



# **Annual financial statements**

for the year ended 30 June 2007

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## GENERAL INFORMATION

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<b>Country of incorporation and domicile</b>	South Africa
<b>Nature of business and principal activities</b>	Manufacturing and distribution of ice cream and other related products
<b>Directors</b>	SA Roux P van Heerden T Dajcar J du Toit A Stander
<b>Registered office</b>	167 Alumina Street Silvertondale Ext 1 Pretoria
<b>Postal address</b>	PO Box 912227 Silverton Pretoria 0127
<b>Bankers</b>	Absa Bank Limited Nedbank Limited
<b>Auditors</b>	Jan Erasmus Auditors Chartered Accountants (SA) Registered Accountants and Auditors
<b>Secretary</b>	M van den Berg
<b>Company registration number</b>	1998/011074/06
<b>JSE share code</b>	MKX
<b>ISIN</b>	ZAE000058020
<b>Transfer secretaries</b>	Computershare Investor Services 2004 (Pty) Limited
<b>Designated advisor</b>	Arcay Moela Sponsors (Pty) Limited

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## INDEX

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The reports and statements set out below comprise the annual financial statements presented to the shareholders:

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## REPORT OF THE COMPANY SECRETARY

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### **To the shareholders of Milkworx Limited**

I conducted the duties of Company Secretary for Milkworx Limited. The secretarial matters are the responsibility of the Company's directors. My responsibility is providing the directors collectively and individually with guidance as to their duties, responsibilities and powers.

### **Opinion**

In my opinion, the Company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act and all those returns are true, correct and up to date.

A handwritten signature in black ink, appearing to be 'M van den Berg', with a long horizontal stroke extending to the right.

**M van den Berg**

*Registered Company Secretary*

28 September 2007

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## DIRECTORS' RESPONSIBILITIES AND APPROVAL

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The directors are required by the South African Companies Act, 1973, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The Board of directors and management were not satisfied with internal controls and have subsequently spent the last six months of the financial year on improving internal controls. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Company's cash flow forecast for the year to 30 June 2008 and, in the light of this review and the current financial position, they are satisfied that the Company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Company's annual financial statements. The annual financial statements have been examined by the Company's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 6 to 48, which have been prepared on the going concern basis, were approved by the Board of directors on 28 September 2007 and were signed on its behalf by:



**SA Roux**

**Pretoria**

28 September 2007



**P van Heerden**

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# REPORT OF THE INDEPENDENT AUDITORS

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## To the shareholders of Milkworx Limited

We have audited the accompanying annual financial statements Milkworx Limited, which comprise the directors' report, the balance sheet as at 30 June 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 48.

### Auditors' responsibility

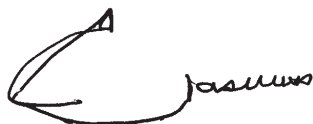
Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, 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 annual financial statements 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 the directors, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2007 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



### Jan Erasmus Auditors

*Chartered Accountants (SA)*

*Registered Accountants and Auditors*

### Pretoria

28 September 2007

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# DIRECTORS' REPORT

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The directors present their report for the year ended 30 June 2007. This report forms part of the audited financial statements.

## 1. BUSINESS AND OPERATIONS

Milkworx Limited ("Milkworx" or "the Company") is a public company, registered in the Republic of South Africa in accordance with the Companies Act (Act 61 of 1973) as amended. The Company's securities are listed on the Alternative Exchange ("AltX") of the JSE Limited.

The Company carries on the business of the manufacturing and distribution of ice cream and other related products both under its own brands, Avondale and Creamstar, and as a contract manufacturer for various multinational companies.

The Company's business and operations and the results thereof are clearly reflected in the attached financial statements.

## 2. FINANCIAL RESULTS

### Overview

The Company's loss on ordinary activities after taxation for the year amounted to (R1 618 284) (2006: (R3 479 697)), after deducting taxation of (R1 036 831) (2006: (R1 425 428)).

It was previously reported that the Company would be terminating unprofitable supermarket contracts and closing unprofitable depots. These decisions were successfully executed during the year. This resulted in the closure of the Alrode depot, which depot's main source of business was the supermarket trade, without which contracts, it was not feasible to keep the depot operational. The entire process was completed towards the end of March 2007. The results were impacted by these moves in the following manner:

- Revenue for the Group decreased by 3,6%. Although this is mainly due to the termination of the supermarket contracts and the closure of the Alrode depot, it is also attributable to a decrease in sales to the informal sector.
- By stemming the losses incurred from the supermarket trade, the Group was able to increase the gross profit percentage from 22,3% for the year ended 30 June 2006 to 23,6% for the year ended 30 June 2007.
- The Group operating expenditure decreased by 10,4% year on year as a result of decreased transport costs following the termination of the supermarket contracts and various other cost cutting measures that were implemented at the factories.

The Avondale division performed well with revenue increasing by 14,9%, due to increased volumes from contract packing. The gross profit percentage, however, decreased from 22,3% for the year ended 30 June 2006 to 18,0% for the year ended 30 June 2007. This is largely attributable to the increasing cost of milk powders, which has made it difficult to keep gross profit percentages in line with the prior year.

Operating expenses for the Avondale division decreased by 2,2% compared to the prior year.

Revenue from the Creamstar division decreased by 20,7%, although the gross profit percentage increased from 22,3% to 30,8% for the same period. The decrease in revenue and increase in the gross profit percentage is attributable to the termination of supermarket contracts and the closure of the Alrode depot, which operated under Creamstar. This also contributed to a 12,3% decrease in operating expenditure, which arose from a decrease in transport costs, as well as from other cost cutting exercises.

The net loss for the year ended 30 June 2007 decreased by 53,5% compared to the previous financial year. The 10,4% decrease in operating expenses, combined with the improved gross profit margins, contributed most to the lower losses.

### **Impact on cash flow**

The positive cash flow from operating activities was created by decreasing both the inventory levels and accounts receivables by R527 633 and R533 407 respectively.

Trade payables impacted negatively as it was decreased by R1 093 789.

The negative cash flow from investing activities was caused by investing in plant and equipment to the value of R1 513 493 in order to achieve the following:

- The Creamstar facility was upgraded in order to obtain HACCP certification from the SABS. The certification was officially obtained during August 2007. The cost of the upgrading was R84 000.
- The purchase of eutectic plates and freezers cost R46 000. The plates were purchased to combat the persistent problems and resulting losses experienced when using dry ice in the Creamstar segment.
- The Avondale facility was also upgraded to receive fresh milk. The cost of doing so was R634 000. The change was necessitated by the increasing prices of milk powders, due to worldwide shortages, caused by droughts in Australia and the large consumption from the Chinese and Indian markets.
- The new shop that was opened by the Avondale division cost R422 000.
- As part of a cost saving initiative Avondale invested in a power factor corrector to the value of R63 000. The cost saving will be between R40 000 and R60 000 per annum.

The positive cash flow from financing activities was generated by the issue of shares for cash in the amount of R900 000. Loan repayments to the value of R585 000 impacted negatively on the cash flow.

The cash balance increased during the year as an additional overdraft was obtained, from Absa Bank Limited, to the value of R2 000 000 of which capital of R1 150 000 was repaid as at 30 June 2007. The additional overdraft will be repaid during the 2008 financial year which will decrease the interest expense.

## **DIRECTORS' REPORT** (continued)

### **2. FINANCIAL RESULTS** (continued)

#### **Strategic focus**

The Company aims at streamlining all operations within the Group. This will include the sub-contracting of general repairs to the premises and freezer equipment and the continual assessment of other means by which operational expenses may be reduced. The improvement of debt collection will also be handled as a high priority, which will help to improve cash flow. Through these endeavours the Company will be well positioned to become more cost effective and profitable.

With the decline in revenue through the termination of the supermarket contracts, the Company will explore alternative revenue generating possibilities. These possibilities include an increased focus on contract packing for multinational companies and introducing new products into the market, mostly products that are not seasonally bound.

With the changeover from milk powders to fresh milk, Milkworx has created a competitive advantage by reducing the cost and improving the quality of its product, and should be able to capitalise on this advantage.

The Company remains committed to Broad Based Black Economic Empowerment and the Board will focus on improving the Company's rating through re-visiting its current procurement policies, skills development, social contribution and employment equity. The human resources function has been tasked with developing a strategy to proactively create conditions and opportunities which will allow previously disadvantaged individuals equal opportunity to reach executive levels within the Company.

The Board is in the process of introducing a Total Quality Management System, through which the Company will be able to deliver enhanced customer satisfaction, better operational control and job clarity, better planning, communication and time management as well as improved productivity through employee involvement.

Milkworx opened its first concept factory outlet at Silvertondale. The Company will only invest in stores if it is guaranteed of a positive return on the investments. The ideal would be to invest in new stores at regular intervals, throughout the Gauteng area. Franchising is being considered as an option, although it is early days.

The sales and marketing functions have initiated an exciting brand building campaign, prioritising new product development and product re-design in order to keep up with the health and wellness market trends in the food industry. The team will also continue to ensure that current multinational contracts and customer satisfaction are maintained.

#### **Prospects**

The Company is committed to securing additional contract packing work. The Board is confident that the HACCP accreditation obtained by the Creamstar facility will enhance the possibility of this.

The Company is also committed to product development and with the introduction of new products, through which it expects to increase volumes and thus revenue. Improved margins through cost saving initiatives will increase profit levels. This combined with the Company's brand and marketing drive should assist the Company to be profitable.

New non-executive directors will be appointed and applicants have been identified. These applicants have detailed knowledge of the food and beverage industry and will certainly add value to the Company as a whole.

In order to grow the Company and ultimately profits for our investors, we are constantly looking at acquisition opportunities. We will only consider industry related businesses which add value and reduce seasonality risks experienced in the ice cream industry.

### **3. DIVIDENDS**

No dividend has been declared and none is recommended.

### **4. SHARE CAPITAL**

The un-issued ordinary shares in the capital of the Company were placed under the control and authority of the directors at the previous annual general meeting.

The directors were furthermore authorised by way of a general authority to issue all or any of the authorised but un-issued ordinary shares in the capital of the Company for cash as they in their discretion deem fit, subject to the Listing Requirements of the JSE Limited.

#### **During the year under review, the following shares were issued:**

##### **Issued in terms of a specific authority**

No ordinary shares were issued during the year under review.

##### **Issued in terms of a general authority**

30 000 000 ordinary shares of R0,01 were issued in terms of a general authority to issue shares for cash.

#### **Subsequent to year end, the following shares were issued:**

20 000 000 ordinary shares of R0,01 were issued in terms of a general authority to issue shares for cash.

**DIRECTORS' REPORT** (continued)**5. SHAREHOLDER INFORMATION**

The Company had the following distribution of public and non-public shareholders:

	Number of shareholders		Number of shares	
		%		%
<b>Shareholder spread</b>				
1 – 1 000 shares	49	4,59	29 082	0,01
1 001 – 10 000 shares	253	23,69	1 583 897	0,28
10 001 – 100 000 shares	486	45,51	21 056 930	3,66
100 001 – 1 000 000 shares	249	23,31	84 860 167	14,75
1 000 001 shares and over	31	2,90	467 717 449	81,31
	1 068	100,00	575 247 525	100,00

**Distribution of shareholders**

	Number of shareholders		Number of shares	
		%		%
Banks	1	0,09	350 000	0,06
Close corporations	28	2,62	8 888 411	1,55
Individuals	980	91,76	223 414 164	38,84
Investment companies	3	0,28	939 514	0,16
Nominees and trusts	26	2,43	80 480 496	13,99
Other corporations	13	1,22	140 657 558	24,45
Private companies	17	1,59	120 517 382	20,95
	1 068	100,00	575 247 525	100,00

**Public/non-public shareholders**

	Number of shareholdings		Number of shares	
		%		%
<b>Non-public shareholders</b>				
Directors' holdings	2	0,19	74 235 287	12,90
Strategic holdings (more than 10%)	3	0,28	317 380 611	55,17
<b>Public shareholders</b>				
	1 063	99,53	183 631 627	31,92
	1 068	100,00	575 247 525	100,00

**Beneficial shareholders holding of 3% or more**

	Number of shares	%
South African Horticulture Technology	139 789 205	24,30
Compendium Pretoria Inc	108 702 412	18,90
Cruickshank Industrial Trust	68 888 994	11,98
SA Roux	62 691 800	10,90

## Breakdown of non-public holdings

	Number of shares	% of shares
<b>Directors</b>		
SA Roux	62 691 800	10,90
Roux, Stephen Abrahams	62 691 800	
T Dajcar	11 543 487	2,01
Dajcar, Tomas	11 543 487	
<b>Total</b>	74 235 287	0,51

## Strategic Holdings (more than 10%)

	Number of shares	% of shares
South African Horticulture Technology	139 789 205	24,30
Compendium Pretoria Inc*	108 702 412	18,90
Cruickshank Industrial Trust	68 888 994	11,98
<b>Total</b>	317 380 611	55,17

*\*These shares are held on behalf of S Roux and T Dajcar in accordance with the lock-up provisions of the JSE Listings Requirements for Alt\* Listed companies.*

The Company has not been informed of any material changes in these holdings to the date of this report.

## 6. SPECIAL RESOLUTIONS

No special resolutions have been passed by the company since the date of the last annual general meeting.

## 7. BORROWINGS

In terms of the articles of association of the Company the directors are authorised to borrow or raise for the purposes of the Company such sums as they deem fit.

## 8. PROPERTY, PLANT AND EQUIPMENT

Changes to property, plant and equipment are disclosed in note 2 to the Annual Financial Statements.

## 9. CONTRACTS

No new contracts in which directors and officers of Milkworx had an interest and that significantly affected the business of the Company were entered into during the course of the year. Contracts previously entered into with related parties are set out on page 43 of this annual report.

## DIRECTORS' REPORT (continued)

### 10. EVENTS SUBSEQUENT TO THE YEAR END

There have been no other facts or circumstances of a material nature that have occurred between the accounting date and the date of this report.

### 11. DIRECTORS

Two new non-executive directors were appointed to the Board during the year under review. Mrs A Stander was appointed to the Board with effect from 03 November 2006 and Mr J du Toit was appointed to the Board with effect from 29 June 2007. Subsequent to year end, Dr H Grimmer was appointed to the Board in the capacity of Non-executive director and Chairperson.

The directors of the company during the accounting period and up to the date of this report were as follows:

Director	Appointment date	Resignation date
SA Roux	1 July 2003	
T Dajcar	16 September 2004	
AL Cruickshank (deceased)	31 December 2005	19 September 2006
P van Heerden	31 December 2005	
A Stander	3 November 2006	
J du Toit	29 June 2007	

In terms of the Company's articles of association, Mr P van Heerden retires by rotation at the annual general meeting but, being eligible, offers himself for re-election. Biographies of the directors are set out on page 54 of this annual report.

Directors' interests in the issued share capital of the Company were as follows:

Director	Beneficial			Non-beneficial		
	Direct	Indirect	%	Direct	Indirect	%
<b>As at 30 June 2007</b>						
SA Roux	62 691 800	90 644 576*	26,66	-	-	-
T Dajcar	11 543 487	18 057 836*	5,15	-	-	-
<b>TOTAL</b>	<b>74 235 287</b>	<b>108 702 412</b>	<b>31,81</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*These shares are currently held by Compendium Pretoria Inc in accordance with the lock-up provisions of the JSE Listings Requirements for Alt<sup>x</sup> Listed companies.

#### As at 30 June 2006

SA Roux	91 177 150	90 644 576	33,35	-	-	-
T Dajcar	11 543 487	18 057 836	5,43	-	-	-
<b>TOTAL</b>	<b>102 720 637</b>	<b>108 702 412</b>	<b>38,78</b>	<b>-</b>	<b>-</b>	<b>-</b>

Changes to directors' interests in the share capital of the Company between 1 July 2007 and the date of printing of this report include:

Date	Director	Purchase/ Sale	Nature of securities	Direct/ Indirect	Number of shares
14 /12/07	SA Roux	Sale	Shares	Direct	14 000 000

## 12. SECRETARY

The company secretary is M van den Berg.

### **Business address:**

Fusion Corporate Secretarial  
Services (Pty) Limited  
Podium House II  
Cnr Lois and Atterbury Road  
Menlyn, Pretoria  
Gauteng

### **Postal address:**

PO Box 61252  
Pierre van Ryneveld  
0045

## 13. AUDITORS

Jan Erasmus Auditors were appointed as auditors during the year in accordance with section 270(2) of the Companies Act.

Compendium (Pretoria) Inc. resigned as auditors on 29 June 2007.

## 14. CORPORATE GOVERNANCE REPORT

### **Introduction**

Milkworx is committed to Good Corporate Governance and the principles set down in the King II Report. Our management is committed to corporate discipline and transparency and through this, investors are able to obtain a true picture of what is happening inside the Company.

### **The Board**

Milkworx is governed by a unitary board which is assisted in fulfilling its duties by an audit committee and a remuneration committee. The chairman of the Board passed away during the year under review and board meetings are currently chaired by a non-executive director pending the appointment of a new non-executive chairman. The directors bring to the Board a wide range of experience, diversity, insight and independence of judgment on issues of strategy, performance, resources and standards of conduct.

The Board is ultimately responsible for the Company's performance and affairs, which includes protecting and enhancing the Company's wealth and resources, timely and transparent reporting and acting at all times in the best interest of the Company and its stakeholders. In fulfilling this responsibility, the Board oversees the strategy, acquisition, risk management, financing and corporate governance policies of the Company.

## **DIRECTORS' REPORT** (continued)

### **14. CORPORATE GOVERNANCE REPORT** (continued)

#### **Board committees**

##### ***Audit committee***

The audit committee consists of two non-executive directors and a representative from the Designated Advisor.

The audit committee met once this year. The majority of the members of the audit committee are financially literate. The audit committee's duties include monitoring internal controls throughout the Group, approving the Group's accounting policies, reviewing the Group's interim and financial statements before submission to the full Board and implementing and monitoring the Company's risk management processes. The committee is furthermore responsible for reviewing and approving the scope and content of the Group's annual audit and risk assessment programme. In order to minimise costs, there is currently no internal audit function within the Group. The audit committee reviews each year the need to implement an interim audit function. The Financial Director, other members of the management team and the external auditors attend meetings of the audit committee by invitation. The committee also holds separate meetings with the external auditors, as appropriate.

##### ***Remuneration committee***

The remuneration committee consists exclusively of non-executive directors and is responsible for determining salaries, incentives and other benefit arrangements of executive directors and senior executives. Members of the remuneration committee do not participate in decisions concerning their own remuneration. In determining the Company's remuneration policy, the committee is guided by other companies in the industry. Full details of the remuneration paid to directors for the year under review are set out on page 44 of this annual report.

##### ***Nominations committee***

The Board has not established a separate nominations committee and the nomination responsibility has been fulfilled by the Board as a whole.

The Board recognises the value that a high-performing board brings to the business. A proactive approach to identifying gaps in the current Board's capabilities has been undertaken and plans for closing those gaps are being implemented. Criteria for the nomination of future Board members will be developed, the Board recognising that a more transparent and inclusive search process will ensure a better outcome and a productive and engaged board.

## Board and committee meetings and attendance thereat

The Board is scheduled to meet four times a year, but more often if required. The directors are properly briefed in respect of special business prior to board meetings and information is timeously provided to enable them to give full consideration to matters under discussion.

Two board meetings and one audit committee meeting were held during the year under review. The attendances of the directors, taking into account their dates of appointment, were as follows:

<b>Director/committee member</b>	<b>Number of board meetings attended</b>		<b>Number of audit committee meetings attended</b>	
SA Roux	2/2	100%	0/1	*
P van Heerden <sup>†</sup>	2/2	100%	1/1	100%
T Dajcar	2/2	100%	0/1	*
J du Toit	0/2	0%	1/1	100% <sup>†</sup>
A Stander	2/2	100%	1/1	100%
M van den Berg (Secretary)	2/2	100%	1/1	100%

*\*Indicates not a member.*

*†Attended as an invitee.*

## Accounting and internal controls

The Board is responsible for ensuring that controls and procedures are in place to ensure the accuracy and integrity of accounting records such that they provide reasonable assurance that the assets are safeguarded from loss or unauthorised use, and that the financial records may be relied upon for maintaining accountability for assets and liabilities and preparing the financial statements. The directors' statement of responsibility is set out on pages 3 and 4 of this annual report.

## External audit and auditors

The Group's auditors perform an independent and objective audit of the Group's financial statements. Interim reports are not audited, but are discussed with the auditors. The audit committee approves the audit plan and reviews the audit fees. The auditors have unrestricted access to the audit committee and are invited to attend all audit committee meetings. The re-appointment of the auditors is reviewed annually by the audit committee.

## Company secretary

The company secretary is required to provide the members of the Board with guidance and advice regarding their responsibilities, duties and powers and to ensure that the Board is aware of all legislation relevant to, or affecting, the Company. The company secretary is furthermore required to ensure that the company complies with all applicable legislation regarding the affairs of the Company, including the necessary recording of meetings of the Board, board committees and shareholders of the Company.

## **DIRECTORS' REPORT** (continued)

### **14. CORPORATE GOVERNANCE REPORT** (continued)

#### **Communication with stakeholders**

The Company is committed to a policy of effective communication and engagement with its stakeholders on issues of mutual interest and subscribes to a policy of open, frank and timeous communication in its activities on both financial and non-financial matters.

#### **Insider information**

The Company enforces a restricted period for dealing in its shares, in terms of which any dealings in shares by all directors and senior personnel is disallowed by the Board from the time that the reporting period has elapsed to the time that the results are released and at any time that such individuals are aware of any unpublished price-sensitive information, whether the Company is trading under cautionary announcement as a result of such information or not.

#### **Ethics**

Milkworx subscribes to the highest ethical standards and behaviour in the conduct of its business and related activities, and requires total honesty and integrity from its directors and employees. The Code of Conduct adopted by the Company, a summary of which is set out below, sets out these principles. The full version of the code of conduct is available for inspection upon request to the company secretary.

Key principles:

<i>Ethics</i>	Milkworx supports a programme of self-enforced ethical standards. We stand for honesty, integrity, respect, trust and responsibility.
<i>Social accountability</i>	The Company subscribes to a policy of social accountability and fair labour conditions and strives to ensure that both local rules, requirements and regulations as well as international agreements and recommendations are implemented and complied with.
<i>Governance</i>	The Company seeks to balance conscientious management of resources with the interest of stakeholders.
<i>Financial returns</i>	The Company's profits should sustain long-term growth and shareholder value.

<i>Employment practices</i>	The Company aims to foster employee development, diversity, empowerment, fair labour practices, competitive remuneration and benefits, and a safe, harassment-free, family-friendly work environment.
<i>Business relationships</i>	The Company seeks to be fair and honest with all business partners.
<i>Products and services</i>	The Company strives to offer the highest level of service and product quality.
<i>Community involvement</i>	The Company is committed to having an open, honest, transparent, proactive relationship with the community.
<i>Environment protection</i>	Milkworx is committed to maintaining high environmental standards that meet or exceed those established by all relevant environmental laws, regulations and other applicable requirements. We are dedicated to an environmental management system that is focused on continually improving its impact on the environment, preventing pollution, and ensuring compliance with relevant legislation.

**Pretoria**

28 September 2007

# BALANCE SHEET

as at 30 June 2007

	Notes	2007 R	2006 R
<b>Assets</b>			
<b>Non-current assets</b>			
Plant and equipment	2	18 684 910	20 051 148
Intangible assets	3	732 164	752 836
Deferred tax	4	2 805 484	1 768 653
		<b>22 222 558</b>	22 572 637
<b>Current assets</b>			
Inventories	5	7 839 491	8 367 154
Trade and other receivables	6	6 888 023	7 421 430
Cash and cash equivalents	7	152 701	196 490
		<b>14 880 215</b>	15 985 074
<b>Total assets</b>		<b>37 102 773</b>	38 557 711
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	8	21 705 522	20 805 522
Reserves	9	14 509 962	14 509 962
Accumulated loss		(17 579 749)	(15 961 465)
		<b>18 635 735</b>	19 354 019
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans from shareholders: Non-interest bearing	10	2 624 658	2 778 280
Interest bearing liabilities	11	2 350 512	1 585 769
Operating lease liability	13	–	108 202
		<b>4 975 170</b>	4 472 251
<b>Current liabilities</b>			
Interest bearing liabilities	11	1 019 001	2 214 949
Operating lease liability	13	45 514	35 028
Trade and other payables		8 226 383	9 320 171
Provisions	14	659 516	334 336
Bank overdraft	7	3 541 454	2 826 957
		<b>13 491 868</b>	14 731 441
<b>Total liabilities</b>		<b>18 467 038</b>	19 203 692
<b>Total equity and liabilities</b>		<b>37 102 773</b>	38 557 711

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## INCOME STATEMENT

for the year ended 30 June 2007

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	Notes	2007 R	2006 R
Revenue	15	<b>66 351 399</b>	68 846 866
Cost of sales		<b>(50 669 912)</b>	(53 499 427)
<b>Gross profit</b>		<b>15 681 487</b>	15 347 439
Other income		<b>149 747</b>	222 515
Operating expenses		<b>(17 681 706)</b>	(19 725 011)
<b>Operating (loss)/profit</b>	16	<b>(1 850 472)</b>	(4 155 057)
Interest received		<b>21 339</b>	448
Finance costs		<b>(825 982)</b>	(750 516)
<b>(Loss)/profit before taxation</b>		<b>(2 655 115)</b>	(4 905 125)
Taxation	17	<b>1 036 831</b>	1 425 428
Profit/(loss) for the period from continuing operations		<b>(1 618 284)</b>	(3 479 697)
<b>(Loss)/profit for the period</b>		<b>(1 618 284)</b>	(3 479 697)
Earnings/(loss) per share (cents)	18	<b>(0,3)</b>	(0,6)
Headline earnings/(loss) per share (cents)	18	<b>(0,3)</b>	(0,5)

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## STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2007

	Share capital R	Share premium R	Non-distributable reserve R	Accumulated loss R	Total equity R
<b>Balance at 01 July 2005</b>	<b>5 452 475</b>	<b>15 353 047</b>	<b>14 509 962</b>	<b>(12 481 769)</b>	<b>22 833 715</b>
Changes in equity					
Loss for the year	–	–	–	(3 479 696)	(3 479 696)
Total changes	–	–	–	(3 479 696)	(3 479 696)
<b>Balance at 01 July 2006</b>	<b>5 452 475</b>	<b>15 353 047</b>	<b>14 509 962</b>	<b>(15 961 465)</b>	<b>19 354 019</b>
Changes in equity					
Loss for the year	–	–	–	(1 618 284)	(1 618 284)
Issue of shares	300 000	600 000	–	–	900 000
Total changes	300 000	600 000	–	(1 618 284)	(718 284)
<b>Balance at 30 June 2007</b>	<b>5 752 475</b>	<b>15 953 047</b>	<b>14 509 962</b>	<b>(17 579 749)</b>	<b>18 635 735</b>
<b>Notes</b>	8	8	9		

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## CASH FLOW STATEMENT

for the year ended 30 June 2007

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	Notes	2007 R	2006 R
<b>Cash flows from operating activities</b>			
Cash receipts from customers		<b>67 034 553</b>	67 174 748
Cash paid to suppliers and employees		<b>(66 069 222)</b>	(66 093 328)
Cash generated from operations	19	<b>965 331</b>	1 081 420
Interest income		<b>1 605</b>	448
Finance costs		<b>(825 982)</b>	(750 516)
<b>Net cash from operating activities</b>		<b>140 954</b>	331 352
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment	2	<b>(1 513 493)</b>	(1 235 800)
Proceeds on sale of plant and equipment	2	<b>336 401</b>	150 002
Purchase of other intangible assets	3	<b>(37 321)</b>	(42 075)
<b>Net cash from investing activities</b>		<b>(1 214 413)</b>	(1 127 873)
<b>Cash flows from financing activities</b>			
Proceeds on share issue	8	<b>900 000</b>	–
Loans raised/(repaid)		<b>(584 827)</b>	848 171
<b>Net cash from financing activities</b>		<b>315 173</b>	848 171
Total cash movement for the period		<b>(758 286)</b>	51 650
Cash at beginning of the period		<b>(2 630 467)</b>	(2 682 117)
<b>Total cash at end of the period</b>	7	<b>(3 388 753)</b>	(2 630 467)

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# ACCOUNTING POLICIES

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## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, and the Companies Act of South Africa. The annual financial statements have been prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment where appropriate, and incorporate the principal accounting policies set out below.

Unless stated otherwise these accounting policies are consistent with those in the previous year.

### 1.1 Significant judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent to the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

#### ***Trade receivables***

The Company assesses its trade receivables for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. All outstanding amounts older than six months are written off, unless there is evidence that the amounts are still collectable. All delinquent debtors are written off when the Company has evidence that the amounts will not be collected. Receivables are initially and subsequently measured at fair value, as the Company expects to collect these amounts on a short-term basis.

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

An estimate is made of the expected remaining useful life and residual value of all items of property, plant and equipment.

#### ***Impairment testing***

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that certain assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The Company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time due to a number of uncertainties used in calculating these values.

## **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 – Provisions.

## **Taxation**

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

## **1.2 Plant and equipment**

The cost of an item of plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of plant and equipment and substantial costs incurred subsequently to add to or replace part of the asset. If a replacement cost is recognised in the carrying amount of an item of plant and equipment, the carrying amount of the replaced part is derecognised.

Plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation is provided on all plant and equipment to write down the cost, less residual value, on a straight line basis over their useful lives as follows:

<b>Item</b>	<b>Average useful life</b>
Plant and machinery	10 – 15 years
Furniture and fixtures	6 years
Motor vehicles	5 – 7 years
Office equipment	5 years
IT equipment	3 years
Computer software	5 years
Security system	5 years

The residual value and the useful life of each asset are reviewed at each financial year end. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

## ACCOUNTING POLICIES (continued)

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.3 Intangible assets – Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Company's interest of the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequently goodwill is carried at cost less any accumulated impairment.

The excess of the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is immediately recognised in profit or loss.

Internally generated intangible assets are not recognised as an asset.

### 1.4 Intangible assets – Other

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful life. The amortisation period and the amortisation method for intangible assets are reviewed every year end.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets. Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

<b>Item</b>	<b>Useful life</b>
Computer software	5 years

### 1.5 Financial instruments

#### ***Initial recognition***

The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

### ***Trade and other receivables***

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

### ***Trade and other payables***

Trade payables are initially and subsequently measured at fair value, as all payables are expected to be settled on a short-term basis.

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

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

### ***Bank overdrafts and borrowings***

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs. Where the borrowings do not bear interest nor have any fixed terms of repayment, the liabilities are carried at fair value.

## **1.6 Tax**

### ***Current tax assets and liabilities***

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid or recovered from the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

### ***Deferred tax assets and liabilities***

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which, at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which, at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

## ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

### ***Tax expenses***

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, directly in equity; or
- a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

### **1.7 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### ***Finance leases – Lessee***

Finance leases are recognised as liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value on the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### ***Operating leases – Lessee***

Operating lease payments are recognised as an expense on a straight line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability. This liability is discounted to the present value of the expenditure expected to be required to settle the obligation where the effect of the time value of money is material.

### **1.8 Inventories**

Inventories are measured 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 the estimated costs necessary to make the sale.

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. The cost of inventories is assigned using the first in, first out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of

any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## **1.9 Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the Company also tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

## **1.10 Share capital and equity**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

## **1.11 Employee benefits**

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

The cost of short-term employee benefits (those payable within 12 months after the service is rendered) are recognised in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

## **ACCOUNTING POLICIES** (continued)

### **1.12 Provisions and contingencies**

#### **Provisions are recognised when:**

- The Company has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

### **1.13 Revenue**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

### **1.14 Cost of sales**

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.15 Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.16 Translation of foreign currencies**

#### ***Foreign currency transactions***

A foreign currency transaction is recorded on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each balance sheet date:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

### **1.17 Statements and interpretations not yet effective**

At the date of authorisation of these annual financial statements, the following Standards and Interpretations which are relevant to the Company were in issue but not yet effective:

- IFRS 8 – Operating Segments

This standard is effective for periods beginning on or after 1 January 2009.

The company complied with early adaptation of this IFRS by applying IAS 14 – Segment Reporting.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 2. PLANT AND EQUIPMENT

	Cost/ valuation R	2007 Accumulated depreciation R	Carrying value R
Plant and machinery	20 793 118	(5 407 011)	15 386 107
Furniture and fixtures	42 603	(28 233)	14 370
Motor vehicles	4 411 208	(1 353 314)	3 057 894
Office equipment	261 358	(103 556)	157 802
IT equipment	256 030	(189 787)	66 243
Security system	5 868	(3 374)	2 494
<b>Total</b>	<b>25 770 185</b>	<b>(7 085 275)</b>	<b>18 684 910</b>

#### Reconciliation of plant and equipment – 2007

	Opening balance R	Additions R	Disposals R	Depreciation R
Plant and machinery	15 801 295	1 288 390	(8 010)	(1 695 568)
Furniture and fixtures	19 383	9 276	(6 702)	(7 587)
Motor vehicles	3 962 831	136 186	(459 024)	(582 099)
Office equipment	182 702	27 259	(11 274)	(40 885)
IT equipment	81 270	52 382	(2 298)	(65 111)
Security system	3 667	-	-	(1 173)
	<b>20 051 148</b>	<b>1 513 493</b>	<b>(487 308)</b>	<b>(2 392 423)</b>

	2006	
Cost/ valuation R	Accumulated depreciation R	Carrying value R
19 521 218	(3 719 923)	15 801 295
40 807	(21 424)	19 383
4 995 253	(1 032 422)	3 962 831
251 453	(68 751)	182 702
255 665	(174 395)	81 270
5 868	(2 201)	3 667
<b>25 070 264</b>	<b>(5 019 116)</b>	<b>20 051 148</b>

#### Reconciliation of plant and equipment – 2006

<b>Total R</b>	Opening balance R	Additions R	Disposals R	Depre- ciation R	Impairment loss R	Total R
<b>15 386 107</b>	17 590 358	481 009	(28 360)	(1 604 399)	(637 313)	15 801 295
<b>14 370</b>	10 634	11 741	–	(2 992)	–	19 383
<b>3 057 894</b>	3 803 386	679 670	(34 638)	(485 587)	–	3 962 831
<b>157 802</b>	235 796	31 181	(38 487)	(45 788)	–	182 702
<b>66 243</b>	97 796	32 199	–	(48 725)	–	81 270
<b>2 494</b>	4 890	–	–	(1 223)	–	3 667
<b>18 684 910</b>	21 742 860	1 235 800	(101 485)	(2 188 714)	(637 313)	20 051 148

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS** (continued)**2. PLANT AND EQUIPMENT** (continued)

	<b>2007</b>	2006
	<b>R</b>	R
<b>Net carrying value of assets pledged as security</b>		
Plant and equipment (Refer to note 11)	<b>1 277 143</b>	1 460 000
<b>Net carrying value of assets subject to finance leases</b>		
Motor vehicles (Refer to note 11)	<b>1 981 038</b>	2 325 111
<b>Other information</b>		
Carrying value of idle property, plant and equipment	<b>292 763</b>	350 000
Carrying value of assets reclassified		185 000

### 3. INTANGIBLE ASSETS

	Cost/ valuation R	Accumulated depreciation R	Carrying value R
<b>2007</b>			
Computer software	292 584	(128 246)	164 338
Goodwill	567 826	–	567 826
<b>Total</b>	<b>860 410</b>	<b>(128 246)</b>	<b>732 164</b>
2006			
Computer software	279 772	(94 762)	185 010
Goodwill	567 826	–	567 826
<b>Total</b>	<b>847 598</b>	<b>(94 762)</b>	<b>752 836</b>

#### Reconciliation of intangible assets

	Opening balance R	Additions R	Amortisation R	Total R
<b>2007</b>				
Computer software	185 010	37 321	(57 993)	164 338
Goodwill	567 826	–	–	567 826
	<b>752 836</b>	<b>37 321</b>	<b>(57 993)</b>	<b>732 164</b>
2006				
Computer software	197 496	42 075	(54 561)	185 010
Goodwill	567 826	–	–	567 826
	765 322	42 075	(54 561)	752 836

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

### 4. DEFERRED TAX

	2007 R	2006 R
<b>Deferred tax asset/(liability)</b>		
Accelerated capital allowance for tax purposes	<b>(3 194 131)</b>	(2 455 143)
Tax loss available for set off against future taxable income	<b>5 795 156</b>	4 118 222
Provisions and operating lease liability	<b>204 459</b>	105 574
	<b>2 805 484</b>	1 768 653
<b>Reconciliation of deferred tax asset/(liability)</b>		
At beginning of the year	<b>1 768 653</b>	343 225
Increase/(decrease) in tax losses available for set off against future taxable income	<b>1 676 934</b>	2 023 349
Originating temporary difference on tangible fixed assets	<b>(738 988)</b>	(703 495)
Temporary difference on provisions and operating lease liability	<b>98 885</b>	105 574
	<b>2 805 484</b>	1 768 653

#### Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
- The entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

### 5. INVENTORIES

	2007 R	2006 R
Raw materials	<b>5 278 698</b>	4 026 618
Finished goods	<b>2 560 793</b>	4 340 536
	<b>7 839 491</b>	8 367 154
Carrying value of inventories carried at fair value less costs to sell	<b>822 347</b>	844 493

## 6. TRADE AND OTHER RECEIVABLES

	2007 R	2006 R
Trade receivables	6 888 023	7 399 416
Sundry receivables	–	22 014
	<b>6 888 023</b>	7 421 430

### Trade and other receivables pledged as security

Trade receivables of R6 888 023 (2006: R7 349 416) were pledged as security for overdraft facilities of R3 850 000. At year end the overdraft amounted to R3 541 454 (2006: R2 826 957).

The carrying amount of trade and other receivables approximate their fair values.

## 7. CASH AND CASH EQUIVALENTS

	2007 R	2006 R
Cash and cash equivalents consist of:		
Cash on hand	83 838	88 184
Bank balances	68 863	108 306
Bank overdraft	(3 541 454)	(2 826 957)
	<b>(3 388 753)</b>	(2 630 467)
Current assets	152 701	196 490
Current liabilities	(3 541 454)	(2 826 957)
	<b>(3 388 753)</b>	(2 630 467)

Bank balances are secured as follows:

Unlimited general cessions

Cession of Debtors as in note 6

Bond registration no BN34017/05 Bond amount R3 000 000

Guarantees by Nedbank of R166 389 for Cream Star (Pty) Limited

Guarantees by Nedbank of R102 000 for Avondale Ice Cream (Pty) Limited

Mortgage bonds of R300 000 on Erf 490 Hermanstad, dorpsgebied

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

### 8. SHARE CAPITAL

	2007 R	2006 R
<b>Authorised</b>		
1 500 000 000 (2006: 1 500 000 000) ordinary shares of R0,01 each.	15 000 000	15 000 000
<b>Reconciliation of number of shares issued:</b>		
Balance at beginning of period	545 247 525	545 247 525
Issued in terms of a general authority	30 000 000	–
	<b>575 247 525</b>	545 247 525

The unissued ordinary shares are under the control of the directors in terms of a resolution of members passed at the last annual general meeting, subject to the Listing Requirements of the JSE Limited. The directors are also authorised to repurchase shares in the issued capital of the Company, subject to the Listing Requirements of the JSE Limited. This authority remains in force until the next annual general meeting.

	2007 R	2006 R
<b>Issued</b>		
575 247 525 ordinary shares of R0,01 each	5 752 475	5 542 475
Share premium	15 953 047	15 353 047
	<b>21 705 522</b>	20 805 522

All changes to share capital are outlined in note 4 of the directors' report.

### 9. NON-DISTRIBUTABLE RESERVE

The directors are in the process of establishing the nature and purpose of this reserve. There is no indication if there is any legal or other restriction on the ability of the entity to distribute or otherwise apply this reserve.

	2007 R	2006 R
Balance at beginning of year	14 509 962	14 509 962

### 10. LOANS FROM SHAREHOLDERS

SA Roux	2 071 310	2 109 432
T Dajcar	506 803	536 803
CP Bradshaw	46 545	132 045
	<b>2 624 658</b>	2 778 280

The loans bear no interest and have no fixed terms of repayment.

## 11. INTEREST BEARING LIABILITIES

	2007 R	2006 R
<b>At fair value through profit or loss</b>		
Continental Brands Limited Unsecured loan bearing no interest in the current year. Interest was raised at prime in 2006. The directors are of the opinion that this loan will not be repaid within 12 months of the year end.	<b>1 250 000</b>	1 211 313
Nedcor Bank Limited Secured loan bearing interest at 10,44% per annum repayable in 12 monthly instalments of R47 029. Secured by plant and equipment with a book value of R1 460 000 (Refer to note 2).	–	532 117
Current portion	–	(532 117)
Instalment sale agreements Liabilities under instalment sale agreements payable over periods ranging from 5 to 55 months at effective interest rates ranging from prime to prime plus 1,02% per annum. Secured by motor vehicles with a book value of R1 981 038 (2006: R2 325 111). The monthly instalments amount to R55 997 (2006: R59 601) (Refer to note 2).	<b>1 590 930</b>	2 057 288
Current portion of interest bearing liabilities	<b>(490 418)</b>	(1 682 832)
Westfalia Separator SA (Pty) Limited Secured loan repayable in 12 monthly instalments of R46 367. The loan bears no interest. Secured by plant and equipment with a book value of R551 189.	<b>528 583</b>	–
Current portion	<b>(528 583)</b>	–
	<b>1 100 512</b>	374 456
	<b>2 350 512</b>	1 585 769
<b>Non-current liabilities</b>		
At fair value (FV adjustments through P&L)	<b>1 250 000</b>	1 211 313
At amortised cost	<b>1 100 512</b>	374 456
<b>Current liabilities</b>		
At amortised cost	<b>1 019 001</b>	2 214 949
	<b>3 369 513</b>	3 800 718

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS** (continued)**12. FINANCE LEASE OBLIGATION**

	<b>2007</b>	2006
	<b>R</b>	R
<b>Minimum lease payments due</b>		
– within one year	<b>680 486</b>	676 822
– in second to fifth year inclusive	<b>1 241 164</b>	1 918 579
	<b>1 921 650</b>	2 595 401
Less: Future finance charges	<b>(330 720)</b>	(538 113)
<b>Present value of minimum lease payments</b>	<b>1 590 930</b>	2 057 288
<b>Present value of minimum lease payments due</b>		
– within one year	<b>490 418</b>	471 519
– in second to fifth year inclusive	<b>1 100 512</b>	1 585 769
	<b>1 590 930</b>	2 057 288

The average lease term was five years and the average effective borrowing rate was prime plus 1,02%.

Interest rates are linked to prime at the contract date.

The Company's obligations under finance leases are secured by the lessor's charge over the leased assets (Refer note 2).

**13. OPERATING LEASE ACCRUAL**

	<b>2007</b>	2006
	<b>R</b>	R
Non-current liabilities	–	(108 202)
Current liabilities	<b>(45 514)</b>	(35 028)
	<b>(45 514)</b>	(143 230)

Operating lease accruals are recognised as a result of escalations in the rent payable under the contracts entered into with Romopark Properties (Pty) Limited and Creamstar Ice Cream (Pty) Limited. Refer to note 27 for details on these contracts.

There is no non-current liability because all rental contracts expire in 2008.

## 14. PROVISIONS

### Reconciliation of provisions

	Opening balance R	Additions R	Utilised during the year R	Total R
<b>2007</b>				
Leave pay benefits	220 816	82 678	(79 938)	223 556
Provision for bonuses	113 520	349 892	(27 452)	435 960
	<b>334 336</b>	<b>432 570</b>	<b>(107 390)</b>	<b>659 516</b>
<b>2006</b>				
Leave pay benefits	206 523	14 293	–	220 816
Auditors' remuneration	120 000	–	(120 000)	–
Provision for bonuses	–	113 520	–	113 520
	326 523	127 813	(120 000)	334 336

## 15. REVENUE

	2007 R	2006 R
Sale of goods	66 213 288	68 846 866
Rendering of services	138 111	–
	<b>66 351 399</b>	68 846 866

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS** (continued)**16. OPERATING PROFIT**

	<b>2007</b>	2006
	<b>R</b>	R
<b>Operating lease charges</b>		
Premises		
– Contractual amounts	<b>1 222 426</b>	1 412 409
Equipment		
– Contractual amounts	<b>35 009</b>	195 410
	<b>1 257 435</b>	1 607 819
Profit/(loss) on sale of property, plant and equipment	<b>(150 907)</b>	48 517
Impairment on property, plant and equipment	<b>–</b>	637 314
Amortisation on intangible assets	<b>57 993</b>	54 562
Depreciation on property, plant and equipment	<b>2 392 426</b>	2 188 715
Employee costs	<b>2 939 669</b>	1 769 194
Directors' emoluments	<b>1 145 237</b>	1 153 668
Bad debts	<b>227 582</b>	676 655
Auditors' remuneration	<b>215 000</b>	(1 061)
Administration expenses	<b>7 508 890</b>	10 629 944
Selling expenses	<b>1 725 261</b>	2 161 869

**17. TAXATION**

	<b>2007</b>	2006
	<b>R</b>	R
<b>Major components of the tax expense/(income)</b>		
<b>Deferred</b>		
Deferred tax	<b>(1 036 831)</b>	(1 425 428)

No provision has been made for 2007 tax due to the loss incurred. The estimated tax loss available for set-off against future taxable income is R16 855 979 (2006: R14 200 766).

## 18. EARNINGS AND HEADLINE EARNINGS/(LOSS) PER ORDINARY SHARE

	2007 Cents	2006 Cents	
<b>Basic earnings/(loss) per share</b>			
The calculation is based on a loss of R1 618 284 (2006: loss of R3 479 697) and on the weighted average number of ordinary shares in issue during the year of 557 083 141 (2006: 545 247 525)	<b>(0,3)</b>	(0,6)	
<b>Headline earnings/(loss) per share</b>			
Headline earnings/(loss) per share is calculated in terms of circular 07/2002 and excludes profits and losses of capital nature. The calculation is based on a loss of R1 423 614 (2006: loss of R2 720 150) and a weighted number of ordinary shares in issue during the year of 557 083 141 (2006: 545 247 525)	<b>(0,3)</b>	(0,5)	
<b>Reconciliation between earnings and headline earnings/(loss) per share:</b>			
	<b>Profit/(loss) R</b>	<b>Taxation R</b>	<b>Net profit/(loss) R</b>
<b>2007</b>			
Net loss	<b>(1 618 284)</b>	–	<b>(1 618 284)</b>
Loss on disposal of fixed assets	<b>150 907</b>	<b>(43 763)</b>	<b>107 144</b>
Headline earnings	<b>(1 467 377)</b>	<b>43 763</b>	<b>(1 423 614)</b>
<b>2006</b>			
Net loss	(3 479 697)	–	(3 479 697)
Impairment of assets	637 313	(184 821)	452 492
Profit on disposal of fixed assets	(48 517)	14 070	(34 447)
Headline earnings	(2 890 901)	170 751	(2 720 150)

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS** (continued)**19. CASH GENERATED FROM/(USED IN) OPERATIONS**

	<b>2007</b>	2006
	<b>R</b>	R
Profit/(loss) before taxation	<b>(2 655 115)</b>	(4 905 124)
<b>Adjustments for:</b>		
Depreciation and amortisation	<b>2 450 417</b>	2 243 275
(Profit)/loss on sale of assets	<b>150 907</b>	(48 517)
Interest received	<b>(1 605)</b>	(448)
Finance costs	<b>825 982</b>	750 516
Impairment losses/reversals	<b>–</b>	637 313
Movements in operating lease assets and accruals	<b>(97 716)</b>	143 230
Movements in provisions	<b>325 180</b>	7 813
<b>Changes in working capital:</b>		
Inventories	<b>527 663</b>	(342 730)
Trade and other receivables	<b>533 407</b>	(233 535)
Trade and other payables	<b>(1 093 789)</b>	2 829 627
	<b>965 331</b>	1 081 420

**20. IMPAIRMENT OF ASSETS**

	<b>2007</b>	2006
	<b>R</b>	R
Material impairment losses (recognised)/reversed		
Plant and equipment	<b>–</b>	(637 314)

The impairment refers to certain assets which are currently idle. The costs anticipated for repairing these assets do not render it economically viable to incur these costs at present. The recoverable amount of the assets was based on their fair value as determined by the directors, less costs to sell. The assets have been tested for impairment in the current year and no impairment occurred.

## 21. RELATED PARTIES

### Relationships

Shareholder with significant influence	Creamstar (Pty) Limited
Shareholder with significant influence	Plastikon (Pty) Limited
Shareholder with significant influence	Romo Park Properties (Pty) Limited
Shareholder with significant influence	Magnolia Ridge Properties 15 (Pty) Limited
Shareholder with significant influence	Lanpack Manufacturers (Pty) Limited
Shareholder with significant influence	Creative Flavors International (Pty) Limited
Shareholder with significant influence	Zibo Containers (Proprietary) Limited
Shareholder with significant influence	Familie Roux Eiendomme (Pty) Limited
Shareholder with significant influence	Routal (Pty) Limited
Shareholder with significant influence	Ice Cream Warehouse CC
Forms part of key management personnel	Continental Brands Limited
Forms part of key management personnel	Rednats CC
Forms part of key management personnel	Brander Straat Blouwmoulders (Pty) Limited

Compensation paid to key management personnel is disclosed in note 22.

The terms and conditions of loans payable are disclosed in note 11.

	2007	2006
	R	R
<b>Related party balances</b>		
<b>Loan accounts – (Owing to)/owing by related parties</b>		
Continental Brands Limited	(1 250 000)	(1 211 313)
<b>Amounts included in Trade receivable/(trade payable) regarding related parties</b>		
Lanpack Manufacturers CC	(7 080)	(276 206)
Zibo Containers (Pty) Limited	(16 539)	(49 867)
Creative Flavors International (Pty) Limited	(32 230)	(146 068)
Creamstar (Pty) Limited	(958 734)	(560 963)
Plastikon (Pty) Limited	(941 166)	(941 365)
Romo Park Properties (Pty) Limited	(208 367)	(83 020)
Familie Roux Eiendomme (Pty) Limited	(273 600)	–
Magnolia Ridge Properties (Pty) Limited	(1 255)	–
Brander Straat Blouwmoulders (Pty) Limited	(31 825)	–
Rednats CC	(21 900)	–
<b>Related party transactions</b>		
<b>Purchases from/(sales to) related parties</b>		
Lanpack Manufacturers CC	432 430	657 873
Zibo Containers (Pty) Limited	135 713	230 866
Creative Flavors International (Pty) Limited	379 675	531 863
Plastikon (Pty) Limited	5 344 056	1 395 527
Rednats CC	43 895	–
Brander Straat Blouwmoulders (Pty) Limited	1 253 721	–
<b>Rent paid to/(received from) related parties</b>		
Creamstar (Pty) Limited	449 494	415 880
Romo Park Properties (Pty) Limited	498 495	920 794
Familie Roux Eiendomme (Pty) Limited	120 000	120 000
Magnolia Ridge Properties 15 (Pty) Limited	176 030	150 000

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS** (continued)

**22. DIRECTORS' EMOLUMENTS**

		<b>Salary R</b>	<b>Travel allowance R</b>	<b>Annual payment R</b>	<b>Total R</b>
<b>Executive</b>					
<b>2007</b>					
SA Roux		<b>416 600</b>	<b>91 200</b>	<b>29 356</b>	<b>537 156</b>
P van Heerden		<b>201 925</b>	<b>75 410</b>	<b>15 924</b>	<b>293 259</b>
T Dajcar		<b>248 448</b>	<b>49 200</b>	<b>17 173</b>	<b>314 821</b>
		<b>866 973</b>	<b>215 810</b>	<b>62 453</b>	<b>1 145 236</b>
<b>2006</b>					
CM Botha	40 000	20 000	–	22 670	82 670
SA Roux	405 600	91 200	24 461	–	521 261
CP Bradshaw	28 828	5 000	–	–	33 828
P van Heerden	112 250	25 750			138 000
AF Daacke	47 787	6 000	12 827	6 357	72 971
T Dajcar	241 428	49 200	14 310		304 938
	875 893	197 150	51 598	29 027	1 153 668

**Non-executive  
2007**

J du Toit  
A Stander

2006  
J Nel  
AL Cruikshank  
DDJ Tomas

No remuneration was paid to the non-executive directors during the year under review.

**Details of service contracts**

No service contracts have been entered into with any of the directors.

## **23. RISK MANAGEMENT**

### **Liquidity risk**

The Company's risk to liquidity is a result of the funds available to cover future commitments. The Company manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

### **Interest rate risk**

Deposit and cash at bank attract interest at rates that vary with prime.

### **Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Company only deposits cash with major banks with high quality credit standing. Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis.

## **24. GOING CONCERN**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

### 25. SEGMENT RESULTS

For management purposes, the Company is organised into two major divisions, namely Avondale Ice Cream and Creamstar Ice Cream.

Avondale is mainly focused on specialised and high quality products (high value and low volume products) which are primarily distributed through contract packaging and catering channels.

Creamstar is mainly focused on the bottom end of the market products (low value high volume products) which are distributed primarily through supermarkets and the informal sector.

	Avondale	Creamstar	Eliminated	Consolidated
<b>2007</b>				
<b>Income statement</b>				
External sales	37 969 495	28 243 793		66 213 288
Internal segment sales	2 046 704	264 491	(2 311 195)	–
Total revenue	40 016 199	28 508 284	(2 311 195)	66 213 288
Segment results	747 058	(2 077 919)		(1 330 860)
Unallocated expenses				(519 612)
Interest received				21 339
Interest expense				(825 982)
Income tax expense				1 036 831
Loss for the period				(1 618 284)
<b>Balance sheet</b>				
<b>Segment assets</b>	26 668 201	16 491 247	(8 881 998)	34 277 449
Unallocated assets				2 825 324
<b>Consolidated assets</b>				37 102 773
<b>Segment liabilities</b>	(6 883 808)	(15 030 182)	8 881 998	(13 031 992)
Unallocated liabilities				(5 435 046)
<b>Consolidated liabilities</b>				(18 467 038)
Net capital additions	1 242 837	(530 105)	–	712 732
Depreciation	991 393	1 452 379	–	2 443 772
Other income	–	68 602	–	68 602

**25. SEGMENT RESULTS** (continued)

	Avondale	Creamstar	Eliminated	Consolidated
2006				
<b>Income statement</b>				
External sales	33 035 585	35 811 281	–	68 846 866
Internal segment sales	3 758 045	145 359	(3 903 404)	–
Total revenue	36 793 630	35 956 640	(3 909 404)	68 846 866
Segment results	1 157 883	(4 669 673)		(3 511 789)
Unallocated expenses				(643 268)
Interest received				448
Interest expense				(750 516)
Income tax expense				1 425 428
Loss for the period				(3 479 697)
<b>Balance sheet</b>				
<b>Segment assets</b>	23 260 128	20 073 168	(6 570 803)	36 762 493
Unallocated assets				1 795 218
<b>Consolidated assets</b>				38 557 711
Segment liabilities	(5 432 894)	(15 712 449)	6 570 8032	(14 574 540)
Unallocated liabilities				(4 629 153)
<b>Consolidated liabilities</b>				(19 203 692)
Net capital additions	982 671	269 880	–	1 252 551
Depreciation	910 151	1 327 449	–	2 237 600
Other income	122 809	99 706	–	222 515

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS** (continued)

**26. NET ASSET VALUE PER SHARE AND NET TANGIBLE ASSET VALUE PER SHARE**

	<b>2007</b> <b>Cents</b>	2006 Cents
The net asset value per share is calculated on the number of ordinary shares in issue at year end of 557 083 141(2006: 545 247 525) and net assets of R18 635 735 (2005: R19 372 798)	<b>3,2</b>	3,6
<b>Net tangible asset value per share</b>		
The net tangible asset value per share is calculated on the number of ordinary shares in issue at year end of 557 083 141 (2006: 545 247 525) and net tangible assets of R36 370 609 (2006: R18 601 182)	<b>3,3</b>	3,4

**27. COMMITMENTS**

	<b>2007</b> <b>R</b>	2006 R
<b>Operating leases – as lessee</b>		
<b>Minimum lease payments due</b>		
– within one year	–	1 307 924
– in second to fifth year inclusive	–	1 078 184
	–	2 386 108

Future minimum contractual lease payments to the amount of R45 514 relate to operating leases with related parties as disclosed in note 13. Operating lease payments represent rentals payable by the Company for its offices and manufacturing facilities. Leases are entered into for terms of between two to four years. No contingent rent is payable.

The major operating leases during the year under review consisted of the following.

<b>Facility</b>	<b>Effective date</b>	<b>Period</b>	<b>Annual escalation</b>
Avondale manufacturing facility <sup>#</sup>	1 July 2004	4 years	9%
Creamstar manufacturing facility <sup>#</sup>	1 July 2004	4 years	9%
Ga Rankuwa depot	1 November 2004	4 years	11%
Mabopane depot <sup>#</sup>	1 July 2004	4 years	9%
Nelspruit depot <sup>#</sup>	1 July 2004	2 years	6%

<sup>#</sup>Operating leases from related parties.

# NOTICE OF ANNUAL GENERAL MEETING OF MILKWORX LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 1998/011074/06)

("Milkworx" or "the Company")

ISIN Code: ZAE 000058020 Share Code: MKX

**Notice is hereby given that the Annual General Meeting of shareholders of the Company will be held on Friday, 01 February 2008 at 10:00 at Arcay House II, Number 3 Anerley Road, Parktown, Johannesburg, to transact the following business:**

## **Ordinary business**

1. To receive, consider and adopt the audited financial statements for the year ended 30 June 2007, together with the reports of the directors and auditors contained therein.
2. To elect a director in place of Mr P van Heerden:  
who retires in accordance with the Company's articles of association but, being eligible, offers himself for re-election. Mr Van Heerden's biography is provided on page 54 of this annual report.
3. To authorise the directors to appoint Jan Erasmus Auditors, 356 Rosemary Street, Lynnwood, 0081 as the independent auditors of the Company for the ensuing year and to determine the remuneration of the auditors.
4. To approve the fees paid to directors, as disclosed in the annual financial statements.
5. To transact such other business as may be transacted at an Annual General Meeting.

As special business, to consider and, if deemed fit, to pass with or without modification, the following Ordinary and Special Resolutions:

## **Ordinary Resolutions**

6. To consider and if deemed fit, to pass with or without modification, the following ordinary resolution number 1:

**"Resolved that** the appointment of Mrs A Stander as a director of the Company with effect from 03 November 2006, be and hereby is approved."

Mrs Stander's biography is provided on page 54 of this annual report.

7. To consider and if deemed fit, to pass with or without modification, the following ordinary resolution number 2:

**"Resolved that** the appointment of Mr J du Toit as a director of the Company with effect from 29 June 2007, be and hereby is approved."

Mr du Toit's biography is provided on page 54 of this annual report.

8. To consider and if deemed fit, to pass with or without modification, the following ordinary resolution number 3:

**“Resolved that** the appointment of Dr H Grimmer as a director of the Company with effect from 12 December 2007, be and hereby is approved.”

Dr Grimmer’s biography is provided on page 54 of this annual report.

9. To consider and if deemed fit, to pass with or without modification, the following ordinary resolution number 4:

**“Resolved that** the authorised but unissued shares in the capital of the Company be and are hereby placed under the control of the directors of the Company, and that they are hereby authorised, subject to sections 221 and 222 of the Companies Act, 1973, as amended and the Listings Requirements of the JSE Limited (“the JSE”), to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions as the directors, in their discretion, deem fit, such authority to expire at the next annual general meeting of the Company.”

10. To consider and if deemed fit, to pass with or without modification, the following ordinary resolution number 5:

**“Resolved that,** subject to not less than 75% of shareholders, present in person or by proxy and entitled to vote at the annual general meeting at which this ordinary resolution is considered, voting in favour thereof, the directors of the Company be and are hereby authorised, by way of general authority, to issue all or any of the authorised but unissued shares in the capital of the Company for cash as they in their discretion deem fit, subject to the following limitations:

- the securities must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- securities must be issued to public shareholders as defined in the JSE Listings Requirements and not related parties, unless the JSE otherwise agrees;
- the general issue of shares for cash in the aggregate in any one financial year may not exceed 50% of the Company’s issued share capital of that class;
- the maximum discount at which securities may be issued is 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 of the applicant unless the Company’s securities have been suspended on the JSE, in which case the guidance of the JSE with regard to an appropriate issue price may be sought and complied with;
- after the Company has issued securities representing, on a cumulative basis within a financial year, 5% or more of the number of securities in issue prior to that issue, the Company shall publish an announcement on the JSE’s Securities Exchange News Service (SENS) containing full details of the issue, including the effect of the issue on net asset value and earnings per share; and
- this authority shall not extend beyond 15 months from the date of this resolution, or the date of the next annual general meeting, whichever is the earlier date.

11. To consider and if deemed fit, to pass with or without modification, the following ordinary resolution number 6:

**“It is resolved that** any one director of the Company or the Company Secretary be and hereby is authorised to do all such things and to sign all documents and take all such action as may be considered necessary to implement the resolutions set out in the notice of annual general meeting convening the meeting at which this resolution and such other resolutions are proposed.”

## 12. **Special Resolution**

To consider and if deemed fit, to pass with or without modification, the following special resolution number 1:

**“Resolved that the** directors of the Company be and are hereby authorised by way of general authority, to repurchase ordinary shares in the issued share capital of the Company from time to time, subject to the Articles of Association of the Company, the provisions of sections 85 to 89 of the Companies Act, 1973, as amended and in terms of the JSE Listing Requirements, when applicable, and

- any such repurchase shall be implemented on the open market of the JSE;
- the Company is authorised thereto by way of its articles of association;
- any such repurchase may not be made at a price higher than 10% above the weighted average market value for the shares for the five business days preceding the date on which the repurchase was agreed;
- the general authority is limited to a maximum of 20% of the Company’s issued share capital of that class at the time the authority is granted;
- a SENS announcement giving full details of such acquisitions, including the impact on net asset value and earnings per share, will be published as soon as the Company has acquired shares constituting, on a cumulative basis, 3% of the number of shares in issue at the time of the granting of the general authority;
- the general authority shall only be valid until the Company’s next annual general meeting, provided that it shall not extend beyond 15 months from the date of passing of this special resolution number 1;
- the Company may only undertake a repurchase of securities if, after such repurchase, it still complies with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread;
- the Company may not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements; and
- the Company may only appoint one agent to effect any repurchase(s) on its behalf.

### **Reason and effect of Special Resolution number 1**

The reason for special resolution number 1 is to grant the Company a general authority in terms of the Companies Act for the acquisition by the Company or any of its subsidiaries of shares issued by the Company, which authority shall be valid until the earlier of the next annual general meeting of the Company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company, provided that the general authority shall not extend beyond 15 (fifteen) months from the date of this annual general

meeting. The passing and registration of this special resolution will have the effect of authorising the Company or any of its subsidiaries to acquire shares issued by the Company or its holding company.

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

Directors and management – page 54  
Major shareholders of Milkworx – page 10  
Directors' interest in securities – page 12  
Share capital of the Company – page 9

### **Litigation statement**

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given on page 12 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Company's financial position, apart from details that are disclosed in the directors' report.

### **Directors' responsibility statement**

The directors, whose names are given on page 12 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

### **Material changes**

Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of Milkworx since the auditors signed off on the financials.

### **Statement by the Board of directors of the Company**

Pursuant to, and in terms of, the JSE Listings Requirements, the Board of directors of the Company hereby state that:

- the intention of the directors of the Company is to utilise the general authority to repurchase shares in the capital of the Company if, at some future date, the cash resources of the Company are in excess of its requirements or there are other good grounds for doing so. In this regard, the directors will take account of, *inter alia*, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company and the interests of the Company;
- in determining the method by which the company intends to repurchase its securities, the maximum number of securities to be repurchased and the date on which such repurchase will take place, the directors of the Company will ensure that:
  - the Company and its subsidiaries will, after the repurchase, be able to pay their debts as they become due in the ordinary course of business for the next 12 (twelve) months after the date of notice of this annual general meeting;

- the consolidated assets of the Company and its subsidiaries fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the repurchase, be in excess of the consolidated liabilities of the Company and its subsidiaries for the next 12 (twelve) months after the date of notice of this annual general meeting;
- the issued share capital and reserves of the Company and its subsidiaries will, after the repurchase, be adequate for the ordinary business purposes of the Company and its subsidiaries for the next 12 (twelve) months after the date of notice of this annual general meeting; and
- the working capital available to the Company and its subsidiaries will, after the repurchase, be sufficient for the ordinary business requirements of the Company and its subsidiaries for the next 12 (twelve) months after the date of notice of this annual general meeting.

### **Voting and proxies**

All shareholders will be entitled to attend and vote at the Annual General Meeting or any adjournment thereof. On a show of hands, every shareholder of the Company who, being an individual, is present or is present by proxy at the general meeting or which, being a company or body corporate, is represented thereat by a representative appointed pursuant to section 188 of the Act, shall have one vote only and on a poll every shareholder of the Company (whether an individual or a company or a body corporate) or represented by a proxy at the Annual General Meeting shall have one vote for every share held by such shareholder.

The necessary form of proxy is attached for the convenience of certificated shareholders and dematerialised shareholders with "own name" registration who cannot attend the Annual General Meeting, but who wish to be present thereat. Any shareholder entitled to attend and vote at the Annual General Meeting may appoint one or more persons to attend, speak and vote in place of such shareholder. A proxy so appointed need not be a shareholder of the company. In order to be valid, duly completed proxy forms must be received by the Company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown, 2107), by no later than 30 January 2008 at 10:00.

Dematerialised shareholders, other than own name dematerialised shareholders who wish to attend the annual general meeting, must request their Central Securities Depository Participant (CSDP) or broker to provide them with a Letter of Representation or must instruct their CSDP or broker to vote by proxy on their behalf in terms of the agreement entered into between the shareholder and the CSDP.

By order of the Board



**M van den Berg**  
*Company Secretary*

28 September 2007

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## DIRECTORATE CVs

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### **Paul van Heerden (30)**

Paul graduated from UPE in 2002 with a BCom degree in Accounting. During his studies, he worked for Compsol, a large debt collection company with a contract from the compensation commissioner. He then moved to Pretoria in 2003 to commence his articles at TAG Inc. The experience gained as a trainee accountant ranges from evaluating and developing internal control systems to accounting and taxation issues from an internal and external audit function perspective. On completion of his three years articles, Paul decided not to pursue the public auditing sector, but instead to apply his knowledge and experience in the commercial industry and joined Milkworx Limited in 2006 when he was appointed Financial Director. His contributions to date include the minimising of cost, eliminating unprofitable ventures and structuring internal controls. He is responsible for the entire finance function of Milkworx Limited.

### **Adriana (Adri) Stander (49)**

Adri completed her BA(HeD) in 1980 at Bloemfontein. For a period of ten years she taught Mathematics at various high schools in the Free State, Gauteng, Mpumalanga and Northern Provinces. She started a small food manufacturing business in 1989 and the second business in 1998. During her business career she attended numerous business seminars and workshops. She completed her MBA (Bloemfontein) in 2004. Adri was appointed as a non-executive director in November 2006 and joined the management team in an executive capacity in September 2007.

Adri is a firm believer in having a good governance framework in place to encourage efficient use of resources that requires accountability for the stewardship of those resources. She will lead the Marketing and Sales team and the Board believes that with her experience in the food industry, she will stimulate innovative ideas at both managerial and product development levels.

### **Dr Heidi Grimmer (45)**

Dr Grimmer has been involved in the biochemistry and food science fields since graduating with her PhD from the University of Witwatersrand in 1993, initially as a flavour chemist and in technical sales support and currently as the New Product Development Technical Brewer at the South African Breweries Limited. In addition to having co-authored numerous published papers, Dr Grimmer obtained her MBA from the University of Edinburgh in 2007.

### **Johann du Toit (27)**

Johann has eight years of experience in the field of accountancy and information technology. While studying part-time for his BCom (Accounting) at the University of Johannesburg he started as an articled clerk, reconciliation officer and now oversees the full accounting function as well as general management.

He is currently the Financial Manager at Creative Flavours (Pty) Limited and after completion of his BCom (Accounting) he intends to study for his MBA.

*Continue on inside back cover.*

## FORM OF PROXY

for use by certificated and own name dematerialised shareholders only

For use at the Annual General Meeting of members to be held in the boardroom, Arcay House 11, Number 3 Anerley Road, Parktown, Johannesburg 2193, on 01 February 2008 at 10:00 (the Annual General Meeting).

I/We (please print names in full) \_\_\_\_\_

of (address) \_\_\_\_\_

being a member/s of Milkworx Limited, holding \_\_\_\_\_ shares in the Company, hereby appoint:

1. \_\_\_\_\_ or, failing him/her,
2. \_\_\_\_\_ or, failing him/her,
3. \_\_\_\_\_ or, failing him/her,
4. the Chairman of the Annual General Meeting,

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held in the boardroom, Arcay House 11, Number 3, Anerley Road, Parktown, Johannesburg 2193, on 01 February 2008 at 10:00 and at any adjournment thereof and to speak and act for me/us and, on a poll, vote on my/our behalf.

My/Our proxy shall vote as follows:

	Number of shares		
	In favour of	Against	Abstain
1. Adoption of financial statements			
2. Re-election of P van Heerden			
3. Appointment of auditors and approval of audit fees			
4. Approval of the directors' fees			
5. Ordinary resolution no 1			
6. Ordinary resolution no 2			
7. Ordinary resolution no 3			
8. Ordinary resolution no 4			
9. Ordinary resolution no 5			
10. Ordinary resolution no. 6			
11. Special resolution no. 1			

(Indicate instruction to proxy by way of a cross in space provided above.)

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

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2008

Signature \_\_\_\_\_

**Please read the notes on the reverse side hereof.**

## Notes:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided, with or without deleting "the Chairman of the Annual General Meeting", but any such deletion must be initialled by the member. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please insert an "X" in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of ordinary shares held in respect of which you desire to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A member or his/her proxy is not obliged to use all the votes exercisable by the member or by his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the member or by his/her proxy.
3. Forms of proxy must be received by the Company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107) by not later than 10:00 on 30 January 2008.
4. The completion and lodging of this form of proxy will not preclude the relevant member from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Company's transfer secretaries or waived by the Chairman of the Annual General Meeting
6. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the Company.
8. The Chairman of the Annual General Meeting may reject or accept a form of proxy which is completed and/or received, other than in accordance with these notes, if the Chairman is satisfied as to the manner in which the member wishes to vote.



## **DIRECTORATE CVs** (continued)

### **Stephan Abraham Roux – Chief Executive Officer (51)**

Stephan started his business career in the 1970s with a contract to run the SST Cable Cars at the Pretoria Zoo. Thereafter, he entered into the catering business, running the main restaurant at the same venue for an eventual contracted period of ten years. The catering business expanded into an opportunity to run one of the cafeterias at the University of Pretoria, whereafter he was approached by Dairy Maid to become their agent for the Pretoria area. Having co-established the Dairy Maid agency, he identified a potential opportunity for manufacturing ice cream and in 1986, co-founded Creamstar Ice Cream, a manufacturing entity producing ice cream for the emerging market. In 1990, Stephan established Avondale (Pty) Limited, a company that produces icecream and icecream related products for the luxury products market. The Avondale and Creamstar businesses were acquired by Milkworx at the time of the Company's listing on the JSE in 2004.

### **Tomas Dajcar – Operations Director (40)**

On completion of his MBChB in General Medicine and Hygiene at the Charles University in Prague (Czech Republic), Tomas was offered a position as a medical research assistant within the Department of Immunology at the University of Cape Town. On completion of his research assignment, Tomas decided to utilise his experience and knowledge in the health and hygiene fields within a manufacturing environment and in 1993, he joined Avondale.

His early contribution included the upgrading of the company's hygiene systems and the implementation of new systems and controls as well as improving the working environment and personal hygiene of the staff. Tomas was appointed Operations Manager in 1995. He is currently responsible for the overall operations of Avondale.

**milkworx**  
Limited