RAINBOW

RAINBOW CHICKEN LIMITED
("Rainbow" or "the Group" or "the company")
(Registration number 1966/004972/06)
JSE share code: RBW ISIN: ZAE000019063

ABRIDGED UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 AND CASH DIVIDEND DECLARATION

BALANCE SHEET

R'000	30 Sept 2010	30 Sept 2009	31 March 2010
ASSETS			
Non-current assets			
Property, plant and equipment	1 514 932	1 434 066	1 464 929
Goodwill	287 444	287 444	287 444
Deferred income tax assets		5 798	
	1 802 376	1 727 308	1 752 373
Current assets			
Inventories	633 278	655 941	538 413
Biological assets	422 938	463 530	422 798
Trade and other receivables	1 266 574	949 345	1 154 647
Derivative financial instruments	918	465	
Tax receivable	107		8 558
Cash and cash equivalents	367 623	343 917	539 067
	2 691 438	2 413 198	2 663 483
Total assets	4 493 814	4 140 506	4 415 856
EQUITY			
Capital and reserves	2 694 687	2 545 885	2 660 182
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	321 628	243 598	320 322
Post-retirement medical obligation	96 270	88 505	94 670
	417 898	332 103	414 992
Current liabilities			
Trade and other payables	1 337 103	1 230 187	1 337 810
Derivative financial instruments	276	12 915	1 004
Current income tax liabilities	23 332	19 416	1 868
Bank overdraft	20 518		
	1 381 229	1 262 518	1 340 682
Total liabilities	1 799 127	1 594 621	1 755 674
Total equity and liabilities	4 493 814	4 140 506	4 415 856

STATEMENT OF CHANGES IN EQUITY

R'000	Stated capital	Share-based payments	Retained earnings	Total
Balance at 1 April 2009	1 166 762	97 932	1 221 216	2 485 910
Total comprehensive income for the period			173 433	173 433
Ordinary dividend paid			(128 369)	(128 369)
BEE share-based payments charge		1 704		1 704
Employee share option scheme:				
Proceeds from shares issued	5 577			5 577
Value of employee services		7 630		7 630
Balance at 30 September 2009	1 172 339	107 266	1 266 280	2 545 885
Total comprehensive income for the period			182 075	182 075
Ordinary dividend paid			(81 804)	(81 804)
BEE share-based payments charge		1 679		1 679
Employee share option scheme:				
Proceeds from shares issued	4 718			4 718
Value of employee services		7 629		7 629
Balance at 1 April 2010	1 177 057	116 574	1 366 551	2 660 182
Total comprehensive income for the period			162 460	162 460
Ordinary dividend paid			(140 530)	(140 530)
BEE share-based payments charge		1 716		1 716
Employee share option scheme:				
Proceeds from shares issued	3 586			3 586
Value of employee services		7 273		7 273
Balance at 30 September 2010	1 180 643	125 563	1 388 481	2 694 687

STATEMENT OF COMPREHENSIVE INCOME

R'000		Six months ended 30 Sept 2010	Six months ended 30 Sept 2009	Year ended 31 March 2010
Revenue		3 384 386	3 360 513	6 952 789
Operating profit before depreciation		317 124	323 915	677 111
Depreciation		(79 687)	(75 225)	(157 425)
Operating profit		237 437	248 690	519 686
Finance costs		(1 082)	(329)	(900)
Finance income		8 332	8 333	14 877
Profit before taxation		244 687	256 694	533 663
Income tax expense		(82 227)	(83 261)	(178 155)
Profit for the period		162 460	173 433	355 508
Total comprehensive income for the period		162 460	173 433	355 508
Basic earnings per share	(cents)	55,5	59,5	121,8
Basic earnings per share – diluted	(cents)	55,2	59,2	121,0

HEADLINE EARNINGS

Total comprehensive income for the period		162 460	173 433	355 508
Profit on disposal of property, plant and equipment		(791)	(3 609)	(4 053)
Headline earnings		161 669	169 824	351 455
Headline earnings per share	(cents)	55,2	58,2	120,4
Headline earnings per share – diluted	(cents)	55,0	58,0	119,7

CASH FLOW STATEMENT

Operating profit	237 437	248 690	519 686
Non-cash items	84 229	64 896	144 636
Operating profit before working capital requirements	321 666	313 586	664 322
Working capital requirements	(204 336)	(204 891)	(138 439)
Cash generated by operations	117 330	108 695	525 883
Net finance income	7 250	8 004	13 977
Tax paid	(51 006)	(56 992)	(95 471)
Cash available from operating activities	73 574	59 707	444 389
Dividends paid	(140 530)	(128 369)	(210 173)
Net cash flows from investing activities	(128 592)	(121 082)	(233 528)
Net cash flows from financing activities	3 586	5 577	10 295
Net movement in cash and cash equivalents	(191 962)	(184 167)	10 983
Cash and cash equivalents at the beginning of the period	539 067	528 084	528 084
Cash and cash equivalents at the end of the period	347 105	343 917	539 067

SALIENT FEATURES

REVENUE	↑ 0,7%
OPERATING PROFIT	↓ 4,5%
HEADLINE EARNINGS PER SHARE	↓ 5,2%
INTERIM DIVIDEND PER SHARE	28,0 cents

SUPPLEMENTARY INFORMATION

R'000	Six months ended 30 Sept 2010	Six months ended 30 Sept 2009	Year ended 31 March 2010
Capital expenditure contracted and committed	77 876	75 514	99 216
Capital expenditure approved but not contracted	114 698	67 073	81 187
Contingent liabilities	29 259	33 599	30 771

STATISTICS

Ordinary shares in issue	(000's)	292 879	292 022	292 563
Weighted average ordinary shares in issue	(000's)	292 746	291 657	291 918
Diluted weighted average ordinary shares in issue	(000's)	294 142	292 990	293 694
Net asset value per share	(cents)	920,1	871,8	909,3
Ordinary dividends:				
Interim dividends declared/paid	(cents)	28,0	28,0	28,0
Final dividend paid	(cents)			48,0

COMMENTARY

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including IAS 34 (Interim Financial Reporting) and in compliance with the Companies Act of South Africa of 1973, as amended, and the Listings Requirements of the JSE Limited. The accounting policies comply with IFRS and are consistent with those applied in the previous year except for the standards noted below that became effective on 1 July 2009: IFRS 3 (Business Combinations (revised)) and IAS 27 (Consolidated and Separate Financial Statements (revised)). The adoption of these standards has no effect on the current period results, nor has it required any restatement of prior period results.

OVERVIEW AND MARKET CONDITIONS

The results for the six months ended 30 September 2010 reflect a statutory headline earnings decline of 4,8%, with the underlying pre IAS 39 results the same as the comparable period.

South Africa's GDP grew modestly over the past two quarters. CPI figures and little evidence of local demand-side pressures allowed interest rates to be lowered in September 2010. A stronger rand and the ongoing concerns with respect to the sustainability of the global economic recovery were also key factors in the interest rate cut. This rate cut will benefit consumers in future months, however, the impact of the near one million job losses locally remains a significant factor in driving softer consumer demand.

Chicken prices have continued to be under significant pressure due to the impact of the recession on demand, additional local capacity and the higher level of imports. As a result, the local chicken market is estimated to have declined by 5% in the past twelve months to R19,6 billion, with a 7% realisation decline partially being offset by a 1,5% volume growth. Total chicken imports (excluding turkey and mechanically deboned meat) have increased by 14% over the past twelve months largely due to the strengthening of the rand.

Feed raw material prices have remained volatile throughout calendar 2010 but have traded significantly below the peak pricing in June 2009. As a consequence of the projected three million ton stock carry-out, local maize prices have traded close to export parity but are being driven more by international price movements. Soya prices have remained within a tight range albeit at historically high levels.

REVIEW OF OPERATIONS

Brands

The chicken industry has been through a tough trading period, with low pricing driven by lower consumer demand. Despite this, Rainbow's added value strategy has ensured that overall results are at an acceptable margin.

The Foodservice sector has shown low growth over the period. Same store growth for the major Quick Service Restaurants has been under pressure but overall growth was assisted by new store openings.

Rainbow's retail added value products have performed well in a depressed market, showing a 32% volume growth for the six-month period. This growth is despite grocery sales in South Africa declining during this period. Rainbow Family Polony was launched eighteen months ago to take advantage of the value-for-money sector of the chicken polony market and to date has performed exceptionally well. Rainbow Simply Chicken Viennas and Freezer to Fryer products continue to show strong volume growth as well. The recent launch of Rainbow Spice Flavas has been well accepted by the trade and consumers.

Rainbow's mainstream chicken, similar to the balance of the local market, experienced price deflation.

During October 2010, Rainbow acquired a further processed facility in Gauteng for R52 million which will significantly increase production capacity for polonies and viennas. The ongoing success enjoyed by the existing further processed products has meant the Hammarsdale plant is already out of Chilled Processed Meat capacity. This new facility is well positioned to enable Rainbow to better service the inland market.

Supply chain

The overall agricultural performance improved significantly during the six months, particularly in the Cape where challenges were experienced last winter. Performance measurement centres on delivering the right sized bird at the lowest cost which infers improvement in underpinning key performance indicators such as feed conversion and mortality.

The processing plants and feed mills faced higher than inflation rate increases on large cost components like electricity, coal and labour and have done well to contain increases to single digits through creative cost saving initiatives. Specific capital investment has been made in the processing plants that will increase flexibility and enable the production of a more profitable product mix as well as a reduction in expensive overtime shifts. The increased focus on asset management combined with a much improved preventative maintenance programme has resulted in a significant decrease in unplanned down time and should extend the useful life of some of the critical assets.

The reduction in the consumption of energy and water is central to our sustainability and carbon footprint reduction strategy. Various projects have been launched in this regard and are starting to impact positively on cost containment.

The safety, health, environmental and quality programme is a priority at the processing plants and feed mills, with all production facilities passing their ISO 22000:2005 (Food Safety) recertification audits this year. National office and all the agricultural and Vector facilities audited to date have passed their first ISO 22000:2005 audits. Rainbow remains committed to have all its business units certified ISO 22000:2005, ISO 14001 (Environmental) and OHSAS 18001 (Health and Safety) within the next year.

Recent initiatives to further optimise the Rainbow Outbound Supply Chain are starting to deliver, particularly with regard to the consolidation of stock at the new bulk storage facility in Midrand, Gauteng. The upgrade of the Roodepoort operation, scheduled for completion at the end of October, will add much needed capacity to the region as well as employing the latest in warehousing technology to improve efficiencies. The strategy to leverage assets and business competencies through growth continues to gain momentum, with the take-on of the Fry's Foods distribution in May, as well as extending our service offering to existing principals.

FINANCIAL REVIEW

Revenue (Rm)	2010	2009	% var
Chicken	2 726,4	2 734,5	(0,3)
Feed	386,2	389,6	(0,9)
Services	271,8	236,4	15,0
Total revenue	3 384,4	3 360,5	0,7

Despite volumes being 6,6% higher, **chicken revenue** was 0,3% lower than the same period of the previous year by virtue of average price realisations decreasing by 6,1%. 2,6% of the volume increase relates to three additional trading days in the period. The increase in external feed sales volumes was offset by lower pricing because of the lower feed input costs. Services revenue was pleasingly higher as Vector took on new business.

Total revenue increased 0,7% to R3,4 billion (2009: R3,4 billion).

The table below depicts **headline EBIT** from a statutory perspective and adjusted for unrealised gains or losses on financial instruments used in the feed raw material procurement strategy. Reporting the financial effects of certain financial instruments used in the feed raw material procurement strategy introduces volatility to the Group's financial results. For the period under review, the pre-taxation impact on the Group's results of these unrealised positions is a positive impact of R2,5 million (2009: R14,9 million positive).

	2010	2009	% var
Headline EBIT (Rm)			
– Statutory	236,3	243,7	(3,0)
– Pre IAS 39	233,8	228,8	2,2
Headline EBIT margin (%)			
– Statutory	7,0	7,3	(0,3)
– Pre IAS 39	6,9	6,8	0,1

The underlying (pre IAS 39) **headline EBIT** was adversely impacted by lower chicken realisations, however this was offset by the 19,6% reduction in feed costs.

Net finance income decreased by R0,8 million due to slightly lower average cash balances and interest rates.

The higher effective **tax** rate of 33,6% (2009: 32,4%) is largely attributable to the secondary tax on companies charge on the higher year-end dividend.

Headline earnings decreased by 4,8% to R161,7 million (2009: R169,8 million) with **diluted headline earnings per share** decreasing by 5,2% to 55,0 cents per share (2009: 58,0 cents per share).

Cash generated by operations increased by 7,9% to R117,3 million (2009: R108,7 million). The increase in trade and other receivables is mostly a timing difference relating to period cut-off, with underlying aging having actually improved marginally relative to the prior period.

Capital expenditure was R130,1 million (2009: R133,3 million). A further amount of R77,9 million (2009: R75,5 million) has been contracted and committed, but not spent, whilst a further R114,7 million (2009: R67,1 million) has been approved, but not contracted. The Group continues to follow a policy of upgrading its facilities and funding normal levels of replacement capital expenditure from its own resources.

Return on equity decreased to 13,1% (2009: 14,9%).

PROSPECTS

Maize and soya prices are likely to remain volatile with uncertainty around both the current USA crop and new season local planting intentions. With the recent firming of market prices for maize and soya, feed prices are expected to be marginally higher in the second six months.

Despite chicken realisations showing some improvement in recent months, trading conditions remain uncertain and difficult to predict.

DIRECTORATE

Mr DW Vale retired as a director on 30 July 2010.

CASH DIVIDEND DECLARATION

Notice is hereby given that on 23 November 2010 the Board declared an interim dividend (number 75) of 28,0 cents per ordinary share in respect of the period ended 30 September 2010 (2009: 28,0 cents).

The salient dates of the declaration and payment of this dividend are as follows:

Last date to trade ordinary shares cum dividend	Friday, 7 January 2011
Ordinary shares trade ex dividend	Monday, 10 January 2011
Record date	Friday, 14 January 2011
Payment date	Monday, 17 January 2011

Share certificates may not be dematerialised or rematerialised between Monday, 10 January 2011 and Friday, 14 January 2011 (both dates inclusive).

For and on behalf of the Board

MH Visser — *Non-executive Chairman*

M Dally — *Chief Executive Officer*

Durban
23 November 2010

Directors: MH Visser *(Non-executive Chairman)*, M Dally *(CEO)**, JJ Durand, RH Field* *(CFO)*, M Griessel, PR Louw, NP Mageza, JB Magwaza, MM Nhlanhla, RV Smither, GC Zondi.
**Executive Directors*

Company secretary: JMJ Maher

Registered office: Rainbow Chicken Limited, One The Boulevard, Westway Office Park, Westville, 3629

Transfer secretaries: Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001

Auditors: PricewaterhouseCoopers Inc

Sponsor: RAND MERCHANT BANK (a division of FirstRand Bank Limited)

Bankers: ABSA Bank Limited

Website: www.rainbowchicken.co.za