ACCOUNTING POLICIES

The annual financial statements are prepared mainly on the historical cost basis and incorporate the following principal accounting policies which, with the exception of accounting for income from foreign associated companies, have been consistently applied in all material respects.

(I) CONSOLIDATION, PROPORTIONATE CONSOLIDATION AND EQUITY ACCOUNTING

Preference shares and debentures which are compulsorily convertible, are regarded as part of the permanent equity capital of a company for the purposes of consolidation, proportionate consolidation and equity accounting.

Consolidation – subsidiary companies

All companies which are defined as subsidiary companies in terms of the Companies Act are included in the consolidated statements in the usual manner.

Proportionate consolidation – joint ventures

All jointly controlled ventures are accounted for according to the proportionate consolidation method. In terms of this method the Group's share of assets, liabilities, income, expenditure and cash flow are included in the consolidated statements. The Group's share of retained income is transferred to non-distributable reserves.

Equity accounting – associated companies

Companies which are neither subsidiaries nor joint ventures, but in which a long-term interest is held and over whose financial and operating policies a significant influence can be exercised, are accounted for according to the equity method as associated companies. Certain associated companies have year-ends which differ from that of the Company. In such circumstances the results of listed and certain unlisted companies are accounted for from the latest published information and management accounts as at year-end, respectively. The accounting policies of associated companies do not necessarily correspond with those of the Group and no adjustments are made therefor. The Group's share of retained income is transferred to non-distributable reserves. The Group's share of other movements in the reserves of associated companies are accounted for as changes in consolidated non-distributable reserves.

Goodwill

The goodwill or negative goodwill is the difference between the cost of the investments and the attributable net assets of the subsidiary companies, joint ventures and associated companies at the acquisition dates. Negative goodwill is included in non-distributable reserves. Goodwill is written off against non-distributable reserves.

(II) FIXED ASSETS AND DEPRECIATION

Capitalised leased assets – assets leased in terms of finance lease agreements are capitalised at their equivalent cash consideration. Depreciation is provided on the straight-line basis over the expected useful lives of the assets. Finance charges are written off over the term of the lease in accordance with the effective interest rate method.

Preproduction costs and interest – preproduction costs as well as interest on borrowings directly related to major capital projects under construction are capitalised until such assets are brought into a working condition for their intended use.

Land and buildings – are stated at cost or valuation. Specialised buildings are depreciated on a straight-line basis over their expected useful lives. Other buildings are not depreciated. Leasehold improvements are written off over the periods of the leases.

Machinery, equipment, office equipment and vehicles – are stated at cost and are depreciated on a straight-line basis over their expected useful lives.

Crops – are stated at cost or valuation. Cost consists of the aggregate of agricultural establishment and development costs. Agricultural establishment costs represent the costs incurred in establishing sugar cane and other perennial crops and are not amortised. Agricultural development costs consist of planting and other development costs. These costs are capitalised in the first year of planting and costs during the years thereafter are written off directly against income. Ongoing cultivation costs are expensed as incurred. Crops are revalued periodically.

Provision for deferred maintenance – where material, provision is made for costs and other expenses not evenly incurred from year to year in respect of maintenance of buildings, plant and equipment.

Trade marks, user rights and patents – the costs of trade marks and patents which are established and developed by the Group itself are expensed as incurred. The value thereof is consequently not reflected in the annual financial statements. The costs of trade marks and user rights which have been purchased are written off on a straight-line basis over their expected useful lives.

Research and development costs – research and development costs are written off against income as incurred. Where the asset recognition criteria have been met, development expenditure is capitalised and written off over the expected useful life of the product.

(III) INVESTMENTS

Associated companies – are stated at cost after adjustment for goodwill. In the consolidated financial statements the Group's share of post-acquisition reserves and retained income, accounted for according to the equity method, is added to cost.

Other long-term investments – are stated at cost, plus past equity adjustments of investments which are no longer classified as associated companies, less amounts written off for declines in value considered not to be of a temporary nature. Such amounts written off are accounted for as exceptional items.

Portfolio investments – are stated at cost less amounts written off for declines in value considered not to be of a temporary nature. Such amounts written off and profits and losses on realisation, are accounted for in normal income.

(IV) INVENTORIES AND CONTRACTS IN PROGRESS

Inventories are stated at the lower of cost or net realisable value. The basis of determining cost is either the first-in-first-out or average cost method. Where applicable, provision is made for slow-moving and redundant inventories. Work in progress and finished goods include direct costs and an appropriate allocation of manufacturing overheads. The value of contracts in progress includes cost to date, an allocation of variable overheads and, in the case of certain subsidiaries, fixed works overheads, less provision for anticipated losses. Crops to be harvested within one year are included in inventories at the estimated cost thereof.

(V) DEFERRED TAXATION

Deferred taxation is accounted for on the comprehensive method. Deferred tax assets are only accounted for when the realisation thereof is reasonably assured in the foreseeable future.

(VI) FOREIGN CURRENCIES

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the dates of the transactions. Foreign currency monetary items at year-end are translated to SA rand at the rates of exchange ruling at that date. Exchange differences that arise as a result thereof and on forward exchange contracts, are accounted for in income.

Assets, liabilities and reserves of foreign entities at year-end are translated to SA rand at the rates of exchange ruling at that date. Operating results of foreign subsidiaries and income of foreign associated companies are translated to SA rand at the average of the exchange rates prevailing during the year for each of the currencies concerned. Differences arising on translation are accounted for in reserves as exchange rate adjustments.

(VII) FINANCIAL INSTRUMENTS

Financial instruments include those carried on the balance sheet and off-balance sheet instruments.

Financial instruments carried on the balance sheet include cash resources, investments, debtors, creditors, provisions, leases and borrowings.

Certain group companies are also parties to financial instruments that reduce exposure to fluctuations in foreign currency exchange rates. These instruments, which mainly comprise forward exchange contracts, are not recognised in the financial statements on inception.

Fair values and the recognition methods of the different financial instruments are disclosed in the notes to the financial statements. Fair values represent an approximation of possible value, which may differ from the value that will be finally realised.

Where the redemption of loans is provided for by means of investments in financial instruments which allow for the contractual right of set-off against the loan and it is expected that the loan will be settled in this way, the related balance sheet items are set-off against one another.

(VIII) REVENUE RECOGNITION

The sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred. Revenue arising from services is recognised when the service is rendered. Interest is recognised on a time proportion basis (taking into account the principal outstanding, the effective rate and the period), unless collectability is in doubt. Dividends are recognised when the right to receive payment is established.