Commentary

RESULTS FOR THE PERIOD UNDER REVIEW

During the period under review the Group experienced very difficult trading conditions. This was as a result of national poultry prices declining by 13,9% compared to the same period last year. During the six months ended 31 August 2010 pricing was placed under severe pressure due to oversupply of poultry in the market. Producers and importers had increased volumes in anticipation of additional demand for the 2010 World Cup.

As a result, the Group's poultry prices declined by 10,4% compared to the six months ended 31 August 2009 ("comparative period") and this had the effect of reducing revenues for the period under review by R61 million. As a result of this, EBITDA margins declined from 14,3% in the comparative period to 8,2%.

The trading results for the period under review must however also be compared to the *pro forma* results for the six month period ended 28 February 2010 ("H210"). In terms of this comparison, average poultry prices declined by 6,8% whilst operating income increased by 60% from R27,0 million to R43,3 million, EBITDA margins increased by 60% from 5,1% to 8,2% and net profit before taxation increased by 110% from a loss of R17,2 million to a profit of R1,8 million.

The Group has had a strong period operationally. Improvements have been achieved in all key performance indicators ("KPI's"). The substantial investment the Group has made over the last three years in high quality poultry production assets has begun to show benefits. Key highlights have been:

- significant improvement in FCR resulting in a 13% reduction in the feed cost per kg sold;
- improved bird health and a considerable decline in farm mortalities;
- poultry performance ahead of breed standards;
- improved product quality standards;
- 30% decline in frozen transport costs; and
- reduction in the cost of feed-milling.

These improvements have been achieved over the period under review with each month reflecting a continually improving trend. The expectation is that these trends will continue and provide a strong underpin for improved business performance into the future. Despite the previous period of intense corporate action, levels of staff motivation inside the business remains extremely strong as a result of the improving business performance in each of the KPI areas.

As a result of the outsourcing of the frozen transport division undertaken in April 2010 and staff restructuring carried out in August 2010, the Group incurred once off costs in the amount of R6,5 million. Partly as a result of this, non-feed costs increased by 7,6%.

The Group was also challenged by high electricity cost increases during the period under review with the local municipality imposing a 22% tariff increase with effect from 1 July 2010.

Notwithstanding the cost challenges outlined above, the Group was able to decrease its total cost of production per kg sold by 3,4% compared to the comparative period. After accounting for the once off costs of R6,5 million, the decrease in total cost of production per kg sold would have been 4,6%.

As a result of the Rights Offer concluded in December 2009 and the lower prime interest rate, finance charges declined by 22,9% compared to the comparative period.

Gearing and cash management remains a focus area for management and the Board of Directors of Sovereign ("the Board") and despite the difficult trading conditions, the Group managed to keep net gearing at 92% which is the same as at 28 February 2010. As a result of this focus, net working capital declined by R4 million from the end of the previous financial year.

As at 31 August 2010, the Group changed the classification of its overdraft facilities to a separate line item under current liabilities on the Statement of Financial Position. Previously, the overdraft facilities were classified in the short term portion of the long term liabilities line item. The overdraft facilities in the short term portion of the long term liabilities as at 28 February 2010 and 31 August 2009 were R30 million at each reporting date.

PROSPECTS

The key challenges that the Group faces in the coming six months are a continued weakness in poultry prices and higher volatility in feed raw material markets.

Whilst poultry prices have already strengthened in accordance with seasonal norms, further plans are in place to secure higher poultry prices. These include:

- Finalising an enhancement to its processing facilities. This will allow the production of a range of key poultry products that cannot currently be produced. It is anticipated that this product range will allow the Group to move a significant portion of its production into key products that will provide a substantial buffer against the current weak poultry pricing. The new production facilities are scheduled to come on stream at the end of November 2010.
- The completion of a larger cold storage facility will allow increased flexibility in satisfying customer demand.

To mitigate the higher volatility in feed raw material prices, the Group has a procurement practice that has resulted in 75% of the maize requirement for the coming six months being secured at prices at the same level of current SAFEX December 2010 white maize futures. In addition, 40% of the Group's soya requirement for the period has also been secured.

The Group is also pleased to announce that a new contract grower will come on stream by mid December 2010 who will add 5% to the Group's dedicated farming facilities.

In order to address the challenge of land redistribution, the Group is in the process of transferring ownership of one of its farms into broad based black economic empowerment ownership. This transaction, which is subject to certain conditions, will have the effect of reducing debt by R36 million.

DIRECTORATE

During the period under review, Mr Mike Hankinson and Ms Khanya Kweyama resigned. Mike resigned due to a potential conflict of interest in his role as the Chairman of Spar and Khanya resigned due to other work commitments. The Group wishes to thank Mike and Khanya for their valuable contribution to the Group.

ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the date of transition to IFRS for the Group being 1 March 2005 and comply with the requirements of International Accounting Standard 34 – Interim Financial Reporting and the AC500 standards as issued by the Accounting Practices Board. The accounting policies are consistent with those applied by the Group for the year ended 28 February 2010.

INTERIM DIVIDEND

In accordance with the Group's intention to improve its gearing position, the Board considers it prudent not to declare an interim dividend for the period under review.

By order of the board

CP Davies
Non-executive Chairman

MJB Davis
Chief Executive Officer

23 September 2010

Email: info@sovfoods.co.za

sovereignfoods
full of goodness

Sovereign Food Investments Limited

Unaudited Group Results

for the six months ended 31 August 2010

SIGNIFICANT IMPROVEMENT IN OPERATING PERFORMANCE RESULTING IN:

- 8% INCREASE IN TOTAL SALES VOLUME FROM AN IMPROVEMENT IN FARMING PERFORMANCE
- 3% IMPROVEMENT IN FEED CONVERSION RATIO ("FCR")
- 13% DECLINE IN FEED COSTS PER KG SOLD

Transfer secretaries
Computershare Investor Services (Pty) Limited
PO Box 61051, Marshalltown 2107, Gauteng

Sponsor
One Capital

Directorate
CP Davies* *(Non-executive Chairman)*, PM Madi*, LM Nyhonyha*, MJB Davis, C Coombes, BJ van Rensburg, GG Walter *(*Non-executive)*

Sovereign Food Investments Limited
Incorporated in the Republic of South Africa
Registration number 1995/003990/06
JSE code: SOV   ISIN: ZAE 000009221
("Sovereign" or "the Group" or "the Company")

www.sovereignfoods.co.za

Statement of Comprehensive Income

	Unaudited six months ended 31 August **2010** R'000	2009 R'000	Audited year ended 28 February 2010 R'000
Revenue	**527 601**	544 968	1 056 203
Operating income	**43 259**	77 637	104 622
Depreciation	**15 772**	12 022	26 696
Profit before interest and taxation	**27 487**	65 615	77 926
Net interest paid	**25 730**	33 375	62 866
Net operating income	**1 757**	32 240	15 060
Deferred taxation	**492**	8 991	3 991
Retained earnings for the period	**1 265**	23 249	11 069
Weighted average number of shares in issue ('000)	**47 817**	33 003	36 087
Earnings per share (cents)	**2,7**	70,5	30,7
Headline earnings per share (cents)	**2,7**	70,5	32,3
Diluted earnings per share (cents)	**2,6**	70,3	30,3
Diluted headline earnings per share (cents)	**2,6**	70,3	31,9
Reconciliation between earnings and headline earnings			
Earnings after taxation	**1 265**	23 249	11 069
Reconciling items	**–**	–	589
Headline earnings after taxation	**1 265**	23 249	11 658

Statement of Financial Position

	Unaudited six months ended 31 August **2010** R'000	2009 R'000	Audited year ended 28 February 2010 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**823 105**	813 587	814 262
Current assets	**333 126**	313 345	299 337
Inventory and biological assets	**140 547**	121 015	138 554
Trade and other receivables	**115 094**	87 820	106 555
Cash and cash equivalents	**77 485**	104 510	54 228
Total assets	**1 156 231**	1 126 932	1 113 599
EQUITY AND LIABILITIES			
Capital and reserves			
Equity	**419 161**	309 503	417 896
Non-current liabilities	**438 273**	552 460	461 726
Long term portion of interest bearing debt	**336 729**	446 406	360 673
Deferred taxation	**101 544**	106 054	101 053
Current liabilities	**298 797**	264 969	233 977
Short term portion of interest bearing debt	**47 320**	90 424	76 709
Trade, other payables and provisions	**171 888**	174 545	157 268
Overdraft	**79 589**	–	–
Total equity and liabilities	**1 156 231**	1 126 932	1 113 599

Statement of Cash Flows

	Unaudited six months ended 31 August **2010** R'000	2009 R'000	Audited year ended 28 February 2010 R'000
Cash generated from operations before working capital changes	**43 259**	77 637	105 940
Changes in working capital	**(25 973)**	35 422	(18 129)
Cash generated from operating activities	**17 286**	113 059	87 811
Net interest paid	**(25 730)**	(33 375)	(62 866)
Net cash flows from operating activities	**(8 444)**	79 684	24 945
Net cash flows from investing in property, plant and equipment	**(24 615)**	(45 479)	(61 552)
Net cash flows from debt (repaid)/raised	**(23 333)**	(12 374)	8 156
Net increase/(decrease) in cash and cash equivalents	**(56 392)**	21 831	(28 451)
Net cash and cash equivalents at beginning of period	**54 288**	82 679	82 679
Net cash and cash equivalents at end of period	**(2 104)**	104 510	54 228

Statement of Changes in Equity

31 August 2010	**Share capital R'000**	**Share premium R'000**	**Share based payments R'000**	**Revaluation reserve R'000**	**Retained earnings R'000**	**Total R'000**
Opening balance	478	133 897	895	28 848	253 778	417 896
Net profit for the period	–	–	–	–	1 265	1 265
Closing balance	**478**	**133 897**	**895**	**28 848**	**255 043**	**419 161**
31 August 2009						
Opening balance	330	14 305	301	28 848	242 709	286 493
Net profit for the period	–	–	–	–	23 249	23 249
Share based payments	–	–	(239)	–	–	(239)
Closing balance	**330**	**14 305**	**62**	**28 848**	**265 958**	**309 503**

Pro forma Information

(in order to illustrate financial performance over the last 3 half yearly reporting periods)

	Six months ended 31 August 2009[(3)] R'000	Year ended 28 February 2010[(4)] R'000	*Pro forma* for the six months ended 28 February 2010[(5)] R'000	**Six months ended 31 August 2010[(6)] R'000**
Revenue	544 968	1 056 203	511 235	**527 601**
Operating income	77 637	104 622	26 985	**43 259**
Depreciation	12 022	26 696	14 674	**15 772**
Profit before interest and taxation	65 615	77 926	12 311	**27 487**
Net interest paid	33 375	62 866	29 491	**25 730**
Net operating income/(loss)	32 240	15 060	(17 180)	**1 757**
Deferred taxation	8 991	3 991	(5 000)	**492**
Retained earnings for the period	23 249	11 069	(12 180)	**1 265**
Headline earnings for the period	23 249	11 658	(11 591)	**1 265**

Notes

1. The *pro forma* information has been prepared for illustrative purposes only and because of its nature may not give a fair presentation of the Group's financial position for the six months ended 28 February 2010.
2. The *pro forma* information is the responsibility of the Group's directors.
3. As extracted from the published unaudited consolidated interim results for the six months ended 31 August 2009.
4. As extracted from the published audited consolidated results for the year ended 28 February 2010.
5. The *pro forma* information was calculated by subtracting the results for the six months ended 31 August 2009 from the results for the year ended 28 February 2010.
6. As extracted from the published unaudited consolidated interim results for the six months ended 31 August 2010.