

- Revenue increase of 16%
- Gross gearing reduced from 92% to 28%
- Headline earnings per share of 0,7 cents

**“The Group’s primary challenge for the next six months is to contain and reduce its non-feed costs and it has embarked on an aggressive plan to reduce discretionary and direct production costs.”**

### Statement of Financial Position

	Unaudited six months ended 31 August		Audited year ended 28 February
	2011 R'000	2010 R'000	2011 R'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	801 597	823 105	846 269
<b>Current assets</b>	266 594	333 126	269 763
Inventory	35 241	45 840	23 268
Biological assets	92 128	94 707	93 816
Trade and other receivables	134 061	115 094	98 029
Cash and cash equivalents	5 164	77 485	54 650
<b>Total assets</b>	<b>1 068 191</b>	<b>1 156 231</b>	<b>1 116 032</b>
<b>Equity and liabilities</b>			
Share capital and premium	272 999	134 375	127 683
Non-distributable reserve and share based payments	53 026	29 743	53 775
Retained earnings	281 379	255 043	280 859
Equity	607 404	419 161	462 317
<b>Non-current liabilities</b>			
Interest bearing borrowings	142 987	336 729	316 775
Deferred taxation	117 180	101 544	116 978
<b>Current liabilities</b>	200 620	298 797	219 962
Current portion of interest bearing borrowings	27 261	47 320	46 910
Trade, other payables and provisions	153 290	171 888	173 052
Bank overdraft	20 069	79 589	–
<b>Total equity and liabilities</b>	<b>1 068 191</b>	<b>1 156 231</b>	<b>1 116 032</b>

### Statement of Cash Flows

	Unaudited six months ended 31 August		Audited year ended 28 February
	2011 R'000	2010 R'000	2011 R'000
Cash generated from operations before working capital changes	25 980	43 259	116 638
Changes in working capital	(66 512)	(25 913)	46 438
<b>Net cash flows from operations</b>	<b>(40 532)</b>	<b>17 346</b>	<b>163 076</b>
Interest paid	(8 490)	(25 730)	(48 673)
<b>Net cash flows from operating activities</b>	<b>(49 022)</b>	<b>(8 384)</b>	<b>114 403</b>
Net cash flows from investing in property, plant and equipment	(8 121)	(24 615)	(45 037)
Proceeds on the sale of property, plant and equipment	36 025	–	11 445
Net cash flows from shares issued	145 000	–	(6 692)
Net cash flows from debt repaid	(193 437)	(23 333)	(73 697)
<b>Net movement in cash and cash equivalents</b>	<b>(69 555)</b>	<b>(56 332)</b>	<b>422</b>
Cash and cash equivalents at the beginning of the period	54 650	54 228	54 228
<b>Cash and cash equivalents at the end of the period</b>	<b>(14 905)</b>	<b>(2 104)</b>	<b>54 650</b>

### Commentary

#### Overview

Headline earnings per share decreased to 0,7 cents for the period under review (“H112”) due to higher mortalities as a result of a harsh early winter disease and a 23% increase in non-feed costs per kg sold including a once-off charge of R8,4 million relating to the stepping down of the CEO.

#### Operational Results

From a production perspective, the feed conversion ratio improved by 6% whilst maintaining the same live mass per bird. Negative production indicators were mortalities increasing from 6% to 8% and processing yield declining by 1%. The Group slaughtered 6% more birds which resulted in an increase in sales volume of 5% from 47 800 tons to 50 400 tons.

The Group maintained the pricing increase realised during the 2011 financial year and pricing increased by 10% over the six months ended 31 August 2010 (“H111”) and 2% over the six months ended 28 February 2011 (“H211”). Through the continued pursuit of its product diversification strategy, the Group has managed to further decrease its dependence on the IQF market over the past 18 months with sales into this category declining from 53% in H111 and 50% in H211 to 46% in H112. However, the volume of poultry imports into South Africa increased by 47% over H111 and 28% over H211 and continues to place pressure on local pricing. Of particular concern is the sudden increase in the import volumes of leg quarters from the European Union which attract no tariffs.

The poultry industry also saw a substantial increase in maize prices and the Group’s broiler feed costs increased by 8% per ton. Average SAFEX white maize spot prices increased from R1 120 per ton in H111 and R1 350 per ton in H211 to R1 750 per ton in H112 and March 2012 SAFEX white maize prices are currently trading at approximately R2 200 per ton. This increase in maize prices will continue to place the poultry industry under pressure for the next six months.

The Group’s primary challenge for the next six months is to contain and reduce its non-feed costs which have increased to R7,31/kg in H112 compared to R5,92/kg in H111 and R6,55 in H211. The Group has embarked on an aggressive plan to reduce discretionary and direct production costs and this plan is expected to yield results in the next six months.

Working capital as a percentage of annualised revenue increased from 7,9% as at 31 August 2010 to 8,9% as at 31 August 2011 as a result of a deterioration in both trade receivables and trade payables. It is expected that the deterioration in trade receivables will be corrected by February 2012. Inventory levels have increased from the low position as at 28 February 2011 in line with expectations.

Capital expenditure for the period under review was limited to R8 million and was spent primarily at the abattoir. The R150 million raised in the Rights Offer which was completed in March 2011 was applied entirely to the reduction of debt and total debt repaid for the period was R193 million. This had the effect of reducing gross debt to R170 million as at 31 August 2011 and gross gearing fell to 28%.

Cash on hand declined from R55 million as at 28 February 2011 to a net overdraft of R15 million as at 31 August 2011.

#### Prospects

Over the festive season poultry prices traditionally increase, however increased import volumes may continue to suppress poultry prices and this, coupled with the increase in maize and soya prices, could keep margins within the poultry industry under pressure for the next six months.

### Statement of Comprehensive Income

	Unaudited six months ended 31 August		Audited year ended 28 February
	2011 R'000	2010 R'000	2011 R'000
Revenue	610 463	527 601	1 113 110
Operating profit before depreciation and impairments	25 980	43 259	116 390
Depreciation and impairments	16 768	15 772	32 086
Profit before finance costs	9 212	27 487	84 304
Net finance costs	8 490	25 730	48 673
Profit before taxation	722	1 757	35 631
Deferred taxation	202	492	8 550
Profit after taxation	520	1 265	27 081
Other comprehensive income for the period – gain on revaluation of property, plant and equipment	–	–	23 735
<b>Total comprehensive income for the period</b>	<b>520</b>	<b>1 265</b>	<b>50 816</b>
Weighted average shares in issue ('000)	77 165	47 817	47 817
Earnings per share (cents)	0,7	2,7	56,6
Headline earnings per share (cents)	0,7	2,7	58,1
Diluted earnings per share (cents)	0,7	2,6	56,4
Diluted headline earnings per share (cents)	0,7	2,6	57,9
Reconciliation between earnings and headline earnings			
Earnings after taxation	520	1 265	27 081
Reconciling items:			
Disposal of property, plant and equipment	–	–	661
Taxation effect	–	–	56
<b>Headline earnings after taxation</b>	<b>520</b>	<b>1 265</b>	<b>27 798</b>

### Statement of Changes in Equity for the six months ended 31 August

	Share capital R'000	Share premium R'000	Share-based payments R'000	Non-distributable reserve R'000	Retained earnings R'000	Total R'000
<b>2011</b>						
Opening balance	478	127 205	1 192	52 583	280 859	462 317
Ordinary shares issued	316	145 000	–	–	–	145 316
Net value of employee services	–	–	(749)	–	–	(749)
Total comprehensive income for the period	–	–	–	–	520	520
Closing balance	794	272 205	443	52 583	281 379	607 404
<b>2010</b>						
Opening balance	478	133 897	895	28 848	253 778	417 896
Total comprehensive income for the period	–	–	–	–	1 265	1 265
Closing balance	478	133 897	895	28 848	255 043	419 161

Despite the poor trading results experienced in the first six months, the Group believes its core business model of high yield farming and processing operations remains sound. The cost reduction plan coupled with the strong production results is expected to yield progressive results going forward despite the expected margin pressure referred to above.

#### Directorate

During the period under review, Mr Mike Davis stepped down from the board of directors of Sovereign (“Board”) and as Chief Executive Officer. Mr Charles Davies, currently Sovereign’s Non-executive Chairman, will assume the role of Executive Chairman and Mr Litha Nyhonyha, currently a Non-executive Director, will be appointed as the Board’s Lead Independent Director until such time as a new Chief Executive Officer is appointed.

#### Accounting Policies

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards and comply with the requirements of International Accounting Standard 34 – Interim Financial Reporting, the AC500 series of interpretations as issued by the Accounting Practices Board, the JSE Limited Listing Requirements and the Companies Act of South Africa. The accounting policies are consistent with those applied by the Group for the year ended 28 February 2011. These financial results have been prepared by Mr C Coombes CA (SA).

#### Interim Dividend

Whilst gearing has improved, the cash flow position of the Group is still not at a level acceptable to the Board and the Board therefore considers it prudent to not declare an interim dividend for the period under review.

By order of the Board

CP Davies  
Executive Chairman

C Coombes  
Chief Financial Officer

30 September 2011

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#### Sovereign Food Investments Limited

Incorporated in the Republic of South Africa  
Registration Number: 1995/003990/06  
JSE Code: SOV ISIN: ZAE000009221  
 (“Sovereign” or “the Group”)

#### Transfer secretaries

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

#### Sponsor

One Capital

#### Directorate

CP Davies (Chairman), JA Bester\*, C Coombes, PM Madi\*, LM Nyhonyha\*, T Pritchard\*, BJ Van Rensburg, GG Walter  
\* Non-executive