment hereto, unless the context indicates otherwise, references to the singular include the plural and *vice versa*, words denoting one gender include the others, expressions denoting natural persons include juristic persons and associations of persons and *vice versa* and the words in the first column hereunder have the meanings stated opposite them in the second column, as follows:

“2010 FIFA World Cup”	the Federation Internationale de Football Association football world cup to be hosted in South Africa in 2010;
“Act”	the Companies Act, 1973 (Act 61 of 1973), as amended;
“ALT <sup>x</sup> ”	the Alternative Exchange of the JSE;
“applicants”	selected private individuals, corporations and institutions who have been invited to subscribe for or to purchase ordinary shares in terms of the private placement;
“application form”	the application form in respect of the private placement, attached to and forming part of this prospectus;
“Articles of Association”	the articles of association of Country Foods;
“auditors” or “independent reporting accountants”	KPMG Inc., Registered Auditors (Registration number 1999/021543/20);
“BEE”	broad-based black economic empowerment as defined in the Broad-Based Black Economic Empowerment Act, 53 of 2003, as the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies;
“Bronpro”	Bronpro Processors (Pty) Limited (Registration number 1997/001603/07), a private company incorporated in accordance with the laws of South Africa;
“business day”	any day other than a Saturday, Sunday or official public holiday in South Africa;
“capital raising”	the raising by Country Foods in November 2006 of R16 618 814 by means of an offer by the company to selected investors of 23 741 163 Country Foods ordinary shares at an issue price of 70 cents per ordinary share as set out in paragraph 24.3.2.3 of this prospectus, in order to strengthen the company’s balance sheet;
“certificated shareholders”	shareholders who hold certificated shares;
“certificated shares”	ordinary shares, in respect of which physical Country Foods share certificates will be issued;
“Chantau”	Chantau Property Investment (Pty) Limited (Registration number 2003/012134/07), a private company incorporated in accordance with the laws of South Africa;
“common monetary area”	South Africa, the Republic of Namibia and the Kingdoms of Swaziland and Lesotho;
“Country Foods” or “the company” or “group formation”	Country Foods Limited (Registration number 2005/018743/06), which was previously a dormant shelf company called Africa’s Best Limited and which changed its name to Country Foods Holding Limited on 29 September 2006 and then to Country Foods Limited on 15 April 2007. Country Foods acquired the entire issued share capital of Edulis,

	Country Mushrooms and Fruitime from the Edulis vendor, Country Mushrooms vendors and Fruitime vendor, with effect from 30 September 2006 in “share-for-share” transactions;
“Country Food Processors”	Country Food Processors (Pty) Limited (Registration number 1999/014605/07), previously called Cordon Bleu Food Processors (Pty) Limited, a private company incorporated in accordance with the laws of South Africa, a wholly-owned subsidiary of Country Mushrooms;
“Country Mushrooms”	Country Mushrooms (Pty) Limited (Registration number 2001/021424/07), a private company incorporated in accordance with the laws of South Africa, being a wholly-owned subsidiary of Country Foods and with wholly-owned subsidiaries Country Food Processors, Wattlewood Farm, Mushrooms Cordon Bleu and Gouret Mushrooms as set out in Annexure 16;
“Country Mushrooms Sale Agreement”	the sale of shares and cession of claims agreement entered into between the Country Mushrooms vendors as sellers and Country Foods as purchaser on 11 September 2006, in terms of which Country Foods acquired the entire issued share capital of, and all shareholder claims of such vendors from such vendors, with effect from 30 September 2006, for a consideration of R22 000 000 in a “share-for-share” transaction;
“Country Mushrooms vendors”	collectively, Turning Point Investment Trust, Riandi Trust, Golden Glow Trust and CRH Investments (Pty) Limited as detailed in Annexure 13;
“cryogenic freezing”	an advanced, accelerated form of freezing for preserving foods that are high-priced or have low moisture content by spraying them with liquid nitrogen as they pass through a tunnel on a conveyor belt;
“CSDP”	a Central Securities Depository Participant, accepted as a participant in terms of the Securities Services Act, 36 of 2004, as amended, appointed by an individual shareholder for purposes of and in regard to the dematerialisation of documents of title for purposes of incorporation into the Strate system;
“Dairyland”	Dairyland USA Corp, a strategic 30% equity partner in Forest Products and one of the leading suppliers in New York of niche quality products to the food industry;
“dematerialised shareholder”	a shareholder who holds dematerialised shares;
“dematerialised shares”	ordinary shares which have been incorporated into the Strate system and which are no longer evidenced by physical documents of title in terms of the Securities Services Act, 36 of 2004, as amended;
“Denny Mushrooms”	Denny Mushrooms (Pty) Limited (Registration number 1998/003042/07), a private company incorporated in accordance with the laws of South Africa;
“Designated Adviser”	Exchange Sponsors (Pty) Limited (Registration number 1999/024433/07), a private company incorporated in accordance with the laws of South Africa, a Designated Adviser as defined in the Listings Requirements;
“directors” or “board of directors”	the directors of Country Foods, further details of whom appear in Annexure 1;
“documents of title”	share certificates, certified transfer deeds in respect of balance receipts or any other documents of title acceptable to Country Foods in respect of ordinary shares;
“EBITDA”	earnings before interest, taxation, depreciation and amortisation;
“Edulis Gourmet”	Edulis Gourmet (Pty) Limited (Registration number 2005/037407/07), a private company incorporated in accordance with the laws of South Africa, a wholly-owned subsidiary of Edulis;

“Edulis”	Edulis Mushroom (Pty) Limited (Registration number 1974/003908/07), a private company incorporated in accordance with the laws of South Africa, being a wholly-owned subsidiary of Country Foods and with wholly-owned subsidiaries Edulis Mushroom Farms, Edulis Gourmet, Edulis Trust and Porcini Mushrooms as set out in Annexure 16;
“Edulis Mushroom Farms”	Edulis Mushroom Farms (Pty) Limited (Registration number 1974/001561/07), a private company incorporated in accordance with the laws of South Africa, a wholly-owned subsidiary of Edulis;
“Edulis Sale Agreement”	the sale of shares and cession of claims agreement entered into between the Edulis vendor as seller and Country Foods as purchaser on 11 September 2006, in terms of which Country Foods acquired the entire issued share capital of, and all shareholder claims of such vendors from such vendors, with effect from 30 September 2006, for a consideration of R29 993 000 in a “share-for-share” transaction;
“Edulis Trust”	The Edulis Trust (Master’s Reference IT789/63, a trust incorporated in accordance with the laws of Liechtenstein and wholly owned by Edulis;
“Edulis vendor”	Mediolanum Investments Limited (Registration number 1998/002934/06), a public company incorporated in accordance with the laws of South Africa as detailed in Annexure 13;
“Edulis USA”	Edulis USA Corp. (Registration number authentication 1490570), a public company incorporated in accordance with the laws of Delaware in the USA;
“EU”	European Union;
“EUREPGAP”	European Good Agricultural Practice;
“Exchange Control Regulations”	the Exchange Control Regulations, 1961, as amended, promulgated in terms of section 9 of the Currency and Exchanges Act, 1933 (Act 9 of 1933), as amended;
“FMCG”	Fast Moving Consumer Goods;
“Forest Products”	Forest Products International LLC (Registration number authentication 1992021), a company incorporated in accordance with the laws of Delaware in the USA;
“Fruitime”	Fruitime Fruit Juices (Pty) Limited (Registration number 1997/008373/07), a private company incorporated in accordance with the laws of South Africa, being a wholly-owned subsidiary of Country Foods;
“Fruitime Sale Agreement”	the sale of shares and cession of claims agreement entered into between the Fruitime vendor as seller and Country Foods as purchaser on 11 September 2006, in terms of which Country Foods acquired the entire issued share capital of, and all shareholder claims of such vendors from such vendors, with effect from 30 September 2006, for a consideration of R20 000 000 in a “share-for-share” transaction;
“Fruitime vendor”	Bronpro as detailed in Annexure 13;
“Gouret Mushrooms”	Gouret Mushrooms (Pty) Limited (Registration number 2002/014746/07), a private company incorporated in accordance with the laws of South Africa, a wholly-owned subsidiary of Country Mushrooms;
“the group”	collectively, Country Foods and its subsidiaries;
“HACCP”	Hazard Analysis and Critical Control Point;
“HDSA’s”	historically disadvantaged South African citizens, being South African citizens who were socially, politically and economically disadvantaged by the legacy of the political disposition prior to 28 April 1994;
“horticultural”	the science or art of cultivating fruits, vegetables, flowers, or ornamental plants;

“IFRS”	International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board, International Financial Reporting Interpretations Committee and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee;
“incorporation”	the date of incorporation of Country Foods, being 2 June 2005;
“IQF”	an acronym for Individually Quick-Frozen. A commercial process whereby food (mainly fruit, vegetables and fish) is rapidly frozen in individual pieces before packaging. This process is very effective in preserving taste, texture and nutrient values;
“JSE”	JSE Limited (Registration number 2005/022939/06), a company duly registered and incorporated with limited liability under the company laws of South Africa, licensed as an exchange under the Securities Services Act, Act 36 of 2004, as amended;
“King Code”	King Report on Corporate Governance for South Africa, 2002;
“KERPEF”	Kagiso Enterprises Rural Private Equity Fund;
“the last practicable date”	the last practicable date prior to the finalisation of this prospectus, being Friday, 7 September 2007;
“the listing”	the proposed listing of the entire issued share capital of Country Foods on ALT <sup>x</sup> , on Wednesday, 3 October 2007;
“Listings Requirements”	the Listings Requirements of the JSE;
“LSM”	Living Standards Measure;
“Midlands”	Midlands Mushroom Farms (Pty) Limited (Registration number 2003/011829/07), a private company incorporated in accordance with the laws of South Africa;
“Mushrooms Cordon Bleu”	Mushrooms Cordon Bleu (Pty) Limited (Registration number 1978/001851/07), a private company incorporated in accordance with the laws of South Africa, a wholly-owned subsidiary of Country Mushrooms;
“non-resident”	a person whose registered address is outside the common monetary area and who is not an emigrant;
“offer for subscription”	an offer, forming part of the private placement, in terms of which the company is offering 30 000 000 ordinary shares for subscription at an issue price of 100 cents per ordinary share;
“ordinary shares”	ordinary shares of 0.1 cent each in the share capital of the company;
“own-name registration”	shareholders who will hold ordinary shares which have been dematerialised and are recorded by a CSDP on the register kept by that CSDP in the name of such shareholder;
“Porcini”	Porcini Mushrooms (Pty) Limited (Registration number 2004/014555/07), a private company incorporated in accordance with the laws of South Africa, a wholly-owned subsidiary of Edulis;
“private placement” or “placement”	the private placement of 30 000 000 ordinary shares by way of an offer to selected institutions, corporations and individuals for the subscription of 30 000 000 ordinary shares at a issue price of 100 cents per ordinary share;
“this prospectus”	this bound document, dated 21 September 2007, including all annexures and the attachment hereto;
“Rand” or “R” or “cents”	the official currency of South Africa;
“Registrar of Companies”	the Registrar of Companies in South Africa;

“Sale Agreements”	collectively, the Edulis Sale Agreement, the Country Mushrooms Sale Agreement and the Fruitime Sale Agreement;
“SA GAAP”	South African Generally Accepted Accounting Practice;
“SARB”	South African Reserve Bank;
“SENS”	the Securities Exchange News Service of the JSE;
“South Africa”	the Republic of South Africa;
“share incentive scheme”	the Country Foods Share Incentive Scheme, the salient features of which are set out in Annexure 15;
“shareholders”	holders of ordinary shares;
“STC”	Secondary Tax on Companies;
“Strate”	the settlement and clearing system used by the JSE, managed by Strate Limited (Registration number 1998/022242/06), a public company incorporated in accordance with the laws of South Africa;
“transfer secretaries”	Computershare Investor Services 2004 (Pty) Limited (Registration number 2004/003647/07), a private company incorporated in accordance with the laws of South Africa;
“USA” or “North America”	United States of America;
“VAT”	Value-Added Tax as defined in the Value-Added Tax Act (Act 89 of 1991), as amended; and
“Wattlewood Farm”	Wattlewood Farm (Pty) Limited (Registration number 1996/006454/07), a private company incorporated in accordance with the laws of South Africa, a wholly-owned subsidiary of County Mushrooms.



# Country Foods Limited

*(formerly Africa's Best 346 Limited)*

(Incorporated in the Republic of South Africa)

(Registration number 2005/018743/06)

(JSE code: CFO ISIN: ZAE000105052)

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## Directors

V I Zwane (*Chairperson*) \*

R G Casaletti

R H Liversage

P B Swanevelder

J C Fourie \*

\* *Non-executive*

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# Prospectus

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## 1. INTRODUCTION

- 1.1 Country Foods intends to list its ordinary shares on ALT<sup>x</sup> as a strategic step which will facilitate the raising of capital in support of its vision of becoming one of the leading suppliers of niche, high quality innovative value-added food and beverage products to the local and international markets.
- 1.2 The private placement and listing will provide the group with capital to accelerate its growth. The group has also identified expansion and potential acquisition opportunities which can be funded through equity thereby maintaining the group's interest bearing debt at acceptable levels.
- 1.3 A listing will also provide an incentive for the retention and reward of key staff members through equity participation. Employees will also have the opportunity of becoming shareholders of the company, thereby further strengthening their commitment to the group's success.
- 1.4 A listing will further enhance the group's corporate profile, as well as BEE opportunities within the sector.
- 1.5 The comfort associated with increased corporate governance in contracting with a listed entity will be vital when dealing with larger corporations.
- 1.6 Ultimately, the listing will provide the platform for the group to aggressively pursue its strategy and objective of becoming one of the leading suppliers of niche, high quality innovative value-added food and beverage products to the local and international markets.

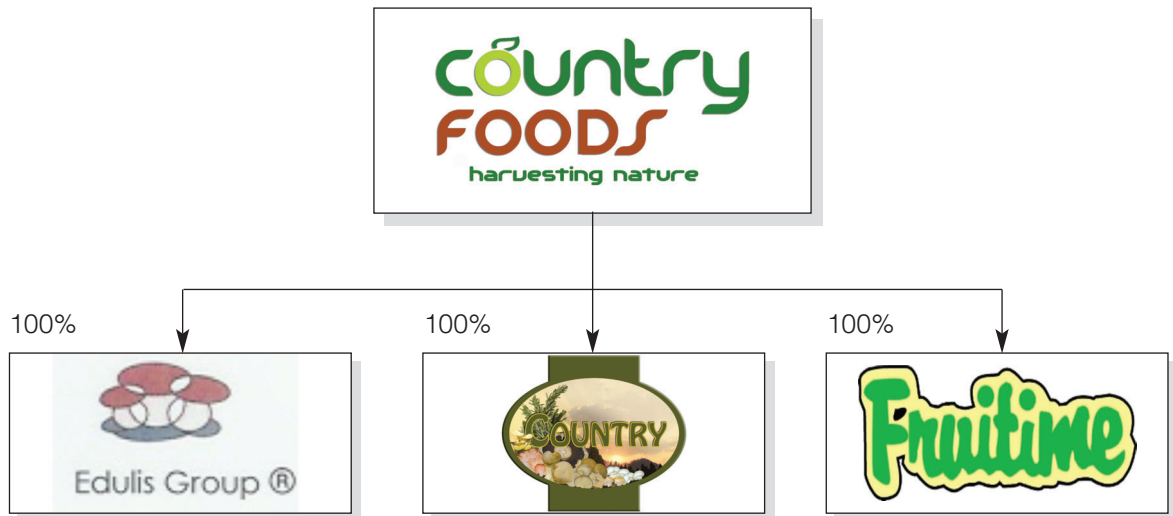
## 2. INCORPORATION AND HISTORY

- 2.1 Country Foods Limited was incorporated as a public company on 2 June 2005 with the name Africa's Best 346 Limited and changed its name to Country Foods Holding Limited on 29 September 2006 and again changed its name to Country Foods Limited on 15 April 2007.
- 2.2 Edulis was incorporated 33 years' ago on 3 December 1974, when the Casaletti Family saw the opportunity to commercialise wild mushrooms that grew in pine forests of South Africa's Eastern Highveld. Exclusive mushroom harvesting rights were then negotiated with local Forestry Farmers in the areas of Amsterdam, Lothair and Warburton in the Mpumalanga Province. At the same time Edulis established its first processing facility in Amsterdam.

- 2.3** The operations of Country Mushrooms were established in 1986 by an Italian family and two managers who left the employ of Denny Mushrooms (Pty) Limited, one being Morris Gilbert, on the Wattlewood Farm near Kempton Park, Gauteng.
- 2.4** In 1988 the proprietors of the Country Mushrooms business completed construction of 22 growing rooms for cultivated mushrooms. In 1999 the capacity was increased with the construction of a further five growing rooms.
- 2.5** The business conducted by Fruitime was established on 1 October 1989 as a manufacturer and distributor of a wide variety of fruit juices and associated beverages. Fruitime Fruit Juices (Pty) Limited was incorporated as a company on 2 June 1997 and acquired this business. Fruitime secures the highest quality fruit juices from Bronpro in Mpumalanga through a supply agreement at market-related rates.
- 2.6** In 1994 the Edulis operations were regionalised with an international marketing and distribution infrastructure to mainly supply international wholesalers and/or distributors. Edulis thereafter established processing facilities in Swaziland, Zimbabwe and Malawi. Edulis has exclusive product off-take agreements with these operations.
- 2.7** The Country Mushrooms business was acquired by Abfood Products (Pty) Limited (Registration number 1990/005362/07), Standard Bank Limited and Morris Gilbert in 1996 from the Italian family. This was followed in 1997 by a management buy-out of Standard Bank Limited's equity stake.
- 2.8** Country Mushrooms (Pty) Limited was incorporated on 10 September 2001 and between 2001 and 2004 Country Mushrooms acquired the entire issued share capital of Mushroom Cordon Bleu (Pty) Limited, an operation that was started in 1984. This cultivated mushroom operation is situated on the Aalwyne Farm near Kempton Park and has 19 growing rooms, with a production capacity of 22 500 kilograms brown and white mushrooms per week.
- 2.9** Forest Products, a New York subsidiary of Edulis, was established in 2005 to distribute and market its products in North America. This operation ensures the distribution of luxury wild, exotic and processed products to wholesalers, hotels, food services and restaurants. Approximately 30% of the products sold by Forest Products in the USA are imported from Edulis in South Africa, with the remaining 70% imported under distribution agreements from the EU and the Far East.
- 2.10** Edulis Gourmet commenced operations in December 2005 to distribute luxury food products as well as wild and exotic mushrooms and truffles to the local market in South Africa to supermarkets, hotels, restaurants and the food services industry. Edulis Gourmet has recently become the exclusive distributor of international brands such as Bonduelle of France, Favarger Chocolates of Switzerland, Greci Foods, Urbani and Valsele of Italy. Edulis Gourmet offers the majority of products required in the food services industry.
- 2.11** The Midlands processing facility of Edulis with the name Midlands Mushroom Farms (Pty) Limited, which was incorporated on 27 May 2003 and funded by Edulis and strategic partners KERPEF for an investment cost of R20 million commenced operations in October 2006.
- 2.12** Country Foods acquired the entire issued share capital and all shareholders' loan accounts of Edulis, Country Mushrooms and Fruitime with effect from 30 September 2006 in "share-for-share" transactions.





### 3. GROUP STRUCTURE

3.1 The detailed legal group structure is set out in Annexure 16. The simplified group structure is as follows:



3.2 Separate historical financial information is provided for Country Foods, Edulis, Country Mushrooms and Fruitime in Annexures 2, 4, 6 and 8, respectively. Paragraph 23 below contains information of Country Foods' subsidiaries and Annexure 16 sets out an organogram detailing the structure of the legal entities comprising the group.

3.3 The directors are of the opinion that Country Foods has a well-balanced portfolio of operations across its lines of business and geographies. The following table illustrates Country Foods' businesses as segmented along its wholly-owned subsidiaries. Revenue and EBITDA totals are provided for the year ending 30 September 2007.

Business	Description	Revenue R'million	EBITDA R'million
	<ul style="list-style-type: none"> <li>corporate head office located in Houghton, Johannesburg, responsible for group strategy and risk management</li> </ul>	181.9	25.2
	<ul style="list-style-type: none"> <li>a processor, distributor, exporter of mushrooms, fruits and vegetables</li> </ul>	71.9 Percentage of group 39%	15.7
	<ul style="list-style-type: none"> <li>a grower, distributor and marketer of fresh cultivated mushrooms</li> </ul>	48.8 Percentage of group 27%	5.3
	<ul style="list-style-type: none"> <li>a manufacturer and distributor of a wide variety of fruit juices and associated beverages</li> </ul>	61.2 Percentage of group 34%	4.2

### 4. NATURE OF BUSINESS

#### 4.1 Country Foods

4.1.1 Country Foods is a holding company of wholly-owned subsidiaries that operate in the niche, high quality value-added food and beverage product markets.

## 4.2 Edulis

**4.2.1** Edulis has been a processor, distributor, exporter and importer of mushrooms, fruits and vegetables since 1974, during which period it has gained invaluable experience in cryogenic freezing, dehydration and processing operations on a global basis.

**4.2.2** Edulis exports approximately 90% of its processed products to the EU and the USA.

**4.2.3** In addition to its own processing facilities, the group has recently become the exclusive distributor and producer under licence for some frozen and canned food brands in the EU.

**4.2.4** Edulis has cryogenic freezing and processing operations in the Midlands of KwaZulu-Natal, Mpumalanga and Swaziland.

**4.2.5** In June 2007 the newly commissioned, state of the art processing facility in Midlands, KwaZulu-Natal was awarded its HACCP certification which will enable the group to increase the supply of finished value-added products directly to supermarkets in South Africa, the EU and the USA.

**4.2.6** Edulis has processing plants and distribution centres in the following areas:

***Amsterdam (Mpumalanga) of the Highveld region:***

- Cryogenic freezing
- Dehydration
- Brine
- Fresh packing for supermarkets and exports

***Swaziland (Zondwako Bhuya region):***

- Fresh packing
- Cryogenic freezing
- Dehydration
- Brine
- Fresh packing for supermarkets and exports

***Zimbabwe (Nyanga region):***

- Fresh packing
- Dehydration
- Brine

***Midlands (KwaZulu-Natal):***

- Fresh packing
- Cryogenic freezing
- Dehydration
- Fresh packing for supermarkets and exports

The Midlands operation was awarded its HACCP certification in June 2007 which will enable the group to supply finished value-added products directly to supermarkets in South Africa, EU and the USA.

***Malawi***

- Dehydration primary production
- Brine primary production

***New York (Borough of Queens warehouse)***

- Cold storage
- Refrigerated facility
- Repacking of bulk products for food services and supermarkets
- Distribution

**European Operations – offices: Como (Northern Italy), Battipaglia (Southern Italy)**

- Marketing and distribution of group products
- Sourcing of EU branded food products
- Labelling and branding of “Private Label” food ranges
- Logistics management of exported and imported goods from EU, South Africa and USA

**Tunisia (Tunis warehouse) (started operations July 2007)**

- Refrigerated facility
- Cold storage
- Sourcing and repacking of niche agricultural products
- Distribution of imported products
- Loading of containers for export to EU, USA and South Africa

**Morocco (Kenitra warehouse) (expected completion in August 2007)**

- Sourcing of fresh and processed horticultural products.
- Packing of fresh and processed products for export to USA, EU and South Africa
- Freezing
- Dehydration
- Sale and distribution of imported products

Edulis increased its processing capacity to approximately 15 000 tons of processed products per annum during 2007 with the commissioning of the new processing facility in the Midlands. The combined production facilities will start processing a variety of fruits and vegetables in July 2007. Demand for frozen vegetables is in great demand in the Southern African market. The processing facilities of Edulis are ideally placed to capitalise on this market by producing and packing IQF products, both for the food services and retail industry under the Edulis and Bonduelle labels. The EU sourcing and marketing office of Edulis has been successful in selling IQF frozen fruits to the Italian, German and Swiss to dairy and preservative industries.

**4.2.7 Marketing and distribution of wild mushrooms:**

Edulis exports to the following international markets and has established commercial relationships with distributors in these countries:

<b>Country</b>	<b>Percentage exported by Edulis in volume terms</b>	<b>Rating of country in value terms</b>
Germany	25	4
USA	20	2
Italy	20	6
France	15	4
Switzerland	10	1
UK	5	5
Japan	3	3
Holland	2	7
	<b>100</b>	

**4.3 Country Mushrooms**

**4.3.1** Country Mushrooms is a grower, distributor and marketer of fresh cultivated mushrooms and value-added processed mushroom products and other fresh produce.

**4.3.2** Country Mushrooms cultivates both white button and brown mushrooms on the Wattlewood Farm and Aalwyne Farm near Kempton Park, in Gauteng. The capacity of Country Mushrooms is 46 growing rooms, with production of over 48 000 kilograms white and brown cultivated mushrooms per week making it approximately the second largest cultivated mushroom supplier in South Africa.

**4.3.3** Country Mushrooms has a market share of 12% in South Africa and has the capacity to increase its market share to 18% in fresh cultivated mushroom sales.

#### **4.3.4 Background information on growing of cultivated mushrooms**

The growing of cultivated mushrooms in high volumes requires significant technical expertise. From compost to the final picking of the mushrooms take approximately nine weeks.

The main focus of production should be the quality of the products produced. An even flow of mushrooms harvested should also be of concern in order to deliver a constant stream of fresh products on a daily basis. There are three ways in which mushrooms can be grown commercially are as follows:

- Shelf farming;
- Box farming; and
- Bags farming.

The table below provides an analysis of the different types of growing methods for cultivated mushrooms utilised by competitors in the industry and a comparison between such competitors. Only Country Mushrooms forms part of the Country Foods group.

	<b>Shelf farming</b>	<b>Box farming</b>	<b>Bag farming</b>
<b>Companies</b>	Denny Mushrooms <b>Country Mushrooms (Wattlewood Farm)</b>	Highveld Mushrooms <b>Country Mushrooms (Aalwyne Farm)</b>	Small farm such as: Forest Mushrooms
<b>Activity</b>	More equipment intensive	More labour intensive	Very labour intensive
<b>Equipment requirements</b>	Front-end loaders Specialised equipment Small tools	Front-end loaders Fork lifts Small tools	Bopcat Wheel barrows Small tools
<b>Notes</b>	Need a well-equipped maintenance team	Requires highly skilled labour	Does not require highly skilled labour
<b>Costs</b>	Start-up costs very high. Low maintenance cost	Less start-up cost High maintenance cost	Low start-up cost Low maintenance cost

The four most important raw materials required for the growing of cultivated mushrooms are: chicken manure, straw, spawn and peat moss. All of these are fairly readily available within South Africa apart from peat moss which is currently being imported from the Netherlands.

#### **4.3.5 Growing process of cultivated mushrooms**

##### ***Composting***

Mushrooms are grown in composted straw. This is generally wheat straw. Large machines are used to make the compost every week from chicken manure and golden straw delivered from the surrounding farms. By turning the compost frequently and by adding water the temperature of the compost rises to over 80 degrees Celsius and the compost turns into a rich dark brown colour.

##### ***Pasteurisation***

Before the compost can be used to grow mushrooms, it is taken into a sealed house called a pasteurising room to heat-treat the compost to kill all harmful bacteria. The temperature is controlled at 49 – 55 degrees Celsius. The actual pasteurisation stage lasts for a couple of hours when the temperature is raised to 60 degrees Celsius. After a week the compost is cooled down and ready to be used for the growing of mushrooms.

##### ***Spawn***

A specialised laboratory in Irene (Pretoria) germinates the spores for Country Mushrooms. The mycelium is grown on moist wheat, rye or millet. The mycelium that grows all over the grain is called the mushroom spawn.

### ***Spawning***

The compost is mixed with the spawn and then placed into shelves of 1.5-metres wide and up to 30 metres long. The shelves are arranged four to five tiers high in the spawn-running. It takes approximately 10 to 14 days for the compost to be thoroughly filled with the mycelium turning the whole compost white. This part is called spawn-running.

### ***Casing***

A 5-centimeter layer of wet peat and lime is placed over the compost to make the mycelium form into mushrooms. The growing houses are kept warm, at 20 – 23 degrees Celsius in the air and 25 – 27 degrees Celsius in the peat, with humidity of 85% – 95%, with several changes of air every hour to keep the compost temperature steady. It takes approximately 7 – 10 days for the mushroom mycelium to grow through the layers of peat.

The temperature is then reduced and fresh air introduced to form mushrooms. During the next 8 – 10 days these mushrooms grow large enough to be picked.

### ***Picking***

Mushrooms grow in bursts known as flushes. These flushes usually start every 7 – 10 days. Most of the crop is picked in the first three weeks. The mushrooms are picked and sorted by hand every day. After about three to four flushes the compost is removed and the growing houses cleaned and sterilised to prevent diseases that can affect the mushrooms.

#### **4.3.6 Packing of cultivated mushrooms**

After picking, the mushrooms are cooled to ensure that the mushrooms stay as fresh as possible. The mushrooms are graded according to their size and placed into punnets, boxes or cartons ready for distribution.

#### **4.3.7 Distribution and selling of cultivated mushrooms**

One of Country Mushrooms' strengths is its distribution channels. Country Mushrooms have established a customer base of over 700 customers, which include:

- Woolworths (Pty) Limited;
- Pick 'n Pay Limited;
- Fruit & Veg City Holdings (Pty) Limited;
- Hotels; and
- Restaurants.

Country Mushrooms owns sixteen 1-tonner and four 5-tonner delivery vehicles. This provides Country Mushrooms with a competitive edge by delivering faster to its customers.

## **4.4 Fruitime**

**4.4.1** Fruitime manufactures, markets and distributes a wide variety of fruit juices and associated beverages to the supermarkets on a national and regional basis.

**4.4.2** Fruitime has strategically placed distributors throughout South Africa to facilitate the distribution of the Fruitime range nationally. Fruitime has extended its product range into the bottled water sector and launched Aquatime still and sparkling waters as well as an exciting range of flavoured sparkling waters.

**4.4.3** Fruitime has constantly gained market share in a competitive environment. With the commissioning of its new Elo Pack, long life bottling plant, Fruitime is well-placed to continue its growth pattern.

**4.4.4** Through Country Foods, Fruitime has obtained the exclusive rights to brand its fruit juices and fruit flavoured drinks with the names and logos of the South African Football Team (Bafana Bafana) for the 2010 FIFA World Cup.

#### **4.4.5 Manufacturing and bottling process of fruit juices**

The table below provides information regarding the current production capacity of the Fruitime operation:

<b>Process</b>	<b>Weekly production capacity</b>	<b>Average weekly production</b>	<b>Average weekly sales</b>	<b>Potential litres growth</b>
Fruit juices	310 000 litres*	189 437 litres*	146 750 litres	46 563 litres (20% growth potential)
Sparkling waters and juices	60 000 litres	23 125 litres	18 500 litres	40 875 litres (64% growth potential)

\* The table above includes the production capacity of the Long Life Fruit Juice plant which became operational in September 2006.

The fruit juices have a shelf life of six months and the sparkling waters and milkshakes (the milkshakes are packed by a dairy in the Midlands) have a one-year shelf life.

#### **4.4.6 Distribution and geographical footprint of distributors**

Fruitime has strategically placed distributors and manufacturing plants in South Africa and uses these channels to distribute the Fruitime fruit juice range nationally. Fruitime has a fleet of eight vehicles and comfortably services clients in central Johannesburg, East Rand, West Rand and Northern suburbs.

Fruitime has been selling its products through Pick 'n Pay Hypermarkets since 1997 and supplies them with fruit juices and sparkling waters on a national basis. Fruitime has recently negotiated a distribution listing for all SPAR stores in the Southern Region and supplies Shoprite Checkers with its sparkling water range. The Fruitime group is viewed as a preferred supplier to forecourts such as Sasol, Engen, BP, Total and Excel stores on a national basis. The group also has listings with Fruit & Veg City Holdings (Pty) Limited, Metcash Friendly Grocers and 711's on a national basis.

The following is the Fruitime group's national footprint through its distributors and franchises:

<b>Geographical region</b>	<b>Number of distributors/franchises</b>
Gauteng	3 Distributors and Head Office
Pretoria	1 Distributor
KwaZulu-Natal	1 Distributor
Eastern Cape	1 Franchise
Western Cape	1 Distributor
Mpumalanga and Swaziland	1 Distributor
North West Province	2 Distributors
Free State	2 Distributors
Limpopo Province	1 Distributor
Lowveld (Middleburg)	1 Distributor

## **5. INDUSTRY BACKGROUND**

### **5.1 Wild mushroom industry**

**5.1.1** The international wild mushroom market can be divided into two separate and distinct seasons. The season in the Northern Hemisphere which starts in May each year and ends in October and the season in the Southern Hemisphere which starts in late September and ends in May. There are at least 37 species of wild mushrooms which are commercially harvested and marketed throughout the world. Of the edible and wild mushrooms growing in the Southern Hemisphere, there are only two species of known edible mushrooms found in Southern Africa, namely *Botulus edulis* and *Cantharellus cibarius*.

- 5.1.2** The *Botelus edulis* Mushrooms species, which is the most internationally sought after and best known wild mushroom, is found only in Southern Africa during the season. The mushrooms harvested in Southern Africa are exported to the international markets fresh, frozen, dehydrated or otherwise preserved.
- 5.1.3** Southern Africa Botelus mushrooms enjoy a quasi monopoly in the world markets during the Southern Hemisphere season as the extreme weather conditions in the Northern countries are too severe for any mushrooms to grow. The careful management of the marketing strategies allows the level of export prices to sustain negative currency fluctuations.
- 5.1.4** The proportion of fresh mushrooms exported is approximately 40% of the total harvested volumes. The ecosystem and environment of Southern Africa pine forests is such that wild mushrooms grow and are harvested largely without any parasite or worm contamination.
- 5.1.5** This fact is of particular importance in the determination of quality and price. Consequently the Southern Africa frozen and dehydrated mushrooms are well-known and sought after in the international market and command a substantial premium.
- 5.1.6** The fact that Southern African forests are “man made” and part of a large industry which plants and harvests on a predetermined time cycle make the mushroom industry sustainable.
- 5.1.7** The constant erosion of natural forests elsewhere in the world continuously shrinks the natural environment where wild mushrooms grow. In the long term and as a result of deforestation and industrial development, wild mushroom production in the Northern Hemisphere will shrink in varieties and volumes.
- 5.1.8** As a result of their wild and seasonal nature, most species of wild mushrooms are always in short supply. International food trends have over the years, adopted wild mushrooms in an increasing number of regional and international dishes. Internationally, supermarkets have been quick to follow trends and are now consistently stocking wild mushrooms in as many varieties as the season will allow.

## **5.2 Cultivated mushroom industry**

- 5.2.1** The cultivated mushroom industry in South Africa consists of approximately 35 farms. Based on the production capacity of these major competitors, the South African mushroom industry produces about 280 tons of mushrooms per week and approximately 14 560 tons per annum. This excludes oyster and shitake mushroom production figures.
- 5.2.2** The supply has been fairly stable over the last five years since none of the major producers made any additions to their growth facilities. Smaller farms did start up, but this is no real threat to the major players, although they do have an influence on the price setting in the market. With more people moving into the LSM 5 and higher income groups, the potential for the fresh mushroom market is increasing.
- 5.2.3** The industry is characterised by high levels of competition between existing competitors. This is especially of importance given that the profit margins within the industry are very low and that often Denny Mushrooms makes use of cost leadership as a means of gaining market share and attracting new customers. This has the potential of impacting very negatively on all the smaller farms since there are little to no means of product differentiation available. The only means currently is through branding and Denny Mushrooms seems to be the brand that currently has the highest levels of consumer support and awareness.
- 5.2.4** The market is very sensitive to price with little possibility of product differentiation. Possible ways of differentiation are by means of service levels.

## **5.3 Products**

- 5.3.1** Products within this market are characterised by levels of standardisation, even though there are four varieties of fresh mushrooms available in the South African market:
- White button mushroom (*Agarricus bisporus*);

- Portabella mushroom also known as the brown/braai mushroom;
- Oyster mushroom (*Pleurotus ostreatus*); and
- Shitake Mushroom (*Lentinula edodes*).

**5.3.2** The first two are the most well known and commonly consumed in South Africa in a ratio of 84% white and 14% brown, with only 2% consumption in oyster and shitake mushroom. Oyster mushroom is a new entrant in the South African market producing an average of 1 500 kg per week. Shitake mushrooms are cultivated for a specific niche market. Both oyster and shitake enjoy a higher prominence internationally, but although they are well-known amongst South African growers, they are less well known to the South African public.

#### 5.4 Market size of cultivated mushrooms

Statistics on fresh produce markets as supplied by the Directorate Agricultural Economical Trends (2002) indicate that approximately 1 000 tons of mushrooms are sold via the national fresh produce markets. These mushrooms are then bought by restaurants, green grocers, etc. at such markets. The remainder is distributed directly to retailer groups, small green grocers, restaurants and caterers. Excess stock is usually utilised by the canning industry. Some mushrooms are also used as part of processed foods such as sauces and dried foods. The users of mushrooms within the South African market therefore are:

- **Retailer groups** (for example Pick 'n Pay Limited, Fruit & Veg City Holdings (Pty) Limited, Woolworths (Pty) Limited, etc.). Due to the convenience for the consumer of being able to buy all his groceries and fresh produce under one roof, the bigger part, approximately 40% of all mushrooms produced within South Africa, are sold to chain groups who offer it to the final consumer. Within this sector of the market, price is of the utmost importance. Prices are therefore very inelastic.
- **Green grocers:** Approximately 25% of the mushrooms produced in South Africa are bought by this industry as a middleman between the grower and the final consumer. Their requirements are reasonable quality at a price that their clients would be willing to pay. They vary from small one-man-shops to larger, wholesale-type operations.
- **Restaurants and Caterers:** The usage of mushrooms within this industry is as big as the amount sold to green grocers and other stores, approximately 25%. The end use of the product (for example whether it is to be used on its own or as part of another dish or sauce) determines the importance of price and quality in the purchase decision.
- **Canneries, Drying and Processing:** The remaining 10% are channelled through this industry. Very low margins for the grower are at the order of the day within this industry. Due to this aspect most growers only use this part of the market as a last choice should they have surplus stock that could not be sold into the abovementioned channels.

## 6. PROSPECTS

In the opinion of the directors of the company, based on experience and market information available the prospects of the group are good for the following reasons:

### 6.1 Export opportunities

- 6.1.1** Through its network of associated offshore companies and distributors, Country is ideally positioned to increase its range of exported products and continue to expand its direct sales to supermarket chains.
- 6.1.2** The USA market, through the group's New York subsidiary Forest Products, provides significant growth opportunities to Country Foods. The HACCP certification of Midlands will enable the group to supply finished value-added products directly to supermarkets in EU and the USA.
- 6.1.3** Country Mushrooms owns farm land near Kempton Park, which is ideally situated for the development of horticultural products. With its close proximity to the OR Tambo International

Airport and making use of the Edulis international distribution network, the opportunity exists to develop a horticultural range of off-season vegetables and herbs for the local and international markets.

**6.1.4** The commissioning of the Long Life Fruit Juice plant of Fruitime will increase export opportunities to neighbouring countries, EU and the USA.

## **6.2 HACCP and EUREPGAP**

In addition to full certification of the Midlands processing plant, certification of all remaining processing facilities, are well under way. HACCP and EUREPGAP accreditation are expected for all Country Mushrooms facilities by the end of July 2008 followed closely by the Edulis Mpumalanga facility. This will enhance the corporate profile of the group.

## **7. MAJOR SHAREHOLDERS**

**7.1** The shareholders, other than directors, that are, directly or indirectly, beneficially interested in 5% or more of the issued ordinary share capital of Country Foods at the last practicable date prior to and after the private placement are as follows. Refer to paragraph 5 in Annexure 1 for the directors' shareholdings.

<b>Name of shareholder</b>	<b>Number of shares</b>	<b>Percentage held after capital raising</b>	<b>Percentage held after private placing</b>
Mediolanum Investments Limited <sup>(1)</sup>	30 000 000	31.1	23.7
CRH Investments (Pty) Limited <sup>(2)</sup>	11 488 400	11.9	9.1
Bronpro <sup>(2)</sup>	20 000 000	20.7	15.8
	<b>61 488 400</b>	<b>63.7</b>	<b>48.6</b>

### **Notes:**

(1) Robi Casaletti, a director of Country Foods, is an indirect beneficial shareholder in Mediolanum Investments Limited as disclosed in paragraph 5.1 of Annexure 1.

(2) The beneficial shareholders of CRH Investment (Pty) Limited and Bronpro are disclosed in Annexure 13.

**7.2** No shareholder, save as disclosed in the table above, will, as far the directors of Country Foods are aware, directly or indirectly, hold 5% or more of the issued share capital of Country Foods following the private placement. Country Foods will have a public shareholding of at least 100 shareholders who will hold a minimum of 10% of the ordinary shares on the day of listing.

**7.3** There will be no change in the controlling shareholders as a result of the private placement.

**7.4** Save in terms of the group formation as disclosed in paragraph 28.1 below, there have been no changes in the controlling shareholders and trading objects of Country Foods during the last five years.

## **8. DIRECTORS AND EXECUTIVE MANAGEMENT**

Details of the directors and executive management, including the appointment, remuneration, borrowing powers of directors and directors' interests and declarations are set out in Annexure 1.

## **9. PURPOSE OF PLACEMENT AND LISTING ON ALT<sup>x</sup>**

**9.1** Subject to the achievement of the required spread of public shareholders, the JSE has formally approved the listing of 126 455 449 ordinary shares on ALT<sup>x</sup> with effect from commencement of business on Wednesday, 3 October 2007. The shares will trade under the abbreviated name "Country", with the JSE code "CFO" and ISIN ZAE000105052.

**9.2** Country Foods has shareholders' funds in excess of R2 million in its reserves. The company will have a public shareholding of at least 100 shareholders who will hold a minimum of 10% of the issued ordinary shares on the day of listing.

**9.3** An amount of R30 000 000, before share issue and listing expenses, will be raised by the company by the issue of 30 000 000 ordinary shares for cash to selected private individuals, corporations and institutions pursuant to the private placement. The proceeds of the issue will be utilised to accelerate growth as set out in paragraph 9.4 below.

**9.4** The directors of Country Foods are of the opinion that the company has outgrown its private company status. In pursuing its intended vision and mission, the proposed private placement and the listing will allow the company to achieve the following:

- raise capital and to have the flexibility of listed shares in order to allow the group to take advantage of any acquisitive opportunities that may arise in the future that will complement the group's businesses thereby accelerating its growth;
- procure greater access to the capital markets;
- enhance investor and general public awareness of Country Foods, its activities and specialised skills;
- attract and retain intellectual capital through the incentive of meaningful equity participation;
- broaden Country Foods' shareholder base and to obtain the spread of at least 100 shareholders who are required to hold a minimum of 10% for the purpose of the listing of Country Foods' ordinary shares on the JSE;
- afford members of the investing public, clients and business associates of Country Foods the opportunity to participate directly in the income stream of the group, as well as in the future capital growth of its assets; and
- raise the company's profile leading to new business opportunities.

## 10. DETAILS OF THE PRIVATE PLACEMENT

### 10.1 Salient features

**10.1.1** The salient features of the private placement are as follows:

– Offer price per ordinary share (cents)	100
– Par value per ordinary share (cents)	0.1
– Premium per ordinary share (cents)	99.9
– Number of ordinary shares offered by the company for subscription in terms of private placement	30 000 000
– Issue consideration to be received by the company, before expenses	R30 million

**10.1.2** The opening and closing dates of the private placement are as follows:

– Opening date of the private placement (09:00)	Tuesday, 25 September 2007
– Closing date of private placement (12:00)	Wednesday, 26 September 2007
– Proposed listing date on ALT <sup>x</sup> (09:00)	Wednesday, 3 October 2007

**10.1.3** Those private individuals, corporations and institutions who have been invited to apply should do so by completing the attached private placement application form in accordance with the provisions of this prospectus and the instructions contained in the private placement application form.

**10.1.4** No offer will be made to the general public in terms of the private placement. The offer for subscription in terms of the private placement will be made to selected private individuals, corporations and institutions only.

**10.1.5** The ordinary shares issued in terms of the private placement will rank *pari passu* with all other ordinary shares issued by Country Foods.

### 10.2 Procedures for acceptance and subscription of shares in Country Foods

**10.2.1** Applications, for ordinary shares in terms of the private placement must be made on the attached private placement application form provided to selected private individuals, corporations and institutions. Each application will be regarded as a single application.

- 10.2.2** The rights granted to selected private individuals, corporations and institutions in terms of the private placement may not be ceded, renounced or assigned in favour of anyone else by the applicant to whom it is addressed.
- 10.2.3** The private placement shares may not be applied for in the name of a minor, deceased estate or partnership. Executors, trustees and individual partners may apply for the private placement shares in their own name or through nominee companies. No documentary evidence of capacity need accompany the private placement application but the directors of Country Foods reserve the right to call upon any applicant to furnish evidence of such capacity for noting.
- 10.2.4** The private placement applications are irrevocable once received by the Designated Adviser or the company.
- 10.2.5** No receipts will be issued for applications and/or payments received.
- 10.2.6** Applications must be for a minimum of 5 000 ordinary shares and in multiples of 1 000 ordinary shares thereafter.
- 10.2.7** Ordinary shares will only be traded in electronic form and accordingly all shareholders who elect to receive certificated shares will first have to dematerialise their share certificates should they wish to trade their shares. Applicants are advised that it takes between one and ten days to dematerialise their certificated shares depending on the volumes being processed by Strate at the time of dematerialisation.
- 10.2.8** Payment may only be made by bank guaranteed cheque (crossed “not transferable”), banker’s draft or electronic transfer (followed by fax or electronic proof of payment in the case of electronic transfers). Postal orders, cash or telegraphic transfers will not be accepted. Cheques must be made payable in favour of “**Country Foods Private Placement**”. All cheques and banker’s drafts will be deposited by the Designate Adviser immediately upon receipt in a designated account under the control of Country Foods with a registered South African bank.
- 10.2.9** The private placement applications will only be regarded as complete once payment for the total amount of the application has been received. Should any cheque or banker’s draft subsequently be dishonoured, the directors of Country Foods may, in their sole discretion, and without prejudice to any rights the company may have, regard the private placement application of such applicant as being revoked or take such steps in regards thereto as they deem fit.
- 10.2.10** “Blocked Rand” may be used by emigrants and non-residents of the common monetary area for payment in terms of the private placement. In this regard, reference should be made to paragraph 9.12 below that deals with Exchange Control Regulations.

### **10.3 Application for certificated shares – payment by bank guaranteed cheque or banker’s draft**

Applicants who elect to receive their allocated shares in certificated form and who wish to pay by way of bank guaranteed cheque or banker’s draft must complete and return the private placement application, together with their payment in the form of a bank guaranteed cheque or banker’s draft (crossed “not transferable” and drawn in favour of (“**Country Foods Private Placement**”)) in an envelope marked “**Country Foods Private Placement**” to:

<i>if delivered by hand or by courier</i>	<i>if posted</i>
Designated Adviser	Designated Adviser
Exchange Sponsors (Pty) Limited	Exchange Sponsors (Pty Limited
39 First Road	PO Box 411216
Hyde Park	Craighall
Johannesburg	2024
2196	

so as to be received by no later than 12:00 on Wednesday, 26 September 2007.

No late applications will be accepted.

## 10.4 Application for certificated shares – payment by electronic transfer

**10.4.1** Applicants who elect to receive their allocated shares in certificated form and who wish to pay by way of **electronic transfer** may do so, in which case **the private placement application, and proof of such payment by electronic transfer must be hand delivered, posted or faxed to the Designated Adviser (and not the transfer secretaries) to:**

<i>if delivered by hand</i>	<i>if posted</i>	<i>if faxed</i>
Designated Adviser Exchange Sponsors (Pty) Limited 39 First Road Hyde Park Johannesburg 2196	Designated Adviser Exchange Sponsors (Pty) Limited PO Box 411216 Craighall 2024	Designated Adviser (011) 447 1929

so as to be received by no later than 12:00 on Wednesday, 26 September 2007.

**10.4.2** Payment by electronic transfer must be made into the following bank account:

Bank:	ABSA Bank Limited
Branch:	Eastgate Office Park
Branch code:	632 005
Account name:	Country Foods Private Placement
Account number:	40 6647 6734
Account type:	Cheque account

**10.4.3** Country Foods accepts no responsibility and will not be liable for the correctness of any allocation of private placement shares pursuant to payment being made or alleged to have been made by way of electronic transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or Country Foods, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placement shares.

**10.4.4** In respect of those applicants who elect to receive certificated shares, their share certificates will be posted, via registered post on or about Wednesday, 3 October 2007.

## 10.5 Disadvantages of holding shares in certificated form

**10.5.1** The current risks associated with holding shares in certificated form, including the risk of loss or tainted scrip, remain.

**10.5.2** When a shareholder wishes to transact on the JSE, he will be required to appoint a CSDP or broker to dematerialise the shares prior to the broker being able to transact in the shares, which dematerialisation can take up to 10 days. A certificated shareholder will have no recourse in the event of delays occasioned by the validation process or the acceptance or otherwise of its certificated shares by a CSDP.

## 10.6 Application for dematerialised shares – payment by electronic transfer or through broker

**10.6.1** Applicants who elect to receive their allocated shares in dematerialised form and who wish to pay by way of electronic transfer may do so, in which case **the private placement application and the section on their CSDP or broker, and proof of such payment by electronic transfer must be hand delivered, posted or faxed to:**

<i>if delivered by hand</i>	<i>if posted</i>	<i>if faxed</i>
Designated Adviser Exchange Sponsors (Pty) Limited 39 First Road Hyde Park 2196	Designated Adviser Exchange Sponsors (Pty) Limited PO Box 411216 Craighall 2024	Designated Adviser (011) 447 1929

so as to be received by no later than 12:00 on Wednesday, 26 September 2007.

**10.6.2** Payment by electronic transfer must be made into the following bank account:

Bank:	ABSA Bank Limited
Branch:	Eastgate Office Park
Branch code:	632 005
Account name:	Country Foods Private Placement
Account number:	40 6647 6734
Account type:	Cheque account

**10.6.3** Country Foods accepts no responsibility and will not be liable for the correctness of any allocation of private placement shares pursuant to payment being made or alleged to have been made by way of electronic transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or Country Foods, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placement shares.

**10.6.4** Applicants, who wish to receive their allocated shares in dematerialised form, must complete and **return the private placement application to the Designated Adviser or their duly appointed CSDP or broker by the time and date stipulated in the agreement governing their relationship with their CSDP or broker**, together with the method of payment as stipulated in such agreement. If the applicant submits an application form, he must ensure that the relevant broker or CSDP has been informed of the application and the broker or CSDP must authenticate the relevant application form.

**10.6.5** The brokers will collate all their respective private placement applications and forward the instruction to the brokers' nominated CSDP's.

**10.6.6** The CSDP's will collate all the private placement applications from brokers and/or applicants and notify the transfer secretaries.

**10.6.7** Brokers and CSDP's will be notified by the transfer secretaries on the second business day following the closing of the private placement of their allocation in respect thereof.

**10.6.8** In respect of those applicants who elect to receive dematerialised shares, their duly appointed CSDP's or broker's account will be updated on or about Wednesday, 3 October 2007.

## **10.7 Reservation of rights**

**10.7.1** The directors of Country Foods reserve the right to accept or refuse any application(s), either in whole or in part, or to pro-rate any or all application(s) (whether or not received timeously) in such manner as they may, in their sole and absolute discretion, determine.

**10.7.2** The directors of Country Foods reserve the right to accept or reject, either in whole or in part, any applications should the terms and the instructions contained in this prospectus not be complied with.

## **10.8 Irrevocable undertakings**

Country Foods holds irrevocable undertakings from various selected investors to subscribe for and/or to purchase all 30 000 000 ordinary shares in terms of the private placement, amounting to 100% of the private placement shares.

## **10.9 No minimum subscription**

The private placement is not subject to a minimum subscription being achieved. A minimum of 10% of the issued ordinary shares is however required to be subscribed for by at least 100 public shareholders to ensure the required spread in terms of the Listings Requirements.

## 10.10 Oversubscriptions

- 10.10.1** The private placement of 30 000 000 ordinary shares has been fully allocated to the investors who have given irrevocable undertakings as set out in paragraph 10.8 above.
- 10.10.2** In the event of a private placement application being accepted for a lesser number of shares than applied for or rejected, any surplus application monies received will be refunded by the company (where applicable) by a cheque drawn on ABSA Bank Limited. The refund will be made together with interest thereon calculated at the rate of 3.5% from the date of receipt of such monies until day of posting, and shall be posted, by ordinary mail, or transferred electronically at the risk of the applicant concerned, on or about Thursday, 4 October 2007 (or on clearance of the funds, if later).

## 10.11 Issue of private placement shares

- 10.11.1** All ordinary shares issued pursuant to the implementation of the private placement will be issued at the expense of Country Foods.
- 10.11.2** All private placement shares to be issued are subject to the provisions of Country Foods' memorandum and articles of association and will rank *pari passu* in all respects with the existing ordinary shares in issue. Annexure 1 contains extracts of Country Foods' articles of association.
- 10.11.3** The ordinary shares will only be traded on the JSE in electronic form and as such, all shareholders will have to dematerialise their shares should they wish to trade them. Applicants are advised that it takes between one and 10 days to dematerialise certificated shares, depending on volumes being processed by Strate at the time of the dematerialisation.
- 10.11.4** The principal features of Strate are as follows:
- trades executed on the JSE must be settled within five business days;
  - there will be penalties for late settlement;
  - electronic record of ownership replaces share certificates and physical delivery of certificates; and
  - all investors are required to appoint either a broker or CSDP to act on their behalf and to handle all settlement requirements.

## 10.12 Exchange Control Regulations

The following summary is intended as a guide and is, therefore, not comprehensive. If you are in any doubt hereto, please consult your professional adviser.

- 10.12.1** A former resident of the common monetary area who has emigrated from South Africa may use blocked Rand to subscribe for or to purchase shares in terms of this prospectus.
- 10.12.2** All payments in respect of ordinary shares applied for by non-residents using blocked Rand must be made through an authorised dealer in foreign exchange.
- 10.12.3** Share certificates issued in respect of certificated shares purchased or subscribed for using blocked Rand in terms of this prospectus will be endorsed "non-resident". Such share certificates will be placed under the control of the authorised dealer through whom the payment was made. Statements issued to non-resident dematerialised shareholders will be restrictively endorsed as "non-resident".
- 10.12.4** If applicable, refund monies payable in respect of an unsuccessful application, emanating from blocked Rand accounts will be returned to the authorised dealer administering such blocked Rand accounts for the credit of such unsuccessful applicant's blocked Rand account.

### **10.12.5 Applicants resident outside the common monetary area**

*10.12.5.1* A person who is not resident in the common monetary area should obtain advice as to whether any governmental, and/or legal consent is required and/or whether any other formality must be observed to enable an application to be made in terms of the private placement.

*10.12.5.2* This prospectus is accordingly not an offer in any area or jurisdiction in which it is illegal to make such an offer. In such circumstances this prospectus and any application form are provided for information purposes only. All share certificates issued to non-residents of South Africa will be endorsed "non-resident" in terms of the Exchange Control Regulations. Statements issued to dematerialised shareholders will be restrictively endorsed as "non-resident".

## **11. MATERIAL CHANGES**

The directors report that there have been no material changes in the financial or trading position of the group during the past five years, save for the acquisition by Country Foods of Edulis, Country Mushrooms and Fruitime as set out in paragraph 28 below.

## **12. PROFIT HISTORY, FORECASTS, UNAUDITED *PRO FORMA* FINANCIAL INFORMATION AND DIVIDEND POLICY**

### **12.1 The historical financial income statement for the period ended 31 March 2007, profit forecasts for the years ending 30 September 2007 and 30 September 2008.**

*12.1.1* The reviewed financial information of Country Foods, the preparation of which is the responsibility of the directors, is presented in Annexure 2. Annexure 3 contains the independent reporting accountants' report on the reviewed financial information of Country Foods.

*12.1.2* The profit forecasts of Country Foods for the years ending 30 September 2007 and 30 September 2008, the preparation of which is the responsibility of the directors, are set out below. The accounting policies applied in arriving at forecast income are consistent in all respects with IFRS and with those accounting policies applied in the historic information presented. The forecasts should be read in conjunction with the independent reporting accountants' report thereon as set out in Annexure 10.

	<b>Reviewed 31 March 2007 6 months R'000</b>	<b>Forecast 30 September 2007 12 months R'000</b>	<b>Forecast 30 September 2008 12 months R'000</b>
<b>Revenue <sup>(1)</sup></b>	<b>89 675</b>	<b>181 991</b>	<b>209 632</b>
<b>Gross profit</b>	<b>31 274</b>	<b>71 218</b>	<b>81 965</b>
Other income	–	731	465
Operating costs <sup>(2)</sup>	(15 136)	(46 712)	(50 923)
<b>EBITDA</b>	<b>16 138</b>	<b>25 237</b>	<b>31 507</b>
Depreciation	(3 176)	(5 238)	(5 141)
Amortisation of intangible assets	(625)	(1 237)	(1 237)
<b>Profit before interest and taxation</b>	<b>12 337</b>	<b>18 762</b>	<b>25 129</b>
Net interest paid	(3 530)	(4 607)	(27)
<b>Profit before taxation</b>	<b>8 807</b>	<b>14 155</b>	<b>25 102</b>
Taxation	(1 484)	(2 088)	(5 328)
<b>Profit after taxation</b>	<b>7 323</b>	<b>12 067</b>	<b>19 774</b>
Outside shareholders' interest	(1 690)	(860)	(1 707)
<b>Earnings attributable to ordinary shareholders</b>	<b>5 633</b>	<b>11 207</b>	<b>18 067</b>
<b>Reconciliation of headline earnings:</b>			
Profit attributable to ordinary shareholders	5 633	11 207	18 067
<b>Headline earnings attributable to ordinary shareholders</b>	<b>5 633</b>	<b>11 207</b>	<b>18 067</b>
<i>Pro forma</i> weighted average shares in issue on which earnings are based*	80 515 928	92 236 364	126 455 449
<i>Pro forma</i> earnings per share (cents)	7.0	12.2	14.3
<i>Pro forma</i> headline earnings per share (cents)	7.0	12.2	14.3

**Note:**

\* The actual number of shares in issue, earnings per share and headline earnings per share calculations are set out in Annexure 2.

### 12.1.3 Main assumptions on the forecast financial information

- (1) Forecast revenue is based on the actual performance of the group and existing orders in the sales pipeline. The main reason for the increase in turnover in 30 September 2007 by 46% is directly attributable to the fact that the 30 September 2006 turnover excludes revenue from Midlands where there was delay of one year in the issue of a certificate to commence business, which was only issued to Midlands in March 2006.
- (2) All export sales have been converted to ZAR7.50 to the USD and ZAR9.50 to the Euro.
- (3) All expenses will increase in line with inflation at 6%.
- (4) Taxation has been assumed at 20% for Edulis and Country Mushrooms due to certain farming allowances which these companies qualify for and at 29% for Fruitime.
- (5) Calculations relating to the weighted average number of shares in issue are based on the issued shares after the private placement. This allows for the calculation of fully diluted earnings per share numbers.
- (6) Interest expenditure has been adjusted to account for the estimated interest saving (at an average rate of 10%) as a result of the private placement as it has been assumed that funds received of R30 million will be utilised to repay certain debt currently held by the group.

#### **12.1.4 Comments on the forecast financial information**

12.1.4.1 The forecast financial information is based on the assumptions that circumstances which affect the group's business but which are outside the control of the directors, will not materially alter in such a way as to affect the trading of the group. More specifically:

- trading conditions are not expected to be materially different in each of the forecast periods;
- costs will increase in line with the expected rate of inflation;
- interest rates and the basis and rates of taxation, both direct and indirect, will not change materially.

12.1.4.2 In addition, the forecast financial information is based on the assumptions that:

- there will be continuity in existing management and trading policies;
- there will be no change in the present accounting policies;
- the impact of any improved, revised or new standards, interpretations and amendments in terms of IFRS that have been issued but are not yet effective and have not yet been adopted by the group, will have no material effect on the forecast financial information. Such statements are detailed in Annexures 2 and 4;
- the offering in terms of this prospectus will be fully subscribed enabling the group to settle significant debt levels as reflected in the *pro forma* financial information presented in Annexure 11.

12.1.4.3 In the opinion of the directors, the above assumptions are significant to the forecasts as being key factors upon which the financial results of the group will depend. However certain assumptions may not materialise and/or certain unforeseen events may occur or circumstances may arise subsequent to the forecasts being made. Accordingly, the results achieved for the periods referred to above may differ from those forecast and the variations may be material.

#### **12.2 Unaudited *pro forma* income statement and balance sheet**

Details of the unaudited *pro forma* income statement and balance sheet are set out in Annexure 11. The unaudited *pro forma* income statement and balance sheet should be read in conjunction with the independent reporting accountants' report thereon as set out in Annexure 12. The directors of Country Foods are responsible for the preparation of the unaudited *pro forma* financial information of Country Foods.

#### **12.3 Dividends**

**12.3.1** It is the intention of the company to reconsider its dividend policy once the group has achieved mature growth and periodically thereafter to take account of prevailing circumstances and future cash requirements. Initially all earnings generated by the group will be utilised to fund future growth and development.

**12.3.2** Any dividends not claimed for a period of not less than three years from the date on which such dividends became payable may be forfeited for the benefit of the company.

**12.3.3** There is no arrangement under which future dividends will be waived or have been waived.

### **13. AMOUNTS PAID OR PAYABLE TO PROMOTERS AND PROMOTER'S INTEREST**

**13.1** No payments have been made to the promoters of the company since the company's incorporation and no payments are proposed to be made to the promoters of the company.

**13.2** The company has not entered into any promoter's agreements during the three years preceding this prospectus.

## 14. BROKERAGES AND COMMISSIONS

- 14.1** Since incorporation, no commission has been paid or is payable by any company in the group in respect of underwriting.
- 14.2** No commissions, discounts, brokerages or other special terms have been granted during the three years preceding the date of this prospectus in connection with the issue or sale of any securities, stock or debentures in the capital of the company.

## 15. PRELIMINARY EXPENSES AND ISSUE EXPENSES

- 15.1** The estimated total amount of preliminary expenses incurred in terms of the private placement and the listing within the three years preceding the date of this prospectus, exclusive of VAT, are as follows:

Function and advisers	R'000
Printing, publication, distribution and advertising expenses – Ince (Pty) Limited	200
JSE documentation fees	49
JSE listing fees	13
Transfer secretaries – Computershare Investor Services 2004 (Pty) Limited	20
Designated Adviser – Exchange Sponsors (Pty) Limited	450
Designated Adviser – Exchange Sponsors (Pty) Limited fund raising fee which includes the capital raising fee issued in shares as detailed in paragraph 15.3 below	1 250
Reporting accountants and auditors – KPMG Inc.	600
Valuation – Ernst & Young	400
Attorneys – Fluxmans Inc.	450
Contingency	18
<b>Estimated total</b>	<b>3 450</b>

- 15.2** The abovementioned estimated expenses, which will not exceed the share premium, will be written-off against the share premium account to the extent permissible by the Act.
- 15.3** The company has issued 714 286 ordinary shares, as detailed in paragraph 24.3.2.4 below, to the Designated Adviser in settlement of the fund raising fees payable by Country Foods to the Designated Adviser for the capital raising. The Designated Adviser's interests are disclosed in paragraph 31 below.

## 16. LOANS PAYABLE AND BORROWING POWERS

- 16.1** Summary of the loans, both secured and unsecured, due by the group at 31 March 2007, as set out in Annexure 2, Notes 13, 14, 16 and 17 for Country Foods:

Lender	Loan amount R'000	Interest rate %	Secured	Reason for loan	Maturity and repayment terms
ABSA Bank Limited and Stannic	12 319	Prime	Property, plant and equipment	Instalment sale obligations	Various 2012, monthly instalments
ABSA Bank Limited	6 904	Prime	Mortgage over land and buildings	Term loan	2013, monthly instalments
ABSA Bank Limited	102	12.5	Mortgage over land and buildings	Working capital	2017, monthly instalments

<b>Lender</b>	<b>Loan amount R'000</b>	<b>Interest rate %</b>	<b>Secured</b>	<b>Reason for loan</b>	<b>Maturity and repayment terms</b>
Daimler Chrysler	370	Prime	Motor vehicles	Instalment sale obligations	September 2007, monthly instalments
African Dawn Capital Limited	416	Prime	Mortgage over land and buildings	Working capital	April 2007, monthly
First National Bank Limited	111	Prime	Mortgage over land and buildings	Mortgage bond	2013, monthly
Nedbank Limited	135	Prime	Mortgage over land and buildings	Mortgage bond	2014, monthly
Mediolanum Investments Limited	10 786	7.5	Mortgage over land and buildings	Acquisition of Midlands property	Monthly*
Mediolanum Investments Limited	5 984	–	–	Working capital	–
Sogo Investments	1 400	Prime	–	Working capital	–
Nanairo (Pty) Limited	2 000	Prime	–	Working capital to establish Forest Products	–
Agricolsemi	2 427	–	–	Working capital	–
Dairyland	2 771	–	–	Working capital	–
ABSA Bank Limited and Standard Bank Limited	16 022	Prime	Sureties	Bank overdraft	Revolving
	<b>61 747</b>				
Less: Current portion included in short-term borrowings	(25 092)				
	<b>36 655</b>				

\* R7.2 million was refinanced on 1 July 2007 with 10-year mortgage from Standard Bank Limited.

- 16.2** The borrowing powers of the Country Foods and its subsidiaries have not been exceeded during the three years preceding the date of this prospectus.
- 16.3** The borrowing powers of the directors are set out in paragraph 7 of Annexure 1.
- 16.4** Except for the African Dawn Limited and Sogo Investments loans which were converted into Country Foods shares at the capital raising price, all the borrowings listed above have no conversion or redemption rights.
- 16.5** The repayment of the short-term portion of the borrowings will be financed from operating cash flow.

## 17. CAPITAL COMMITMENTS, LEASE PAYMENTS AND CONTINGENT LIABILITIES

**17.1** The group had no material capital commitments and contingent liabilities at 30 September 2006. The lease payments are set out in paragraph 22.2 below. There have been no material changes to the contingent liabilities of the group between 30 September 2006 and the last practicable date.

**17.2** The following is an analysis of the group's material commitments since 31 March 2007 and the last practicable date:

<b>Machinery and vehicles</b>	<b>Capital payable 36 months to 1 September 2010</b>	
	<b>R'000</b>	<b>R'000</b>
Shrinkwrapping equipment	648	541

**17.3** The repayment of the short-term portion of the borrowings of the capital commitments will be financed from operating cash flow.

**17.4** The borrowing arose from the purchase of plant and equipment.

## 18. LOANS RECEIVABLE

**18.1** No material loans have been made by Country Foods at the date of this prospectus. Long-term loans receivable and non-current receivables are disclosed in Notes 6 and 9 of Annexure 2.

**18.2** No loans have been made or security furnished by Country Foods or by any of its subsidiaries to or for the benefit of any director or manager or any associate of any director or manager of Country Foods.

## 19. PROPERTY AND SUBSIDIARIES ACQUIRED AND TO BE ACQUIRED

**19.1** Country Foods acquired the entire issued share capital of Edulis, Country Mushrooms and Fruitime from the Edulis vendor, the Country Mushrooms vendors and the Fruitime vendors with effect from 30 September 2006. Details of Country Foods, Edulis, Country Mushrooms and Fruitime and their subsidiaries are set out in paragraph 23.1 below and Annexure 16. Annexure 13 contains detailed information of the vendors from whom the material subsidiaries were acquired.

**19.2** Country Foods does not intend to acquire any material subsidiaries or property following the listing.

## 20. SHARES ISSUED, OTHER THAN FOR CASH

Save in terms of the Edulis Sale Agreement, the Country Mushrooms Sale Agreement and the Fruitime Sale Agreement and as detailed in paragraph 24.3.2.4 below, no shares were issued or agreed to be issued by Country Foods or its subsidiaries during the past three years, other than for cash.

## 21. PROPERTY AND SUBSIDIARIES DISPOSED OR TO BE DISPOSED OF

**21.1** No material property, or subsidiaries have been disposed by any of the companies in the group within the last three years preceding the date of this prospectus.

**21.2** It is not intended that any material property or subsidiaries be disposed of following the listing.

## 22. PRINCIPAL IMMOVABLE PROPERTY OWNED AND LEASED

22.1 Details of the properties owned by the Country Foods group are disclosed below:

Date of acquisition	Book value R'000	Valuation R'000	Details of property	Loans R'000
3 November 1978 and 1 January 1988	1 449	–	7/24 of Erf 246 situated in Amsterdam IT, Transvaal with improvements thereon	–
3 November 1978 and 1 January 1988	8	–	Erven 271 and 272 situated in Amsterdam IT, Transvaal with buildings thereon	–
18 August 1993		–	Erf 213 situated in Amsterdam IT, Transvaal	
29 January 1988	4	–	Erven 278 and 279 situated in Amsterdam IT, Transvaal	–
30 June 2004	129	–	Erf 212 situated in Amsterdam IT, Transvaal	–
15 January 1988	90	–	Erven 313 and 314 situated in Amsterdam IT, Transvaal	–
1 January 1988	260	–	17/24ths of Erf 246, Amsterdam	–
	<b>1 940</b>	<b>8 250</b>		<b>246</b>
24 May 1996	9 167	11 825	Portion 35 (of 28) of the farm Riversdale, No. 11287	10 786
1 March 2001	15 991	17 795	Portion 70 of the farm Tweefontein, 413 JR 47 hectares and Portion 3 of the farm Tweefontein, 413 JR, 49 hectares	6 070
4 April 2002	1 315	3 300	Erf 123, Apex Extension 3, Benoni	834
<b>Total</b>	<b>28 413</b>	<b>41 170</b>		<b>17 936</b>

22.2 The Country Foods group leases the following immovable properties:

Location	Property description	Landlord	Unexpired period of lease	Monthly rental (exclusive of VAT)	Escalation per annum	Square metres
40 Electron Avenue Isando	Head office and warehouse facilities	SA Corporate Real Estate Trust Scheme	3 years	R50 750	10	1 450
OR Tambo	Distribution centre	Grindrod Perishable Cargo Agents	2 years	R15 000	12	350

## 23. SUBSIDIARIES

23.1 The following information relates to Country Foods' subsidiaries:

Name, date and place of incorporation	Registration number	Date of becoming a subsidiary	Nature of business	Percentage of ordinary issued shares owned by Country Foods	Issued share capital of subsidiary
Edulis 3 December 1974 Pretoria	1974/003908/07	30 September 2006	a processor, distributor, exporter of mushrooms, fruits and vegetables	100	R250 001
Country Mushrooms 10 September 2001 Pretoria	2001/021424/07	30 September 2006	a grower, distributor and marketer of fresh cultivated mushrooms	100	R1 000
Fruitime 1 October 1989 Pretoria	1997/008373/07	30 September 2006	a manufacturer and distributor of a wide variety of fruit juices and associated beverages	100	R100

**Note:**

(1) Goodwill acquired and how such goodwill will be accounted for is disclosed in Note 7 of Annexure 2.

23.2 The following information relates to Edulis' subsidiaries:

Name, date and place of incorporation	Registration number	Date of becoming a subsidiary or associate	Nature of business	Percentage of ordinary issued shares owned by Edulis	Issued share capital of subsidiary
Edulis Mushroom Farms 3 December 1974 Pretoria	1974/001561/07	2 July 1974	mushroom, fruit and vegetable processor	100	R150 000
Edulis Gourmet 13 October 2005 Pretoria	2005/037407/07	13 October 2005	distributor and marketer of mushrooms, fruits and vegetables	100	R100
Porcini 27 May 2004 Pretoria	2004/014555/07	27 May 2004	holding company	100	R100

<b>Name, date and place of incorporation</b>	<b>Registration number</b>	<b>Date of becoming a subsidiary or associate</b>	<b>Nature of business</b>	<b>Percentage of ordinary issued shares owned by Edulis</b>	<b>Issued share capital of subsidiary</b>
Midlands 27 May 2003 Pretoria	2003/011829/07	27 May 2003	mushroom, fruit and vegetable processor	50	R2 000 000
Chantau 28 May 2003 Pretoria	2003/012134/07	28 May 2003	property holding company	50	R100
Edulis Trust 29 December 1988 Liechtenstein	789/63	29 December 1988	holding trust	100	n/a
Forest Products 19 September 2002 Delaware, USA	1992021	19 September 2002	distributor and marketer of mushrooms, fruits and vegetables	65	R100
Edulis USA 5 December 2001 Delaware, USA	1490570	5 December 2001	holding company	80	R1 000

**23.3** The following information relates to Country Mushroom's subsidiaries:

<b>Name, date and place of incorporation</b>	<b>Registration number</b>	<b>Date of becoming a subsidiary or associate</b>	<b>Nature of business</b>	<b>Percentage of ordinary issued shares owned</b>	<b>Issued share capital of subsidiary</b>
Country Food Processors 7 July 1999 Pretoria	1999/014605/07	1 March 2001	processor of mushrooms	100	R1 000
Gouret Mushrooms 21 June 2002 Pretoria	2002/014746/07	1 June 2002	marketer of wild mushrooms	100	R100
Mushrooms Cordon Bleu 26 May 1978 Pretoria	1978/001851/07	1 March 2001	grower, marketer and seller of cultivated mushrooms	100	R4 000
Wattlewood Farm 24 May 1996 Pretoria	1996/006454/07	1 October 2005	grower, marketer and seller of cultivated mushrooms	100	R1 000

**23.4** Fruitime has no subsidiaries.

**23.5** The reason why 100% of all of the subsidiaries was not acquired by Edulis was to ensure that the original owner of the relevant subsidiary company remain directly involved and responsible for the business conducted by it. None of these shareholders are associated with the controlling shareholders of Country Foods, or associated companies or its subsidiaries. Annexure 13 contains detailed information of the vendors from whom the material subsidiaries were acquired.

**23.6** The detailed group structure is set out in Annexure 16.

## 24. SHARE CAPITAL

### 24.1 Authorised and issued share capital

The authorised and issued share capital of Country Foods, taking into account the costs of the capital raising and the private placement and listing costs as set out in paragraph 15.1 above, which are to be set-off against the share premium, are set out below:

	<b>R</b>
<b>Authorised</b>	
500 000 000 ordinary shares of 0.1 cent each	500 000
<b>Issued, prior to the capital raising</b>	
72 000 000 ordinary shares of 0.1 cent each	72 000
Share premium	71 823 664
<b>Issued, after the capital raising and prior to the implementation of the private placement</b>	
96 455 449 ordinary shares of 0.1 cent each	96 455
Share premium	88 418 023
<b>Issued, after the implementation of the private placement</b>	
126 455 449 ordinary shares of 0.1 cent each	126 455
Share premium	115 438 023

**24.1.1** All of the authorised and issued shares are of the same class and rank *pari passu* in every respect.

**24.1.2** Save as set out in paragraph 24.2 below, there have been no alterations to the authorised share capital of the group during the three years preceding the date of this prospectus.

**24.1.3** No offer, except for the capital raising, has been made for the subscription or sale of shares during the three-year period preceding the date of issue of this prospectus.

**24.1.4** No issues of securities have been made by Country Mushrooms and Fruitime, the subsidiaries of Country Foods, during the three-year period preceding the date of issue of this prospectus. Edulis issued one share during the prior year regarding the conversion of a shareholder's loan.

**24.1.5** Neither Country Foods nor any of its subsidiaries have repurchased any Country Foods shares at the date of issue of this prospectus.

**24.1.6** No loan capital is outstanding.

**24.1.7** There will be no simultaneous issue of securities.

### 24.2 Alterations to authorised share capital

**24.2.1** Country Foods was incorporated with an authorised ordinary share capital of R1 000 divided into 1 000 ordinary shares having a par value of R1.00 each.

**24.2.2** The shareholders approved the special resolutions on 21 August 2006 to:

*24.2.2.1* sub-divide its authorised share capital of 1 000 ordinary shares of R1.00 each into 1 000 000 ordinary shares of 0.1 cent each;

*24.2.2.2* increase its authorised share capital from R1 000 to R500 000 by the creation of 499 000 000 ordinary shares of 0.1 cent each.

**24.2.3** Country Foods has a total authorised share capital of R500 000, comprising 500 000 000 ordinary shares of 0.1 cent each.

**24.2.4** The special resolutions approved by shareholders to alter the authorised share capital as set out in paragraph 24.2.2 above were registered on 28 September 2006.

### **24.3 Issue of shares**

**24.3.1** Subsequent to its incorporation, Country Foods issued and allotted 7 ordinary par value shares of R1.00 each.

**24.3.2** The company:

*24.3.2.1* passed special resolutions to sub-divide its issued share capital of 7 ordinary shares of R1.00 each into 7 000 ordinary shares of 0.1 cent each on 21 August 2006, these shares were transferred to the Edulis vendor;

*24.3.2.2* issued 71 993 000 ordinary shares of 0.1 cent each on 21 August 2006 at the par value thereof plus a premium of 99.9 cents per ordinary share, at an issue price of 100 cents to the Edulis vendor, the Country Mushrooms vendors and the Fruitime vendor, whose details are set out in Annexure 13, in terms of "share-for-share" transactions. The issue price of these ordinary shares was determined in terms of the directors' valuation of the ordinary shares at the time of the group formation;

*24.3.2.3* issued 23 741 163 ordinary shares 0.1 cent each for cash on 2 July 2007 at an issue price of 70 cents each, being the par value plus a premium of 69.9 cents per ordinary share in terms of the capital raising by way of an offer to selected identified participants. The issue price was determined in terms of the directors' valuation of the ordinary shares before the capital raising;

*24.3.2.4* issued 714 286 ordinary shares of 0.1 cent each on 2 July 2007 at an issue price of 70 cents each, being the capital raising price, to directors and employees of Exchange Sponsors (Pty) Limited, the Designated Adviser, in settlement of the fund raising fees payable by Country Foods to the Designated Adviser for the capital raising. The Designated Adviser's interests following this issue are disclosed in paragraph 31 below.

**24.3.3** At the date of issue of this prospectus, before the private placement, Country Foods had a total issued share capital (including share premium) of R88 514 478.

**24.4** The ordinary resolutions necessary to approve the above issues of shares were passed at the time of the issues. In terms of an ordinary resolution approved by the company at the Annual General Meeting by a 75% majority of the shareholders on 3 September 2007, the directors have the power to allot and issue ordinary shares of the company for cash, subject to the following conditions:

- compliance with the provisions of the Act, the Listings Requirements and the memorandum and articles of association of Country Foods;
- that the securities be of a class already in issue;
- that securities be issued to public shareholders and not to related parties;
- that an announcement giving full details, including the impact on net asset value and earnings per share, be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of securities in issue prior to the issue/s;
- that issues in the aggregate in any one financial year shall not exceed 50% of the group's issued share capital of that class;

- that, in determining the price at which an issue of securities will be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of those securities over the 30 business days prior to the date that the price of the issue is determined or agreed by the directors; and
- that the approval will be valid until the next annual general meeting or for 15 months from the date of the resolution, whichever period is the shorter.

#### **24.5 Unissued shares**

In terms of a resolution passed at the Annual General Meeting of Country Foods held on 3 September 2007, the 373 544 551 authorised but unissued ordinary shares of the company, after the private placement, will be under the control of the directors of Country Foods until its first Annual General Meeting following the listing, subject to the provisions of sections 221 and 222 of the Act and the Listings Requirements.

#### **24.6 Voting and variation of rights**

The articles of association of the company provide that, at any general meeting, a resolution put to the vote at such meeting shall be decided on a show of hands, unless a poll is, before or on the declaration of the result of the show of hands, demanded by any person, the chairperson or by the members referred to in section 198(1)(b) of the Act. Any variation in rights attaching to shares will require the consent of the shareholders in general meeting in accordance with the company's articles of association.

#### **24.7 No other listings**

The issued ordinary shares of Country Foods will be listed on ALT<sup>X</sup>. No other shares of Country Foods are listed on any stock exchange.

### **25. ADEQUACY OF WORKING CAPITAL**

The directors of the group are of the opinion that the working capital available to the group, prior to the private placement, is adequate for the present requirements of the group, i.e. for a period of 12 months from the date of issue of this prospectus and that:

- 25.1** the group will be able in the ordinary course of business to pay its debts for a period of 12 months after the date of this prospectus;
- 25.2** the assets of the group will be in excess of the liabilities of the group for a period of 12 months after the date of this prospectus. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements;
- 25.3** the share capital and reserves of the group will be adequate for ordinary business purposes for a period of 12 months after the date of this prospectus;
- 25.4** the working capital of the group will be adequate for ordinary business purposes for a period of 12 months after the date of this prospectus.

### **26. OPTIONS AND PREFERENTIAL RIGHTS IN RESPECT OF SHARES**

Save in terms of the share incentive scheme referred to in paragraph 27 below, the salient features of which are set out in Annexure 15, there are no contracts or arrangements, either actual or proposed, whereby any option or preferential right of any kind has been or will be given to any person to subscribe for any shares in the group.

## **27. SHARE INCENTIVE SCHEME**

- 27.1** The directors of the company have established a share incentive scheme for the benefit of directors and employees of the group. The salient features of the share incentive scheme are set out in Annexure 15.
- 27.2** No shares have been issued under the share incentive scheme at the date of issue of this prospectus.

## **28. MATERIAL CONTRACTS**

- 28.1** Country Foods acquired the entire issued share capital of, and all shareholders' claims on loan account against, Edulis from the Edulis vendor with effect from 30 September 2006 in terms of the Edulis Sale Agreement dated 11 September 2006 for an aggregate consideration in the sum of R29 993 000, which consideration was discharged by Country Foods by the issue and allotment to the Edulis vendor of 29 993 000 ordinary shares, credited as fully paid, at an issue price equal to the par value of such ordinary shares plus a premium of 99.9 cents per ordinary share. The details of the Edulis vendor are set out in Annexure 13.
- 28.2** Country Foods acquired the entire issued share capital of, and all shareholders' claims on loan account against, Country Mushrooms from the Country Mushrooms vendors with effect from 30 September 2006 in terms of the Country Mushrooms Sale Agreement dated 11 September 2006 for an aggregate consideration in the sum of R22 000 000, which consideration was discharged by Country Foods by the issue and allotment to the Country Mushrooms vendors, *pro rata* to their shareholding in Country Mushrooms, of 22 000 000 ordinary shares, credited as fully paid, at an issue price equal to the par value of such ordinary shares plus a premium of 99.9 cents per ordinary share. The details of the Country Mushrooms vendors are set out in Annexure 13.
- 28.3** Country Foods acquired the entire issued share capital of, and all shareholders' claims on loan account against, Fruitime from the Fruitime vendors with effect from 30 September 2006 in terms of the Country Mushrooms Sale Agreement dated 11 September 2006 for an aggregate consideration in the sum of R20 000 000, which consideration was discharged by Country Foods by the issue and allotment to the Fruitime vendor of 20 000 000 ordinary shares, credited as fully paid, at an issue price equal to the par value of such ordinary shares plus a premium of 99.9 cents per ordinary share. The details of the Fruitime vendor are set out in Annexure 13.
- 28.4** Save for the Sale Agreements referred to in paragraphs 28.1, 28.2 and 28.3 above and, save for the service agreements with directors setting out their remuneration referred to in Annexure 1, there are no material contracts which have been entered into by the group during the three years preceding the date of this prospectus, other than in the ordinary course of business conducted by the group.
- 28.5** There are no material contracts which have been entered into by the group at any time, which contain an obligation or settlement that is material to the group, other than in the ordinary course of business.
- 28.6** The group is not subject to any management or royalty agreements. The group has not paid any material technical or secretarial fees during the three years preceding the issue of this prospectus.
- 28.7** The group has not entered into any promoters' agreements during the three years preceding the date of this prospectus.

## **29. MATERIAL INTER-COMPANY TRANSACTIONS**

There are no material inter-company balances in the Country Foods group.

## **30. LITIGATION STATEMENT**

There are no legal or arbitration proceedings, including any such proceedings that are pending or threatened, of which Country Foods is aware that may have, or have had during the 12 months preceding the date of this prospectus a material effect on the financial position of the group.

### 31. ADVISERS' INTERESTS

**31.1** Save as disclosed in paragraph 31.2 below, none of the advisers, whose particulars are set out in the "Corporate information" section, hold any shares in the group or have agreed to acquire any shares in the group at the date of this prospectus.

**31.2** The following directors and employees of the Designated Adviser have an interest in the ordinary shares in Country Foods:

<b>Name and capacity</b>	<b>Number of shares</b>	<b>Percentage holding in Country Foods</b>	<b>Name of beneficial owner</b>
Marius Meyer – Director	272 283	0.2	Buccoli Investments CC (Registration number 1995/010698/23)
Marius Meyer – Director	528 557	0.4	Magika Investments (Pty) Limited (Registration number 1997/019193/07)
Wessel Petrus van der Merwe – Director	599 986	0.4	SA Madiba Investments (Pty) Limited (Registration number 1998/015202/07)
Esna Colyn – Employee	264 315	0.2	Esna Colyn
Mareo Bekker – Employee	70 000	0.1	Malibe Trust (Master's reference IT6384/96)
Van Zyl Swanepoel – Employee	35 715	–	Van Zyl Swanepoel

**31.3** Fifty percent of the ordinary shares in the table above will be held in trust by the attorneys as set out in paragraph 5.1.3 of Annexure 1.

### 32. CONSENTS

Each of the group's advisers, commercial banker, KPMG Inc., and the transfer secretaries have consented in writing to act in the capacities stated and to their names appearing in this prospectus and have not withdrawn their consent prior to the registration of this prospectus.

### 33. CORPORATE GOVERNANCE

The group's Corporate Governance policy is set out in Annexure 14.

### 34. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are set out in Annexure 1, collectively and individually, accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading and that they have made all reasonable enquiries to ascertain such facts and that this prospectus contains all information required by law and the Listings Requirements.

### 35. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents which have been submitted to the Registrar of Companies will be available for inspection at the registered office of the company and at Exchange Sponsors (Pty) Limited's office, 39 First Road, Hyde Park, 2196, at any time during normal business hours from 08:30 to 17:00 for a period of 21 days from the date of this prospectus:

- the memorandum and articles of association of the company;
- the signed reports by the independent reporting accountants, the texts of which are set out in Annexures 3, 5, 7, 9, 10 and 12;

- the written consents of the group's advisers and transfer secretaries to act in those capacities, which consents have not been withdrawn prior to registration;
- the company's share incentive scheme;
- the directors' service agreements;
- the audited and six months reviewed financial statements of Country Foods for 30 September 2006 and 31 March 2007;
- the audited annual financial statements of Edulis for the 15 months ended 30 September 2006;
- the audited annual financial statements of Country Mushrooms for the year ended 30 September 2006;
- the audited annual financial statements of Fruitime for the year ended 30 September 2006;
- the irrevocable undertakings referred to in paragraph 10.8 above;
- copies of the Sale Agreements referred to in paragraphs 28.1, 28.2 and 28.3 above; and
- a signed copy of this prospectus.

### **36. PARAGRAPHS OF SCHEDULE 3 TO THE ACT WHICH ARE NOT APPLICABLE**

The numbers of the paragraphs in Schedule 3 to the Act, which are not applicable, are:

1(b), 2(d), 6(d), 6(e)(ii), 6(g), 6(h), 8(b), 8(c), 8(d), 9(b), 10, 11, 12, 13, 14, 17(c), 17(b), 18(b), 20(b), 21, 24, 26, 27, 28, 30 and 31.

**Signed at Johannesburg by Roberto Gilberto Casaletti on his own behalf as director and on behalf of all the other directors of the company on 20 September 2007, he being duly authorised in terms of powers of attorney granted to him by such other directors.**

**SGD**

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**Roberto Gilberto Casaletti**

**SGD**

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**For: Raymond Harold Liversage, a director, herein represented by Roberto Gilberto Casaletti under and in terms of a power of attorney executed on 31 August 2007**

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**For: Pieter Bernardus Swanevelder, a director, herein represented by Roberto Gilberto Casaletti under and in terms of a power of attorney executed on 31 August 2007**

**SGD**

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**For: Johan Christiaan Fourie, a director, herein represented by Roberto Gilberto Casaletti under and in terms of a power of attorney executed on 31 August 2007**

**SGD**

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**For: Vusumuzi Isaiah Zwane, a director, herein represented by Roberto Gilberto Casaletti under and in terms of a power of attorney executed on 14 September 2007**

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**DIRECTORS, EXECUTIVE MANAGEMENT, APPOINTMENT, QUALIFICATION, REMUNERATION AND BORROWING POWERS OF DIRECTORS**


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**1. FULL NAMES, AGES, FUNCTIONS AND BUSINESS ADDRESSES OF THE BOARD OF DIRECTORS OF COUNTRY FOODS, EDULIS, COUNTRY MUSHROOMS AND FRUITIME**

<b>Director</b>	<b>Age</b>	<b>Function</b>	<b>Business address</b>
<b>Country Foods</b>			
Vusumuzi Isaiah Zwane (“Vusi”) *	51	Non-executive Chairperson	29 Pineslope Park Estate Corner Forrest and Strait Roads, Lonehill, 2062
Johan Christiaan Fourie (“Jannie”) *	48	Non-executive Director	202 Mackenzie Street Brooklyn, Pretoria, 0181
Roberto Gilberto Casaletti (“Robi”)	54	Chief Executive Officer	21 Central Street Houghton, 2198
Raymond Harold Liversage (“Ray”)	60	Chief Financial Officer	Wilkenhof, Brondal Nelspruit, 1200
Pieter Bernardus Swanevelder (“Barry”)	47	Director	Aalwyne Farm, Bapsfontein District Bronkhorstpruit Bapsfontein, 1510
<b>Edulis</b>			
Roberto Gilberto Casaletti	54	Chairperson and Managing Director	21 Central Street Houghton, 2198
Dayalan Chetty	36	Financial Director	21 Central Street Houghton, 2198
Hymie Jele	39	Group Operations Director	21 Central Street Houghton, 2198
Johannes Stander (“Hannes”)	43	Operations Director	21 Central Street Houghton, 2198
<b>Country Mushrooms</b>			
Joseph Morris Gilbert	49	Managing Director	Aalwyne Farm, Bapsfontein District Bronkhorstpruit Bapsfontein, 1510
Pieter Bernardus Swanevelder	47	Financial/Sales and Marketing Director	Aalwyne Farm, Bapsfontein District Bronkhorstpruit Bapsfontein, 1510
Nicholas Johannes Muller	35	Production Director	Aalwyne Farm, Bapsfontein District Bronkhorstpruit Bapsfontein, 1510
Matthys Stefanus Benjamin Nesor *	50	Non-Executive Director	Abcon House, Fairway Office Park, 52 Grosvenor Road, Bryanston, 2021
Johan Christiaan Fourie*	48	Non-executive Director	202 Mackenzie Street Brooklyn, Pretoria, 0181

<b>Director</b>	<b>Age</b>	<b>Function</b>	<b>Business address</b>
<b>Fruitime</b>			
Joof Alberts	69	Non-executive Chairperson	Wilkenhof, Brondal Nelspruit, 1200
Matthys Stefanus Benjamin Nesor	50	Non-executive Director	Abcon House, Fairway Office Park, 52 Grosvenor Road, Bryanston, 2021
Neil Hurter	28	Operational Director	Corner Belfast and Apex Streets, Apex Industrial Benoni, 1501
Jacqueline Lovell	30	Financial Director	Corner Belfast and Apex Streets, Apex Industrial Benoni, 1501
Ray Liversage	60	Director	Wilkenhof, Brondal Nelspruit, 1200
Jacques Hurter	58	Non-executive Director	Corner Belfast and Apex Streets, Apex Industrial Benoni, 1501

\* Non-executive.

All directors are South African citizens.

## 2. EXPERIENCE OF DIRECTORS

### 2.1 Vusi Zwane (Non-executive Chairperson) (51)

Vusi is currently the Group Chief Corporate Affairs Executive at the Peermont Group (Pty) Limited, one of the leading hotel, resorts and casino groups in South Africa. It owns and manages various leading hotels including Emperors Palace, Graceland Casino in Mpumalanga, Umfolozi Casino in KwaZulu-Natal, Mmabatho Sun, Venda Sun, the Grand Palm in Botswana and the Frontier Casino in the Free State. Vusi was in 1993 one of the founding members of the National Black Business Caucus. Vusi has over the years served on many boards and approximately five years on the board of Moribo Limited, a JSE-listed company. Vusi also served on the board of Retahabile Group (Pty) Limited, the consortium that acquired controlling equity in Sun Air during privatisation of the airline.

### 2.2 Jannie Fourie (Non-executive Director) B.Eng (Agric) Hons, MBL (48)

Jannie has gained significant experience over the years and specifically has general management experience in the start-up and growing of small and medium enterprises, including Fruitime, Bronpro and Country Mushrooms. He worked at the Industrial Development Corporation of South Africa Limited for seven years until 1996 where he evaluated applications for finance and identified new projects and formulated new financing schemes based on identified needs. Since then Jannie has been a director of various private companies with some of his strengths being to identify new business opportunities and to structure acquisitions and to propose suitable finance for the transactions.

### 2.3 Robi Casaletti – Chief Executive Officer (Diploma in Food Technology) (54)

Robi and his wife Clara developed the KAPPA brand into a fully fledged vertically integrated operation during 1980 to 1994. In 1995 the decision was taken to sell KAPPA and the licensing thereto to Moribo Investments and the 21 retail operations were sold to Smart Centre. The family then focused on growing the wild mushroom family business which was started in 1974. Robi's primary responsibility is the overall management and continuous growth of Edulis.

### 2.4 Ray Liversage – Chief Financial Officer (A.C.I.S and F.C.I.B.M) (60)

Ray commenced his working career at Hunt Leuchars & Hepburn in 1967 as a company accountant. Ray also gained invaluable experience in the sugar farming industry when he assisted his father to grow from a lease farm operation to owning a 4 000 hectares sugar, beef, dairy and timber farm in 12 years. He served on the local Sugar and Transport Committees for over nine and seven years,

respectively. Ray then spent 10 years at the Zululand office of Coopers & Lybrand as branch manager where he managed to increase the client base and turnover significantly. Ray joined Bronpro in 2000 and became a director in July 2003. He is also the General Manager of Nkwaleni Processors, Marble Hall Citrus Processors and Fruitime.

#### **2.5 Barry Swanevelder – Director (B Com (Hons), H Dip Tax, MBA, SAIPA, FCMA (UK)) (47)**

Barry joined Country Mushrooms 11 years ago as the General Manager. Barry led the management buy-out in November 1997 and acquired shares in the Country Mushrooms. Barry negotiated the acquisitions of Mushrooms Cordon Bleu and Country Food Processors in March 2001 which made Country Mushrooms one of the largest mushroom producing farms in South Africa. He managed and facilitated the growth of the group from a 12-ton per week to a 52-ton per week producing farm. Barry is responsible for the financial, human resources, marketing, sales and food processing functions at Country Mushrooms.

#### **2.6 Dayalan Chetty – Financial Director – Edulis (CPA (SA)) (36)**

Dayalan has 16 years' experience in the accounting field. Before he joined Edulis three years ago he was the financial manager of the Formeset group for eight years. Dayalan is responsible for all accounting functions within Edulis. He has extensive internal and external audit experience combined with periods in financial management.

#### **2.7 Hymie Jele – Group Operations Director – Edulis (39)**

Hymie has been with Edulis since 1989. His primary responsibility is the overall management of all harvesting operations. His duties include the co-ordination of all harvesting operations in areas where Edulis has concession rights. Hymie also handles the logistical management of vehicles, drivers and permanent and temporary personnel involved in harvesting. Hymie is assisted in his responsibilities by a team of efficient assistants based in the various areas of operation.

#### **2.8 Hannes Stander – Operations Director – Edulis (National Diploma in Refrigeration) (43)**

Hannes has been with Edulis since 1997. He is a refrigeration engineer by profession, with over 20 years' experience in industrial and commercial refrigeration. This includes the complete construction, assembling and commissioning of turn-key industrial cold rooms, as well as the maintenance of refrigerated vehicles. Whilst carrying out his duties as head of the maintenance team, during the course of the past three seasons Hannes gained experience in aspects of production and production supervision. With his team of assistants he is responsible for the production of the Amsterdam and Swaziland operations, as well as for maintenance of refrigeration and electronic equipment.

#### **2.9 Jarvis Ferdinand – Managing Director – Forest Products (36)**

Jarvis has been involved in the food distribution industry in New York for the past 14 years. He has a professional and thorough knowledge of all aspects of food importation, sourcing and distribution and is well-known and respected in the food services and restaurant trade on the East Coast of the USA. Jarvis has gained invaluable experience with stints at internationally renowned delicacy companies like Balduccis of New York, Urbani Tartufi of Italy and D'Artagnan of New Jersey. He is a founding member of Forest Products and responsible for all operational aspects of the company.

#### **2.10 Morris Gilbert – Managing Director – Country Mushrooms (Diploma in Agriculture) (49)**

Morris Gilbert left Denny Mushrooms approximately 24 years' ago to assist with the start up of the Country Mushrooms operation. He has an in depth knowledge of the South African cultivated mushroom industry and the actual production or growing of mushrooms. He is also on the SAMFA Committee and has attended various courses and congresses all over the world.

#### **2.11 Nichol Muller – Production Director – Country Mushrooms (Electromechanical Certificate) (35)**

Nichol has been with Country Mushrooms for 11 years. He oversees the growing and packing of mushrooms at the Aalwyne farm through the Mushrooms Cordon Bleu operation. He has attended various courses in the Netherlands on the cultivation of mushrooms and has an in-depth knowledge of the industry. Nichol recently won the 2007 "Young Farmer of the Year" award for the Gauteng region and will now compete on a national level.

## 2.12 Neil Hurter – Operational Director – Fruitime (National Certificate) (28)

Neil joined Fruitime in 1997 and progressed to being the Senior Manager in December 2005 and Operational Director in July 2007. Neil has significant experience of the beverage industry and the manufacturing of fruit juices and beverages. Neil currently oversees the entire Fruitime operations and is responsible for new product development and the continued growth of Fruitime.

## 2.13 Jacqueline Lovell – Financial Director – Fruitime (B Compt) (30)

Jacqui joined Fruitime in 1999 as the accountant and progressed to the Financial Director in February 2001. She is currently responsible for accounting and financial functions. Her previous work experiences include being a sales consultant at Unisys South Africa, an accountant at Capejoy Beverages and a co-owner of Candicraze CC.

## 3. QUALIFICATION, APPOINTMENT, REMUNERATION AND BORROWING POWERS OF DIRECTORS

**3.1** The relevant provisions of the articles of association of Country Foods relating to qualification, appointment, remuneration and borrowing powers of directors are set out in paragraph 7 below. The borrowing powers may only be varied by special resolution, although the members may set limits by way of ordinary resolutions, which limits have not been exceeded since Country Foods' incorporation.

**3.2** In terms of the declarations lodged by the directors in accordance with Schedule 21 of the Listings Requirements, none of the following applies to any of the directors, listed in paragraph 1 above for the 12 months preceding the date of issue of this prospectus: bankruptcies, insolvencies or individual voluntary compromise arrangements; receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company voluntary liquidations, or any compromise or arrangement with creditors generally or any class of creditors of any company where such person is or was a director with an executive function of such company at the time of any such event; compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships of which the person is or was a partner at the time of such event; receiverships of any asset(s) of such person or of a partnership of which the person is or was a partner at the time of such event; public criticisms of such person by statutory or regulatory authorities, including recognised professional bodies, disqualification by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company; or any offence involving dishonesty.

## 4. DIRECTORS' REMUNERATION

**4.1** The remuneration and benefits paid to the directors for the previous audited periods:

	<b>Basic R'000</b>	<b>Motor allowance R'000</b>	<b>Bonus R'000</b>	<b>Provident fund and other allowances R'000</b>	<b>Total R'000</b>
<b>30 September 2006</b>					
Robi Casaletti <sup>(2)</sup>	1 200	–	–	–	1 200
Barry Swanevelder	513	156	54	70	793
	<b>1 713</b>	<b>156</b>	<b>54</b>	<b>70</b>	<b>1 993</b>
<b>31 March 2007</b>					
Robi Casaletti <sup>(2)</sup>	600	–	–	–	600
Barry Swanevelder	311	57	30	39	437
	<b>911</b>	<b>57</b>	<b>30</b>	<b>39</b>	<b>1 037</b>

### Notes:

(1) The newly appointed non-executive directors will earn a market-related hourly fee per meeting attended.

(2) Robi Casaletti receives his directors' fees in terms of a marketing agreement with B&C Investment Holdings (Pty) Limited.

- 4.2** There will be no material variation in the remuneration receivable by any of the directors as a direct consequence of the private placement and listing.
- 4.3** No payments were made, or accrued as payable, or are proposed to be paid within the three years preceding the date of this prospectus, either directly or indirectly, in cash or securities or otherwise to:
- 4.3.1** the directors in respect of management, consulting, technical, secretarial fees or restraint payments;
- 4.3.2** a third party *in lieu* of directors' fees;
- 4.3.3** the directors as an inducement to qualify them as directors.
- 4.4** No director or promoter has any material beneficial interest, direct or indirect, in the promotion of Country Foods and in any property to be acquired or proposed to be acquired by Country Foods out of the proceeds of the issue or during the three years preceding the date of this prospectus.

## 5. DIRECTORS' SHAREHOLDINGS

- 5.1** The directors will, at the last practicable date and after the private placement hold, directly and indirectly, the following shares in Country Foods:

Director	Number of shares held		Total number of shares held	Percentage held before the private placement	Percentage held after the private placement
	Beneficially Direct	Beneficially Indirect			
Robi Casaletti		9 077 250	9 077 250	9.4	7.2
Ray Liversage	14 285		14 285		
Barry Swanevelder		518 000	518 000	0.5	0.4
	14 285	9 595 250	9 609 535	9.9	7.6

- 5.1.1** There have been no changes in the interests of the directors between 31 March 2007 and the date of this prospectus, except for Barry Swanevelder who placed 1 million shares prior to the date of the prospectus.
- 5.1.2** Save in terms of the Sale Agreements referred to in paragraphs 28.1, 28.2 and 28.3 of this prospectus, no director has or had any interest, directly or indirectly, in any transaction, which is, or was, material to the business of Country Foods and which was effected by the group since incorporation, which remains in any respect outstanding or unperformed.
- 5.1.3** Country Foods' attorneys will hold in trust 50% of the shareholding of each director and the Designated Adviser ("the relevant securities") from the date of listing until the publication of the audited results for 30 September 2008, after which 50% may be released and the balance one year thereafter and the required certificate to that effect has been lodged with the JSE by Country Foods' attorneys. The shares will not be released before notification to the JSE.
- 5.1.4** No loans (save as disclosed in paragraph 18 of this prospectus) or securities were furnished by Country Foods or by any of its subsidiaries to or for the benefit of any director or manager or any associate of any director or manager of Country Foods.
- 5.1.5** No share options have been granted or awards made or shares issued and allotted in terms of the share incentive scheme at the last practicable date.

## 5.2 Directors' service contracts

Each of the executive directors has a service contract with Country Foods, containing such terms as are usual for such contracts and the terms relating to the remuneration detailed in paragraph 4.1 above. The service agreements impose notice periods of not less than three months. In addition, the executive directors have signed restraint undertakings in favour of the group.

## 6. OTHER DIRECTORSHIPS HELD BY DIRECTORS OF COUNTRY FOODS

The names of other companies to which the directors have been a director or partner at any time in the previous five years are set out hereunder:

Director	Current directorships/memberships	Registration number
Vusi Zwane	Rethabile Telecoms Investments (Pty) Limited	1997/022031/07
	Altivex 377 (Association incorporated under Section 21) Zambli 192 (Pty) Limited	2006/016245/08
		2006/032114/07
Jannie Fourie	Stabilizer Properties Mabalalingwe (Pty) Limited	2004/027898/07
	Tswelopele Petroleum (Pty) Limited	2004/016585/07
	Stabilizer Consult (Pty) Limited	2003/007404/07
	Greenzone Marketing (Pty) Limited	2000/031103/07
	Nordh West Consulting CC	1992/023019/23
	Hortidev Holdings (Pty) Limited	2001/029010/07
Robi Casaletti	Adformo Properties CC	1985/014940/23
	Applemint Properties 22 (Pty) Limited	2005/030863/07
	Nicklia Property Investments 7 (Pty) Limited	2001/028756/07
	Sogo Investments (Pty) Limited	1994/001028/07
	Stand 3297 Hout Bay CC	1989/028421/23
	Unit 31 Tangiers CC	1995/034723/23
	Muthoni Mushrooms (Pty) Limited	901/93
	B&C Investments Holdings (Pty) Limited	1974/003908/07 *
	Naniro Investments (Pty) Limited	1998/002828/07 *
Mediolanum Investments Limited	1998/002934/07 *	
Ray Liversage	Bronpro Processors (Pty) Limited	1997/001603/07
	Marble Hall Citrus Processors (Pty) Limited	2002/003818/07
	Nkwaleni Processors (Pty) Limited	1982/001519/07
	Meldev CC	1996/021907/23
	Midnight Star Trading 135 CC	2004/027643/23
Barry Swanevelder	Smokey Mountain Trading 590 (Pty) Limited	2006/011054/07

\* No longer a director.

## 7. RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY PROVIDING FOR THE APPOINTMENT, QUALIFICATION, REMUNERATION AND BORROWING POWERS OF DIRECTORS

Extracts from the articles of association of Country Foods are set out below:

### “DIRECTORS – NUMBER, QUALIFICATION AND REMUNERATION

**89.** The number of directors shall be not less than four.

**90.** A director shall not be obliged to hold any qualification shares.

**91.** The remuneration of the directors for their services as such shall be determined from time to time by a general meeting.

**92.** The directors shall be paid all travelling, subsistence, and other expenses properly incurred by them in the execution of their duties in or about the business of the company and which are authorised or ratified by a disinterested quorum of the directors, which may be in addition to or in substitution for any other remuneration.

## **ALTERNATE DIRECTORS**

- 93.** Each director shall have the power to appoint any person to act as alternate director in his place during his absence or inability to act as such, and at his discretion to remove such alternate director, and to appoint another in his stead, provided that the appointment of such alternate director shall be made in writing and approved by the directors. On such appointment being made and approved, the alternate director shall (except as regards the power to appoint an alternate and remuneration) in all respects be subject to the terms and conditions existing with reference to the other directors of the company and each alternate director, whilst so acting, shall be entitled to receive notice of all meetings of the directors or of any committee of the directors of which his appointer is a member, and to attend and vote at any such meeting at which his appointer is not personally present. The alternate shall generally be entitled to exercise and discharge all the functions, powers and duties of his appointer in such appointer's absence as if he were a director. The remuneration of an alternate director shall be payable only out of the remuneration payable to the director appointing him and he shall have no claim against the company for such remuneration.
- 94.** The appointment of an alternate director shall be cancelled and the alternate director shall cease to hold office on the happening of any event which, if he were a director, would cause him to cease to hold office in terms of these articles, or if the director who appointed him shall cease to be a director or shall give notice in writing to the secretary that the alternate director representing him shall have ceased to do so. In the event of the disqualification or resignation of any alternate director during the absence or inability to act of the director whom he represents, the vacancy so arising shall be filled by the chairman of the directors who shall appoint a person to fill such vacancy subject to the approval of the board. A director retiring at any general meeting and being re-elected shall not for the purposes of this article, be deemed to have ceased to be a director. However, any appointment of a director as an addition to the board shall be confirmed at the next annual general meeting.
- 95.** A person may be appointed as alternate to more than one director and where a person is alternate to more than one director, or where an alternate director is a director, he shall have a separate vote, on behalf of each director he is representing, in addition to his own vote, if any.

## **GENERAL POWERS OF DIRECTORS**

- 96.** The management of the business and the control of the company shall be vested in the directors who, in addition to the powers and authorities by these articles expressly conferred upon them, may exercise all such powers, and do all such acts and things as may be exercised or done by the company and are not hereby or by the Act expressly directed or required to be exercised or done by the company in general meeting, but subject nevertheless, to such management and control not being inconsistent with these articles nor with any resolution passed at any general meeting of the members in accordance therewith. No resolution passed by the company in general meeting shall invalidate any prior act of the directors which would have been valid if such resolution had not been passed. The general powers given by this article shall not be limited or restricted by any special authority or power given to the directors by any other article.
- 97.** Although the directors shall have power, pursuant to section 228 of the Act, to enter into a provisional contract for the sale or alienation of the whole or substantially the whole of the undertaking of the company, or the whole or the greater part of the assets of the company, such contract shall only become binding on the company in the event of the specific transaction proposed by the directors being authorised or ratified in terms of a resolution passed by a majority of the votes cast at a general meeting convened for that purpose. All the provisions of these articles as to general meetings shall apply *mutatis mutandis* to meetings convened under this article for such purposes.

## **PAYMENTS TO SHAREHOLDERS**

- 98.** Subject to the provisions of section 90 of the Act (and, if applicable, any relevant regulations and/or requirements of the JSE), the company is hereby authorised to make payments to its shareholders. Any such payment to shareholders shall not be made on the basis that the amount paid may be called up again by the company.

## **BORROWING POWERS**

- 99.** The directors may exercise all the powers of the company to borrow money and to mortgage or encumber its undertaking, property or any part thereof and to issue debentures or debenture stock, whether secured or unsecured, and other securities (with such special privileges, if any, as to allotment of shares or stock, attending and voting at general meetings, appointment of directors or otherwise as may be sanctioned by a general meeting) whether outright or as security for any debt, liability or obligation of the group or of any third party.
- 100.** For the purpose of the provisions of Article 99, the borrowing powers of the directors shall be unlimited.
- 101.** Subject to Article 105, the directors may give pensions, gratuities and allowances to and make payments for or towards the insurance of any employees or ex-employees, including directors or ex-directors, of the group, or of any company which is or was a subsidiary of the company or is or was in any way allied to or associated with it or any such subsidiary, and the wives, widows, families and dependants of such persons and may establish and maintain any non-contributory pension, superannuation, provident and benefit funds for the benefit of any such persons and make contributions to any such funds and pay premiums for the purchase of any such gratuity, pension, allowance, life assurance or other benefit.

## **LOCAL BOARDS, AGENTS AND COMMISSIONS OF THE BOARD**

- 102.** The directors may establish any local boards, committees or agencies in the Republic or elsewhere for managing any of the affairs of the company and may:
- 102.1** appoint any persons to be members of such local boards or committees, or any managers or agents;
  - 102.2** fix the remuneration of the persons referred to in Article 102.1;
  - 102.3** delegate to any local board, committee, manager or agent any of the powers, authorities and discretions vested in the directors with power to sub-delegate;
  - 102.4** authorise the members of any local board or committee or any of them, to fill any vacancies therein and to act notwithstanding vacancies.

Any such appointment or delegation may be made upon such terms and subject to such conditions as the directors may think fit, and the directors may remove any person so appointed, or annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.

- 103.** The directors may by power of attorney appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the directors, to be the attorney or agent of the company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors under these articles) and for such period and subject to such conditions as they may think fit. Any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the directors think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him or them.
- 104.** The directors may delegate any of their powers to an executive or other committee whether consisting of a member of their body or not as they think fit. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed on it by the directors and any such regulations may authorise the appointment of sub-committees.

## MANAGING AND EXECUTIVE DIRECTORS

- 105.** A disinterested quorum of directors may from time to time appoint one or more of their body to be managing director, assistant managing director, general manager or executive director (with or without specific designation) of the company or to any other executive office with the company for such period and, subject to the provisions of section 225 of the Act, at such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) and generally on such terms as they may think fit, and may, subject to any contract between him or them and the company, from time to time and for good cause terminate his or their appointment and appoint another or others in his or their place or places.
- 106.** A managing director may be appointed by a disinterested quorum of directors and he shall not be subject to retirement by rotation or be taken into account in determining the rotation or retirement of directors, except during the period of any such appointment, provided that less than half of the directors may be appointed managing directors on the condition that they shall not be subject to retirement by rotation. Subject to the terms of his appointment, a managing director shall be subject to the same provisions as to removal as the other directors, and if he ceases to hold the office of director for any reason, he shall *ipso facto* cease to be a managing director.
- 107.** A disinterested quorum of directors may from time to time entrust to and confer upon a director appointed to any position or executive office under Article 105 such of the powers exercisable under these articles by the directors as they think fit, and may confer such powers for such time, and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions, as they think expedient, and they may confer such powers either collaterally with or to the exclusion of and in substitution for all or any of the powers of the directors in that behalf, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

## CASUAL VACANCIES

- 108.** Without prejudice to the powers of the company in general meeting to appoint any person to be a director, a disinterested quorum of directors shall have power at any time and from time to time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing board, but so that the total number of directors shall not at any time exceed the maximum number, if any, fixed by or in accordance with these articles. Any director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The appointment of a director to fill a casual vacancy shall therefore be confirmed at the next annual general meeting.

## DISQUALIFICATION AND PRIVILEGES OF DIRECTORS

- 109.** The office of a director shall *ipso facto* be terminated and vacated if the director:
- 109.1** ceases to be a director by virtue of any of the provisions of the Act, or is disqualified from acting as, or becomes prohibited from being a director by reason of any order made under the Act; or
  - 109.2** files a petition for the surrender of his estate, or an application for an administration order, or if his estate is sequestrated, or if he commits an act of insolvency as defined in the insolvency law for the time being in force or if he makes any arrangement, compromise or composition with his creditors generally; or
  - 109.3** is found to be lunatic or becomes of unsound mind; or
  - 109.4** is removed by a resolution of the company in terms of section 220 of the Act with effect from the date of, or such later date as is provided for in, such resolution; or
  - 109.5** resigns his office by notice in writing to the company with effect from the date of, or such later date as is provided for in, such notice; or

**109.6** absents himself from meetings of directors for six consecutive months without special leave of absence from the other directors who resolve that his office shall be vacated, provided that this provision shall not apply to a director who is represented by an alternate who does not so absent himself; or

**109.7** becomes retired in terms of Articles 117 to 124 inclusive.

**110.** No director or prospective director shall be disqualified by his office from contracting with the company either as vendor, purchaser, lender, underwriter, guarantor for commission or profit on any shares or securities or liability of the company, or of any company in which the company may be interested, or in any other manner whatsoever. No such contract or arrangement entered into by or on behalf of the company in which any director shall be in any way interested, nor any contract or agreement entered into with any company or partnership of or in which any director shall be a member, director or partner or otherwise interested, shall be or be liable to be invalidated or voided by any such reason or by reason of the board of directors of the company not constituting an independent executive or disinterested quorum.

**111.** Any director so contracting or being so interested or acquiring any benefit under any contract or arrangement made or entered into by or on behalf of any person, company or partnership in relation to the affairs of the company shall not be liable to account to the company for any profits or benefits realised by or under such contract or arrangement by reason of such director holding that office or by reason of the fiduciary relationship thereby established.

**112.** Any director so interested or acquiring any such benefits shall not be entitled to vote at any board meeting or otherwise in relation to such contract.

**113.** Notwithstanding the foregoing, any director so interested or acquiring any such benefit shall disclose the fact of his possessing any interest, whether as director or member or otherwise, whether or not it appears on the face of the contract or arrangement, in accordance with the provisions of sections 234 and 240 of the Act. Subject to the provisions of section 234(3) of the Act and the Listings Requirements of the JSE, a general notice in writing given to the directors by a director to the effect that he is a member of a specified company or firm and is to be regarded as interested in any contract which may, after the date of the notice, be made with that company or firm, shall be deemed to be a sufficient disclosure in relation to any contract or proposed contract so made or to be made.

**114.** Without detracting from the generality of Articles 110 to 113 inclusive, a director (and, in the case of Article 113 any firm of which he is a member) may, subject to the provisions of the Act:

**114.1** be employed by or hold any other office or place of profit in the company, or any holding or subsidiary company of the company or any company controlled by the company, other than that of auditor, in conjunction with his directorship, and upon such terms as to appointment, and subject to the provisions of section 225 of the Act, remuneration and tenure of office and otherwise as a disinterested quorum of directors may determine;

**114.2** act in a professional capacity for the company, and he or such firm shall be entitled to remuneration for those professional services as if he were not a director, provided that nothing herein contained shall authorise a director or any firm of which he is a member, to act as auditor of the company or of any holding or subsidiary company of the company;

**114.3** be or become a director of any subsidiary or other company promoted by the company or in which it may be interested as vendor, shareholder or otherwise;

**114.4** represent the company in the management of any business operation or concern in which the company may be interested as a partner or otherwise.

- 115.** Notwithstanding any such interest, any such director may be counted in the quorum present at any meeting at which any such matter is being considered and vote thereon as though he had no interest therein, and no such director shall be accountable to the company for any remuneration, profit, gain or other benefit received in any capacity as aforesaid, subject to the Listings Requirements of the JSE.
- 116.** Any voting power conferred by the shares in a company referred to in Article 114.2, or exercisable by the directors as directors of such company, may be exercised by the directors in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing themselves or any of them directors or other officers of such company. Any director may vote in favour of the exercise of such voting rights in such manner, notwithstanding that he may be, or about to be, appointed a director or other officer of such company and as such, or in any other manner, is or may become interested in the exercise of such voting rights in the manner aforesaid, save that any resolution relating to the payment of remuneration to the directors or officers of such company shall be voted on by a disinterested quorum of directors.

## **ROTATION OF DIRECTORS AND REMOVAL**

- 117.** At each annual general meeting of the company one-third of the directors, or if their number is not a multiple of three then the number nearest thereto, but not less than one-third shall retire from office, provided that in determining the number of directors to retire no account shall be taken of any director who by reason of the provisions of Article 106 is not subject to retirement. The directors so to retire at each annual general meeting shall, subject to any provision to the contrary in these articles, be the directors who have been longest in office. As between two or more directors who have been in office an equal length of time, the directors to retire shall, in default of agreement between them be determined by lot. The length of time a director has been in office shall be computed from the date of his last election or appointment. A retiring director shall hold office until the conclusion of the meeting at which he retires.
- 118.** Notwithstanding the above, if a director is appointed a managing director, or as an employee of the company in any other capacity, the contract under which he is appointed may provide that he shall not, while he continues to hold that position or office under contract for a term of rotation, be subject to retirement by such contract and he shall not in such case be taken into account in determining the rotation or retirement of directors, provided that less than half of the directors may be appointed to any such position.
- 119.** Retiring directors shall be eligible for re-election. No person other than a retiring director shall be eligible for election to the office of director at any annual general meeting unless he, or some member intending to propose him, has at least seven clear days before the meeting left at the office a notice in writing, duly signed, signifying his candidature for that office or the intention of such member to propose him. The power to elect directors at general meetings other than annual general meetings shall be exercisable only when special notice has been given of the intended resolution exercising such power.
- 120.** Subject to Article 116, the company in general meeting at which any directors retire in the manner aforesaid may, subject to any resolution reducing the number of directors, fill the vacated offices by electing a like number of persons to be directors and may fill any other vacancies.
- 121.** If, at any general meeting at which an election of directors ought to take place, the place of any retiring director is not filled, he shall continue in office until the dissolution of the annual general meeting in the next year, and so on from year to year until his place is filled, unless it shall be determined at such meeting to reduce the number of the directors.
- 122.** Subject to the provisions of section 220 of the Act, the company may by ordinary resolution remove any director and elect another person in his stead.

- 123.** The company may by ordinary resolution in general meeting from time to time increase or reduce the number of directors and may also determine in what manner or rotation such increased or reduced number is to go out of office. Whenever such increase is made the members at the said meeting, or failing them, the directors, may fill the new seats so created. The appointment of any director to fill a casual vacancy or as an addition to the board must be confirmed at the next annual general meeting.
- 124.** No appointment of a director, except that of a retiring director, re-elected at an annual general meeting or a general meeting, shall take effect until consent of such director to act as a director of the company has been lodged with the company.

## **PROCEEDINGS OF DIRECTORS' MEETINGS**

- 125.** The directors may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, and may determine the quorum necessary for the transaction of business, what period of notice shall be given of meetings of directors and the means of giving such notice. Until otherwise determined, the quorum necessary for the transaction of the business of the directors shall be three.
- 126.** The continuing directors may act, notwithstanding any casual vacancy in their body, so long as there remain four directors duly qualified to act, but if the number falls below four the remaining director or directors shall have the power to call a general meeting in order to fill such casual vacancy and except for the purpose of filling such vacancy the director or directors shall not act so long as the number is below four.
- 127.** A director at any time may, and the secretary upon the request of a director shall, convene a meeting of the directors. If there is no director able and willing to act then any two members may summon a general meeting for the purpose of appointing directors. A director who is not within the Republic shall not be entitled to notice of any such meeting, but notice shall be given to all duly appointed alternate directors who may at the time be within the Republic.
- 128.** A director unable to attend a directors' meeting may authorise any other director to vote for him at that meeting and the director so authorised shall have a vote for each director by whom he is so authorised in addition to his own vote. If both the director so authorised and an alternate of the director who granted the authority are present at the meeting, the alternate shall not be entitled to vote on behalf of the absent director. Authority in terms of this article must be in writing (including a telegram or facsimile or e-mail transmission) and must be handed to the person presiding at the meeting at which it is to be used.
- 129.** Questions arising at any meeting shall be decided by a majority of votes, and in case of an equality of votes, the chairman shall not have a second or casting vote.
- 130.** The directors may elect a chairman of their meetings and one or more deputy chairmen to preside in the absence of the chairman, and may determine a period (not exceeding one year) for which they are to hold office. If no such chairman or deputy chairman is elected or if at any meeting neither the chairman nor the deputy chairman is present within fifteen minutes after the time appointed for holding the same, the directors shall choose one of their number to be chairman of such meeting.
- 131.** A meeting of the directors at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under these articles or the regulations of the company for the time being vested in or exercisable by the directors generally.

**132.** A resolution in writing signed by all the directors for the time being present in the Republic and being not less than are sufficient to form a quorum, shall, subject to the provisions of sections 236 and 242(2) of the Act, be as valid and effectual as if it had been passed at a meeting of the directors duly called and constituted, provided that where a director is not so present but has an alternate who is so present, then such resolution must be signed by such alternate. Any such resolution may consist of several documents in like form each signed by one or more directors or their alternates, if applicable, and shall be deemed to have been passed on the date on which it was signed by the last director who signed it, or on such other date as such resolution may direct.

#### **VALIDITY OF ACTS OF DIRECTORS AND COMMITTEES**

**133.** As regards all persons dealing in good faith with the company, all acts done by any meeting of the directors or of a committee of directors, or by any person acting as a director in terms of these articles, shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment or continuance in office of such director or person acting as aforesaid, or that they or any of them were disqualified or had ceased to hold office or were not entitled to vote, be as valid as if every such person had been duly appointed or was qualified or had continued to be a director or was entitled to vote, as the case may be.”

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## HISTORICAL FINANCIAL INFORMATION OF COUNTRY FOODS

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The definitions commencing on page 10 of this prospectus have been used in this report.

The income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes for the six-month period ended 31 March 2007 have been extracted, without adjustment, from the reviewed financial statements of Country Foods or the company. The financial statements of Country Foods have been prepared in accordance with IFRS and have been reported on without qualification by KPMG Inc. The accounting policies applied in preparing the Reviewed Financial Information are consistent with those applied in the previous financial period.

The consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related notes for the period ended 30 September 2006, restated in terms of IFRS ("Restated Historical Financial Information") have been derived from the audited annual financial statements of Country Foods, amended for changes resulting from the transition to IFRS. The audited annual financial statements of Country Foods for the period ended 30 September 2006 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Act and have been reported on without modification by KPMG Inc. IFRS 1: First-time Adoption of IFRS, was applied in preparing the Restated Historical Financial Information.

The directors of Country Foods are responsible for the financial information to which the reporting accountants' report and the report of historical financial information on Country Foods relate and from which such reports have been prepared.

The independent reporting accountants' report on the historical financial information of Country Foods for the period ended 31 March 2007 and 30 September 2006 are set out in Annexure 3 to this prospectus.

### FINANCIAL STATEMENT COMMENTARY

#### DIRECTORS' COMMENTARY

During the period under review, which marks the first six months of trading of Country Foods, our group has enjoyed a substantially improved financial performance in all its subsidiaries or business units.

The substantial investments in production capacity and equipment made by the group's subsidiaries during the 2006 financial period have commenced to render the expected returns. The growth experienced during the past six months is expected to continue as the utilisation of increased production capacity achieves optimal levels. We will continue to experience expansion and development as the new projects are undertaken, both locally and offshore.

The domestic market has shown increased demand for the group's products which are now present in a substantially greater number of retail outlets countrywide. The negotiation of exclusive distribution agreements with international food brands also continues. The increased basket of products offered by our group will contribute to additional growth and substantial costs savings.

The offshore divisions of Country Foods are expected to contribute materially to the group's performance in the short and medium term. Our USA distribution division, Forrest Products, now operating with adequate infrastructure, is expected to continue its substantial growth pattern and market penetration on the East Coast of the USA. The group also has new operations in Tunisia, Morocco and Italy will begin production and distribution in July 2007 and will contribute to group performance in 2008.

Our group's most remarkable asset is its dedicated and extremely competent workforce and management, their contribution is the vital component of the current and future success of Country Foods.

#### SHARE CAPITAL

During the six months period under review until 31 March 2007, 20 584 853 shares with a par value of R0.001 each were issued at a premium of R14 388 816.

## PRINCIPAL ACTIVITIES

The company carries on business of an investment holding company.

## GENERAL REVIEW

Country Foods' business and operations, and the results thereof, are reflected in the attached financial statements and no other fact or circumstance material to a fair assessment of the financial position of the group has occurred.

## PROPERTY, PLANT AND EQUIPMENT

There have been no major changes in the property, plant and equipment of Country Foods during the period or any changes in the policy relating to their use, other than as disclosed in the historical financial information.

## DIVIDENDS

No dividends were declared or paid to shareholders during the year.

	Percentage held	Investment R	Loans R
<b>INVESTMENT IN SUBSIDIARIES</b>			
<i>Directly held</i>			
Edulis Mushroom (Pty) Limited	100	28 909 401	<b>10 456 460</b>
Fruitime Fruit Juices (Pty) Limited	100	20 000 000	<b>2 048 000</b>
Country Mushrooms (Pty) Limited	100	22 000 000	<b>2 252 000</b>
<i>Indirectly held</i>			
– Edulis Mushroom Farms (Pty) Limited	100	–	–
– Edulis Trust (Incorporated in Vaduz)	100	–	–
– Forest Products International LLC – (incorporated in the USA)	65	–	–
– Edulis USA Corp (incorporated in the USA )	80	–	–
– Meriglow Ltd (incorporated in the United Kingdom)	100	–	–
– Cordon Bleu Food Processors (Pty) Limited	100	–	–
– Gouret Mushroom (Pty) Limited	100	–	–
– Mushroom Cordon Bleu (Pty) Limited	100	–	–
– Wattlewood Farm (Pty) Limited	100	–	–
– Porcini Mushrooms (Pty) Limited	100	–	–
– Edulis Gourmet (Pty) Limited	100	–	–
– Midlands Mushroom Farms (Pty) Limited	50	–	–
– Chantau Property Investments (Pty) Limited	50	–	–

## SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the period, not otherwise dealt with in the financial statements, which significantly affects the financial position of the company or the result of its operations as presented in the financial statements.

## SEGMENTAL ANALYSIS

		<b>Country Foods</b>	<b>Edulis Group</b>
		<b>31 March 2007</b>	<b>30 September 2006</b>
		<b>R'000</b>	<b>R'000</b>
Revenue			
Domestic:			
Mushrooms	(12% Edulis)	26 209	4 813
Beverages		34 489	
Exports:			
Mushrooms		28 977	35 295
Assets:			
Domestic	Non-current assets	114 749	90 417
	Current assets	68 944	54 711
	Liabilities	92 396	75 554
Foreign	Non-current assets	567	567
	Current assets	7 597	7 597
	Liabilities	5 556	5 556

## LOANS MADE OR SECURITIES FURNISHED

There are no loans made or securities furnished by the company or its subsidiaries for the benefit of any director or manager or any associate of any director or manager.

## INCOME STATEMENTS

The consolidated income statements of Country Foods for the six months ended 31 March 2007 and period ended 30 September 2006 are set out below:

	<i>Notes</i>	<b>Reviewed Six months ended 31 March 2007 R</b>	<b>Audited Fifteen months ended 30 September 2006 R</b>
Revenue		89 674 721	40 105 759
Cost of sales		(58 400 821)	(20 887 989)
Gross profit		31 273 900	19 217 770
Operating expenditure		(18 935 803)	(14 653 986)
Profit from operations	<i>18</i>	12 338 097	4 563 784
Finance costs	<i>19</i>	(3 891 153)	(3 671 385)
Finance income	<i>19</i>	360 705	–
Profit before taxation		8 807 649	892 399
Income tax (expense)/credit	<i>20</i>	(1 484 337)	1 746 567
Profit after taxation		7 323 312	2 638 966
Profit attributable to minority shareholders		(1 690 574)	(162 786)
Profit for period		5 632 738	2 476 180
Earnings per share (cents)		7.0	3.4
Weighted average number of shares		80 515 928	72 000 000

## CONSOLIDATED BALANCE SHEET

The consolidated balance sheets of Country Foods at 31 March 2007 and 30 September 2006 are set out below:

	<i>Notes</i>	<b>Reviewed 31 March 2007 R</b>	<b>Audited 30 September 2006 R</b>
<b>ASSETS</b>			
<b>Non-current assets</b>		115 315 726	90 983 646
Property, plant and equipment	2	55 209 887	39 143 329
Other investments	3	2 982	2 982
Investment in subsidiary companies	4	–	–
Loans to group and related companies	5	4 901 172	4 027 117
Long-term loans receivable	6	11 338 030	11 203 056
Non-current trade receivables	9	2 700 000	2 700 000
Intangible assets	7	38 361 768	33 582 002
Deferred tax asset	15	2 801 887	325 160
<b>Current assets</b>		76 540 520	62 307 941
Inventory	8	18 145 167	16 023 739
Trade and other receivables	9	54 492 316	43 939 347
Cash and cash equivalents		3 903 037	2 344 855
<b>Total assets</b>		191 856 246	153 291 587
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves		91 122 007	71 669 231
Ordinary share capital and premium	10	54 632 563	40 723 162
Non-distributable reserve	11	216 730	306 093
Retained earnings		36 272 714	30 639 976
Minority interest	12	2 781 998	512 704
Shareholders' interest		93 904 005	72 181 935
<b>Non-current liabilities</b>		46 826 133	29 373 555
Interest bearing borrowings	13	14 057 930	14 745 566
Loans from group and related companies	5	16 770 041	–
Non-interest bearing borrowings	14	5 827 425	4 456 275
Deferred taxation liability	15	10 170 737	10 171 714
<b>Current liabilities</b>		51 126 108	51 736 097
Trade and other payables		22 798 755	19 730 739
Short-term borrowings	16	2 771 400	1 967 220
Current portion of interest bearing borrowings	13	6 298 842	8 217 143
Provision for taxation		3 235 554	2 306 203
Bank overdraft	17	16 021 557	19 514 792
<b>Total equity and liabilities</b>		191 856 246	153 291 587
Number of shares in issue		92 584 860	72 000 000
Net asset value per share (cents)		98.4	99.5
Net tangible asset value per share (cents)		57.0	52.9

## CHANGES IN EQUITY

The statements of changes in equity for the periods ended 31 March 2007 and 30 September 2006 are set out below:

	Share capital R	Share premium R	Retained earnings R	Non- distributable (deficit)/ reserve R	Total R
<b>Balance 1 July 2005</b>	<b>250 000</b>	<b>–</b>	<b>28 163 796</b>	<b>(55 531)</b>	<b>28 358 265</b>
Foreign currency reserve	–	–	–	361 624	361 624
Profit for period	–	–	2 476 180	–	2 476 180
Share issued – cost of acquisition	42 001	40 431 161	–	–	40 473 162
<b>Balance at 30 September 2006</b>	<b>292 001</b>	<b>40 431 161</b>	<b>30 639 976</b>	<b>306 093</b>	<b>71 669 231</b>
Foreign currency translation reserve	–	–	–	(89 363)	(89 363)
Profit for period	–	–	5 632 738	–	5 632 738
Proceeds on share issue	20 585	14 388 816	–	–	14 409 401
Share issue expenses written off	–	(500 000)	–	–	(500 000)
<b>Balance at 31 March 2007</b>	<b>312 585</b>	<b>54 319 977</b>	<b>36 272 714</b>	<b>216 730</b>	<b>91 122 007</b>

## CASH FLOW STATEMENTS

The consolidated cash flow statements of the Country Foods for the periods ended 31 March 2007 and 30 September 2006 are set out below:

	<i>Notes</i>	<b>Six months ended 31 March 2007 R</b>	<b>Fifteen months ended 30 September 2006 R</b>
<b>Cash flows from operating activities</b>			
Cash generated/(utilised) by operating activities	21.1	3 002 344	(4 571 796)
Finance income	19	360 705	–
Finance costs	19	(3 891 153)	(3 671 385)
Taxation paid	21.2	(582 877)	(310 692)
Net cash outflow from operating activities		(1 110 981)	(8 553 875)
Cash (outflow)/inflow from investing activities		(8 946 469)	4 295 139
Investment to maintain operations		–	8 728 892
– proceeds from disposal of property, plant and equipment			
Investment to expand operations			
– acquisition of subsidiaries	7	(5 984 000)	–
– additions to property, plant and equipment		(2 962 469)	(4 433 753)
Cash inflow from financing activities		14 931 368	941 945
Loans advanced to group and related companies		(874 055)	(428 209)
Non-interest bearing borrowings raised		1 371 150	2 481 275
Proceeds on share issue		13 909 401	–
Loans received from/(repaid to) group and related companies		7 132 291	(1 158 588)
Translation differences		(89 363)	361 624
Interest bearing borrowings repaid		(6 518 056)	(314 157)
Net increase/(decrease) in cash and cash equivalents		4 873 918	(3 316 791)
Cash on acquisition of subsidiary company		177 499	(3 876 832)
Cash and cash equivalents at beginning of period		(17 169 937)	(9 976 310)
Cash and cash equivalents at end of period	21.3	(12 118 520)	(17 169 937)

## NOTES TO THE FINANCIAL STATEMENTS

The notes to the historical financial information of the group at 31 March 2007 and 30 September 2006 are set out below:

### 1. ACCOUNTING POLICIES

The financial statements incorporate the following principal accounting policies. The accounting policies of subsidiary companies are in line with those adopted by the holding company.

#### 1.1 Statement of compliance

The financial statements have been prepared and approved by the directors in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB) and the requirements of the Act.

## 1.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss.
- Available-for-sale financial assets are measured at fair value.

The methods use to measure fair values are discussed further in Note 1.25.

### *Functional and presentation currency*

These financial statements are presented in Rand, which is the company's functional currency. All financial information is presented in Rand.

### *Estimation and judgements*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of International Financial Reporting Standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 24.

## 1.3 Intangible assets

An intangible asset is an identified, non-monetary asset that has no physical substance. An intangible asset is recognised when it is identifiable; the group has control over the asset; it is probable that economic benefits will flow to the group and the cost of the asset can be measured reliably.

### *Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures being the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill with an indefinite useful life is allocated to cash generating units and is tested for impairment at each balance sheet date and whenever there is an indication that goodwill has been impaired. An impairment loss is recognised in the income statement when the carrying amount exceeds its recoverable amount.

An impairment loss in respect of goodwill is not reversed.

### *Other intangible assets*

Other intangible assets that are acquired by the group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

### *Computer software*

Acquired computer software that is significant and unique to the business is capitalised as an intangible asset on the basis of the cost incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programmes are capitalised as intangible assets only if they qualify for recognition. In all other cases these costs are recognised as an expense as incurred.

Costs that are directly associated with the development and production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate allocation of relevant overheads.

Computer software is amortised on a systematic basis over its estimated useful life from the date it becomes available for use.

The current useful lives are:

Capitalised software	3 years
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Subsequent expenditure on capitalised intangible assets is capitalised when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### **1.4 Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated as it is deemed to have indefinite life.

Cost includes expenditures that are directly attributable to the acquisition of an item of property, plant and equipment. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is the systematic allocation of the depreciable amount of an item of property, plant and equipment over its estimated useful life. Depreciation is charged on the depreciable amount, to the income statement, on a straight-line basis over the estimated useful lives of items of property, plant and equipment.

The depreciable amount is the difference between the cost of an item of property, plant and equipment and its residual value.

Residual value is the estimated amount that the group would currently obtain from disposal of an item of property, plant and equipment, after deducting the estimated costs of disposal, if the item were already of age and in the condition expected at the end of its useful life.

The depreciation rates currently are:

Plant and machinery	5 years
Factory equipment	5 years
Motor vehicles	5 years
Furniture and office equipment	5 years
Computer equipment	3 years

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The residual value, if not insignificant, depreciation method and useful lives of property, plant and equipment are re-assessed annually.

Routine maintenance costs are charged to the income statement as it is incurred. The costs of major maintenance or overhaul of an item of property, plant or equipment are recognised as an expense, except if the cost had been recognised as a separate part of the cost of the asset, and that amount has already been depreciated to reflect the benefits that had been replaced or restored.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of asset will be increased and the costs can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Surpluses/(Deficits) on the disposal of property, plant and equipment are credited/(charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying value of the asset.

## **1.5 Impairment**

The carrying amounts of the group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a *pro rata* basis.

### *Calculation of recoverable amount*

The recoverable amount of the group's investment in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### *Reversals of impairment*

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## **1.6 Investment in subsidiaries**

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In respect of changes of interest during the accounting period, the attributable results of subsidiaries are included as from the effective date of acquisition or to the effective date of disposal.

Investments in subsidiary companies are stated as cost less impairment write-offs in the company's separate financial statements.

## **1.7 Investment in associate companies**

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its interest in an associate the group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

Investments in associates are stated at cost less impairment write-offs in the company's separate financial statements.

## **1.8 Investment in joint ventures**

### *Joint ventures*

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated financial statements include the group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

### *Transactions eliminated on consolidation*

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## **1.9 Leased assets**

### *Finance leases*

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset or the lease term, whichever is the shortest. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period.

### *Operating leases*

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

## **1.10 Inventories**

Consumable inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined using the first-in, first-out method.

Fresh product inventory is stated at fair value.

Obsolete, redundant and slow-moving inventory are identified on a regular basis and are written down to their estimated net realisable values.

## 1.11 Revenue

Revenue comprises the amounts (net of VAT) invoiced in respect of the sale of goods and services.

### *Goods sold*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

### *Services*

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

### *Rental income*

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

### *Government grants*

An unconditional Government grant related to a biological asset is recognised in profit or loss when the grant becomes receivable.

Other Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the group will comply with the conditions associated with the grant. Grants that compensate the group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

## 1.12 Investment properties

Investment properties are defined as land and buildings held by the group to earn rental or for capital appreciation purposes, or both. Investment properties are initially recorded at cost. Subsequent to initial measurement, investment properties are reflected at cost less accumulated depreciation and impairment losses.

## 1.13 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

#### **1.14 Foreign currency**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rand at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

#### **1.15 Provisions**

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

##### *Restructuring*

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

##### *Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

#### **1.16 Employee benefits**

##### *Short-term employee benefits*

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The accruals for employee entitlements to wages, salaries and annual leave represent the amount which the group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

##### *Share-based payment transactions*

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

### *Retirement benefits*

The group contributes to a defined contribution plan. Contributions to the defined contribution fund are charged against income as incurred.

### *Termination benefits*

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

## **1.17 Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, investments, trade receivables, trade creditors, leases and borrowings.

### *Measurement*

Financial instruments are initially measured at fair value, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

### *Interest bearing borrowings*

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### *Trade and other receivables*

Trade receivables are initially recognised at fair value, and are subsequently classified as loans and receivables and measured at amortised cost using the effective interest rate method.

The impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due in accordance with the original terms of the credit given and includes an assessment of recoverability based on historical trend analysis and events that exists at balance sheet date. The amount of the impairment is the difference between the carrying value and the present value.

### *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

### *Trade and other payables*

Trade and other payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Trade payables are initially recognised at fair value, and are subsequently classified as non-trading financial liabilities and carried at amortised cost using the effective interest rate method.

### *Offset*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the group has a legally enforceable right to set-off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## **1.18 Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated. Bank overdrafts

that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### **1.19 Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

### **1.20 Related parties**

Related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning.

### **1.21 Contingent assets**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. In the ordinary course of business the group may pursue a claim against a client.

Such contingent assets are only recognised in the financial statement where the realisation of income is virtually certain. If the inflow of economic benefits is only probable, the contingent asset is disclosed as a claim in favour of the group but not recognised in the balance sheet.

### **1.22 Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

### **1.23 Non-current assets held for sale**

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the company's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

### **1.24 Comparative figures**

Where necessary comparative figures have been reclassified.

## 1.25 Determination of fair values

A number of the group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### *Derivatives*

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on Government Bonds).

### *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

### *Intangible assets*

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### *Investment property*

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the group's investment property portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

### *Inventory*

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

**Notes to the financial statements**

	<b>Reviewed 31 March 2007 R</b>	Audited 30 September 2006 R
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
<i>Cost</i>		
Land and buildings	<b>30 502 720</b>	20 979 954
Motor vehicles	<b>16 036 382</b>	13 688 262
Factory equipment	<b>10 239 508</b>	5 271 894
Furniture and office equipment	<b>2 438 267</b>	2 153 396
Plant and equipment	<b>24 266 286</b>	21 791 814
	<b>83 483 163</b>	63 885 320
<i>Accumulated depreciation and impairment losses</i>		
Land and buildings	<b>2 089 237</b>	1 648 980
Motor vehicles	<b>7 302 042</b>	6 352 348
Factory equipment	<b>3 680 702</b>	2 759 327
Furniture and office equipment	<b>1 813 298</b>	1 673 417
Plant and equipment	<b>13 387 997</b>	12 307 919
	<b>28 273 276</b>	24 741 991
<i>Carrying value</i>		
Land and buildings	<b>28 413 482</b>	19 330 974
Motor vehicles	<b>8 734 340</b>	7 335 914
Factory equipment	<b>6 558 775</b>	2 512 567
Furniture and office equipment	<b>625 001</b>	479 979
Plant and equipment	<b>10 878 289</b>	9 483 895
	<b>55 209 887</b>	39 143 329

	Land and buildings	Leasehold improvements	Motor vehicles	Factory equipment	Furniture and office equipment	Plant and equipment	Total
	R	R	R	R	R	R	R
<i>Carrying value reconciliation</i>							
<b>2007</b>							
Carrying value at 1 October 2006	19 330 974	-	7 335 914	2 512 567	479 979	9 483 895	39 143 329
Acquisitions, at cost	75 985	-	1 397 088	37 391	225 931	1 226 074	2 962 469
Current year depreciation	(440 257)	-	(949 694)	(575 885)	(130 469)	(1 080 078)	(3 176 383)
Business combinations – subsidiaries acquired	9 446 780	-	951 032	4 584 702	49 560	1 248 398	16 280 472
<b>Carrying value at 31 March 2007</b>	<b>28 413 482</b>	<b>-</b>	<b>8 734 340</b>	<b>6 558 775</b>	<b>625 001</b>	<b>10 878 289</b>	<b>55 209 887</b>
<i>Carrying value reconciliation</i>							
<b>2006</b>							
Carrying value at beginning of period	2 205 046	2 281 096	7 885 120	872 662	247 691	3 085 441	16 577 056
Transition to IFRS – adjustment to useful lives and residual values	-	-	-	1 400 000	-	-	1 400 000
<b>Restated balance at 1 July 2005</b>	<b>2 205 046</b>	<b>2 281 096</b>	<b>7 885 120</b>	<b>2 272 662</b>	<b>247 691</b>	<b>3 085 441</b>	<b>17 977 056</b>
Acquisitions, at cost	-	(2 253 392)	3 569 075	85 333	129 745	649 600	4 433 753
Disposals	(186 555)	(27 704)	(4 774 659)	(185 306)	(12)	(2 244 650)	(9 458 019)
Current year depreciation			(2 108 561)	(515 164)	(175 318)	(635 783)	(3 649 085)
Business combinations – subsidiaries acquired	17 312 483	-	2 764 939	855 042	277 873	8 629 287	29 839 624
<b>Carrying value at 30 September 2006</b>	<b>19 330 974</b>	<b>-</b>	<b>7 335 914</b>	<b>2 512 567</b>	<b>479 979</b>	<b>9 483 895</b>	<b>39 143 329</b>

	<b>31 March 2007 R</b>	30 September 2006 R
<b>2. PROPERTY, PLANT AND EQUIPMENT</b> <i>(continued)</i>		
Land and buildings comprises:		
7/24ths of Erf 246 Amsterdam IT, Transvaal situated at 87 Voortrekker Street, Amsterdam, with improvements thereon	<b>1 448 548</b>	1 505 631
– at cost	<b>2 283 318</b>	2 283 318
– accumulated depreciation and impairment losses	<b>(834 770)</b>	(777 687)
Erven 271 and 272 situated in the town Amsterdam IT Transvaal, with buildings thereon	<b>8 084</b>	10 584
– at cost	<b>55 000</b>	55 000
– improvements at cost, 1990	<b>45 000</b>	45 000
– accumulated depreciation and impairment losses	<b>(91 916)</b>	(89 416)
Erf 213 situated in the town Amsterdam IT Transvaal	–	129
– at cost	<b>30 900</b>	30 900
– accumulated depreciation and impairment losses	<b>(30 900)</b>	(30 771)
Erven 278 and 279 situated in the town Amsterdam IT Transvaal		
– at cost	<b>4 074</b>	4 074
Erf 212	<b>128 897</b>	131 878
– at cost	<b>158 643</b>	158 643
– accumulated depreciation and impairment losses	<b>(29 746)</b>	(26 765)
Erven 313 and 314	<b>89 502</b>	94 844
– at cost	<b>148 501</b>	148 501
– accumulated depreciation and impairment losses	<b>(58 999)</b>	(53 657)
Erf 123, Apex Extension 3, Benoni	<b>1 315 526</b>	1 330 512
– at cost	<b>1 396 589</b>	1 396 589
– accumulated depreciation and impairment losses	<b>(81 063)</b>	(66 077)
Portion 70 of Farm Tweefontein and remaining extension 3 of Farm 413, Tweefontein	<b>15 991 172</b>	15 981 971
– at cost	<b>16 530 804</b>	16 454 818
– accumulated depreciation and impairment losses	<b>(539 632)</b>	(472 847)
17/24ths of Erf 246, Amsterdam	<b>260 153</b>	271 351
– at cost	<b>403 111</b>	403 111
– accumulated depreciation and impairment losses	<b>(142 958)</b>	(131 760)
Portion 35 (of 28) of the farm Riversdale No. 11287	<b>9 167 526</b>	–
– at cost	<b>9 446 780</b>	–
– accumulated depreciation and impairment losses	<b>(279 254)</b>	–
Carrying value	<b>28 413 482</b>	19 330 974

Land and buildings are encumbered as detailed in Note 13.

	<b>31 March 2007 R</b>	30 September 2006 R
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### 3. OTHER INVESTMENTS

Held at fair value

– OTK shares	<b>2 982</b>	<b>2 982</b>
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	<b>Company</b>	
	<b>31 March 2007 R</b>	30 September 2006 R

### 4. INVESTMENT IN SUBSIDIARY COMPANIES

*Directly held*

Shares at cost

– Edulis Mushrooms (Pty) Limited – 100% holding	<b>28 909 401</b>	28 909 401
– Fruitime Fruit Juices (Pty) Limited – 100% holding	<b>20 000 000</b>	20 000 000
– Country Mushrooms (Pty) Limited – 100% holding	<b>22 000 000</b>	22 000 000
	<b>70 909 401</b>	70 909 401

*Indirectly held*

- Porcini Mushrooms (Pty) Limited – (100% holding)
- Midlands Mushrooms Farms (Pty) Limited – (50% holding)
- Chantau Property Investments (Pty) Limited – (50% holding)
- Edulis Mushroom Farms (Pty) Limited – (100% holding)
- Edulis Gourmet (Pty) Limited – (100% holding)
- Edulis Trust (Incorporated in Vaduz – (100% holding)
- Forest Products International LLC – (incorporated in the USA – 65% holding)
- Edulis USA Inc (incorporated in the USA – 80% holding )
- Meriglow Ltd (incorporated in the United Kingdom – 100% holding)
- Cordon Bleu Food Processors (Pty) Limited – (100% holding)
- Gouret Mushroom (Pty) Limited – (100% holding)
- Mushroom Cordon Bleu (Pty) Limited – (100% holding)
- Wattlewood Farms (Pty) Limited – (100% holding)

*Loans to subsidiaries*

– Edulis Mushrooms (Pty) Limited	<b>10 456 460</b>	1 083 606
– Fruitime Fruit Juices (Pty) Limited	<b>2 048 000</b>	–
– Country Mushrooms (Pty) Limited	<b>2 252 000</b>	–
	<b>85 665 861</b>	71 993 007

	<b>31 March 2007 R</b>	30 September 2006 R
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## 5. LOANS TO GROUP AND RELATED COMPANIES

### *Loans to group and related companies*

Mediolanum Investments Limited	<b>4 901 172</b>	4 027 117
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The loans are unsecured, interest free and have no fixed terms of repayment.

### *Loan from group and related companies*

Mediolanum Investments (Pty) Limited	<b>16 770 041</b>	–
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R10 786 041 of the loan bears interest at 7.5% per annum. The loan has been subordinated in favour of the creditors of Chantau Property Investments (Pty) Limited. The remainder of the loan is unsecured and interest-free with no fixed terms of repayment. The loan was for short-term bridging finance for the construction of Chantau Property Investments (Pty) Limited, a 100% subsidiary of Midlands Mushroom Farms (Pty) Limited.

	<b>Reviewed 31 March 2007 R</b>	Audited 30 September 2006 R
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## 6. LONG-TERM LOANS RECEIVABLE

### *Unsecured foreign loans*

– Gruppen Drei AG	<b>533 986</b>	149 012
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The loan is interest free with no fixed terms of repayment.

### *Unsecured local loans*

– Edulis Food Processors Ltd (Malawi)	<b>535 674</b>	535 674
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The loan is non interest bearing with no fixed terms of repayment.

– Gondo Industrial Corporation (Zimbabwe)	<b>10 268 370</b>	10 518 370
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The loan arose on 30 June 2003. R10 518 370 (30 June 2005 – R8 000 000 and accrued interest of R2 518 370) loan in respect of the sale of Edulis Zimbabwe and Collica Investments to Gondo Industrial Corporation. The payment of the loan has been deferred for a maximum of 10 years. Edulis Trust has agreed to reduce the loan by R500 000 annually on the supply of fresh mushroom product by Edulis Zimbabwe to Edulis Mushrooms in terms of the exclusive distribution agreement. The loan originally bore interest. With effect 1 July 2005, the loan terms were amended and the loan no longer bears interest.

The loan has been secured by the share certificates in Edulis Zimbabwe and Collica Investments.

	<b>11 338 030</b>	11 203 056
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The above loans are interest-free as per the agreements between the respective parties. Due to the absence of a contractual repayment date, the fair value of these loans could not be determined. The above loans have been made to operations that supply Edulis exclusively with wild mushrooms.

## 7. INTANGIBLE ASSETS

	Goodwill R	Patents and trademark R	Brand names R	Customer relation- ships R	Total R
<i>Cost</i>					
Balance at 1 July 2005	–	–	–	–	–
Acquisitions					
– internally developed	–	–	–	–	–
– through business combinations	20 012 920	55 000	8 881 000	4 656 000	<b>33 604 920</b>
Balance at 30 September 2006	20 012 920	55 000	8 881 000	4 656 000	<b>33 604 920</b>
Balance at 1 October 2006	20 012 920	55 000	8 881 000	4 656 000	<b>33 604 920</b>
– through business combinations	5 405 140	–	–	–	<b>5 405 140</b>
Balance at 31 March 2007	25 418 060	55 000	8 881 000	4 656 000	<b>39 010 060</b>
<i>Accumulated amortisation and impairment losses</i>					
Balance at 1 July 2005	–	–	–	–	–
Amortisation for period	–	(22 918)	–	–	<b>(22 918)</b>
Balance at 30 September 2006	–	(22 918)	–	–	<b>(22 918)</b>
Balance at 1 October 2006	–	(22 918)	–	–	<b>(22 918)</b>
Amortisation for period	–	(6 874)	(331 500)	(287 000)	<b>(625 374)</b>
Balance at 31 March 2007	–	(29 792)	(331 500)	(287 000)	<b>(648 292)</b>
<i>Carrying values</i>					
<b>at 31 March 2007</b>	<b>25 418 060</b>	<b>25 208</b>	<b>8 549 500</b>	<b>4 369 000</b>	<b>38 361 768</b>
at 30 September 2006	20 012 920	32 082	8 881 000	4 656 000	33 582 002

### Business combinations

On 30 September 2006 Country Foods Limited acquired 100% of the shares in Fruitime Fruit Juices (Pty) Limited. The cost of acquisition amounted to R20 million and was paid in shares.

Goodwill of R10 069 870 arose due to expected synergy between the assets of Fruitime Fruit Juices (Pty) Limited and Country Foods Limited.

On 30 September 2006 the fair values and carrying amounts of Fruitime Fruit Juices (Pty) Limited were as follows:

	<b>Carrying value R</b>	<b>Fair value R</b>
Property, plant and equipment	5 658 808	5 658 808
Intangible assets	32 083	32 083
Deferred taxation	(885 544)	(5 403 110)
Brand names	–	6 752 000
Customer relationships	–	3 839 000
Inventory	4 024 194	4 024 194
Trade and other receivables	6 994 930	6 994 930
Cash and cash equivalents	1 488 099	1 488 099
Interest bearing liabilities	(1 940 508)	(1 940 508)
Interest bearing liabilities – short term	(490 975)	(490 975)
Trade and other payables	(11 010 391)	(11 010 391)
Taxation payable	(14 000)	(14 000)
<b>Net carrying value</b>	<b>3 856 696</b>	
Fair value of identified assets		9 930 130
Purchase price		20 000 000
<b>Goodwill</b>		<b>10 069 870</b>

### **Business Combinations**

On 30 September 2006 Country Foods Limited acquired 100% of the shares in Country Mushrooms (Pty) Limited and its underlying subsidiaries. The cost of acquisition amounted to R22 million and was paid in shares.

Goodwill of R9 943 050 arose due to expected synergy between the assets of Country Mushrooms (Pty) Limited and Country Foods Limited.

On 30 September 2006 the fair values and carrying amounts of Country Mushrooms (Pty) Limited and its underlying subsidiaries were as follows:

	<b>Carrying value R</b>	<b>Fair value R</b>
Property, plant and equipment	24 180 816	24 180 816
Deferred taxation	(428 331)	(2 873 321)
Brand names	–	2 129 000
Customer relationships	–	817 000
Inventory	3 045 551	3 045 551
Trade and other receivables	2 873 687	2 873 687
Cash and cash equivalents	411 300	411 300
Interest bearing liabilities	(9 395 929)	(9 395 929)
Trade and other payables	(1 284 061)	(1 284 061)
Taxation payable	(37 723)	(37 723)
Current portion of non-current liabilities	(2 033 135)	(2 033 135)
Bank overdraft	(5 776 235)	(5 776 235)
<b>Net carrying value</b>	<b>11 555 940</b>	
Fair value of identified assets		12 056 950
Purchase price		22 000 000
<b>Goodwill</b>		<b>9 943 050</b>

On 1 October 2006 Edulis Mushrooms (Pty) Limited acquired 100% of the shares in Porcini Mushrooms (Pty) Limited and its underlying subsidiaries. The cost of acquisition amounted to R5.984 million.

Goodwill of R5 405 140 arose due to expected synergy.

On 1 October 2006 the fair values and carrying amounts of Porcini Mushrooms (Pty) Limited and its underlying subsidiaries were as follows:

	<b>Carrying value R</b>	<b>Fair value R</b>
Property, plant and equipment	16 280 472	16 280 472
Deferred taxation	2 461 374	2 461 374
Inventory	1 236 679	1 236 679
Trade and other receivables	2 544 440	2 544 440
Cash and cash equivalents	177 548	177 548
Interest bearing liabilities	(3 912 119)	(3 912 119)
Related party loans	(9 637 750)	(9 637 750)
Minority interest	(578 720)	(578 720)
Trade and other payables	(7 981 454)	(7 981 454)
Taxation payable	(11 561)	(11 561)
Bank overdraft	(49)	(49)
Net carrying value	578 860	
Fair value of identified assets		578 860
Purchase price		5 984 000
Goodwill		5 405 140
	<b>Reviewed 31 March 2007 R</b>	Audited 30 September 2006 R

## 8. INVENTORY

Finished goods and consumables	<b>18 145 167</b>	16 023 739
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## 9. TRADE AND OTHER RECEIVABLES

The trade debtors have been ceded to the companies' bankers as security for overdraft facilities provided.

Trade receivables include receivables amounting to R2 700 000 which will only be repayable after 12 months. This balance has been included in non-current assets.

Included in trade and other receivables are the following amounts owing by related companies:

– Midlands Mushroom Farms (Pty) Limited	–	8 825 904
– Chantau Properties (Pty) Limited	–	355 736
– Gruppen Drei	<b>4 300 179</b>	4 300 179
– Edulis Food Processors (Malawi)	<b>5 152 388</b>	5 030 788
– Muthoni Mushrooms (Pty) Limited	<b>7 641 530</b>	6 178 671
	<b>17 094 097</b>	24 691 278

	<b>Reviewed 31 March 2007 R</b>	Audited 30 September 2006 R
<b>10. ORDINARY SHARE CAPITAL</b>		
<i>Authorised</i>		
500 000 000 ordinary shares of R0.001 each	<b>500 000</b>	500 000
<i>Issued</i>		
92 584 860 (2006 – 72 000 000) ordinary shares of R0.001 each	<b>312 585</b>	292 000
Share premium	<b>54 319 977</b>	40 431 161
	<b>54 632 563</b>	40 723 162
<b>11. NON-DISTRIBUTABLE RESERVE</b>		
<i>Foreign currency translation reserve</i>		
Balance at beginning of period	<b>306 093</b>	(55 531)
Translation differences arising in current period	<b>(89 363)</b>	361 624
	<b>216 730</b>	306 093
<b>12. MINORITY INTEREST</b>		
Balance at beginning of period	<b>512 704</b>	346 727
Prior period adjustment	–	3 191
On acquisition of subsidiary	<b>578 720</b>	–
Share of current period profits	<b>1 690 574</b>	162 786
	<b>2 781 998</b>	512 704
<b>13. INTEREST BEARING BORROWINGS</b>		
<i>Secured</i>		
Instalment sale obligations bearing interest at the prime overdraft rate. The liabilities are secured by property, plant and equipment	<b>12 318 530</b>	9 806 943
Absa term loan bearing interest at prime, secured by a mortgage bond over land and buildings with a carrying value of R15.981 million– refer Note 2	<b>6 904 138</b>	7 508 049
Loan bearing interest at 12,5% per annum, secured by first mortgage over land and buildings with a carrying value of R1 198 358. The loan is repayable over 10 years in monthly instalments which increase every 12 months	<b>102 039</b>	959 639
Balance carried forward	<b>19 324 707</b>	18 274 631

	<b>Reviewed 31 March 2007 R</b>	Audited 30 September 2006 R
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### 13. INTEREST BEARING BORROWINGS *(continued)*

<i>Balance brought forward</i>	<b>19 324 707</b>	18 274 631
DaimlerCrysler	<b>369 856</b>	406 187
Finance lease obligations capitalised at the prime overdraft interest rate. This liability is secured by motor vehicles with a carrying value of R392 974.		
African Dawn Capital Limited	<b>415 815</b>	4 034 708
The loan is unsecured and bears interest at the prime interest rate. The loan was converted into equity shares (592 593 shares in Country Foods Limited) subsequent to 31 March 2007.		
	<b>20 110 378</b>	22 715 526
Current portion of interest bearing borrowings	<b>(6 298 842)</b>	(8 217 143)
– Mortgage and instalment sale agreements	<b>(5 808 266)</b>	(4 107 674)
– African Dawn Capital Limited	<b>(415 815)</b>	(4 034 708)
– Daimler finance lease agreement	<b>(74 761)</b>	(74 761)
	<b>13 811 536</b>	14 498 383
Other non-current liabilities	<b>246 394</b>	247 183
First National Bank Limited	<b>111 599</b>	112 059
Nedbank Limited	<b>134 795</b>	135 124
	<b>14 057 930</b>	14 745 566

The loans with First National Bank Limited and Nedbank Limited are repayable in monthly instalments at the prime rate of interest and are secured by mortgage bonds over the land and buildings as described in Note 2.

### 14. NON-INTEREST BEARING BORROWINGS

<i>Foreign unsecured loan</i>		
Agricolsemi	<b>2 427 425</b>	2 456 275
250 000 Euro – the loan is interest-free and there are no fixed terms of repayment.		
<i>Local unsecured loans</i>		
Sogo Investments (Pty) Limited	<b>1 400 000</b>	–
Naniro Investments (Pty) Limited	<b>2 000 000</b>	2 000 000
	<b>5 827 425</b>	4 456 275

The loans from Sogo Investments (Pty) Limited and Naniro Investments (Pty) Limited are currently interest-free. The loan from Sogo Investments was converted into shares in Country Foods Limited subsequent to 31 March 2007.

	<b>Reviewed 31 March 2007 R</b>	Audited 30 September 2006 R
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#### 15. DEFERRED TAXATION (LIABILITY)/ ASSET

Balance at beginning of period	<b>(9 846 554)</b>	(2 226 764)
Arising from accounting for business combination	–	(7 461 137)
At acquisition of subsidiaries	<b>2 461 374</b>	(1 313 875)
Transition to IFRS	–	(406 000)
Current period income statement movement	<b>(16 330)</b>	1 561 222
Balance at end of period	<b>(7 368 850)</b>	(9 846 554)

#### 16. SHORT-TERM BORROWINGS PAYABLE

##### *Unsecured*

Loan from Dairyland	<b>2 771 400</b>	1 967 220
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USD385 462 (2006 – USD257 153) non-interest bearing loan.

#### 17. BANK OVERDRAFT

Bank overdraft	<b>16 021 557</b>	19 514 792
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The following security has been provided in respect of the banking facilities provided by Nedbank Limited:

- Unlimited surety by Mediolanum Investment excluding loan account
- Cession of debtors
- Unlimited surety by B & C Investment Holdings Limited
- Cession of shareholders' loan in name of Country Foods Limited
- Unlimited Cross Suretyship by and between Country Foods Limited and, excluding loan accounts:
  - Edulis Food Processors (Pty) Limited
  - Forest Products International LLC
  - Edulis USA Inc.
  - Muthoni Mushrooms (Pty) Limited
  - Midlands Mushrooms (Pty) Limited
  - Chantau Properties (Pty) Limited
  - Edulis Trust Reg.
  - Edulis Investments (Pty) Limited.

The following security has been provided in respect of facilities granted by ABSA Limited:

- Unlimited cession of debtors
- Unlimited suretyship by Mediolanum Investments Limited supported by a cession of its loan account in Country Foods Limited
- Unlimited suretyship by B & C Investments Holdings Limited
- Undertakings by Country Foods Limited, Edulis Food Processors Limited, Forest Products International LLC, Edulis Trust Reg. Edulis USA Corp, Edulis Investments (Pty) Limited, Muthoni Mushrooms (Pty) Limited, Midlands Mushroom Farms (Pty) Limited and Chantau Property Investments (Pty) Limited:
  - the companies mentioned above will not without the prior written consent of the bank, which shall not unreasonably be withheld, grant security to any other institution which shall have the effect of subordinating the claims of the bank to the claims of such other financial institution;
  - the companies mentioned in above will not without the prior written consent of the bank, which will not unreasonably be withheld, encumber or dispose of any presently unencumbered assets acquired hereafter.

## 17. BANK OVERDRAFT (continued)

The following security has been provided in respect of facilities granted by ABSA Limited:

- Cross-suretyship between the following entities:
  - Country Foods Limited
  - Edulis Food Processors Limited
  - Forest Products International LLC
  - Edulis Trust Reg
  - Edulis USA Corp
  - Edulis Investments (Pty) Limited
  - Muthoni Mushrooms (Pty) Limited
  - Midlands Mushroom Farms (Pty) Limited
  - Chantau Property Investments (Pty) Limited

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	<b>Reviewed Six months ended 31 March 2007 R</b>	Audited Fifteen months ended 30 September 2006 R
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## 18. PROFIT FROM OPERATIONS

Profit from operations is stated after taking into account the following:

### *Income*

DTI grants received	–	525 000
Negative goodwill arising from business combination	–	2 014 310

### *Expenses*

Amortisation of intangible assets	<b>625 374</b>	22 918
Auditors' remuneration	<b>179 000</b>	370 752
Current	<b>179 000</b>	370 752
Under accrual in prior period	–	–
Depreciation	<b>3 176 383</b>	3 649 085
Directors' remuneration		
– for services other than as directors (commission paid to related company)	<b>2 185 000</b>	1 710 000
Loss on disposal of property, plant and equipment	–	729 127
Management fee paid to holding company	–	320 000
Operating lease charges	<b>688 707</b>	1 389 836
Property	<b>688 707</b>	1 357 316
Motor vehicles	–	32 520

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	<b>Reviewed Six months ended 31 March 2007 R</b>	Audited Fifteen months ended 30 September 2006 R
<b>19. NET FINANCE INCOME/(COST)</b>		
<i>Finance income</i>	<b>360 705</b>	–
– Bank	<b>32 461</b>	–
– Foreign exchange profit	<b>328 244</b>	–
<i>Finance costs</i>	<b>(3 891 153)</b>	(3 671 385)
– Penalty interest	<b>(68 852)</b>	(1 712)
– Interest bearing loans	–	(188 273)
– Foreign exchange loss	–	(654 171)
– Bank accounts	<b>(868 209)</b>	(1 863 666)
– Finance lease and instalment sale agreements	<b>(2 954 092)</b>	(963 563)
	<b>(3 530 448)</b>	(3 671 385)
<b>20. INCOME TAX CREDIT/(EXPENSE)</b>		
South African normal tax	<b>(1 140 886)</b>	320 358
– Current period	<b>(1 140 886)</b>	(1 027 796)
– Prior period over provision	–	1 348 154
Deferred tax		
– Current period	<b>16 330</b>	1 561 222
Other foreign taxation	<b>(359 781)</b>	(135 013)
	<b>(1 484 337)</b>	1 746 567

No tax rate reconciliation is submitted for the group because of the different rates of tax payable within the countries that the group operates.

	<b>Reviewed Six months ended 31 March 2007 R</b>	Audited Fifteen months ended 30 September 2006 R
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## 21. NOTES TO THE CASH FLOW STATEMENT

### 21.1 Cash generated/(utilised) by operating activities

Profit from operations	<b>12 338 097</b>	4 563 784
<i>Adjustments for</i>	<b>3 801 757</b>	2 266 559
– Depreciation	<b>3 176 383</b>	3 649 085
– Amortisation of intangible asset	<b>625 374</b>	–
– Profit on disposal of plant and equipment	–	729 127
– Negative goodwill	–	(97 343)
– Foreign exchange loss on foreign loan	–	(2 014 310)
Operating profit before changes in working capital	<b>16 139 854</b>	6 830 343
Increase in inventory	<b>(884 749)</b>	(5 190 616)
Increase in trade and other receivables	<b>(8 008 529)</b>	(9 401 762)
Decrease in trade and other payables	<b>(4 913 438)</b>	(3 660 478)
(Increase)/Decrease in loans receivable	<b>(134 974)</b>	5 843 407
Increase in short-term borrowings	<b>804 180</b>	1 007 310
	<b>3 002 344</b>	(4 571 796)

### 21.2 Taxation paid

Amount owing at beginning of period	<b>(2 306 203)</b>	(2 750 518)
On acquisition of subsidiary	<b>(11 561)</b>	(51 723)
(Charge)/Credit per the income statement	<b>(1 500 667)</b>	185 344
Amount owing at end of period	<b>3 235 554</b>	2 306 203
	<b>(582 877)</b>	(310 694)

### 21.3 Cash and cash equivalents

Bank and cash balances	<b>3 903 037</b>	2 344 855
Bank overdrafts	<b>(16 021 557)</b>	(19 514 792)
	<b>(12 118 520)</b>	(17 169 937)

## 22. RELATED PARTIES

### 22.1 Identity of related parties

The subsidiaries of the group are identified in Note 4.

The directors are disclosed in the Directors' report of the Annual Report.

### 22.2 Material related party transactions

#### *Material transactions with the company*

Loans to and from related parties	– see Notes 5 and 6
Interest received on loans to related parties	– see Note 19
Directors' emoluments	– see Note 18

#### *Marketing costs*

A marketing agreement has been in existence for some time between B&C Investments Holdings Limited and Edulis Trust Limited, where B&C Investment Holdings, or any of its subsidiaries, are entitled to charge a marketing fee equal to 10% of the funds received by the group relating to the sale of mushroom products.

## 23. FINANCIAL INSTRUMENTS

### 23.1 Interest rate risk

The group generally adopts a policy of ensuring that its exposure to changes in interest rates is on a floating rate basis.

### 23.2 Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Reputable financial institutions are used for investing and cash handling purposes.

At balance sheet date there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### 23.3 Currency risk

The company incurs currency risk as a result of purchases and sales in foreign currencies. The company has a policy to hedge foreign receivables.

### 23.4 Fair value, maturity and sensitivity analyses

Presented below is an analyses of the carrying versus fair values, the effective interest rates and the maturity of income generating balance sheet items:

	Effective interest rate %	Fair value R'000	Carrying value R'000	Maturity within 1 year R'000	Maturity 2 – 5 years R'000	Maturity more than 5 years R'000
<b>ASSETS</b>						
Long-term loans receivable	–	**	11 338 030	–	11 338 030	–
Other investment	–	2 982	2 982	2 982	–	–
Loans to related parties	Prime	**	4 901 172	–	4 901 172	–
Trade and other receivables	–	57 192 316	57 192 316	54 492 316	2 700 000	–
Cash and cash equivalents	7.5	3 903 037	3 903 037	3 903 037	–	–
<b>LIABILITIES</b>						
Interest bearing borrowings	Prime	20 356 772	20 356 772	6 298 842	14 057 930	–
Non-interest bearing borrowings	**	5 827 425	–	5 827 425	–	–
Trade and other payables	–	22 798 755	22 798 755	22 798 755	–	–
Short-term borrowings	**	2 771 400	2 771 400	–	–	–
Bank overdraft	Prime	16 021 557	16 021 557	16 021 557	–	–

\*\* The fair values of non-interest bearing loans have not been disclosed as no fixed repayment terms have been agreed.

### 23.5 Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

#### *Interest bearing loans*

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### *Trade and other receivables/(payables)*

For receivables/(payables) with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/(payables) are discounted to determine the fair value.

## 24. ESTIMATION AND JUDGEMENT APPLIED BY THE DIRECTORS IN APPLYING THE ACCOUNTING POLICIES

The following estimations and judgements have been exercised in applying the accounting policies:

### 24.1 Impairment of long outstanding trade receivables

Management identifies impairment of trade receivables on an ongoing basis. The estimation of the impairment is based on the current collectibility of the trade receivables, as well as their experience of the collection history of the trade receivables. Management believes that the impairment write off is conservative and there are no significant trade receivables that are doubtful and have not been impaired.

### 24.2 Impairment of inventory

Obsolete inventory is identified as a continuous basis. This identification is based on physical inspection as well as the rate of sale relative to the inventory quantity on hand.

## 25. APPLICATION OF IFRS 3 AND REVERSE LISTING – PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

In a reverse acquisition, the acquirer is the entity whose equity interest has been acquired (the legal subsidiary) and the issuing entity (the legal parent) is the acquiree. Although legally the issuing entity is regarded as the parent and the entity whose equity interest has been acquired is regarded as the subsidiary, the legal subsidiary is the acquirer as it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent, but are a continuation of the financial statements of the legal subsidiary (i.e. the acquirer for accounting purposes). Because such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary:

- the assets and liabilities of the legal subsidiary are recognised and measured in those consolidated financial statements at their pre-combination carrying amounts;
- the retained earnings and other equity balances recognised in the consolidated financial statements are the retained earnings and other equity balances of the legal subsidiary immediately before the business combination;
- the amount recognised as issued equity instruments in the consolidated financial statements shall be determined by adding to the issued equity of the legal subsidiary immediately before the business combination, the cost of the combination. However the equity structure appearing in the consolidated financial statements (i.e. the number and type of equity instruments issued) reflects the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the combination;
- comparative information presented in the consolidated financial statements is that of the legal subsidiary.

Reverse acquisition accounting applies only in the consolidated financial statements. Therefore, in the legal parent's separate financial statements, the investment is accounted for in accordance with the requirements in IAS 27: Consolidated and Separate Financial Statements, on accounting for investments in an investor's separate financial statements.

## 26. DIRECTORS' EMOLUMENTS

Directors' emoluments for the six months ended 31 March 2007:

	<b>Basic salary R</b>	<b>Allowances R</b>	<b>Bonus R</b>
Robi Casaletti	600 000	–	600 000
Barry Swanevelder	347 000	57 000	30 000

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## **INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF COUNTRY FOODS**

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"The Directors  
Country Foods Limited  
PO Box 1838  
Houghton  
2041

19 September 2007

Gentlemen,

### **INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF COUNTRY FOODS LIMITED**

#### **Introduction**

The definitions commencing on page 10 of this prospectus have been used in this report.

Country Foods proposes to list its ordinary shares on the ALT<sup>x</sup> of the JSE.

At your request, we present our Reporting Accountants' Report on the Report of Historical Financial Information of Country Foods and its subsidiaries (collectively, the "group") for the six months ended 31 March 2007 ("Historical Financial Information for the six months ended 31 March 2007") and the 15 months ended 30 September 2006, restated in terms of International Financial Reporting Standards ("Restated Historical Financial Information") for the purposes of complying with the Listings Requirements of the JSE (the "JSE Listings Requirements") and for inclusion in the prospectus dated 21 September 2007 ("prospectus"). We are the independent auditors to Country Foods.

#### **Responsibility of the directors**

The directors of Country Foods are responsible for the compilation, contents and preparation of the prospectus in accordance with the JSE Listings Requirements and the Act. The directors of Country Foods are responsible for the fair presentation in accordance with International Financial Reporting Standards of the Restated Historical Financial Information and Historical Financial Information contained therein to which this independent reporting accountants' report relates.

#### **Responsibility of the independent reporting accountants**

Our responsibility is to express an audit opinion on the Restated Historical Financial Information and a review conclusion on the Historical Financial Information for the six months ended 31 March 2007 included in Annexure 2 to the prospectus based on our audit and review, respectively.

#### **Restated Historical Financial Information**

##### *Introduction*

We have audited the Restated Historical Financial Information attached as Annexure 2 to the prospectus prepared in accordance with International Financial Reporting Standards and in the manner required by the Act.

##### *Responsibility of the independent reporting accountants on the Restated Historical Financial Information*

We conducted our audit of the Restated Historical Financial Information in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The evidence included that previously obtained by us in the conduct of our audit of the annual financial statements of the group underlying the Historical Financial Information for the year ended 30 September 2006.

#### *Opinion on Restated Historical Financial Information*

In our opinion, the Restated Historical Financial Information, included in the prospectus presents fairly, in all material respects, the financial position of the group and the results of their operations and cash flows for the fifteen months ended 30 September 2006 in accordance with International Financial Reporting Standards and in the manner required by the JSE Listings Requirements.

### **Historical Financial Information for the six months ended 31 March 2007**

#### *Introduction*

We have reviewed the Historical Financial Information for the six months ended 31 March 2007 attached as Annexure 2 to the prospectus prepared in accordance with International Financial Reporting Standards.

#### *Scope of review*

We conducted our review of the Historical Financial Information for the six months ended 31 March 2007 in accordance with the procedures described in International Standard on Review Engagements ISRE 2410: *Review of Financial Information Performed by the Independent Auditor of the Entity*.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Historical Financial Information for the six months ended 31 March 2007 on the basis of our review.

#### *Conclusion on Historical Financial Information for the six months ended 31 March 2007*

Based on our review, nothing has come to our attention that causes us to believe that the Historical Financial Information for the six months ended 31 March 2007 included in the prospectus is not fairly presented, in all material respects, in accordance with the recognition and measurement requirements of International Financial Reporting Standards, the presentation and disclosure requirements of the International Financial Reporting Standard on Interim Financial Reporting (IAS 34: Interim Financial Reporting) and in the manner required by the Act and the JSE Listings Requirements.

**Consent**

We consent to the inclusion of this letter and the reference to our opinion in this prospectus to be issued by Country Foods in the form and context in which it appears.

Yours faithfully

**KPMG INC.**

Per: **Jacques Wessels**  
*Registered Auditors*  
*Chartered Accountants (SA)*  
Director

Private Bag 9  
Parktown  
2193"

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## **HISTORICAL FINANCIAL INFORMATION OF EDULIS AND ITS SUBSIDIARIES**

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The definitions commencing on page 10 of this prospectus have been used in this report.

The consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related notes for the fifteen months ended 30 September 2006, restated in terms of IFRS ("Restated Historical Financial Information") have been derived from the audited annual financial statements of the group, amended for changes resulting from the transition to IFRS. The audited annual financial statements of the group for the fifteen months ended 30 September 2006 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the South African Companies Act and have been reported on without modification by KPMG Inc. IFRS 1: First-time Adoption of IFRS, was applied in preparing the Restated Historical Financial Information.

The directors of Country Foods are responsible for the financial information to which the reporting accountants' report and the report of historical financial information on Edulis relate and from which such reports have been prepared.

The independent reporting accountants' report on the historical annual financial information of Edulis for the 15 months ended 30 September 2006 is set out in Annexure 5 to this prospectus.

### **FINANCIAL STATEMENT COMMENTARY**

#### **DIRECTORS' COMMENTARY**

There have been a number of non-recurring events that had a material impact on Edulis' overall performance for the period under review. The 12-month delay into the start of production at the new Midlands processing facility in KwaZulu-Natal impacted significantly on the company's results for the 15-month period ending 30 September 2006. Edulis carried the full financial impact of the substantial capital investment, whilst unable to utilise the productive capacity of the related assets.

We are happy to report that the Midlands flagship processing facility was finally granted full operational Certification and has started production in October 2006. In addition, the Midlands processing facility was immediately granted full HACCP certification. The event is clearly of a non-recurring nature. We expect the Midlands project to contribute substantially to Edulis' overall performance in the financial period 2007. It should be noted further that Edulis' USA subsidiary, Forest Products invested in cold storage, refrigeration and packing infrastructure during the period under review. The benefits of such investment have not been realised and. We look forward to a strong overall performance from all subsidiaries during the 2007 financial year.

#### **SHARE CAPITAL**

One share was issued at its par value of R1.00.

#### **PRINCIPAL ACTIVITIES**

Edulis is a processor, distributor, exporter and importer of mushrooms, fruits and vegetables.

#### **GENERAL REVIEW**

The Edulis business and operations, and the results thereof, are reflected in the attached financial statements and no other fact or circumstance material to a fair assessment of the financial position of Edulis has occurred.

## PROPERTY, PLANT AND EQUIPMENT

There have been no major changes in the property, plant and equipment of Edulis during the period or any changes in the policy relating to their use, other than as disclosed in the historical financial information.

## DIVIDENDS

No dividends have been paid during the period under review.

## SUBSEQUENT EVENTS

The directors of Edulis are not aware of that material changes have taken place in the financial position or nature of the company between 30 September 2006 and the date of this report, other than those arising in the normal course of business and set out in the prospectus.

## SUBSIDIARIES

Name of company	Issued capital R	Effective percentage held directly or indirectly	Investment, at cost R	Loans from holding company R	Share of profit/(losses) R
Edulis Mushroom Farms (Pty) Limited	150 000	100	150 000	2 281 082	(140 772)
Edulis Trust	–	100	100	–	(255 037)
Forest Products	750	65	–	564 575	176 351
Edulis USA	14 646	80	–	43 014	–
Edulis Gourmet	100	100	100	–	–

## SEGMENTAL ANALYSIS

		Edulis 30 September 2006 R'000
Revenue		
Domestic:		
Mushrooms		4 813
Beverages		
Exports:		
Mushrooms		35 295
Assets:		
Domestic	Non-current assets	90 417
	Current assets	54 711
	Liabilities	75 554
Foreign	Non-current assets	567
	Current assets	7 597
	Liabilities	5 556

## LOANS MADE OR SECURITY FURNISHED BY THE COMPANY

There are no loans made or securities furnished by the company or its subsidiaries for the benefit of any director or manager or any associate of any director or manager.

## INCOME STATEMENT

The consolidated income statement of Edulis for the 15 months ended 30 September 2006 is set out below:

	<i>Notes</i>	<b>Fifteen months ended 30 September 2006 R</b>
<b>Revenue</b>	<i>16</i>	<b>40 105 759</b>
Cost of sales		<b>(20 887 989)</b>
<b>Gross profit</b>		<b>19 217 770</b>
Operating expenditure		<b>(16 668 519)</b>
<b>Profit from operations</b>	<i>17</i>	<b>2 549 251</b>
Finance costs	<i>18</i>	<b>(3 671 385)</b>
Finance income	<i>18</i>	<b>–</b>
<b>Loss before taxation</b>		<b>(1 122 134)</b>
Income tax credit	<i>19</i>	<b>1 746 567</b>
<b>Profit after taxation</b>		<b>624 433</b>
Profit attributable to minority shareholders		<b>(162 786)</b>
<b>Profit for the period</b>		<b>461 647</b>
Earnings per share (cents)		184.7
Weighted average number of shares in issue		250 001

## CONSOLIDATED BALANCE SHEET

The consolidated balance sheet of Edulis at 30 September 2006 is set out below:

	<i>Notes</i>	<b>30 September 2006 R</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		<b>27 559 038</b>
Property, plant and equipment	2	<b>9 303 705</b>
Investment in subsidiary companies	3	–
Amounts due from group and related companies	4	<b>4 027 117</b>
Long-term loans receivable	5	<b>11 203 056</b>
Non-current trade receivables	7	<b>2 700 000</b>
Deferred tax asset	13	<b>325 160</b>
<b>Current assets</b>		<b>44 008 412</b>
Inventory	6	<b>8 953 994</b>
Trade and other receivables	7	<b>34 608 966</b>
Cash and cash equivalents		<b>445 452</b>
<b>Total assets</b>		<b>71 567 450</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		<b>29 181 537</b>
Ordinary share capital	8	<b>250 001</b>
Non-distributable reserve	19	<b>306 093</b>
Retained earnings		<b>28 625 443</b>
Minority interest	10	<b>512 704</b>
<b>Shareholder's interest</b>		<b>29 694 241</b>
<b>Non-current liabilities</b>		<b>10 345 712</b>
Interest bearing borrowings	11	<b>3 409 129</b>
Loans from group companies	4	<b>1 083 606</b>
Non-interest bearing borrowings	12	<b>4 456 275</b>
Deferred taxation liability	13	<b>1 396 702</b>
<b>Current liabilities</b>		<b>31 527 497</b>
Trade and other payables		<b>7 874 204</b>
Short-term borrowings	14	<b>1 967 220</b>
Current portion of interest bearing borrowings	11	<b>5 693 034</b>
Provision for taxation		<b>2 254 482</b>
Bank overdraft	15	<b>13 738 557</b>
<b>Total equity and liabilities</b>		<b>71 567 450</b>
Net asset value per share (cents)		11 672.6
Net tangible asset value per share (cents)		11 672.6
Number of shares in issue		250 001

## STATEMENT OF CHANGES IN EQUITY

The consolidated statement of changes in equity of Edulis for the 15 months ended 30 September 2006 is set out below:

	<i>Note</i>	Share capital R	Retained earnings R	Non- distributable (deficit)/ reserve R	Total R
<b>Balance at 1 July 2004</b>		250 000	26 392 298	(110 710)	26 531 588
Foreign currency reserve movement				55 179	55 179
Profit for year		–	777 498	–	777 498
– as previously stated		–	1 606 613	–	1 606 613
– adjustment arising from change in accounting policy		–	(599 104)	–	(599 104)
– adjustment to minority interest in prior year income	10	–	(230 011)	–	(230 011)
<b>Balance at 30 June 2005</b>		250 000	27 169 796	(55 531)	27 364 265
Transition to International Financial Reporting Standards					
– adjustment arising for applying deemed cost to property, plant and equipment		–	1 400 000	–	1 400 000
– deferred taxation		–	(406 000)	–	(406 000)
<b>Restated balance at 1 July 2005</b>		250 000	28 163 796	–	28 358 265
Foreign currency reserve movement				361 624	361 624
Proceeds on issue of share		1	–	–	1
Profit for period			461 647		461 647
<b>Balance at 30 September 2006</b>		250 001	28 625 443	306 093	29 181 537

## CASH FLOW STATEMENT

The consolidated cash flow statement of Edulis for the 15 months ended 30 September 2006 is set out below:

	<i>Notes</i>	<b>Fifteen months ended 30 September 2006 R</b>
<b>Cash flows from operating activities</b>		
Cash utilised by operating activities	<i>20.1</i>	(4 093 720)
Finance income		–
Finance costs		(3 671 385)
Taxation paid	<i>20.2</i>	(310 692)
<b>Net cash outflows from operating activities</b>		<b>(8 075 797)</b>
<b>Cash flow from investing activities</b>		
Investment to maintain operations		4 295 139
– proceeds from disposal of property, plant and equipment		8 728 892
Investment to expand operations		
– additions to property, plant and equipment		(4 433 753)
<b>Cash inflows from financing activities</b>		<b>463 863</b>
Loans advanced to group and related companies		(428 209)
Loans repaid to group companies		(1 158 588)
Translation differences		361 624
Interest bearing borrowings raised during period		1 689 036
<b>Net decrease in cash and cash equivalents</b>		<b>(3 316 795)</b>
Cash and cash equivalents at beginning of period		(9 976 310)
<b>Cash and cash equivalents at end of period</b>	<i>20.3</i>	<b>(13 293 105)</b>

## NOTES TO THE FINANCIAL STATEMENTS

The notes to the historical financial information of Edulis at 30 September 2006 are set out below:

### 1. ACCOUNTING POLICIES

The financial statements incorporate the following principal accounting policies, The accounting policies of subsidiary companies are in line with those adopted by the holding company.

#### 1.1 Statement of compliance

The financial statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB) and the requirements of the Act. These are the company's first financial statements prepared in terms of (IFRS) and IFRS1: First-time Adoption of IFRS, has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flow of the company is provided in Note 26 to financial statements. The date of the company's transition to IFRS is 1 July 2005.

#### 1.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss.
- Available-for-sale financial assets are measured at fair value.

The methods use to measure fair values are discussed further in Note 1.25.

### *Functional and presentation currency*

These annual financial statements is presented in Rand, which is the company's functional currency. All financial information is presented in Rand.

### *Estimation and judgements*

The preparation of financial statements in conformity with South African Statements of Generally Accepted Accounting Practice requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of South African Statements of Generally Accepted Accounting Practice that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 24.

The accounting policies set out below have been applied consistently to all period presented in these financial statements and in preparing an opening IFRS balance sheet at 1 July 2005 for the purposes of the transition to IFRS.

## **1.3 Intangible assets**

An intangible asset is an identified, non-monetary asset that has no physical substance. An intangible asset is recognised when it is identifiable; the group has control over the asset; it is probable that economic benefits will flow to the group; and the cost of the asset can be measured reliably.

### *Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures being the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill with an indefinite useful life is allocated to cash-generating units and is tested for impairment at each balance sheet date and whenever there is an indication that goodwill has been impaired. An impairment loss is recognised in the income statement when the carrying amount exceeds its recoverable amount.

An impairment loss in respect of goodwill is not reversed.

### *Computer software*

Acquired computer software that is significant and unique to the business is capitalised as an intangible asset on the basis of the cost incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programmes are capitalised as intangible assets only if they qualify for recognition. In all other cases these costs are recognised as an expense as incurred.

Costs that are directly associated with the development and production of identifiable and unique software products controlled by the group and that will probably generate economic benefits exceeding one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate allocation of relevant overheads.

Computer software is amortised on a systematic basis over its estimated useful life from the date it becomes available for use.

The current useful lives are:

Capitalised software 3 years

Subsequent expenditure on capitalised intangible assets is capitalised when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### **1.4 Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated as it is deemed to have indefinite life. The cost of self-constructed assets includes the cost of materials and direct labour.

Cost includes expenditures that are directly attributable to the acquisition of an item of property, plant and equipment. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is the systematic allocation of the depreciable amount of an item of property, plant and equipment over its estimated useful life. Depreciation is charged on the depreciable amount, to the income statement, on a straight line basis over the estimated useful lives of items of property, plant and equipment.

The depreciable amount is the difference between the cost of an item of property, plant and equipment and its residual value.

Residual value is the estimated amount that the group would currently obtain from disposal of an item of property, plant and equipment, after deducting the estimated costs of disposal, if the item were already of age and in the condition expected at the end of its useful life.

The depreciation rates currently are:

Plant and machinery	5 years
Factory equipment	5 years
Motor vehicles	5 years
Furniture and office equipment	5 years
Computer equipment	3 years

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The residual value, if not insignificant, depreciation method and useful lives of property, plant and equipment are re-assessed annually.

Routine maintenance costs are charged to the income statement as it is incurred. The costs of major maintenance or overhaul of an item of property, plant or equipment are recognised as an expense, except if the cost had been recognised as a separate part of the cost of the asset, and that amount has already been depreciated to reflect the benefits that had been replaced or restored.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of asset will be increased and the costs can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Surpluses/(Deficits) on the disposal of property, plant and equipment are credited/(charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying value of the asset.

#### **1.5 Impairment**

The carrying amounts of the group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a *pro rata* basis.

#### *Calculation of recoverable amount*

The recoverable amount of the group's investment in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *Reversals of impairment*

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **1.6 Investment in subsidiaries**

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In respect of changes of interest during the accounting period, the attributable results of subsidiaries are included as from the effective date of acquisition or to the effective date of disposal.

Investments in subsidiary companies are stated as cost less impairment write-offs in the company's separate financial statements.

### **1.7 Investment in associate companies**

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its interest in an associate the group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

Investments in associates is stated at cost less impairment write-offs in the company's separate financial statements.

## **1.8 Investment in joint ventures**

### *Joint ventures*

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated financial statements include the group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

### *Transactions eliminated on consolidation*

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## **1.9 Leased assets**

### *Finance leases*

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset or the lease term, whichever is the shortest. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period.

### *Operating leases*

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

## **1.10 Inventories**

Consumable inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition and is determined using the first-in, first-out method.

Fresh product inventory is stated at fair value.

Obsolete, redundant and slow-moving inventory are identified on a regular basis and are written down to their estimated net realisable values.

## **1.11 Revenue**

Revenue comprises the amounts (net of VAT) invoiced in respect of sales of mushrooms and internally manufactured mushroom handling equipment to customers.

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods.

## **1.12 Investment properties**

Investment properties are defined as land and buildings held by the group to earn rental or for capital appreciation purposes, or both. Investment properties are initially recorded at cost. Subsequent to initial measurement, investment properties are reflected at cost less accumulated depreciation and impairment losses.

### **1.13 Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### **1.14 Foreign currency**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to rand at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

### **1.15 Provisions**

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

### **1.16 Employee benefits**

#### *Short-term employee benefits*

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The accruals for employee entitlements to wages, salaries and annual leave represent the amount which the group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

#### *Retirement benefits*

The group contributes to a defined contribution plan. Contributions to the defined contribution fund are charged against income as incurred.

### **1.17 Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, investments, trade receivables, trade creditors, leases and borrowings.

#### *Measurement*

Financial instruments are initially measured at fair value, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

#### *Financial instruments:*

##### *Interest bearing borrowings*

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

##### *Trade and other receivables*

Trade receivables are initially recognised at fair value, and are subsequently classified as loans and receivables and measured at amortised cost using the effective interest rate method.

The provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due in accordance with the original terms of the credit given and includes an assessment of recoverability based on historical trend analysis and events that exists at balance sheet date. The amount of the provision is the difference between the carrying value and the present value.

##### *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

##### *Trade and other payables*

Trade and other payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Trade payables are initially recognised at fair value, and are subsequently classified as non-trading financial liabilities and carried at amortised cost using the effective interest rate method.

##### *Offset*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the group has a legally enforceable right to set-off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### **1.19 Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

## 1.20 Related parties

Related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning.

## 1.21 Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. In the ordinary course of business the group may pursue a claim against a sub-contractor or client.

Such contingent assets are only recognised in the financial statement where the realisation of income is virtually certain. If the inflow of economic benefits is only probable, the contingent asset is disclosed as a claim in favour of the group but not recognised in the balance sheet.

## 1.22 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

## 1.23 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the company's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

## 1.24 Comparative figures

Where necessary comparative figures have been reclassified.

## 1.25 Determination of fair values

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### *Derivatives*

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on Government Bonds).

### *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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**30 September  
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## **2. PROPERTY, PLANT AND EQUIPMENT**

### *Cost:*

#### *Owned*

Land and buildings	<b>3 128 547</b>
Motor vehicles	<b>8 578 903</b>
Factory equipment	<b>4 095 578</b>
Furniture and office equipment	<b>1 046 877</b>
Plant and equipment	<b>1 936 550</b>

#### *Capitalised leased assets*

Motor vehicles	<b>553 077</b>
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**19 339 532**

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### *Accumulated depreciation and impairment losses:*

#### *Owned*

Land and buildings	<b>1 110 056</b>
Motor vehicles	<b>4 400 902</b>
Factory equipment	<b>2 438 053</b>
Furniture and office equipment	<b>844 771</b>
Plant and equipment	<b>1 081 942</b>

#### *Capitalised leased assets*

Motor vehicles	<b>160 103</b>
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**10 035 827**

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### *Carrying value:*

#### *Owned*

Land and buildings	<b>2 018 491</b>
Motor vehicles	<b>4 178 001</b>
Factory equipment	<b>1 657 525</b>
Furniture and office equipment	<b>202 106</b>
Plant and equipment	<b>854 608</b>

#### *Capitalised leased assets*

Motor vehicles	<b>392 974</b>
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**9 303 705**

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**30 September  
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**2. PROPERTY, PLANT AND EQUIPMENT** *(continued)*

*Reconciliation of carrying value*

*Opening carrying value:*

*Owned assets*

Land and buildings	2 205 046
Leasehold improvements	2 281 096
Motor vehicles	7 395 044
Factory equipment	872 662
Furniture and office equipment	247 691
Plant and equipment	3 085 441

*Capitalised leased assets*

Motor vehicles	490 076
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Total	16 577 056
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*Transition to IFRS*

Factory equipment	1 400 000
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*Additions:*

*Owned assets*

Motor vehicles	3 569 075
Factory equipment	85 333
Furniture and office equipment	129 745
Plant and equipment	649 600

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**4 433 753**

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*Disposals*

Leasehold improvements	(2 253 392)
Motor vehicles	(4 763 326)
Factory equipment	(185 306)
Furniture and fittings	(12)
Plant and equipment	(2 244 650)

*Capitalised leased assets*

Motor vehicles	(11 333)
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**(9 458 019)**

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*Depreciation:*

*Owned assets*

Land and buildings	(186 555)
Leasehold improvements	(27 704)
Motor vehicles	(2 022 792)
Factory equipment	(515 164)
Furniture and office equipment	(175 318)
Plant and equipment	(635 783)

*Capitalised leased assets*

Motor vehicles	(85 769)
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**(3 649 085)**

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**30 September  
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**2. PROPERTY, PLANT AND EQUIPMENT** *(continued)*

*Closing carrying value:*

*Owned assets*

Land and buildings	2 018 491
Leasehold improvements	–
Motor vehicles	4 178 001
Factory equipment	1 657 525
Furniture and office equipment	202 106
Plant and equipment	854 608

*Capitalised leased assets*

Motor vehicles	392 974
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**9 303 705**

Certain property plant and equipment are encumbered as security for financing provided to the company as noted in Note 11. The combined fair value of the land and buildings thereon at 30 September 2006 was R8.25 million as determined by a registered independent valuer T H Kayser, registered with the Association of Quantity Surveyors, having an appropriate recognised professional qualification and recent experience in the location of the property being valued. Fair value was determined by the utilisation of the income capitalisation approach.

**30 September  
2006  
R**

Land and buildings comprises:

7/24ths of Erf 246 Amsterdam IT, Transvaal situated at 87 Voortrekker Street Amsterdam, with improvements thereon

**1 505 631**

– at cost

**2 283 318**

– accumulated depreciation and impairment losses

**(777 687)**

17/24ths of Erf 246 Amsterdam

**271 351**

– at cost

**403 111**

– accumulated depreciation and impairment losses

**(131 760)**

Erven 271 and 272 situated in the town Amsterdam IT Transvaal with buildings thereon.

**10 584**

– at cost

**55 000**

– improvements at cost, 1990

**45 000**

– accumulated depreciation and impairment losses

**(89 416)**

Erf 213 situated in the town Amsterdam IT Transvaal

**129**

– at cost

**30 900**

– accumulated depreciation and impairment losses

**(30 771)**

Erven 278 and 279 situated in the town Amsterdam IT Transvaal

**4 074**

– at cost

Erf 212

**131 878**

– at cost

**158 643**

– accumulated depreciation and impairment losses

**(26 765)**

Erven 313 and 314

**94 844**

– at cost

**148 501**

– accumulated depreciation and impairment losses

**(53 657)**

Carrying value

**2 018 491**

### 3. INTEREST IN SUBSIDIARY COMPANIES

*Directly held*

Shares, at cost

– Edulis Gourmet (Pty) Limited – 100% holding	–
– Edulis Mushroom Farms (Pty) Limited – 100% holding	150 000
– Edulis Trust (Incorporated in Vaduz – 100% holding)	–

**150 000**

*Indirectly held*

Shares, at cost

– Forest Products International LLC – (incorporated in the USA – 65% holding)	–
– Edulis USA Inc (incorporated in the USA – 80% holding)	–
– Meriglow Ltd (incorporated in the United Kingdom – 100% holding)	–

**150 000**

**30 September**  
**2006**  
**R**

### 4. AMOUNTS DUE FROM GROUP AND RELATED COMPANIES

Mediolanum Investments Limited	<b>4 027 117</b>
--------------------------------	------------------

The loan arose in 2003 is unsecured, interest free and has no fixed terms of repayment.

This is an inter-company loan between Mediolanum Investments Limited and Edulis for management fees charged to Edulis.

*Loan from group companies*

Country Foods Limited	<b>(1 083 606)</b>
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The loan is unsecured and interest free with no fixed terms of repayment. The fair value of these loans has not been disclosed as no fixed repayment terms have been agreed.

### 5. LONG-TERM LOANS RECEIVABLE

*Unsecured foreign loan*

– Gruppen Drei AG	<b>149 012</b>
-------------------	----------------

Swiss Franks loan, bearing no interest with no fixed terms of repayment.

*Unsecured local loan*

– Edulis Food Processors Ltd (Malawi)	<b>535 674</b>
---------------------------------------	----------------

The loan is non interest bearing with no fixed terms of repayment.

– Gondo Industrial Corporation (Zimbabwe)	<b>10 518 370</b>
---	-------------------

R10 518 370 (30 June 2005 – R8 000 000 and accrued interest of R2 518 370) loan in respect of the sale of Edulis Zimbabwe and Collica Investments to Gondo Industrial Corporation. The payment of the loan has been deferred for a maximum of 10 years. Edulis Trust has agreed to reduce the loan by R500 000 annually on the supply of fresh mushroom product by Edulis Zimbabwe to Edulis Mushrooms in terms of the distribution agreement. The loan originally bore interest. With effect 1 July 2005, the loan terms were amended and the loan no longer bears interest.

The loan has been secured by the share certificates in Edulis Zimbabwe and Collica Investments.

**11 203 056**

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**30 September  
2006  
R**

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**6. INVENTORY**

Fresh and frozen mushrooms for resale	<b>5 526 137</b>
Consumable inventory	<b>3 427 857</b>
	<hr/> <b>8 953 994</b>

**7. TRADE AND OTHER RECEIVABLES**

Include trade debtors that have been ceded to the companies' bankers for overdraft facilities provided.

Trade receivables include receivables amounting to R2 700 000 which will only be repayable after 12 months. This balance has been included in non-current assets.

Included in trade and other receivables are the following amounts owing by related companies:

– Midlands Mushroom Farms (Pty) Limited	<b>8 825 904</b>
– Chantau Properties (Pty) Limited	<b>355 736</b>
– Gruppen Drei	<b>4 300 179</b>
– Edulis Food Processors (Malawi)	<b>5 030 788</b>
– Muthoni Mushrooms (Pty) Limited	<b>6 178 671</b>
	<hr/> <b>24 691 278</b>

Trade receivables are stated after an impairment adjustment of R75 380.

**8. ORDINARY SHARE CAPITAL**

*Authorised and issued*

250 001 ordinary shares of R1.00 each	<b>250 001</b>
---------------------------------------	----------------

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**9. NON-DISTRIBUTABLE (DEFICIT)/ RESERVE**

Foreign currency translation reserve	
Balance at beginning of period	<b>(55 531)</b>
Translation differences arising in current period	<b>361 624</b>
	<hr/> <b>306 093</b>

**10. MINORITY INTEREST**

Balance at beginning of period	<b>346 727</b>
Prior period adjustment	<b>3 191</b>
Share of current period profits	<b>162 786</b>
	<hr/> <b>512 704</b>

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**30 September  
2006  
R**

**11. INTEREST BEARING BORROWINGS**

*Secured*

Nedbank Limited	<b>82 634</b>
Instalment sale obligations bearing interest at the prime overdraft rate. The liabilities are secured by motor vehicles and factory equipment.	
Stannic	<b>57 079</b>
Instalment sale obligations bearing interest at the prime overdraft rate. The liabilities are secured by motor vehicles and factory equipment.	
DaimlerCrysler	<b>406 187</b>
Finance lease obligations capitalised at the prime overdraft interest rate. These liabilities are secured by motor vehicles with a carrying value of R392 974.	
ABSA	<b>4 274 372</b>
Instalment sale obligations bearing interest at the prime overdraft rate. The liabilities are secured by motor vehicles and factory equipment.	
African Dawn Capital Limited	<b>4 034 708</b>
The loan is unsecured, bears interest at the prime interest rate and is repayable by May 2007. The loan arose due to short term bridging finance required during the off-season.	

	<b>8 854 980</b>
Current portion of interest bearing liabilities	<b>(5 693 034)</b>
– Nedbank instalment sale agreement	<b>(82 634)</b>
– Stannic instalment sale agreements	<b>(57 079)</b>
– ABSA instalment sale agreements	<b>(1 443 852)</b>
– African Dawn Capital Limited	<b>(4 034 708)</b>
– Daimler finance lease agreement. The instalment sale agreements will be repaid from cash generated from operations	<b>(74 761)</b>
Other non-current liabilities	<b>247 183</b>
First National Bank Limited	<b>112 059</b>
Nedbank limited	<b>135 124</b>

**3 409 129**

The loans with First National Bank Limited and Nedbank Limited are repayable in monthly instalments at the prime rate of interest and are secured by mortgage bonds over the land and buildings as described in Note 2.

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**30 September  
2006  
R**

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**12. NON-INTEREST BEARING BORROWINGS**

*Foreign unsecured loan*

Agricolsemi **2 456 275**

250 000 Euro – the loan is interest free and there are no fixed terms of repayment.

*Local unsecured loan*

Nanairo (Pty) Limited **2 000 000**

The loan has no fixed term of repayment, is interest free and unsecured.

The loan arose due to working capital requirements.

The fair value of these loans has not been disclosed as no fixed repayment terms have been agreed.

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**4 456 275**

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**13. DEFERRED TAXATION (LIABILITY)/ASSET**

Balance at beginning of period **(2 226 764)**

Transition to IFRS **(406 000)**

Current period income statement movement **1 561 222**

---

Balance at end of period **(1 071 542)**

---

*The deferred taxation (liability)/asset consists of:*

Net originating/(reversing) temporary differences

– capitalised leased assets **3 832**

– doubtful debt provision **16 395**

– furniture and fittings **3 941**

– farming assets **(1 437 174)**

– provision for leave pay **16 304**

– property **234 381**

– available tax losses **90 779**

---

**(1 071 542)**

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**14. SHORT TERM BORROWINGS PAYABLE**

Loan from Dairyland **1 967 220**

\$257 153 (30 June 2005 – \$147 000) non-interest bearing loan.

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**1 967 220**

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**15. BANK OVERDRAFT**

Bank overdraft **13 738 557**

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The following security has been provided in respect of the banking facilities provided by Nedbank Limited:

- Unlimited surety by Mediolanum Investment excluding loan account
- Cession of debtors
- Unlimited surety by B & C Investment Holdings Limited
- Cession of shareholders' loan in name of Edulis Mushrooms (Pty) Limited
- Unlimited cross-suretyship by and between Edulis Mushroom (Pty) Limited and excluding loan accounts:
  - Edulis Food Processors (Pty) Limited
  - Forest Products International LLC
  - Edulis USA Inc.
  - Muthoni Mushrooms (Pty) Limited

- Midlands Mushrooms (Pty) Limited
- Chantau Properties (Pty) Limited
- Edulis Trust Reg
- Edulis Investments (Pty) Limited

The following security has been provided in respect of facilities granted by ABSA Limited:

- Unlimited cession of debtors
- Unlimited suretyship by Mediolanum Investments Limited supported by a cession of its loan account in Edulis Mushroom (Pty) Limited
- Unlimited suretyship by B & C Investments Holdings Limited
- Undertakings by Edulis Mushroom (Pty) Limited, Edulis Food Processors Limited, Forest Products International LLC, Edulis Trust Reg. Edulis USA Corp, Edulis Investments (Pty) Limited, Muthoni Mushrooms (Pty) Limited, Midlands Mushroom Farms (Pty) Limited and Chantau Property Investments (Pty) Limited:
  - the companies mentioned above will not without the prior written consent of the bank, which shall not unreasonably be withheld, grant security to any other institution which shall have the effect of subordinating the claims of the bank to the claims of such other financial institution;
  - the companies mentioned in above will not without the prior written consent of the bank, which will not unreasonably be withheld, encumber or dispose of any presently unencumbered assets acquired hereafter.
- Cross-suretyship between the following entities:
  - Edulis Mushroom (Pty) Limited
  - Edulis Food Processors Limited
  - Forest Products International LLC
  - Edulis Trust Reg
  - Edulis USA Corp
  - Edulis Investments (Pty) Limited
  - Muthoni Mushrooms (Pty) Limited
  - Midlands Mushroom Farms (Pty) Limited
  - Chantau Property Investments (Pty) Limited.

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**Fifteen  
months  
ended  
30 September  
2006  
R**

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## 16. REVENUE

*Revenue comprises the sale of:*

- Fresh mushrooms	<b>28 828 524</b>
- Frozen mushrooms	<b>4 473 072</b>
- Dried mushrooms	<b>2 444 215</b>
- Cost recoveries and sale of assets and picking equipment	<b>4 359 948</b>
	<b>40 105 759</b>

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## 17. PROFIT FROM OPERATIONS

Profit from operations is stated after taking into account the following:

*Income*

DTI grants received	<b>525 000</b>
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**Fifteen  
months  
ended  
30 September  
2006  
R**

**17. PROFIT FROM OPERATIONS** *(continued)*

*Expenses*

Auditors' remuneration	<b>370 752</b>
– Current	<b>370 752</b>
– Under accrual in prior period	–
Depreciation on investment properties	<b>170 085</b>
Depreciation	<b>3 304 000</b>
Directors' remuneration	
– for services other than as directors (commission paid to a related company)	<b>1 710 000</b>
Loss on disposal of property, plant and equipment	<b>729 127</b>
Management fee paid to holding company	<b>320 000</b>
Operating lease charges	<b>1 389 836</b>
– Property	<b>1 357 316</b>
– Motor vehicles	<b>32 520</b>

**18. NET FINANCE INCOME/(COST)**

**R**

*Finance costs*

– Penalty interest	<b>(1 712)</b>
– Interest bearing loans	<b>(188 273)</b>
– Foreign exchange loss	<b>(654 171)</b>
– Bank accounts	<b>(1 863 666)</b>
– Finance lease and instalment sale agreements	<b>(963 563)</b>
	<b>(3 671 385)</b>

**19. INCOME TAX CREDIT/(EXPENSE)**

South African normal tax	<b>320 358</b>
– Current period	<b>(1 027 796)</b>
– Prior period over provision	<b>1 348 154</b>
Deferred tax	
– current period	<b>1 561 222</b>
Other foreign taxation	<b>(135 013)</b>
	<b>1 746 567</b>

No tax rate reconciliation is submitted for the group because of the different rates of tax payable within the countries that the group operates.

Fifteen  
months  
ended  
30 September  
2006  
R

## 20. NOTES TO THE CASH FLOW STATEMENT

### 20.1 Cash utilised by operating activities

Profit from operations	2 549 251
<i>Adjustments for:</i>	4 859 487
– Depreciation	3 649 085
– Loss on disposal of plant and equipment	729 127
– Foreign exchange loss on foreign loan	481 275
Operating profit before changes in working capital	7 408 738
Increase in inventory	(5 190 616)
Increase in trade and other receivables	(9 939 998)
Decrease in trade and other payables	(3 222 561)
Decrease in loans receivable	5 843 407
Increase in short-term borrowings	1 007 310
	(4 093 720)

### 20.2 Taxation paid

Amount owing at beginning of period	(2 750 518)
Credit income statement	185 344
Amount owing at end of period	2 254 482
	(310 692)

### 20.3 Cash and cash equivalents

Bank and cash balances	445 452
Bank overdrafts	(13 738 557)
	(13 293 105)

## 21. COMMITMENTS AND GUARANTEES

### 21.1 Operating lease commitments

Payable within one year	
– premises	3 409 252
Payable within two to five years	
– premises	13 637 010
	17 046 262

### 21.2 Foreign exchange commitments

The following uncovered foreign receivables are included in trade receivables:

British Pound	(7 073)
Euros	272 886
Swiss Francs	4 404
Malawi Kwacha	98 572 555
Zimbabwe Dollar	5 603 039 645

## 22. RELATED PARTIES

### 22.1 Identity of related parties

The holding company of Edulis Mushroom (Pty) Limited and its subsidiary companies is Country Food Limited, a company incorporated in South Africa, which holds 100% of the company's ordinary shares.

The subsidiaries of the group are identified in Note 3.

The directors are as follows:

R G Casaletti

C M Casaletti

D Chetty

H Merrick

H Jele

J J Stander (appointed 6 September 2005)

### 22.2 Material related party transactions

Loans to and from related parties – see Notes 4 and 5

Interest received on loans to related parties – see Note 18

Directors' emoluments – see Note 17

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**30 September  
2006  
R**

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*Rental paid to subsidiary company*

– Edulis Mushroom Farms (Pty) Limited **360 000**

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*Management fee paid to related companies*

– Mediolanum Investments Limited **360 000**

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*Commission paid*

– Edulis Trust Limited **1 085 858**

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*Marketing costs*

A marketing agreement has been in existence for some time between B&C Investments Holdings Limited and Edulis Trust Limited, where B&C Investment Holdings, or any of its subsidiaries, are entitled to charge a marketing fee equal to ten percent (10%) of the funds received by the group relating to the sale of mushroom products.

## 23. FINANCIAL INSTRUMENTS

### 23.1 Interest rate risk

The company generally adopts a policy of ensuring that its exposure to changes in interest rates is on a floating rate basis.

### 23.2 Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Reputable financial institutions are used for investing and cash handling purposes.

At balance sheet date there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### 23.3 Currency risk

The company incurs currency risk as a result of purchases and sales in foreign currencies. Foreign payables and foreign receivables are not hedged.

### 23.4 Fair value, maturity and sensitivity analyses

Presented below is an analyses of the carrying versus fair values, the effective interest rates and the maturity of income generating balance sheet items:

Company	Effective interest rate %	Fair value R'000	Carrying value R'000	Maturity within 1 year R'000	Maturity 2 – 5 years R'000	Maturity more than 5 years R'000
<b>ASSETS</b>						
Long-term loans receivable	–	*	271 464	–	271 464	–
Loans to related parties	Prime	2 888 671	2 888 671	–	2 888 671	–
Trade and other receivables	–	27 294 640	27 294 640	24 594 640	2 700 000	–
Cash and cash equivalents	7.5	10 016	10 016	10 016	–	–
<b>LIABILITIES</b>						
Interest bearing borrowings	Prime	8 854 980	8 854 980	5 693 034	3 161 946	–
Non-interest bearing borrowings	–	*	2 000 000	–	2 000 000	–
Trade and other payables	–	3 664 264	3 664 264	3 664 264	–	–
Bank overdraft	Prime	13 738 557	13 738 557	13 738 557	–	–
Loans from related companies	–	*	1 083 607	–	1 083 607	–

\* The fair values of non-interest bearing loans have not been disclosed as no fixed repayment terms have been agreed.

### 23.5 Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

#### *Interest bearing loans*

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### *Trade and other receivables/(payables)*

For receivables/(payables) with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/(payables) are discounted to determine the fair value.

## 24 CHANGES IN ACCOUNTING POLICIES

### Effect on the operating results of the year ended 30 June 2005

	<b>R</b>
Profit after tax for period, as reported	1 606 613
Adjustments arising from	(599 104)
Increase in depreciation	(843 808)
Deferred tax effect	244 704
Restated profit after tax	1 007 509

## 25. ESTIMATION AND JUDGEMENT APPLIED BY THE DIRECTORS IN APPLYING THE ACCOUNTING POLICIES

The following estimations and judgements have been exercised in applying the accounting policies:

### 25.1 Impairment of long outstanding trade receivables

Management identifies impairment of trade receivables on an ongoing basis. The estimation of the requirement of impairment is based on the current collectibility of the trade receivables, as well as their experience of the collection history of the trade receivables. Management believes that the impairment write off is conservative and there are no significant trade receivables that are doubtful and have not been impaired.

### 25.2 Impairment of inventory

Obsolete inventory is identified as a continuous basis. This identification is based on physical inspection as well as the rate of sale relative to the inventory quantity on hand. Once identified, such inventory will be offered to customers at a discount.

## 26. STANDARDS AND INTERPRETATIONS NOT EFFECTIVE AT 30 SEPTEMBER 2006

At the date of approval of the financial statements, the following standards and interpretations that apply to the company were in issue but not yet effective:

<b>Standard/Interpretation</b>	<b>Effective date</b>
IFRS 7 <i>Financial Instruments: Disclosures (including amendments to IAS Presentation of Financial Statements – Capital Disclosures)</i>	1 July 2007
IAS 19 amendment <i>Employee Benefits (December 2004)</i>	1 July 2006
IAS 39 amendment <i>Financial Instruments: Recognition and Measurement (June 2005) – Fair Value Option</i>	1 July 2006
IAS 39 and IFRS 4 amendment <i>Financial Instruments: Recognition and Measurement (August 2005) Insurance Contracts – Financial Guarantee Contracts</i>	1 July 2006
IAS 21 amendment <i>The Effects of Changes in a Foreign Exchange Rates (December 2005) – Net Investment in a Foreign Operation</i>	1 July 2006
IFRIC 4 <i>Determining Whether an Arrangement Contains a Lease</i>	1 July 2006

### IFRS 7

The disclosures provided in respect of financial instruments in the financial statements for the period ending 30 June 2008, as well as comparative information, will be compliant with IFRS 7. The disclosure requirements of IFRS 7 require additional disclosure compared to that required in terms of existing IFRS in respect of the following:

#### *Qualitative disclosures*

Further information regarding each type of financial instrument risk including the exposures to risk and how they arise; the group's objectives, policies and processes for managing the risk; the methods used to measure the risk and any changes from the previous period.

#### *Quantitative disclosures*

Further information regarding each type of the company's financial instrument risk including a summary of quantitative data about exposure to that risk at the reporting date including any concentrations of credit risk; financial assets that are either past due or impaired; any collateral and other credit enhancements obtained; liquidity risk; market risk and capital objectives and policies.

The adoption of IFRS 7 will not have any impact on the accounting policies adopted for financial instruments.

### IAS 39 and IFRS 4 amendment

The following standards will be adopted by the group for the first time for the year ended 30 September 2006 and are not expected to have a material effect; IAS 39 amendment which restricts the extent to which an entity can designate a financial asset or liability as "at fair value through profit or loss" to certain situations; and IAS 39 and IFRS 4 amendment relating to financial guarantee contracts.

### IAS 21 amendment

The amendment to IAS 21 relating to the treatment of monetary receivables from or to a foreign operation will be adopted by the group for the first time for the year ended 30 September 2006. This change should have no effect on the group as all movements in exchange rates on the group's foreign operations are already carried in equity.

### IFRIC 4

IFRIC 4 will be adopted by the group for the first time for the year ended 30 June 2007.

In terms of IFRIC 4, the entity is required to examine outsourcing arrangements, take-or-pay and similar contracts to identify if these arrangements contain leases that are required to be accounted for in terms of IAS 17: Leases.

The effect of adopting IFRIC 4 has not yet been determined. The existing accounting policies with regard to operating and finance leases will not change and will be applied to IFRIC 4 arrangements.

## **27. TRANSITION TO IFRS**

As stated in the accounting policies, these are the company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies have been applied in preparing the financial statements for the year ended 30 September 2006, and in the preparation of an opening IFRS balance sheet at 1 July 2005.

In preparing its opening IFRS balance sheet, the company has adjusted amounts previously reported under SA GAAP. Accounting policies adopted under IFRS have been applied consistently in preparing the financial statements for the year ended 30 September 2006,

The only adjustments to the cash flow statement relate to reclassifications between categories.

	<b>Property, plant and equipment R</b>	<b>Deferred taxation R</b>	<b>Retained earnings R</b>
Balance at 30 June 2005 under GAAP	14 659 831	2 226 764	27 169 796
IFRS adjustments			
– deemed cost of property, plant and equipment	1 400 000	(406 000)	994 000
Restated balance at 1 July 2005	<b>16 059 831</b>	<b>1 820 764</b>	<b>28 163 796</b>

### **Directors' emoluments**

	<b>Fees R</b>	<b>Directors' salary R</b>	<b>Basic allowances R</b>	<b>Bonus R</b>
Hannes Stander	589 600	408 000	100 000	81 600
Hymie Jele	360 000	240 000	72 000	48 000
Dayalan Chetty	513 600	336 000	96 000	81 600
	1 463 200	984 000	268 000	211 200

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## **INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF EDULIS AND ITS SUBSIDIARIES**

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"The Directors  
Country Foods Limited  
PO Box 1838  
Houghton  
2041

19 September 2007

Gentlemen,

### **INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF EDULIS MUSHROOM (PTY) LIMITED**

#### **Introduction**

The definitions commencing on page 10 of this prospectus have been used in this report. Country Foods proposes to list on the JSE.

Country Foods proposes to list its ordinary shares on the ALT<sup>X</sup> of the JSE.

At your request, we present our Reporting Accountants' Report on the Report of Historical Financial Information of Edulis and its subsidiaries (collectively the "Group") for the fifteen months ended 30 September 2006, restated in terms of International Financial Reporting Standards ("Restated Historical Financial Information") for the purposes of complying with the Listings Requirements of the JSE (the "JSE Listings Requirements") and for inclusion in the prospectus dated 21 September 2007 ("prospectus"). We are the independent auditors to Edulis.

#### **Responsibility of the directors**

The directors of Country Foods are responsible for the compilation, contents and preparation of the prospectus in accordance with the JSE Listings Requirements and the Act. The directors of Edulis are responsible for the fair presentation in accordance with International Financial Reporting Standards of the Restated Historical Financial Information for the year ended 30 September 2006 contained therein to which this independent reporting accountants' report relates.

#### **Responsibility of the independent reporting accountants**

Our responsibility is to express an audit opinion on the Restated Historical Financial Information included in Annexure 4 to the prospectus based on our audit.

#### **Restated Historical Financial Information**

##### *Introduction*

We have audited the Restated Historical Financial Information attached as Annexure 4 to the prospectus prepared in accordance with International Financial Reporting Standards and in the manner required by the Act.

##### *Responsibility of the independent reporting accountants on the Restated Historical Financial Information*

We conducted our audit of the Restated Historical Financial Information in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Restated Historical Financial

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The evidence included that previously obtained by us in the conduct of our audit of the annual financial statements of the group underlying the Historical Financial Information for the year ended 30 September 2006.

#### *Opinion on Restated Historical Financial Information*

In our opinion, the Restated Historical Financial Information, included in the prospectus presents fairly, in all material respects, the financial position of the group and the results of their operations and cash flows for the fifteen months ended 30 September 2006 in accordance with International Financial Reporting Standards and in the manner required by the JSE Listings Requirements.

#### **Consent**

We consent to the inclusion of this letter and the reference to our opinion in this prospectus to be issued by Country Foods in the form and context in which it appears.

Yours faithfully

#### **KPMG INC.**

*Per: Jacques Wessels*

*Registered Auditors*

*Chartered Accountants (SA)*

Director

Private Bag 9  
Parktown  
2193"

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## **HISTORICAL FINANCIAL INFORMATION OF COUNTRY MUSHROOMS AND ITS SUBSIDIARIES**

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The definitions commencing on page 10 of this prospectus have been used in this report.

The income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes for year ended 30 September 2006 have been extracted, without adjustment, from the reviewed financial statements of Country Mushrooms. The reviewed financial statements of Country Mushrooms have been prepared in accordance with IFRS and have been reported on without qualification by KPMG Inc. The accounting policies applied in preparing the Reviewed Financial Statements are consistent with those applied in the previous financial period.

The reviewed consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related notes for the year ended 30 September 2006 ("Historical Financial Information") have been derived from the audited annual financial statements of Country Mushrooms. The audited annual financial statements of Country Mushrooms for the year ended 30 September 2006 have been prepared in accordance with International Financial Reporting Standards and in the manner required by the South African Companies Act and have been reported on without qualification by Stander en Vennote. IFRS 1: First-time Adoption of IFRS, was applied in preparing the Historical Financial Information

The directors of Country Foods are responsible for the financial information to which the reporting accountants' report and the report of historical financial information on Country Mushrooms relate and from which such reports have been prepared.

The independent reporting accountants' report on the historical annual financial information of Country Mushrooms for the 12 months ended 30 September 2006 is set out in Annexure 7 to this prospectus.

### **FINANCIAL STATEMENT COMMENTARY**

#### **DIRECTORS' COMMENTARY**

As stated in our mission statement, that Country Mushrooms will be the leading company in mushrooms, related and value-added products through excellence in people, products, customer's service, innovation and sustainable profit growth. Over the past fifteen months the mushroom market has changed drastically due to pressures from Government to stop the usage of the local peat moss in the growing process. This resulted that the mushroom industry have started to import peat moss from the Netherlands, which is more expensive but have the potential to produce a top quality mushroom. Due to the additional cost, a higher Rand per kilogram was introduced in the market and this helped the higher turnover for the company. There is currently in our market a shortage of eight tons of mushrooms per week and the expansion of the growing facilities is urgently required to secure our additional market and to increase the Country Mushroom's national market share to over 20%. The capital required to expand on the Wattlewood Farm is approximately of R12.5 million.

#### **SHARE CAPITAL**

There were no changes in the authorised or issued share capital of the Country Mushrooms during the year under review.

#### **PRINCIPAL ACTIVITIES**

Country Mushrooms is engaged in distribution and production of mushrooms and operates principally in South Africa.

## GENERAL REVIEW

Country Mushrooms business and operations, and the results thereof, are reflected in the attached financial statements and no other fact or circumstance material to a fair assessment of the financial position of Country Mushrooms has occurred.

## PROPERTY, PLANT AND EQUIPMENT

There have been no major changes in the property, plant and equipment of Country Mushrooms during the period or any changes in the policy relating to their use, other than as disclosed in the historical financial information.

## DIVIDENDS

No dividend was declared or paid to shareholders during the current period.

## SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the annual financial statements, which significantly affects the financial position of the company or the result of its operations as presented in the financial statements.

## SEGMENTAL INFORMATION

There is no need for segmental reporting as all activities are domestic

## LOANS MADE OR SECURITY FURNISHED

There are no loans made or securities furnished by the company or its subsidiaries for the benefit of any director or manager or any associate of any director or manager.

## SUBSIDIARIES

<b>Directly held</b>	<b>Percentage held</b>
Wattlewood Farm (Pty) Limited	100
Mushrooms Cordon Bleu (Pty) Limited	100
Gouret Mushroom (Pty) Limited	100
Country Food Processors (Pty) Limited	100

## INCOME STATEMENT

The consolidated income statement of Country Mushrooms for the year ended 30 September 2006 is set out below:

	<i>Note</i>	<b>2006 R</b>
<b>Revenue</b>		37 715 934
Cost of sales		(21 095 157)
<b>Gross profit</b>		16 620 777
Operating expenses		(15 601 429)
<b>Profit from operations</b>	2	1 019 348
Investment income		301
Finance costs		(1 478 442)
<b>Loss before taxation</b>		(458 793)
Taxation expense		(137 723)
<b>Loss for year</b>		(596 516)
Loss per share (cents)		(59 651)
Weighted average number of shares in issue		1 000

## CONSOLIDATED BALANCE SHEET

The consolidated balance sheet of Country Mushrooms at 30 September 2006 is set out below:

	<i>Notes</i>	<b>2006 R</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3	24 180 816
Investments	4	2 982
<b>Current assets</b>		
Inventories	5	3 045 551
Trade and other receivables	6	2 870 703
Cash and cash equivalents		411 300
<b>Total assets</b>		<b>30 511 352</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Share capital	8	1 000
Share premium	9	12 472 500
Accumulated loss		(916 560)
		11 555 940
<b>Non-current liabilities</b>		
Interest bearing borrowings	10	9 395 929
Deferred taxation	11	428 331
<b>Current liabilities</b>		
Trade and other payables	12	1 284 061
Taxation payable		37 723
Current portion of interest bearing borrowings	10	2 033 133
Bank overdraft	7	5 776 235
<b>Total equity and liabilities</b>		<b>30 511 352</b>
Number of shares in issue		1 000
Net asset value per share (cents)		1 155 594
Net tangible asset value per share (cents)		1 155 594

## STATEMENT OF CHANGES IN EQUITY

The consolidated statement of changes in equity of Country Mushrooms for the year ended 30 September 2006 is set out below:

	<b>Share capital R</b>	<b>Share premium R</b>	<b>Accumulated loss R</b>	<b>Total R</b>
<b>Balance at 1 October 2005</b>	<b>1 000</b>	<b>12 472 500</b>	<b>279 956</b>	<b>12 753 456</b>
Loss for year			<b>(596 516)</b>	<b>(596 516)</b>
Ordinary dividends			<b>(600 000)</b>	<b>(600 000)</b>
<b>Balance at 30 September 2006</b>	<b>1 000</b>	<b>12 472 500</b>	<b>(916 560)</b>	<b>11 555 940</b>

## CASH FLOW STATEMENT

The consolidated cash flow statement of Country Mushrooms for the year ended 30 September 2006 is set out below:

	<i>Notes</i>	<b>2006 R</b>
<b>Cash generated by operations</b>	<i>15.1</i>	2 918 514
Finance income		301
Finance cost		(1 478 440)
Taxation paid	<i>15.2</i>	(271 500)
STC paid		(100 000)
<b>Net cash inflow from operating activities</b>		1 068 875
<b>Cash out flows from investing activities</b>		
Proceeds from disposal of property, plant and equipment		360 680
Acquisition of property, plant and equipment		(2 426 735)
<b>Cash flows from financing activities</b>		
Long-term liabilities raised		5 386 732
<b>Net increase in cash and cash equivalents</b>		4 389 552
Cash and cash equivalents at beginning of year		(9 754 487)
<b>Cash and cash equivalents at end of year</b>		(5 364 935)

## NOTES TO THE FINANCIAL STATEMENTS

The notes to the historical financial information of Country Mushrooms at 30 September 2006 are set out below:

### 1. ACCOUNTING POLICIES

The annual financial statements incorporate the following principal accounting policies. The accounting policies of subsidiary companies are in line with those adopted by the holding company

#### 1.1 Statement of compliance

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) and the requirements of the Companies Act of South Africa.

#### 1.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss.
- Available-for-sale financial assets are measured at fair value.

The methods use to measure fair values are discussed further in Note 1.15.

#### Functional and presentation currency

These annual financial statements are presented in rand, which is the company's functional currency. All financial information is presented in Rand.

#### Estimation and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the

application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of International Financial Reporting Standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 13.

### **1.3 Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated as it is deemed to have indefinite life.

Cost includes expenditures that are directly attributable to the acquisition of an item of property, plant and equipment. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is the systematic allocation of the depreciable amount of an item of property, plant and equipment over its estimated useful life. Depreciation is charged on the depreciable amount, to the income statement, on a straight line basis over the estimated useful lives of items of property, plant and equipment.

The depreciable amount is the difference between the cost of an item of property, plant and equipment and its residual value.

Residual value is the estimated amount that the group would currently obtain from disposal of an item of property, plant and equipment, after deducting the estimated costs of disposal, if the item were already of age and in the condition expected at the end of its useful life.

The depreciation rates currently are:

Land	Unlimited
Plant and machinery	10 years
Motor vehicles	5 years
Furniture and office equipment	10 years
Computer equipment	3 years
Security fencing	10 years

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The residual value, if not insignificant, depreciation method and useful lives of property, plant and equipment are reassessed annually.

Routine maintenance costs are charged to the income statement as it is incurred. The costs of major maintenance or overhaul of an item of property, plant or equipment are recognised as an expense, except if the cost had been recognised as a separate part of the cost of the asset, and that amount has already been depreciated to reflect the benefits that had been replaced or restored.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of asset will be increased and the costs can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Surpluses/(Deficits) on the disposal of property, plant and equipment are credited/(charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying value of the asset.

#### **1.4 Leases**

##### *Finance leases*

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the company are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

##### *Operating leases*

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

#### **1.5 Investment in subsidiaries**

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In respect of changes of interest during the accounting period, the attributable results of subsidiaries are included as from the effective date of acquisition or to the effective date of disposal.

Investments in subsidiary companies are stated as cost less impairment write-offs in the company's separate financial statements.

##### *Transactions eliminated on consolidation*

Inter-group balances and any unrealised gains and losses or income and expenses arising from inter-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **1.6 Inventories**

Inventories are carried at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined using the first-in, first-out method. The cost of work in progress, finished goods and contracts in progress includes direct costs and an appropriate allocation of overheads based on normal production levels. Obsolete, redundant and slow-moving inventories are identified on a regular basis and are written down to their estimated net realisable values.

#### **1.7 Financial instruments**

##### *Trade and other receivables*

Trade and other receivables originated by the company are stated at cost less impairment adjustments.

### *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

### *Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

### *Offset*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set-off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## **1.8 Provisions**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## **1.9 Revenue**

Revenue comprises the amounts (net of VAT) invoiced in respect of the sale of goods and services.

### *Goods sold*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Services.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

### *Rental income*

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

## **1.10 Investment properties**

Investment properties are defined as land and buildings held by the group to earn rental or for capital appreciation purposes, or both. Investment properties are initially recorded at cost. Subsequent to initial measurement, investment properties are reflected at cost less accumulated depreciation and impairment losses.

## **1.11 Tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

## **1.12 Employee benefits**

### *Short-term employee benefits*

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The accruals for employee entitlements to wages, salaries and annual leave represent the amount which the group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

### *Retirement benefits*

The group contributes to a defined contribution plan. Contributions to the defined contribution fund is charged against income as incurred.

### *Termination benefits*

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

## **1.13 Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, investments, trade receivables, trade creditors, leases and borrowings.

### *Measurement*

Financial instruments are initially measured at fair value, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

### *Interest bearing borrowings*

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### *Trade and other receivables*

Trade receivables are initially recognised at fair value, and are subsequently classified as loans and receivables and measured at amortised cost using the effective interest rate method.

The impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due in accordance with the original terms of the credit given and includes an assessment of recoverability based on historical trend analysis and events that exists at balance sheet date. The amount of the impairment is the difference between the carrying value and the present value.

#### *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

#### *Trade and other payables*

Trade and other payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Trade payables are initially recognised at fair value, and are subsequently classified as non-trading financial liabilities and carried at amortised cost using the effective interest rate method.

#### *Offset*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the group has a legally enforceable right to set-off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **1.14 Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

### **1.15 Determination of fair values**

A number of the group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### *Investment property*

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the group's investment property portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

## *Inventory*

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

### **1.16 Comparative figures**

Where necessary comparative figures have been reclassified.

### **1.17 New standards and interpretation not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 September 2006, and have not been applied in preparing these consolidated financial statements.

IFRS 7: Financial Instruments: Disclosures and the Amendment to IAS 1: Presentation of Financial Statements: Capital Disclosures, require extensive disclosure about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the group's 2007 financial statements, will require extensive additional disclosures with respect to group's financial instruments and share capital.

IFRIC 7: Applying the Restatement Approach under IAS 29: Financial Reporting in Hyperinflationary Economies, addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2: Share-based Payment, addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the group's 2007 financial statements, with retrospective application required. The group has not yet determined the potential effect of the interpretation.

IFRIC 9: Re-assessment of Embedded Derivatives, requires that a re-assessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements. This statement is not expected to have any impact on the consolidated financial statements.

IFRIC 10: Interim Financial Reporting and Impairment, prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the group's 2007 financial statements, and will apply to goodwill, investments in equity instruments and financial assets carried at cost prospectively from the date that the group first applied the measurement criteria of IAS 36 and IAS 39, respectively.

### **1.18 Related parties**

Related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning.

**2. PROFIT FROM OPERATIONS**

is arrived at after taking into account

Auditor's remuneration

– current year 140 280

Depreciation 2 265 273

– Freehold land and buildings 165 194

– Plant and equipment 1 463 884

– Motor vehicles 314 751

– Furniture and fittings 298

– Other fixed assets 222 410

– Office equipment 27 724

– Computer equipment 71 012

Operating lease charges – equipment 325 312

Profit on disposal of property, plant and equipment (15 002)

**3. PROPERTY, PLANT AND EQUIPMENT**

	Cost R	Accumulated depreciation and impairment losses R	Carrying value R
<b>2006</b>			
<b><i>Owned assets</i></b>			
Freehold land and buildings	16 454 818	472 847	15 981 971
Plant and equipment	14 693 649	9 596 627	5 097 022
Motor vehicles	3 329 657	1 290 692	2 038 965
Furniture and fittings	2 975	893	2 082
Other fixed assets	1 179 872	321 274	855 042
Office equipment	522 982	445 986	76 996
Computer equipment	345 175	216 437	128 738
	<b>36 525 572</b>	<b>12 344 756</b>	<b>24 180 816</b>

	Carrying value at beginning of year R	Additions R	Revaluation/ Transfers R	Disposals R	Depreciation R	Carrying value at end of year R
<b>2006</b>						
<b>Owned assets</b>	<b>13 952 615</b>	<b>144 514</b>	<b>2 050 036</b>	<b>–</b>	<b>(165 194)</b>	<b>15 981 971</b>
Freehold land and buildings	56 464 613	96 293	–	–	(1 463 884)	5 097 022
Plant and equipment	1 338 519	1 032 195	–	(16 998)	(314 751)	2 038 965
Motor vehicles	2 380	–	–	–	(298)	2 082
Furniture and fittings	377 760	1 028 372	–	(328 680)	(222 410)	855 042
Other fixed assets	93 225	11 495	–	–	(27 724)	76 996
Office and computer equipment	85 884	113 866	–	–	(71 012)	128 738
	<b>22 314 996</b>	<b>2 426 735</b>	<b>2 050 036</b>	<b>(345 678)</b>	<b>(2 265 273)</b>	<b>24 180 816</b>
						<b>2006 R</b>
<b>4. INVESTMENTS</b>						
OTK shares						2 982
<b>5. INVENTORIES</b>						
Raw materials						1 015 135
Work in progress						1 965 462
Sundry stock						64 954
						<b>3 045 551</b>
<b>6. TRADE AND OTHER RECEIVABLES</b>						
Accounts receivable						2 306 604
VAT						556 983
Staff debtors						7 116
						<b>2 870 703</b>
<b>7. CASH AND CASH EQUIVALENTS</b>						
Floating cash						411 300
Bank overdraft						(5 776 235)
						<b>(5 364 935)</b>
<b>8. SHARE CAPITAL</b>						
<i>Authorised</i>						
1 000 ordinary shares of R1.00 each						1 000
<i>Issued</i>						
1 000 ordinary shares of R1.00 each						1 000
<b>9. SHARE PREMIUM</b>						
Balance at beginning of period						12 472 500

**10. INTEREST BEARING BORROWINGS***Secured*

Absa term loan bearing interest at prime, secured by a mortgage bond refer Note 3. Borrowings arose because of operational expansions and upgrading on the Wattlewood Farm

7 508 049

Instalment sale agreements bearing interest linked to prime secured by certain property plant and equipment refer Note 3. Borrowings arose because of operational expansions and upgrading on the Wattlewood Farm

3 921 015

11 429 064

Current portion included in current liabilities

(2 033 135)

Long-term liabilities

9 395 929

**11. DEFERRED TAXATION**

Balance at beginning of year

428 331

*Comprising:*

Revaluation

301 891

Residual values

126 440

428 331

**12. TRADE AND OTHER PAYABLES**

Included in trade and other payables:

Trade payables

1 189 955

Other payables

94 106

1 284 061

**13. JUDGEMENT MADE BY MANAGEMENT**

The following estimations and judgements have been exercised in applying the accounting policies:

*Impairment of long outstanding trade receivables*

Management identifies impairment of trade receivables on an ongoing basis. The estimation of the impairment is based on the current collectibility of the trade receivables, as well as their experience of the collection history of the trade receivables. Management believes that the impairment write off is conservative and there are no significant trade receivables that are doubtful and have not been impaired.

*Impairment of inventory*

Obsolete inventory is identified on a continuous basis. This identification is based on physical inspection as well as the rate of sale relative to the inventory quantity on hand.

**14. FINANCIAL INSTRUMENTS**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Reputable financial institutions are used for investing and cash handling purposes.

At balance sheet date there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

**14.1 Interest rate risk**

The company generally adopts a policy of ensuring that its exposure to changes in interest rates is on a floating rate basis.

#### 14.2 Fair value, maturity and sensitivity analysis.

	Effective interest rate %	Fair value R	Carrying value R	Maturity within 1 year R	Maturity within 15 years R	Maturity After 5 years R
<b>ASSETS</b>						
Trade and other receivables	–	2 870 703	2 870 703	2 870 703	–	–
Cash and cash equivalents	7	411 300	411 300	–	–	–
<b>LIABILITIES</b>						
Interest bearing borrowings	Prime	11 429 062	11 429 062	2 033 133	9 395 929	–
Trade and other payables	–	1 284 061	1 284 061	1 284 061	–	–
Bank overdraft	11	5 776 235	5 776 235	5 776 235	–	–
						2006 R

#### 15. NOTES TO THE CASH FLOW STATEMENT

##### 15.1 Cash generated by operations

Profit from operations	1 019 348
<i>Adjustments for:</i>	
Depreciation of property, plant and equipment	2 265 273
Profit on disposal of property, plant and equipment	(15 002)
Residual value changes and property plant and equipment adjustments	(537 295)
Operating income before working capital changes	2 732 324
Decrease in inventories	682 439
Increase in trade and other receivables	(312 263)
Decrease in trade and other payables	(183 986)
	2 918 514

##### 15.2 Taxation paid

Amount outstanding at beginning of year	(271 500)
Income statement charge	(137 723)
Amount owing at end of year	37 723
	(371 500)
<i>Comprising:</i>	
Normal taxation	(271 500)
Secondary Taxation on Companies	(100 000)
	(371 500)

## 16. DIRECTORS' EMOLUMENTS

	<b>Basic R'000</b>	<b>Motor allowance R'000</b>	<b>Bonus R'000</b>	<b>Provident fund and other allowances R'000</b>	<b>Total R'000</b>
<b>30 September 2006</b>					
Morris Gilbert	515	90	48	99	752
Nichol Muller	300	78	30	151	559
Barry Swanevelder	513	156	54	70	793
	<b>1 328</b>	<b>324</b>	<b>132</b>	<b>320</b>	<b>2 104</b>
<b>31 March 2007</b>					
Morris Gilbert	287	45	27	53	412
Nichol Muller	180	39	17	84	320
Barry Swanevelder	311	57	30	39	437
	<b>778</b>	<b>141</b>	<b>74</b>	<b>176</b>	<b>1 169</b>

## 17. RELATED PARTY TRANSACTIONS

Mushrooms Cordon Bleu (Pty) Limited earns rental income of R402 360 from Country Mushrooms (Pty) Limited.

Wattlewood Farm (Pty) Limited earns rental income R915 300 from Country Mushrooms (Pty) Limited.

Sales from Country Mushrooms (Pty) Limited to Cordon Bleu Food Processors (Pty) Limited was R1 080 059.

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## **INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF COUNTRY MUSHROOMS AND ITS SUBSIDIARIES**

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"The Directors  
Country Foods Limited  
PO Box 1838  
Houghton  
2041

19 September 2007

Gentlemen,

### **INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF COUNTRY MUSHROOMS (PTY) LIMITED**

#### **Introduction**

The definitions commencing on page 10 of this prospectus have been used in this report. Country Foods proposes to list on the JSE.

At your request, we present our Reporting Accountants' Report on the Report of Historical Financial Information of Country Mushrooms for the year ended 30 September 2006 ("Historical Financial Information"), for the purposes of complying with the Listings Requirements of the JSE (the "JSE Listings Requirements") and for inclusion in the prospectus dated 21 September 2007 ("prospectus"). We are the independent auditors to County Mushrooms.

#### **Responsibility of the directors**

The directors of Country Foods are responsible for the compilation, contents and preparation of the prospectus in accordance with the JSE Listings Requirements and the Act. The directors are also responsible for the fair presentation in accordance with International Financial Reporting Standards of the Historical Financial Information contained therein to which this independent reporting accountants' report relates.

#### **Responsibility of the independent reporting accountants**

Our responsibility is to express a review conclusion on the Historical Financial Information for the year ended 30 September 2006 included in Annexure 6 to the prospectus based on our review.

#### **Historical Financial Information for the year ended 30 September 2006**

##### *Introduction*

We have reviewed the Historical Financial Information for the year ended 30 September 2006 attached as Annexure 6 to the prospectus prepared in accordance with International Financial Reporting Standards.

##### *Scope of review*

We conducted our review of the Historical Financial Information for the year ended 30 September 2006 in accordance with the procedures described in International Standard on Review Engagements ISRE 2410: *Review of Financial Information Performed by the Independent Auditor of the Entity*. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than

an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Historical Financial Information on the basis of our review.

*Conclusion on Historical Financial Information for the year ended 30 September 2006*

Based on our review, nothing has come to our attention that causes us to believe that the Historical Financial Information for the year ended 30 September 2006 included in the prospectus is not fairly presented, in all material respects, in accordance with the recognition and measurement requirements of International Financial Reporting Standards and in the manner required by the Act and the JSE Listings Requirements.

**Consent**

We consent to the inclusion of this letter and the reference to our opinion in the prospectus to be issued by Country Foods in the form and context in which it appears.

Yours faithfully

**KPMG INC.**

*Per: Jacques Wessels*

*Registered Auditors*

*Chartered Accountants (SA)*

Director

Private Bag 9  
Parktown  
2193

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## HISTORICAL FINANCIAL INFORMATION OF FRUITIME

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The definitions commencing on page 10 of this prospectus have been used in this report.

The income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes for the 12 months ended 30 September 2006 have been extracted, without adjustment, from the reviewed financial statements of Fruitime or the company. The reviewed financial statements of Fruitime have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been reported on without qualification by KPMG Inc. The accounting policies applied in preparing the Reviewed Financial Information are consistent with those applied in the previous financial period.

The reviewed consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related notes for the year ended 30 September 2006 ("Historical Financial Information") have been derived from the audited annual financial statements of Fruitime. The audited annual financial statements of Fruitime for the year ended 30 September 2006 have been prepared in accordance with International Financial Reporting Standards and in the manner required by the South African Companies Act and have been reported on without qualification by De Wet Van Schalkwyk Inc. IFRS 1: First-time Adoption of IFRS, was applied in preparing the Historical Financial Information.

The directors of Country Foods are responsible for the financial information to which the reporting accountants' report and the report of historical financial information on Fruitime relate and from which such reports have been prepared.

The independent reporting accountants' report on the historical annual financial information of Fruitime for the 12 months ended 30 September 2006 is set out in Annexure 7 to this prospectus.

### FINANCIAL STATEMENT COMMENTARY

#### DIRECTORS' COMMENTARY

Net profit of the company was R787 574 (2005: R2 166 174) after taxation of R974 390 (2005: R584 390).

The company experienced difficult trading conditions during the 2006 financial year as a result of changes in senior management during the first quarter of the period under review as well as the impact that the weather conditions had on the company, where the company experienced difficulty trading during extended rainy seasons between January 2006 and March 2006 and during the prolonged winter periods between April 2006 and August 2006.

The directors are of the opinion that senior management have settled well into their new roles and, coupled with the extension of the company's activities into the fruit juice carton market, will significantly improve trading results in the forthcoming financial year.

#### SHARE CAPITAL

There were no changes in the authorised or issued share capital of the Fruitime during the year under review.

#### PRINCIPAL ACTIVITIES

Fruitime is involved in the packaging and distribution of beverages and operates principally in South Africa.

#### GENERAL REVIEW

Fruitime's business and operations, and the results thereof, are reflected in the attached financial statements and no other fact or circumstance material to a fair assessment of the financial position of Fruitime has occurred.

## PROPERTY, PLANT AND EQUIPMENT

There have been no major changes in the property, plant and equipment of Fruitime during the period or any changes in the policy relating to their use, other than as disclosed in the historical financial information.

## DIVIDENDS

No dividend was declared or paid to shareholders during the current period.

## SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the annual financial statements, which significantly affects the financial position of the company or the result of its operations as presented in the financial statements.

## SEGMENTAL INFORMATION

There is no need for segmental reporting as all activities are domestic.

## LOANS MADE OR SECURITY FURNISHED

There are no loans made or securities furnished by the company or its subsidiaries for the benefit of any director or manager or any associate of any director or manager.

## INCOME STATEMENT

The income statement of Fruitime for the year ended 30 September 2006 is set out below:

	<i>Notes</i>	<b>30 September 2006 R</b>
<b>Revenue</b>	<i>8</i>	<b>46 721 212</b>
Cost of sales		<b>(39 600 540)</b>
<b>Gross profit</b>		<b>7 120 672</b>
Other income		<b>679 296</b>
Operating expenditure		<b>(5 779 647)</b>
<b>Profit from operations</b>	<i>9</i>	<b>2 020 321</b>
Finance costs	<i>10</i>	<b>(260 058)</b>
Finance income	<i>10</i>	<b>1 701</b>
<b>Profit before taxation</b>		<b>1 761 964</b>
Income tax expense	<i>11</i>	<b>(974 390)</b>
<b>Profit for year</b>		<b>787 574</b>
Earnings per share (cents)		<b>787 574</b>
Weighted average number of shares in issue		<b>100</b>

## BALANCE SHEET

The balance sheet of Fruitime at 30 September 2006 is set out below:

	<i>Notes</i>	<b>30 September 2006 R</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		<b>5 690 890</b>
Property, plant and equipment	2	<b>5 658 807</b>
Intangible assets	3	<b>32 083</b>
<b>Current assets</b>		<b>12 507 228</b>
Inventory	4	<b>4 024 194</b>
Trade and other receivables	5	<b>6 994 931</b>
Cash and cash equivalents		<b>1 488 103</b>
<b>Total assets</b>		<b>18 198 118</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		<b>3 856 696</b>
Ordinary share capital and premium	6	<b>100</b>
Retained earnings		<b>3 856 596</b>
<b>Non-current liabilities</b>		<b>2 826 055</b>
Interest bearing borrowings	7	<b>1 940 508</b>
Deferred taxation liability		<b>885 547</b>
<b>Current liabilities</b>		<b>11 515 367</b>
Trade and other payables		<b>10 601 965</b>
Short-term borrowings	7	<b>490 974</b>
Taxation payable		<b>13 998</b>
Provision		<b>408 430</b>
<b>Total equity and liabilities</b>		<b>18 198 118</b>
Number of shares in issue		100
Net asset value per share (cents)		3 856 696
Net tangible asset value per share (cents)		3 824 613

## STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity of Fruitime for the year ended 30 September 2006 is set out below:

	<b>Share capital R</b>	<b>Retained earnings R</b>	<b>Total R</b>
<b>Balance at 1 October 2006</b>	<b>100</b>	3 069 022	<b>3 069 222</b>
Profit for year	–	<b>787 574</b>	<b>787 574</b>
<b>Balance at 30 September 2006</b>	<b>100</b>	<b>3 856 596</b>	<b>3 856 696</b>

## CASH FLOW STATEMENT

The cash flow statement of Fruitime for the 12 months ended 30 September 2006 is set out below:

	<i>Notes</i>	<b>30 September 2006 R</b>
<b>Cash flows from operating activities</b>		
Cash generated by operating activities	12.1	<b>336 297</b>
Finance income		<b>1 701</b>
Finance costs	10	<b>(260 058)</b>
Taxation paid	12.2	<b>(544 910)</b>
<b>Net cash outflows from operating activities</b>		<b>(466 970)</b>
<b>Cash flow from investing activities</b>		<b>(432 000)</b>
Investment to maintain operations		<b>44 450</b>
– proceeds on disposal of subsidiary company		
Investment to expand operations		<b>(476 450)</b>
– additions to property, plant and equipment		
– additions to investment properties		
<b>Cash outflow from financing activities</b>		<b>(971 992)</b>
Loans raised		<b>84 800</b>
Repayment of shareholder loans		<b>(2 034 598)</b>
Interest bearing borrowings raised		<b>977 806</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1 870 962)</b>
Cash and cash equivalents at beginning of year		<b>3 359 065</b>
<b>Cash and cash equivalents at end of year</b>		<b>1 488 103</b>

## NOTES TO THE FINANCIAL STATEMENTS

The notes to the historical financial information of Fruitime at 30 September 2006 are set out below:

### 1. ACCOUNTING POLICIES

The annual financial statements incorporate the following principal accounting policies. The accounting policies of subsidiary companies are in line with those adopted by the holding company.

#### 1.1 Statement of compliance

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB), and the requirements of the Companies Act of South Africa.

#### 1.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the following:

- Financial instruments at fair value through profit or loss.

The methods use to measure fair values are discussed further in Note 1.19.

#### *Estimation and judgements*

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of International Financial Reporting Standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 16.

### **1.3 Intangible assets**

An intangible asset is an identified, non-monetary asset that has no physical substance. An intangible asset is recognised when it is identifiable; the company has control over the asset; it is probable that economic benefits will flow to the group and the cost of the asset can be measured reliably.

#### *Other intangible assets*

Other intangible assets that are acquired by the company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

#### *Patents, trademarks and other rights*

Acquired patents, trademarks and other rights that is significant and unique to the business is capitalised as an intangible asset on the basis of the cost incurred to acquire and bring to use the patents, trademarks and other rights.

The current useful lives are:

Patents, trademarks and other rights	4 years
--------------------------------------	---------

Subsequent expenditure on capitalised intangible assets is capitalised when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### **1.4 Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated as it is deemed to have indefinite life.

Cost includes expenditures that are directly attributable to the acquisition of an item of property, plant and equipment. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is the systematic allocation of the depreciable amount of an item of property, plant and equipment over its estimated useful life. Depreciation is charged on the depreciable amount, to the income statement, on a straight-line basis over the estimated useful lives of items of property, plant and equipment.

The depreciable amount is the difference between the cost of an item of property, plant and equipment and its residual value.

Residual value is the estimated amount that the group would currently obtain from disposal of an item of property, plant and equipment, after deducting the estimated costs of disposal, if the item were already of age and in the condition expected at the end of its useful life.

The depreciation rates currently are:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture and office equipment	10 years
Computer equipment	3 years

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The residual value, if not insignificant, depreciation method and useful lives of property, plant and equipment are re-assessed annually.

Routine maintenance costs are charged to the income statement as it is incurred. The costs of major maintenance or overhaul of an item of property, plant or equipment are recognised as an expense, except if the cost had been recognised as a separate part of the cost of the asset and that amount has already been depreciated to reflect the benefits that had been replaced or restored.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of asset will be increased and the costs can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Surpluses/(Deficits) on the disposal of property, plant and equipment are credited/(charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying value of the asset.

## **1.5 Impairment**

The carrying amounts of the company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a *pro rata* basis.

### *Calculation of recoverable amount*

The recoverable amount of the group's investment in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### *Reversals of impairment*

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## **1.6 Leased assets**

### *Finance leases*

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset or the lease term, whichever is the shortest. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period.

### *Operating leases*

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

## **1.7 Inventories**

Consumable inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined using the first-in, first-out method.

Fresh product inventory is stated at fair value.

Obsolete, redundant and slow-moving inventory are identified on a regular basis and are written down to their estimated net realisable values.

## **1.8 Revenue**

Revenue comprises the amounts (net of VAT) invoiced in respect of the sale of goods and services.

### *Goods sold*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

### *Government grants*

An unconditional Government grant related to a biological asset is recognised in profit or loss when the grant becomes receivable.

Other Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the group will comply with the conditions associated with the grant. Grants that compensate the group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

## *Taxation*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

## **1.9 Provisions**

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### *Restructuring*

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

### *Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

## **1.10 Employee benefits**

### *Short-term employee benefits*

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The accruals for employee entitlements to wages, salaries and annual leave represent the amount which the group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

### *Retirement benefits*

The group contributes to a defined contribution plan. Contributions to the defined contribution fund is charged against income as incurred.

### *Termination benefits*

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

## **1.11 Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, investments, trade receivables, trade creditors, leases and borrowings.

### *Measurement*

Financial instruments are initially measured at fair value, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

### *Interest bearing borrowings*

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### *Trade and other receivables*

Trade receivables are initially recognised at fair value, and are subsequently classified as loans and receivables and measured at amortised cost using the effective interest rate method.

The impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due in accordance with the original terms of the credit given and includes an assessment of recoverability based on historical trend analysis and events that exists at balance sheet date. The amount of the impairment is the difference between the carrying value and the present value.

### *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

### *Trade and other payables*

Trade and other payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Trade payables are initially recognised at fair value, and are subsequently classified as non-trading financial liabilities and carried at amortised cost using the effective interest rate method.

### *Offset*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the group has a legally enforceable right to set-off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## **1.12 Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group, unless otherwise stated. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### **1.13 Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

### **1.14 Related parties**

Related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning.

### **1.15 Contingent assets**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. In the ordinary course of business the group may pursue a claim against a client.

Such contingent assets are only recognised in the financial statement where the realisation of income is virtually certain. If the inflow of economic benefits is only probable, the contingent asset is disclosed as a claim in favour of the group but not recognised in the balance sheet.

### **1.16 Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

### **1.17 Comparative figures**

Where necessary comparative figures have been reclassified.

### **1.18 Determination of fair values**

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods: Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### *Derivatives*

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on Government Bonds).

### *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

### *Intangible assets*

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### *Inventory*

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit margin based on the effort required to complete and sell the inventory.

## **1.19 New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 September 2006, and have not been applied in preparing these consolidated financial statements:

- IFRS 7: *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures*, require extensive disclosures about the significance of financial instruments for an entity's financial position and performance and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the group's 2007 financial statements, will require extensive additional disclosures with respect to group's financial instruments and share capital.
- IFRIC 7: *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*, addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 8: *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the group's 2007 financial statements, with retrospective application required. The group has not yet determined the potential effect of the interpretation.
- IFRIC 9: *Re-assessment of Embedded Derivatives* requires that a re-assessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 10: *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the group's 2007 financial statements, and will apply to goodwill, investments in equity instruments and financial assets carried at cost prospectively from the date that the group first applied the measurement criteria of IAS 36 and IAS 39, respectively.

**30 September  
2006  
R**

**2. PROPERTY, PLANT AND EQUIPMENT**

*Cost*

Freehold land and buildings	1 396 589
Motor vehicles	1 226 625
Furniture and office equipment	55 238
Computer equipment	180 149
Plant and equipment	5 161 615
	8 020 216

*Accumulated depreciation and impairment losses*

Freehold land and buildings	66 077
Motor vehicles	500 651
Furniture and office equipment	36 251
Computer equipment	129 080
Plant and equipment	1 629 350
	2 361 408

*Carrying value*

Freehold land and buildings	1 330 512
Motor vehicles	725 974
Furniture and office equipment	18 987
Computer equipment	51 069
Plant and equipment	3 532 265
	5 658 807

The land and buildings with a carrying value of R1 165 319 are encumbered by a mortgage loan as per Note 7.

<b>Carrying value reconciliation</b>	<b>Land and buildings R</b>	<b>Motor vehicles R</b>	<b>Furniture and office equipment R</b>	<b>Computer equipment R</b>	<b>Plant and equipment R</b>	<b>Total R</b>
Carrying value at beginning of period	1 330 512	631 131	23 841	45 211	3 670 537	5 701 232
Acquisitions at costs	–	164 031	–	33 595	278 824	476 450
Disposals	–	(4 833)	–	–	(23 950)	(28 783)
Current period depreciation	–	(64 355)	(4 854)	(27 736)	(393 146)	(490 091)
<b>Carrying value at end of period</b>	<b>1330 512</b>	<b>725 974</b>	<b>18 987</b>	<b>51 070</b>	<b>3 532 265</b>	<b>5 658 808</b>

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**30 September  
2006  
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**3. INTANGIBLE ASSETS**

Cost	55 000
Accumulated amortisation and impairments	(22 917)
	<hr/> 32 083

**4. INVENTORY**

Raw material	3 809 720
Finished goods	214 474
	<hr/> 4 024 194

**5. TRADE AND OTHER RECEIVABLES**

Trade receivables	6 994 931
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**6. ORDINARY SHARE CAPITAL**

*Authorised*

1 000 ordinary shares of R1.00 each	1 000
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*Issued*

100 ordinary shares of R1.00 each	100
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**7. INTEREST BEARING BORROWINGS**

*Secured*

Instalment sale obligations bearing interest at the prime overdraft rate.

The liabilities are secured by the lessor's charge over the leased assets

	1 597 443
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Loan bearing interest at 12.5% per annum, secured by first mortgage over land and buildings with a carrying value of R1 165 319 (2005: R1 198 358).

The loan is repayable over 10 years in monthly instalments which increase every 12 months

	834 039
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Current portion of interest bearing liabilities

– Mortgage and instalment sale agreements

	(490 974)
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1 940 508

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The loan arose due to the purchase of the building.

The loans with Standard Bank are repayable in monthly instalments at the prime rate of interest and are secured by mortgage bonds over the property plant and equipment described in Note 2.

**8. REVENUE**

*Revenue comprises the sale of:*

– Fruit juices	46 721 212
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**9. PROFIT FROM OPERATIONS**

Profit from operations is stated after taking into account the following:

*Income*

Profit on disposal of plant and equipment (15 667)

*Expenses*

Auditors' remuneration (2 275)

– Secretarial fees 12 525  
– Accounting fees (14 800)

Foreign exchange losses (21 365)

Depreciation 811 058

Directors' remuneration

– for services other than as directors 275 851

Operating lease charges 860 440

– Equipment 43 344

– Property 706 329

– Motor vehicles 110 767

**10. NET FINANCE COST**

*Finance costs*

– Finance lease and instalment sale agreements (260 058)

**11. INCOME TAX EXPENSE**

South African normal tax

– current period (177 427)

Deferred tax

– current period (796 963)

(974 390)

**12. NOTES TO THE CASH FLOW STATEMENT**

**12.1 Cash utilised by operating activities**

Profit from operations 2 020 321

*Adjustments for:* 472 723

– Depreciation 490 091

– Profit on disposal of plant and equipment (15 667)

– Interest received (1 701)

Operating profit before changes in working capital 2 493 044

Increase in inventory (1 762 954)

Increase in trade and other receivables (838 652)

Increase in trade and other payables 444 859

336 297

**30 September  
2006  
R**

## 12.2 Taxation

Amount owing at beginning of year	(380 991)
Income statement charge	(177 917)
Amount owing at end of year	13 998
	<b>(544 910)</b>

## 13. COMMITMENTS AND GUARANTEES

### Operating lease commitments

Payable within one year	
– equipment and vehicles	365 374
Payable within two to five years	
– equipment and vehicles	1 106 469
	<b>1 471 843</b>

## 14. RELATED PARTIES

### 14.1 Identity of related parties

The directors are disclosed in the Directors' report.

### 14.2 Material related party transactions

#### *Material transactions with the company*

Directors' emoluments:

	Basic R'000	Motor allowance R'000	Bonus R'000	Provident fund and other allowances R'000	Total R'000
<b>30 September 2006</b>					
V Hurter	56	–	2	9	67
J Lovell	203	–	17	25	245
J Hurter	–	–	–	16	16
	<b>259</b>	<b>–</b>	<b>19</b>	<b>50</b>	<b>328</b>

## 15. FINANCIAL INSTRUMENTS

### 15.1 Interest rate risk

The company generally adopts a policy of ensuring that its exposure to changes in interest rates is on a floating rate basis.

### 15.2 Credit risk

At balance sheet date there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### 15.3 Currency risk

The company incurs currency risk as a result of purchases and sales in foreign currencies. Foreign payables and foreign receivables are not hedged.

### 15.4 Fair value, maturity and sensitivity analyses

Presented below is an analyses of the carrying versus fair values, the effective interest rates and the maturity of income generating balance sheet items:

	Effective interest rate %	Fair value R	Carrying value R	Maturity within 1 year R	Maturity 2 – 5 years R	Maturity more than 5 years R
<b>ASSETS</b>						
Trade and other receivables	–	6 994 931	6 994 931	6 994 931	–	–
Cash and cash equivalents	7.5	1 488 103	1 488 103	1 488 103	–	–
<b>LIABILITIES</b>						
Interest bearing borrowings	Prime	1 940 508	1 940 508	490 974	1 449 534	–
Trade and other payables	–	10 601 965	10 601 965	10 601 965	–	–

### 15.5 Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

#### *Interest bearing loans*

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### *Trade and other receivables/(payables)*

For receivables/(payable) with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/(payables) are discounted to determine the fair value.

## 16. ESTIMATION AND JUDGEMENT APPLIED BY THE DIRECTORS IN APPLYING THE ACCOUNTING POLICIES

The following estimations and judgements have been exercised in applying the accounting policies:

### 16.1 Impairment of long outstanding trade receivables

Management identifies impairment of trade receivables on an ongoing basis. The estimation of the impairment is based on the current collectibility of the trade receivables, as well as their experience of the collection history of the trade receivables. Management believes that the impairment write off is conservative and there are no significant trade receivables that are doubtful and have not been impaired.

### 16.2 Impairment of inventory

Obsolete inventory is identified as a continuous basis. This identification is based on physical inspection as well as the rate of sale relative to the inventory quantity on hand.

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## **INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF FRUITIME**

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"The Directors  
Country Foods Limited  
PO Box 1838  
Houghton  
2041

19 September 2007

Gentlemen,

### **INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF FRUITIME FRUIT JUICES (PTY) LIMITED**

#### **Introduction**

The definitions commencing on page 10 of this prospectus have been used in this report. Country Foods proposes to list on the JSE.

At your request, we present our reporting accountants' report on the Report of Historical Financial Information of Fruitime for the year ended 30 September 2006 ("Historical Financial Information"), for the purposes of complying with the Listings Requirements of the JSE (the "JSE Listings Requirements") and for inclusion in the prospectus dated 21 September 2007 ("prospectus"). We are the independent auditors to Fruitime.

#### **Responsibility of the directors**

The directors of Country Foods are responsible for the compilation, contents and preparation of the prospectus in accordance with the JSE Listings Requirements and the Act. The directors are also responsible for the fair presentation in accordance with International Financial Reporting Standards of the Historical Financial Information contained therein to which this independent reporting accountants' report relates.

#### **Responsibility of the independent reporting accountants**

Our responsibility is to express a review conclusion on the Historical Financial Information for the year ended 30 September 2006 included in Annexure 8 to the prospectus based on our review.

#### **Historical Financial Information for the year ended 30 September 2006**

##### *Introduction*

We have reviewed the Historical Financial Information for the year ended 30 September 2006 attached as Annexure 8 to the prospectus prepared in accordance with International Financial Reporting Standards.

##### *Scope of review*

We conducted our review of the Historical Financial Information for the year ended 30 September 2006 in accordance with the procedures described in International Standard on Review Engagements ISRE 2410: *Review of Financial Information Performed by the Independent Auditor of the Entity*. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an

audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Historical Financial Information on the basis of our review.

*Conclusion on Historical Financial Information for the year ended 30 September 2006*

Based on our review, nothing has come to our attention that causes us to believe that the Historical Financial Information for the year ended 30 September 2006 included in the prospectus is not fairly presented, in all material respects, in accordance with the recognition and measurement requirements of International Financial Reporting Standards, and in the manner required by the Act and the JSE Listings Requirements.

**Consent**

We consent to the inclusion of this letter and the reference to our opinion in the prospectus to be issued by Country Foods in the form and context in which it appears.

Yours faithfully

**KPMG INC.**

*Per: Jacques Wessels*

*Registered Auditors*

*Chartered Accountants (SA)*

Director

Private Bag 9  
Parktown  
2193

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**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE PROFIT FORECAST OF COUNTRY FOODS**

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"The Directors  
Country Foods Limited  
PO Box 1838  
Houghton  
2041

19 September 2007

Gentlemen,

**INDEPENDENT AUDITOR'S ASSURANCE REPORT ON THE FORECAST OF COUNTRY FOODS LIMITED ("COUNTRY FOODS")**

We have examined the consolidated forecast of Country Foods as set out in paragraph 12 of the prospectus for the years ending 30 September 2007 and 30 September 2008.

**Directors' responsibility**

The directors are responsible for the forecast, including the assumptions set out in paragraph 12.1.3, on which it is based, and for the financial information from which it has been prepared. This responsibility, arising from compliance with the Listings Requirements of the JSE Limited, includes: determining whether the assumptions, barring unforeseen circumstances, provide a reasonable basis for the preparation of the forecast; whether the forecast has been properly compiled on the basis stated and whether the forecast is presented on a basis consistent with the accounting policies of the company or group in question.

**Auditors' responsibility**

Our responsibility is to provide a limited assurance report on the forecast prepared for the purpose of complying with the Listings Requirements of the JSE Limited and for inclusion in the prospectus. We conducted our assurance engagement in accordance with International Standard on Assurance Engagements applicable to the Examination of Prospective Financial Information and the Revised Guide on Forecasts issued by The South African Institute of Chartered Accountants. This standard requires us to obtain sufficient appropriate evidence as to whether or not:

- management's best-estimate assumptions on which the forecast is based are not unreasonable and are consistent with the purpose of the information;
- the forecast is properly prepared on the basis of the assumptions;
- the forecast is properly presented and all material assumptions are adequately disclosed;
- the forecast is prepared and presented on a basis consistent with the accounting policies of the company or group in question for the period concerned.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and, therefore, less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

**Conclusion**

Based on our examination of the evidence obtained, nothing has come to our attention that causes us to believe that:

- (i) the assumptions, barring unforeseen circumstances, do not provide a reasonable basis for the preparation of the forecast;

- (ii) the forecast has not been properly compiled on the basis stated;
- (iii) the forecast has not been properly presented and all material assumptions are not adequately disclosed; the forecast, is not presented on a basis consistent with the accounting policies of the company or group in question.

Actual results are likely to be different from the forecast, since anticipated events frequently do not occur as expected and the variation may be material; accordingly no assurance is expressed regarding the achievability of the forecast.

### **Consent**

We consent to the inclusion of this letter and the reference to our opinion in the prospectus to be issued by Country Foods in the form and context in which it appears.

Yours faithfully

### **KPMG INC.**

*Per: Mickey Bove*

*Registered Auditors*

*Chartered Accountants (SA)*

Director

Private Bag 9  
Parktown  
2193"

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**UNAUDITED PRO FORMA INCOME STATEMENT AND BALANCE SHEET**


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The unaudited *pro forma* income statement presented below are provided for illustrative purposes only to provide information about how the capital raising and the private placement may have impacted on the company's results and financial position. Due to the nature of the unaudited *pro forma* financial information, it may not give a fair presentation of the company's results and financial position after the capital raising and private placement. The unaudited *pro forma* income statement and balance sheet are based on the reviewed Country Foods results at 31 March 2007 as set out in Annexure 2 and reported on by the independent reporting accountants' report in Annexure 3. The unaudited *pro forma* income statement and balance sheet are presented in a manner consistent in all respect with IFRS and with the basis on which the historical information has been prepared in terms of accounting policies. No major adjustments were required to the *pro forma* information. The unaudited *pro forma* income statement and balance sheet should be read in conjunction with the independent reporting accountants' report thereon as set out in Annexure 12. The directors of Country Foods are responsible for the preparation of the unaudited *pro forma* financial information of Country Foods.

	<b>Country Foods reviewed Before 31 March 2007<sup>(1) (5)</sup> R'000</b>	<b>Capital raising adjustment<sup>(2)</sup> R'000</b>	<b>Unaudited Pro forma Country Foods After capital raising adjustments 31 March 2007 R'000</b>	<b>Private placement adjustment<sup>(2)</sup> R'000</b>	<b>Unaudited Pro forma After capital raising and private placement adjustments 31 March 2007 R'000</b>
<b>Revenue</b>	<b>89 675</b>		<b>89 675</b>		<b>89 675</b>
<b>Gross profit</b>	<b>31 274</b>		<b>31 274</b>		<b>31 274</b>
Other income	–		–		–
Operating costs	(15 136)		(15 136)		(15 136)
<b>EBITDA</b>	<b>16 138</b>		<b>16 138</b>		<b>16 138</b>
Depreciation	(3 176)		(3 176)		(3 176)
Amortisation of intangible assets	(625)		(625)		(625)
<b>Profit before interest and taxation</b>	<b>12 337</b>		<b>12 337</b>		<b>12 337</b>
Net interest (paid)/ received <sup>(2) (4)</sup>	(3 530)	169	(3 361)	1 353	(2 008)
<b>Profit taxation</b>	<b>8 807</b>	<b>169</b>	<b>8 976</b>	<b>1 353</b>	<b>10 329</b>
Taxation	(1 484)	(49)	(1 533)	(392)	(1 925)
<b>Profit after taxation</b>	<b>7 323</b>	<b>120</b>	<b>7 443</b>	960	8 404
Outside shareholders' interest	(1 690)		(1 690)		(1 690)
<b>Earnings attributable to ordinary shareholders</b>	<b>5 633</b>	<b>120</b>	<b>5 753</b>	<b>960</b>	<b>6 714</b>

	<b>Country Foods reviewed Before 31 March 2007<sup>(1) (5)</sup> R'000</b>	<b>Capital raising adjustment<sup>(2)</sup> R'000</b>	<b>Unaudited <i>Pro forma</i> Country Foods After capital raising adjustments 31 March 2007 R'000</b>	<b>Private placement adjustment<sup>(2)</sup> R'000</b>	<b>Unaudited <i>Pro forma</i> After capital raising and private placement adjustments 31 March 2007 R'000</b>
<b>Reconciliation of headline earnings:</b>					
Profit attributable to ordinary shareholders	5 633	120	5 753	960	6 714
<b>Headline earnings attributable to ordinary shareholders</b>					
	<b>5 633</b>	<b>120</b>	<b>5 753</b>	<b>960</b>	<b>6 714</b>
<i>Pro forma</i> shares in issue on which earnings are based <sup>(3)</sup>	92 584 860	3 870 589	96 455 449	30 000 000	126 455 449
<i>Pro forma</i> earnings per share (cents)	6.1		6.0		5.3
<i>Pro forma</i> headline earnings per share (cents)	6.1		6.0		5.3

**Notes:**

- (1) The unaudited *pro forma* income statement was prepared on the basis that the capital raising and private placement were completed on 1 October 2006 and that a total of R30 million in terms of the private placement less estimated costs as set out in paragraph 15 of this prospectus were raised for the company.
- (2) The conservative average interest rate used in calculations in terms of interest savings, is 12.5% on the capital raising and 10.0% on the private placement. The directors will use the funds raised from the private placement to reduce debt of the group.
- (3) The number of shares issued in terms of the capital raising also includes the 714 286 shares issued by the company to Exchange Sponsors (Pty) Limited, the Designated Adviser.
- (4) Interest expenditure has been adjusted to account for the estimated interest saving as a result of the private placement as it has been assumed that funds received will be utilised to repay certain debt currently held by the group.
- (5) The Country Foods figures were extracted from the six months' reviewed financial statements of the company at that date. These financial statements were reviewed by KPMG Inc. who issued an unqualified reviewed opinion.
- (6) The accounting policies of Country Foods, Edulis, Country Mushrooms and Fruitime are consistent and have been applied in the presentation of the *pro forma* financial information. Revised or new standards, interpretations and amendments which may apply subsequent to the date of preparation of the *pro forma* balance sheet and income statement have not been applied in the *pro forma* information presented.

	<b>Country Foods reviewed Before 31 March 2007<sup>(1) (5)</sup> R'000</b>	<b>Capital raising adjustment<sup>(2)</sup> R'000</b>	<b>Unaudited <i>Pro forma</i> Country Foods After capital raising adjustments 31 March 2007 R'000</b>	<b>Private placement adjustment<sup>(2)</sup> R'000</b>	<b>Unaudited <i>Pro forma</i> After capital raising and private placement adjustments 31 March 2007 R'000</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	55 210		55 210		55 210
Other investments	3		3		3
Loans to related companies	4 901		4 901		4 901
Long-term loans receivable	11 338		11 338		11 338
Non-current receivables	2 700		2 700		2 700
Intangible assets	38 362		38 362		38 362
Deferred tax asset	2 802		2 802		2 802
<b>Current assets</b>					
Inventory	18 145		18 145		18 145
Trade and other receivables	54 492		54 492		54 492
Cash and cash equivalents <sup>(3)</sup>	3 903	893	4 796		4 796
<b>Total assets</b>	<b>191 856</b>	<b>893</b>	<b>192 749</b>		<b>192 749</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	313	38	352	300	652
Share premium <sup>(2)</sup>	54 320	2 671	56 991	26 750	83 741
Non-distributable reserve	217		217		217
Retained income	36 273		36 273		36 273
<b>Ordinary shareholders' funds</b>	<b>91 123</b>	<b>2 709</b>	<b>93 832</b>	<b>27 050</b>	<b>120 882</b>
Minority interests	2 782		2 782		2 782
<b>Total shareholders' funds</b>	<b>93 905</b>	<b>2 709</b>	<b>96 614</b>	<b>27 050</b>	<b>123 664</b>

	<b>Country Foods reviewed Before 31 March 2007<sup>(1) (5)</sup> R'000</b>	<b>Capital raising adjustment<sup>(2)</sup> R'000</b>	<b>Unaudited <i>Pro forma</i> Country Foods After capital raising adjustments 31 March 2007 R'000</b>	<b>Private placement adjustment<sup>(2)</sup> R'000</b>	<b>Unaudited <i>Pro forma</i> After capital raising and private placement adjustments 31 March 2007 R'000</b>
<b>LIABILITIES</b>					
Interest bearing borrowings	14 058	(416)	13 642	(11 029)	2 613
Loans from related companies	16 770		16 770		16 770
Non-interest bearing borrowings	5 827	(1 400)	4 427		4 427
Deferred taxation liability	10 171		10 171		10 171
<b>Current liabilities</b>					
Trade and other payables	22 799		22 799		22 799
Short-term borrowings	2 771		2 771		2 771
Current portion of interest bearing borrowings	6 299		6 299		6 299
Provision for taxation	3 235		3 235		3 235
Bank overdraft <sup>(3)</sup>	16 021		16 021	(16 021)	–
<b>Total liabilities</b>	<b>97 951</b>	<b>(1 816)</b>	<b>96 135</b>	<b>(27 050)</b>	<b>69 085</b>
<b>Total equity and liabilities</b>	<b>191 856</b>	<b>893</b>	<b>192 749</b>	<b>–</b>	<b>192 749</b>
<i>Pro forma</i> shares in issue <sup>(2) (4)</sup>	92 584 860	3 870 589	96 455 449	30 000 000	126 455 449
Net asset value per share (cents)	98.4		97.3		95.8
Net tangible asset value per share (cents)	57.0		57.5		65.4

**Notes:**

- (1) The unaudited *pro forma* balance sheet was prepared on the basis that the capital raising and the private placement were completed on 31 March 2007.
- (2) Share capital and share premium have been adjusted for the 30 000 000 new shares issued in terms of the private placement and the capital raising 714 286 ordinary shares issued to Exchange Sponsors (Pty) Limited, the Designated Adviser. The estimated expenses, as set out in paragraph 15 of this prospectus are provided for against the share premium account in the private placement column.
- (3) The non-current and current other financial liabilities, bank overdraft have been adjusted for the cash received in terms of the private placement. The directors will utilise the funds raised from the private placement to reduce debt of the group and therefore the bank overdraft and certain long-term interest bearing borrowings were repaid. Interest savings on the reduction of the long-term interest bearing liabilities and the bank overdraft have been calculated and adjusted to the *pro forma* income statement.
- (4) The issued share capital of the company was restructured prior to the private placement as set out in paragraph 24 of this prospectus.
- (5) The Country Foods 31 March 2007 figures were extracted from the reviewed financial statements of the company at that date.
- (6) The accounting policies of Country Foods are consistent and have been applied in the presentation of the *pro forma* financial information. Revised or new standards, interpretations and amendments which may apply subsequent to the date of preparation of the *pro forma* balance sheet and income statement have not been applied in the *pro forma* information presented.

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**INDEPENDENT REPORTING ACCOUNTANTS' REPORT  
ON THE UNAUDITED *PRO FORMA* INCOME STATEMENT AND BALANCE SHEET**

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"The Directors  
Country Foods Limited  
PO Box 1838  
Houghton  
2041

19 September 2007

Gentlemen,

**INDEPENDENT REPORTING ACCOUNTANT'S LIMITED ASSURANCE REPORT ON THE *PRO FORMA*  
FINANCIAL INFORMATION OF COUNTRY FOODS LIMITED ("COUNTRY FOODS")**

We have performed our limited assurance engagement in respect of the *pro forma* financial information set out in Annexure 11 to the prospectus issued in connection with the capital raising and private placement of 30 000 000 ordinary shares in Country Foods ("the private placement") that is the subject of the prospectus.

The *pro forma* financial information has been prepared for purposes of complying with the requirements of the JSE Limited ("JSE"), for illustrative purposes only, to provide information about how the capital raising and private placement might have affected the reported financial information had the transaction been undertaken at the commencement of the period or at the date of the *pro forma* balance sheet being reported on.

The *pro forma* financial information has been prepared in accordance with the JSE Listings Requirements ("Listings Requirements"), for illustrative purposes only, to provide information about how the capital raising and the private placement might have affected the reported historical financial information presented, had the corporate action been undertaken at the commencement of the period or at the date of the *pro forma* balance sheet being reported on.

Because of its nature, the *pro forma* financial information may not present a fair reflection of the financial position, changes in equity, results of operations or cash flows of Country Foods, after the transaction.

**Directors' responsibility**

The directors of Country Foods are solely responsible for the compilation, contents and presentation of the *pro forma* financial information contained in the prospectus and for the financial information from which it has been prepared. Their responsibility includes determining that: the *pro forma* information financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of Country Foods and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

**Reporting accountants' responsibility**

Our responsibility is to express our limited assurance conclusion on the *pro forma* financial information included in the prospectus of Country Foods. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements applicable to *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the *Revised Guide on Pro Forma Financial Information* issued by The South African Institute of Chartered Accountants.

This standard requires us to comply with ethical requirements and to plan and perform the assurance engagement to obtain sufficient appropriate evidence to support our limited assurance conclusion, expressed below.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### **Sources of information and work performed**

Our procedures consisted primarily of comparing the unadjusted financial information with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Country Foods, considering the evidence supporting the *pro forma* adjustments and discussing the adjusted *pro forma* financial information with the directors of the company in respect of the corporate actions that are the subject of the prospectus.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of Country Foods and other information from various public, financial and industry sources.

While our work performed has involved an analysis of the historical published audited financial information and other information provided to us, our assurance engagement does not constitute an audit or review of any of the underlying financial information conducted in accordance with *International Standards on Auditing or International Standards on Review Engagements* and, accordingly, we do not express an audit or review opinion.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

### **Opinion**

Based on our examination of the evidence obtained, nothing has come to our attention, which causes us to believe that, in terms of Sections 8.17 and 8.30 of the JSE Listings Requirements:

- the *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of the issuer;
- the adjustments are not appropriate for the purposes of the *pro forma* financial information as disclosed pursuant to Section 8.30 of the JSE Listings Requirements.

### **Consent**

We consent to the inclusion of this letter and the reference to our opinion in the prospectus to be issued by Country Foods in the form and context in which it appears.

Yours faithfully

### **KPMG INC.**

Per: **Mickey Bove**

Registered Auditors

Chartered Accountants (SA)

Director

Private Bag 9  
Parktown  
2193

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**VENDORS**


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The following represents a list of the vendors of the material assets acquired by Country Foods during the three years preceding the publication of this prospectus:

<b>Nature of asset acquired</b>	<b>Names of vendors</b>	<b>Beneficial shareholders</b>	<b>Acquiring company</b>	<b>Date of acquisition</b>	<b>Addresses of vendor</b>	<b>Amount paid to vendors</b>
100% of the entire issued share capital and all shareholders' claims of Edulis	Mediolanum Investments Limited	R G Casaletti, C M A Casaletti, M Gaiotti, Hongo Anstaldt, B&C Investments Holdings Limited, Adformo Eiendomme CC, Resource Initiative Trust and Naniro Investments (Pty) Limited	Country Foods	30 September 2006	21 Central Street Houghton 2198	R30 000 000 discharged by the transfer of 7 000 ordinary shares and the issue of 29 993 000 ordinary shares in Country Foods at an issue price of 100 cents per ordinary share.
100% of the entire issued share capital and all shareholders' claims of Country Mushrooms	CRH Investments (Pty) Limited, Golden Glow Trust, Riandi Trust and Turning Point Investments Trust	Thys Nesor, Morris Gilbert, Nichol Muller and Barry Swanevelder	Country Foods	30 September 2006	Aalwyne Farm Bapsfontein District Bronkhorst-spruit Bapsfontein 1510	R22 000 000 discharged by the issue of 22 000 000 ordinary shares in Country Foods at an issue price of 100 cents per ordinary share.
100% of the entire issued share capital and all shareholders' claims of Fruitime	Bronpro	Joof Alberts Trust (Joof Alberts) and CRH Investments (Pty) Limited (Thys Nesor)	Country Foods	30 September 2006	Wilkenhof Brondal Nelspruit 1200	R20 000 000 discharged by the issue of 20 000 000 ordinary shares in Country Foods at an issue price of 100 cents per ordinary share.

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**Notes:**

- (1) Country Foods acquired the above material assets with effect from 30 September 2006.
- (2) None of the assets were acquired by the vendors within three years preceding this prospectus.
- (3) The vendors provided usual warranties to Country Foods.
- (4) The vendors have in terms of confidentiality and restraint agreements, undertaken not to conduct business in competition with the group for a period of five years from the effective date of the transactions. No restraint of trade payments were paid by Country Foods to the vendors.
- (5) There are no liabilities in terms of accrued taxation for the above acquisitions.
- (6) All the above companies are subsidiaries at the last practicable date.
- (7) No promoter had any beneficial interest, direct or indirect, in any of the above transactions.
- (8) No cash or securities were paid or benefit given within the three preceding years or proposed to be paid or given to any promoter, not being a director.
- (9) The assets acquired in the above table have been transferred into the name of Country Foods and the assets have not been ceded or pledged.

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## CORPORATE GOVERNANCE

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The directors endorse, and accept full responsibility for, the application of the principles necessary to ensure that effective Corporate Governance is practised consistently throughout the Country Foods group. Country Foods is committed to the principles of openness to all stakeholders, integrity and accountability and adheres to the Code of Corporate Practices and Conduct (“the Code”) as advocated in the King Code. One of the important objectives of the board would be to find the correct balance between conforming within the parameters of the Code and performing in an entrepreneurial way.

The directors are pro-actively taking steps to ensure that all the elements required to make the Country Foods group fully compliant with the recommendations incorporated in the Code have been implemented.

A summary of the current compliance is as follows:

### 1. BOARD OF DIRECTORS

The board of directors sets the company’s overall policy and provides guidance and input in areas relating to strategic direction, planning, acquisitions, performance measurement, resource allocation, key appointments, standards of conduct and communication with shareholders.

Generally, directors have been and will be nominated based on their calibre, credibility, knowledge, experience and time and attention they can devote to the role. Before nomination, appropriate background checks are performed on proposed new directors. New appointments to the board are submitted to the board for approval prior to appointment. All appointments are formal and transparent and a matter for the board as a whole. New directors are taken through a formal induction programme and are provided with all the necessary background information to familiarise them with issues affecting the board.

The board’s independence from the team responsible for the daily management of Country Foods will be maintained by:

- functioning board committees comprised mainly non-executive directors;
- the non-executive directors not holding fixed term contracts;
- all directors, with prior permission of the board, being entitled to seek independent professional advice into the affairs of Country Foods at the company’s expense;
- all directors having access to the advice and services of the Company Secretary;
- the appointment or dismissal of the Company Secretary being decided by the board as a whole and not by one individual director.

The board comprises one independent non-executive director and three executive directors. The non-executive director is fully independent of management and free to make his own decisions and independent judgements. He enjoys no benefits from the company for his services as director, other than his fees and potential capital gains and dividends on his interests in ordinary shares.

The executive directors have fixed terms of appointment which do not exceed five years in duration. The appointment of the non-executive directors is subject by rotation, to retirement and re-election by shareholders at least every three years, in accordance with Country Foods’s articles of association. A brief CV of each director standing for election or re-election at the annual general meeting will be included in the notice of the annual general meeting.

The board retains full and effective control over the company. The board intends to meet at least four times a year with additional meetings called, if necessary or desirable. Information relevant to a meeting will be supplied on a timely basis to the board ensuring directors can make informed decisions. The board is also responsible for monitoring the activities of the executive management.

The company's corporate philosophy is consistent with the principles of the King Report II on Corporate Governance, in that, *inter alia*:

The roles of the Chairperson and the Managing Director are separated.

At this stage, the company does not have a formal Nomination or Risk Committee. Future appointments to the board will, however, be formal and a transparent matter for the board as a whole.

## **2. REMUNERATION COMMITTEE**

The company currently does not have a Remuneration Committee, as this is not an ALT<sup>X</sup> requirement.

## **3. AUDIT COMMITTEE**

The Audit Committee will be chaired by a non-executive director and the company's Designated Adviser will be a member thereof. It will be attended by the Financial Director and will be formed for the purposes of monitoring and reviewing:

- the effectiveness of the company's information systems and other systems of internal control;
- the effectiveness of the internal audit function;
- the reports of both the external and internal auditors;
- the annual report and specifically the annual financial statements included therein;
- the accounting policies of the company and any proposed revisions thereto;
- the external audit findings, reports and fees and the approval thereof;
- ensuring that non-audit services will not be obtained from the external auditors where the provisions of such services could impair audit independence;
- compliance with applicable legislation and requirements of regulatory authorities.

The external auditors will have unrestricted access to the Audit Committee and its chairman with a view to ensuring that their independence is not impaired.

## **4. CODE OF ETHICS**

The company adheres to Code of Ethics. The company observes a close period from the end of the reporting period until the announcement of interim and year-end results, during which period neither directors nor employees may deal, directly or indirectly, in the ordinary shares of the company.

## **5. COMMUNICATION**

The company has a policy of open and transparent communication with its ordinary shareholders and other stakeholders and will meet regularly with institutional shareholders, investment analysts and other stakeholders.

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## SALIENT FEATURES OF THE COMPANY'S SHARE INCENTIVE SCHEME

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The salient features of the share incentive scheme, which was adopted on 23 April 2007, established as an incentive to promote the continued growth of the group by giving employees an opportunity to acquire shares therein, are set out below:

### 1. DEFINITIONS

“Acceptance Date”	the date of acceptance by a Participant of an offer for the purchase of Scheme Shares in terms of clause 6 or to acquire Rights and Options to purchase Allocation Shares in terms of clause 23;
“Eligible Applicant”	a person eligible for participation in this Scheme, namely, any Employee of the Group who has not less than 12 months' uninterrupted service with the Group or as may be otherwise determined from time to time by the Board as well as a non-executive director of the Company;
“Employee”	an employee of the Group, including an executive director of the Group, to whom an offer shall have been made to acquire Shares;
“Group”	the Company and its subsidiaries;
“Purchase Price”	in relation to Scheme Shares and/or Allocation Shares, an amount equivalent to the middle market price of the Shares on the JSE on the trading day immediately preceding that on which a resolution of the Board is passed for the purposes of allotting Scheme Shares or granting Rights and Options to purchase Allocation Shares. The middle market price of the Shares on the JSE shall be determined by way of a certificate issued by a stockbroker licensed to trade on the JSE;
“Scheme Shares”	Shares purchased by a Participant under this Scheme for as long as the Participant has not made payment in full of his Share Scheme Debt relating to those Shares, which Shares shall rank <i>pari passu</i> in every respect with the existing ordinary issued shares of the Company upon release; and
“Shares”	ordinary shares in the capital of the Company.

### 2. PURPOSE AND NATURE

This Scheme is introduced for the purpose of providing an opportunity to the employees of the Group to acquire shares in the capital of the Company, either directly or through the grant of options, so as to give such employees the incentive to advance the interests of the Company for the ultimate benefit of all stakeholders in the Company.

### 3. PURCHASE OF OR SUBSCRIPTION FOR SCHEME SHARES AND/OR ALLOCATION SHARES

The Directors of Country Foods shall from time to time instruct the Trustees to offer the opportunity to acquire Rights and Options to purchase Allocation Shares or to acquire Scheme Shares to Eligible Applicants in respect of such number of Shares, which in aggregate, together with any Scheme Shares already in issue and/or the number of Allocation Shares at that time shall not exceed 20% of the ordinary issued share capital of the Company at the date of the offer or such increased percentage as may from time to time be approved by the JSE and by the Company in general meeting.

The maximum number of shares which may presently be issued in terms of the Scheme is therefore 19 291 090 Shares, being 20% of the present issued share capital of 96 455 449 Shares. The maximum number of Shares in respect of which any single Eligible Participant shall have rights in terms of the Scheme shall be limited to 1% of the ordinary issued share capital of the Company from time to time, provided that the Board may resolve to increase such maximum number of Shares in respect of a single Eligible Participant to not more than 2% of the ordinary issued capital of the Company.

The Directors shall forward to the Trustees a certified copy of the resolution authorising an offer of Scheme Shares and/or Allocation Shares to specific Eligible Applicants and the Trustees shall offer the number of Scheme Shares and/or Allocation Shares referred to in such resolution to the Eligible Applicant named in such resolution. Scheme Shares and/or Allocation Shares shall be offered at the Purchase Price referred to above.

#### **4. PRICING**

The Trustees shall, on the authority of a resolution of the Board and subject to the provisions of clause 6.2, offer Eligible Applicants the right to purchase Scheme Shares at the Purchase Price, which Purchase Price may be higher or lower than the price at which the Scheme Shares in question were acquired by the Trust.

#### **5. RELEASE PERIOD**

All amounts paid by a Participant shall be applied rateably toward payment of the Purchase Price of all of the Scheme Shares which such Participant has purchased unless the Participant allocates, in writing at the time that he makes such payment, the payment to specific Scheme Shares. The balance of the Share Scheme Debt of a Participant may be paid by him to the Trust at any time; provided that the Share Scheme Debt shall be paid in full by no later than the fourth anniversary of the Acceptance Date; provided that further that the Board may, in its discretion, increase the period for repayment stipulated in this clause, either generally or in any particular case.

When the Share Scheme Debt in respect thereof will have been paid in full, a Participant shall, subject to clause 3.16, be entitled to the release of his Scheme Shares from the operation of this Scheme after the expiry of a period of:

- 5.1** one year after the Acceptance Date, in respect of 20% of the Scheme Shares, or part thereof;
- 5.2** two years after the Acceptance Date, in respect of a further 25% of the Scheme Shares, or part thereof;
- 5.3** three years after the Acceptance Date in respect of a further 25% of the Scheme Shares, or part thereof;
- 5.4** four years after the Acceptance Date in respect of a further 30% of the Scheme Shares, or the balance of the Scheme Shares.

A Participant's Share Scheme Debt shall bear interest on the balance thereof outstanding from time to time. Such interest shall be at a rate which is not less than the rate of interest stipulated from time to time in terms of the Seventh Schedule to the Income Tax Act, 1962, as amended. The Board may in its discretion alter the rate of interest from time to time; provided that no alteration in the rate shall have retrospective effect.

If the full amount of the Share Scheme Debt is not paid on the due date for payment thereof in terms of the Scheme, the Trustees shall call upon the Participant in writing to effect such payment and if such demand is not complied with within 21 days of the date thereof, the Trustees may cancel the sale and take possession of such Scheme Shares, in which event the Participant shall be released from all further liability in respect of his Share Scheme Debt or the Trustees may, in their sole and absolute discretion, permit the Participant to sell so many of the Scheme Shares as may be necessary to enable the Participant to discharge his Share Scheme Debt so as to procure the release of the remainder of the Scheme Shares to which he is entitled.

## **6. DEATH, RETIREMENT OR DISABILITY OR RESIGNATION**

### **6.1 Retirement or disability**

If a Participant becomes retired in terms of the rules of the Group's pension fund or who retires with the approval of the Board or who becomes permanently incapacitated prior to the fourth anniversary of the Acceptance Date, shall, within two years after his becoming retired or permanently incapacitated, have the right and obligation at his election to pay his Share Scheme Debt in full in respect of all of his Scheme Shares and have them released to him or to have his Scheme Shares repurchased by the Trustees at the Repurchase Price of the Scheme Shares, in which latter-mentioned event such retired or incapacitated Participant shall be released from all liability in respect of his Share Scheme Debt.

### **6.2 Death**

If a Participant dies before the arrival of the fourth anniversary of the Acceptance Date, then at any time before the finalisation of his estate or within two years after his death, whichever is the earlier, the Participant's executor shall have the right and obligation at his election to pay the Share Scheme Debt in full and have the Scheme Shares released or to have such Scheme Shares repurchased by the Trustees at the Repurchase Price of the Scheme Shares, in which latter-mentioned event the estate of the Participant shall be released from all liability in respect of the Share Scheme Debt.

### **6.3 Dismissal**

If the employment of a Participant with the Group is terminated by the Group as a result of dishonesty or upon such other grounds as will justify a summary dismissal in law, the Trustees shall forthwith thereafter purchase from the Participant who shall sell to the Trust the Scheme Shares which have then not been released to him at a price equal to the closing price of the Shares on the JSE on the trading day immediately preceding the date of purchase. The Trustees shall apply the proceeds of the sale to repay the Participant's Share Scheme Debt. Any excess of the proceeds over the Share Scheme Debt shall be forfeited to the Trust and the Participant shall be released from any further liability in respect of his Share Scheme Debt.

### **6.4 Cessation of employment for other reasons**

If a Participant for any reason, other than his dismissal, death, retirement or permanent incapacity, does not remain employed by the Group for a period of four years from the Acceptance Date; or

The Participant remains an Employee of the Group but desires, at any time prior to the expiry of four years from the Acceptance Date, to terminate his participation in the Scheme.

Then within a period of 30 days from the date upon which he ceases to be employed by the Group or the date upon which he notifies the Trustees in writing that he no longer wishes to participate as a member of the Scheme, whichever is appropriate, the Trustees in their sole and absolute discretion may repurchase the Scheme Shares from the Participant at the Repurchase Price. The Participant shall in the above events have no further rights or claims against the Trust arising from the acquisition of his Scheme Shares.

## **7. AMENDMENTS**

It shall be competent for the Board and the Trustees to amend any of the provisions of the Scheme, provided that:

**7.1** no such amendment shall affect the vested rights of any Participant;

**7.2** no such amendment affecting any of the following matters shall be competent unless it is sanctioned by the Company in general meeting:

**7.2.1** the eligibility of Participants under this Scheme;

**7.2.2** the proportion, expressed as a percentage, which the Shares that may be acquired by the Trustees for purposes of the Scheme, bears to the entire issued ordinary share capital of the Company for the time being;

- 7.2.3** the maximum number of Scheme Shares that may be acquired by any Participant;
- 7.2.4** the Purchase Price;
- 7.2.5** the period within which payment of the Purchase Price is to be made;
- 7.2.6** the period within which payment of the Scheme Debt is to be made;
- 7.2.7** the vesting period of the Scheme Shares;
- 7.2.7** the procedure to be adopted on termination of employment or retirement of a Scheme Participant;
- 7.2.9** the voting, dividend, transfer and other rights, including those arising on a liquidation of the Company, attaching to the Scheme Shares; and
- 7.2.10** any amendment of clause 15.2.

## **8. TRUSTEES**

There shall at all times be a minimum of two Trustees in office. Jason Michael Smith Identity Number 7408025125087 and Adrian Dowie Identity Number 7706065022084 (not being salaried directors or Employees of the Group) are appointed as Trustees of the Trust and accept that appointment by their signatures hereto.

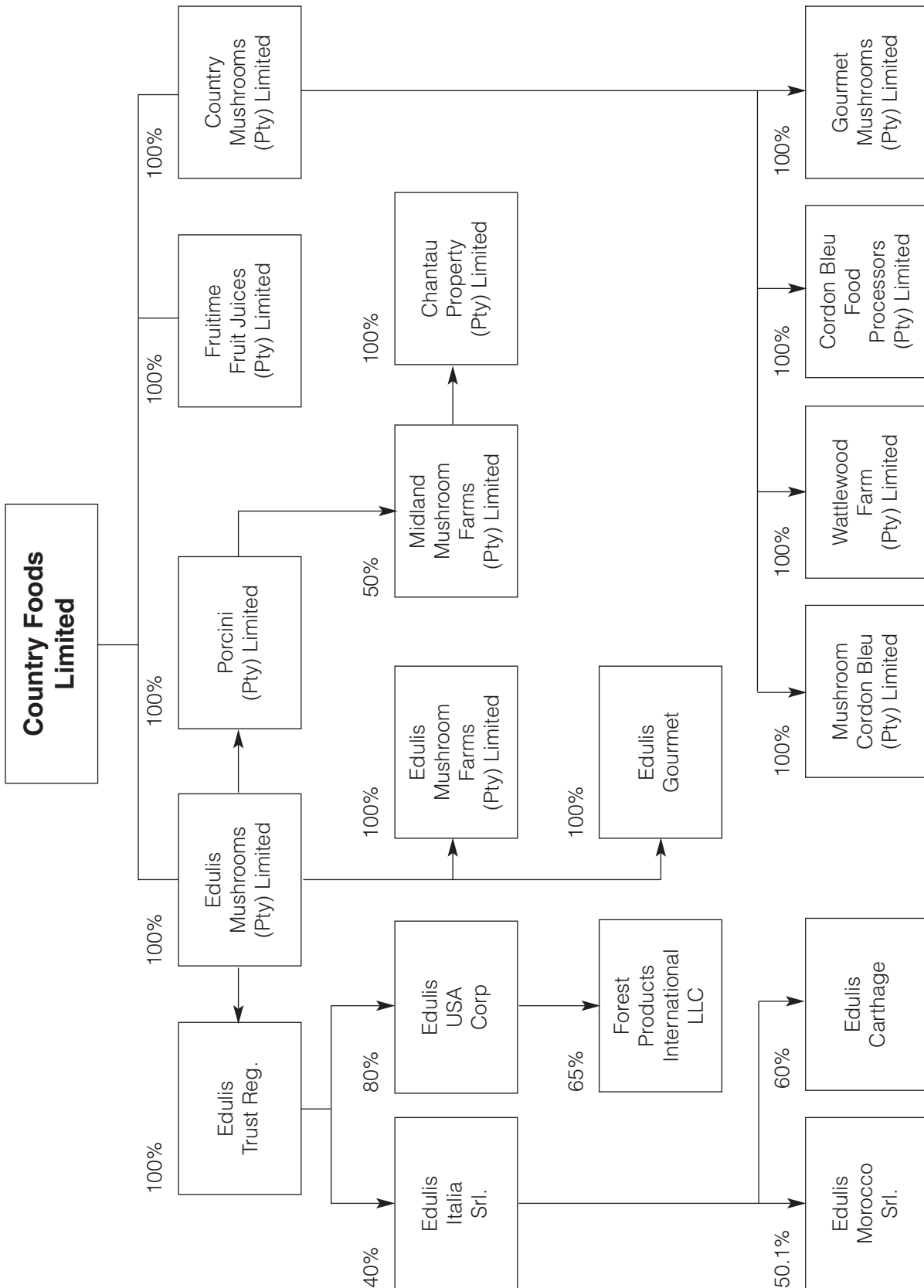
No Trustee shall be eligible for participation under the Scheme.

## **9. ANNUAL DISCLOSURE**

The Group shall in its annual financial statements, provide particulars of:

- 9.1** the number of Scheme Shares which have been taken up by Participants in terms of offers made to them and which Scheme Shares are subject to the Scheme;
- 9.2** any changes in the number of Scheme Shares which have been taken up by Participants during the year;
- 9.3** the number of Scheme Shares initially taken up by Participants as Scheme Shares and which during the year have ceased to be Scheme Shares;
- 9.4** the Purchase Price at which Employees were offered Scheme Shares during the year and the total number of Scheme Shares taken up by Eligible Applicants at such Purchase Price;
- 9.5** the total number of Scheme Shares still available to be taken up by Eligible Applicants in terms of the Scheme;
- 9.6** the aggregate amount owing by Participants to the Trust at the end of each year.

**GROUP STRUCTURE**





## Country Foods Limited

(formerly Africa's Best 346 Limited)

(Incorporated in the Republic of South Africa)

(Registration number 2005/018743/06)

(JSE code: CFO ISIN: ZAE000105052)

("Country Foods")

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### PRIVATE PLACEMENT APPLICATION FORM

In respect of the private placement by way of subscription of 30 000 000 Country Foods ordinary shares at an issue price of 100 cents per share, registered in terms of this prospectus issued on 21 September 2007 ("the prospectus")

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Please refer to the instructions overleaf before completing this private placement application form.

#### Certificated shares – payment by bank guaranteed cheque or banker's draft

Applicants who elect to receive their allocated shares in certificated form and who wish to pay by way of **bank guaranteed cheque or banker's draft** must complete and return this private placement application form, together with their payment in the form of a bank guaranteed cheque or banker's draft (crossed "not transferable" and drawn in favour of "Country Foods Private Placement") in an envelope marked "Country Foods Private Placement" to:

*if delivered by hand or by courier:*

Designated Adviser  
Exchange Sponsors (Pty) Limited  
39 First Road  
Hyde Park  
Johannesburg  
2196

*if posted:*

Designated Adviser  
Exchange Sponsors (Pty) Limited  
PO Box 411216  
Craighall  
2024

#### Certificated shares – payment by electronic transfer

Applicants who elect to receive their allocated shares in certificated form and who wish to pay by way of **electronic transfer** may do so, in which case the **private placement application, and proof of such payment by electronic transfer must be hand delivered, posted or faxed to Country Foods (and not the transfer secretaries) to:**

*if delivered by hand:*

Designated Adviser  
Exchange Sponsors (Pty) Limited  
39 First Road  
Hyde Park  
Johannesburg  
2196

*if posted:*

Designated Adviser  
Exchange Sponsors (Pty) Limited  
PO Box 411216  
Craighall  
2024

*if faxed:*

Designated Adviser  
(011) 447 1929

so as to be received by no later than 12:00 on Wednesday, 26 September 2007.

Payment by electronic transfer must be made into the following bank account:

Bank:	ABSA Bank Limited
Branch:	Eastgate Office Park
Branch code:	632 005
Account name:	Country Foods Private Placement
Account number:	40 6647 6734
Account type:	Cheque account

Country Foods accepts no responsibility and will not be liable for the correct or any allocation of private placement shares pursuant to payment being made or alleged to have been made by way of electronic transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or Country Foods, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placement shares.

#### Dematerialised shares – payment by electronic transfer or through Central Securities Depository Participant ("CSDP") or broker

Applicants who elect to receive their allocated shares in dematerialised form and who wish to pay by way of **electronic transfer** must do so, in which case the **private placement application and the section on their CSDP or broker must be completed and stamped or signed by the relevant CSDP or broker and proof of such payment by electronic transfer must be hand delivered, posted or faxed to:**

*if delivered by hand:*

Designated Adviser  
Exchange Sponsors (Pty) Limited  
39 First Road  
Hyde Park  
2196

*if posted:*

Designated Adviser  
Exchange Sponsors (Pty) Limited  
PO Box 411216  
Craighall  
2024

*if faxed:*

Designated Adviser  
(011) 447 1929

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Account type:	Cheque account

Country Foods accepts no responsibility and will not be liable for the correctness of any allocation of private placement shares pursuant to payment being made or alleged to have been made by way of electronic transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or Country Foods, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placement shares.

Applicants, who wish to receive their allocated shares in dematerialised form, can also complete and return this private placement application form to their duly appointed CSDP or broker by the time and date stipulated in the agreement governing their relationship with their CSDP or broker, together with the method of payment as stipulated in such agreement.

NO LATE APPLICATIONS WILL BE ACCEPTED.

#### Reservation of rights

The directors of Country Foods reserve the right to accept or refuse any application(s), either in whole or in part, or to *pro rate* any or all application(s) (whether or not received timeously) in such manner as they may, in their sole and absolute discretion, determine.

The directors of Country Foods reserve the right to accept or reject, either in whole or in part, any private placement applications should the terms contained in the prospectus of which this private placement application form forms part and the instructions herein not be complied with.

Applications must be for a minimum of 5 000 shares and multiples of 1 000 shares thereafter.

**To the Directors****Country Foods Limited**

1. I/We, the undersigned, confirm that I/we have full legal capacity to contract and, having read this prospectus, hereby irrevocably apply for and request you to accept my/our application for the undermentioned number of shares in Country Foods at 100 cents per share or any lesser number that may, in your absolute discretion, be allotted to me/us, subject to the articles of association of Country Foods.
2. I/We wish to receive our allocated shares in dematerialised form and will hand this private placement application form to our appointed CSDP or broker. I/We accept that payment in respect of these applications will be, in terms of the custody agreement entered into between me/us and our CSDP or broker, on a delivery versus payment basis. (delete if not applicable).
3. I/We wish to receive our allocated shares in certificated form and commit to accept the physical share certificate. Accordingly, I/we hereby enclose a crossed cheque/banker's draft in favour of "**Country Foods Private Placement**" for the appropriate amount due in terms of this application (delete if not applicable).
4. I/We understand that the subscription for or purchase of shares in terms of the prospectus is conditional on the granting of a listing of the shares of Country Foods, by Wednesday, 3 October 2007 or such later date as the directors may determine, on the Alternative Exchange (ALT<sup>X</sup>) of the JSE Limited.

Dated \_\_\_\_\_ 2007 Telephone number ( \_\_\_\_\_ )

Signature \_\_\_\_\_

Assisted by (where applicable) \_\_\_\_\_

<b>Surname of individual or Name of entity</b>	Mr Mrs Ms Other title
<b>First names (in full)</b>	
<b>To be completed by all applicants</b> <b>Postal address</b> (Preferably PO Box address) Refund cheque and/or share certificate, if applicable, will be sent to this address	
<b>Telephone number ( _____ )</b>	
Total number of ordinary shares applied for <b>Note:</b> Minimum number of 5 000 shares and thereafter in multiples of 1 000 shares	(Enter figures only – not words)
<b>Total amount of cheque or banker's draft</b> to cover ordinary shares applied for herein at 100 cents per share	R (Enter figures only – not words)

**Section must be completed if shares required in dematerialised form. Required information must be obtained or completed by CSDP or broker**

CSDP name	
CSDP contact person	
CSDP contact telephone number	
SCA or bank CSD account number	
Scrip account number	
Settlement bank account number	
CSDP signature or stamp	

This application will constitute a legal contract between Country Foods and the applicant. The issuer of the shares is Country Foods. Application forms for certificated or uncertificated shares will not be accepted unless the above information has been furnished.

**INSTRUCTIONS:**

1. Applications may be made on this private placement application form only. Copies or reproductions of this private placement application form will be accepted.
2. Applications are irrevocable and may not be withdrawn once submitted to the Designated Adviser, transfer secretaries, CSDP's or brokers.
3. All CSDP's and brokers will be required to retain the private placement application form for presentation to the directors if required.
4. Please refer to the terms and conditions of the private placement set out in paragraph 10 of the prospectus. Applicants should consult their brokers, bankers or other professional advisers in case of doubt as to the correct completion of this private placement application form.
5. Applications must be for a minimum of 5 000 shares and thereafter in whole multiples of 1 000 shares.
6. Applicants who wish to receive their shares in uncertificated form and who do have a CSDP or broker must do so in terms of the custody agreement entered into between them and their CSDP or broker on a delivery versus payment basis.
7. Applicants who wish to receive their shares in certificated form must submit only one private placement application form and one bank guaranteed cheque or banker's draft in respect of each application. Payment may also be by way of electronic transfer as set out above. To the extent that more than one application is submitted, the first private placement application form received will be the one in respect of which Country Foods shares will be allocated in terms of the prospectus and further application form(s) will be ignored. The application monies applicable thereto will be held by the transfer secretaries and returned without interest to the applicants concerned with all other returned cheques in terms of the prospectus at the applicant's risk. Postal orders, cash or telegraphic transfers will **not** be accepted.
8. No receipts will be issued for private placement application forms, application monies or any supporting documentation and applications will only be regarded as complete when the relevant cheque/banker's draft has been paid. All monies will be deposited immediately for payment. If a receipt is required, shareholders or lodging agents are required to prepare special transaction receipts for private placement application forms lodged.
9. If any cheque or banker's draft is dishonoured, the group may, in its sole discretion, regard the relevant application as invalid or take such other steps in regard thereto as it may deem fit.
10. All alterations on this private placement application form must be authenticated by full signature.
11. Country Foods will use the "certified transfer deeds" and other temporary "documents of title" procedure approved by the JSE Limited and therefore will issue only a "block" certificate for the shares allotted in terms of this application for the applicant who requests a share certificate.
12. Blocked Rand may be used by emigrants and non-residents of the common monetary area (comprising the Republics of South African and Namibia and the Kingdoms of Swaziland and Lesotho) for payment in terms of private placement application and reference should be made to paragraph 10.12 of this prospectus, which deals with Exchange Control Regulations.



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