

DIRECTORS' REPORT

for the year ended 30 September 2015

Principal activities and business review

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

Financial results

The annual financial statements on pages 5 to 137 set out fully the financial position as at 30 September 2015 and the results of operations and the cash flows for the year ended 30 September 2015. Further information is provided in the financial review in the integrated report.

Share capital

The authorised share capital consists of 400,000,000 (2014: 400,000,000) ordinary shares of 10 cents each and 18,130,000 (2014: 18,130,000) class A ordinary shares of 10 cents each. At year-end 232,739,331 (2014: 231,691,881) ordinary shares and 4,234,300 (2014: 6,043,940) class A ordinary shares are in issue.

The movement in issued share capital is disclosed in note 22 to the annual financial statements. During the year the Company issued the following listed ordinary shares of 10 cents each: 1,047,450 (2014: 685,034) at an average of R167.71 (2014: R97.47) per share in terms of the management share appreciation rights scheme.

There was no movement (2014: Nil) in the treasury shares held by a subsidiary. This subsidiary held 17,982,056 (2014: 17,982,056) ordinary shares at year-end.

The number of ordinary shares held by the Pioneer Foods management share incentive trust at year-end is 729,612 (2014: 1,110,213). A number of 380,601 (2014: 311,903) ordinary shares were sold by the share incentive trust for R6,659,514 (2014: R6,261,671). No ordinary shares were issued to the trust (2014: Nil).

The number of ordinary shares held by the Pioneer Foods Broad-Based BEE Trust at year-end is 10,745,350 (2014: 10,599,988). The trust acquired an additional 145,362 shares during the year for a purchase consideration of R22,940,476.

The Company bought back and cancelled 1,809,640 (2014: 1,323,420) class A ordinary shares during the year at a premium of R104.56 (2014: R56.56) per share in addition to the par value of R0.10 per share.

Unbundling of Quantum Foods

Shareholders were advised on SENS on 5 September 2014 and 18 September 2014 that the Board resolved to proceed with the unbundling of its interest in Quantum Foods and to list Quantum Foods as a separate entity on the JSE. Quantum Foods was subsequently listed on the JSE on 6 October 2014.

The unbundling was accounted for as a *dividend in specie* at fair value in accordance with IFRIC 17 – Distributions of Non-cash Assets to Owners. IFRIC 17 requires distributions within its scope to be measured at the fair value of the assets to be distributed at the date when the dividend is appropriately authorised and is no longer at the entity's discretion. Consequently, an amount of R1,242.2 million, representing the fair value of the interest in Quantum Foods attributable to external shareholders, was accounted for as a dividend payable to shareholders at 30 September 2014.

A profit of R82.5 million was recognised on the date of unbundling representing the difference between the carrying amount of the disposal group and the fair value of the *dividend in specie*. The profit has been included in the line item 'Items of a capital nature' for discontinued operations in the statement of comprehensive income for the year ended 30 September 2015.

Loss on the disposal of Quantum Foods shares

A wholly owned subsidiary, the management share incentive trust, the Pioneer Foods Broad-Based BEE Trust and the consolidated B-BBEE equity transaction participants of Pioneer Food Group, collectively received 47,783,918 shares in Quantum Foods as part of the unbundling of Quantum Foods due to their shareholding in Pioneer Foods. The shares were initially recognised at the fair value on the date of unbundling. During December 2014, 29,692,257 of these shares were sold at a loss of R109.9 million (before income tax). The loss has been included in the line item 'Items of a capital nature' for discontinued operations in the statement of comprehensive income for the year ended 30 September 2015.

Impairment of Quantum Foods shares

The remaining 18,091,661 shares held by the B-BBEE equity transaction participants are accounted for as available-for-sale financial assets. As at 30 September 2015, the market value of the Quantum Foods shares was significantly lower than the cost price (fair value as at 6 October 2014). Consequently an impairment loss of R50.6 million has been recognised. The loss has been included in the line item 'Items of a capital nature' for continuing operations in the statement of comprehensive income for the year ended 30 September 2015.

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for the year ended 30 September 2015 (continued)

Borrowings

The Group entered into supplier contracts in terms of which equipment was capitalised to comply with the requirements of IFRIC 4 – Determining Whether an Arrangement Contains a Lease. The balance outstanding at 30 September 2015 on these borrowings was R23,947,555 (30 September 2014: R25,006,986).

Pioneer Foods obtained a R300 million vehicle and asset finance facility during the year ended 30 September 2014. This facility is used to finance the replacement of the Group's bakery delivery vehicle fleet. The vehicles are acquired in terms of instalment sale agreements. These borrowings are secured by the vehicles acquired in terms of these agreements. At 30 September 2015 the carrying amount of these borrowings amounted to R251,200,467 (30 September 2014: R40,672,385).

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

Dividends

A final gross dividend of 237 cents (2014: 156 cents) per ordinary share was declared. This is in addition to the interim gross dividend of 95 cents (2014: 65 cents) per ordinary share.

The interim dividend for the year amounted to R212,785,266 (2014: R144,979,200) and the final dividend for the year will be approximately R531,219,031 (2014: R348,434,171). The exact amount will be dependent on the number of shares in issue at the record date. These amounts include the dividends paid or payable to the Pioneer Foods Broad-Based BEE Trust.

The 10,599,988 Pioneer Foods shares issued to the Pioneer Broad-Based BEE Trust during April 2012, and the 145,362 further shares acquired by this trust during the year ended 30 September 2015, is entitled to 20% of the gross interim and final dividends per share as indicated above, i.e. 19.0 cents per share (2014: 13.0 cents) and 47.4 cents (2014: 31.2 cents) respectively. This gross interim dividend for the year amounted to R2,041,617 (2014: R1,377,998) and the final dividend for the year will amount to R5,093,296 (2014: R3,333,274).

The dividend is payable on 1 February 2016 to shareholders recorded as such in the share register of the Company on 29 January 2016 (the record date). The last date of trading cum dividend will be 22 January 2016.

Directors

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

Litigation statement

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

Events after the reporting period

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

Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90(6) of the Companies Act, Act 71 of 2008, as amended.