2019

REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

KAAP AGRI

Salient features

+29,1%
8 451 520

REVENUE (R'000)

(2018: 6 548 793)

+14,0%
397,85

HEADLINE EARNINGS PER SHARE (CENTS)

(2018: 348,98)

+6,0%
375,19

RECURRING HEADLINE EARNINGS PER SHARE (CENTS)

(2018: 354,10)

+6,3%
90,00

FINAL DIVIDEND PER SHARE (CENTS)

(2018: 84,70)

+5,8%
123,50

TOTAL DIVIDEND PER SHARE (CENTS)

(2018: 116,70)

Commentary

The Kaap Agri condensed report provides an overview of the activities, results and financial position of the Group for the year ended 30 September 2019.

FINANCIAL REVIEW

The Group specialises in trading in agricultural, fuel and related retail markets in Southern Africa. With its strategic footprint, infrastructure, facilities and client network, it follows a differentiated market approach. In support of the core retail business, the Group also offers financial, grain handling and agency services. Kaap Agri has 213 operating points located in all nine South African provinces as well as in Namibia.

OPERATING ENVIRONMENT

The agricultural environment remains heavily impacted by climatic conditions in the various areas in which we operate as well as foreign exchange rate fluctuations. Additionally, agricultural capital investment and expansions have been curtailed partly due to land policy uncertainty. Low GDP growth, decreasing business and consumer confidence, rising unemployment and ongoing fuel price volatility have negatively affected retail consumers. Kaap Agri's strategy of diversification has lessened the impact of these challenges. However, the business environment in which we operate remains constrained with expectations of ongoing pressure in the short term.

FINANCIAL RESULTS

Kaap Agri increased revenue by 29,1% to R8,5 billion, up from R6,5 billion in the previous financial year, with like-for-like comparable growth of 7,6%. This growth in revenue was driven mainly by a 10,6% increase in the number of transactions coming from strong organic growth. The inclusion of Partridge Building Supplies (Pty) Ltd ("Forge") from 1 October 2018 contributed 5,1% of total revenue growth. Product inflation is estimated at 3,0% but excluding the large inflationary impact of fuel in the revenue basket, inflation was 0,2%. Our ongoing diversification strategy and resilience continue to yield strong revenue growth despite exceptionally tough trading conditions. Retail sales growth, albeit from a lower base, again outperformed agricultural sales growth, with fuel contributions growing steadily.

In line with the Group's growth strategy, we continued to expand our footprint and improve our existing offerings during the period. Five new and managed retail fuel sites were added with total Group fuel volumes increasing by 7,7% in the year. The Fuel Company ("TFC") grew annual fuel volumes by 10,4% at owned- and managed sites awaiting regulatory approval. Additional quick service restaurant offerings were added to further complement existing retail fuel site offerings. Further TFC site acquisitions are at various stages of conclusion with a strong pipeline of new sites for the coming year. One new Agrimark store was opened, our improved retail format was rolled out to four Agrimark stores and a number of smaller upgrades and expansions were completed within the Agrimark and Pakmark environments. An additional 10,000 tons were added to our grain storage capacity. The Forge acquisition has added an additional six business units in KwaZulu-Natal, further diversifying our geographic and product exposure. We will continue investing responsibly into the business with various new agri and retail footprint expansion opportunities being investigated.

Gross profit has increased by 18,8%, but at a rate lower than revenue growth due to the impact of a changed sales mix as well as margin pressures resulting from constrained economic conditions and aggressive competitor activity in both the agri and retail channels. Fuel prices have fluctuated considerably during the period, but ended 0,3% lower (petrol) and 1,3% higher (diesel) compared to last year. Lower fuel regulated margin growth has further contributed to reducing the overall Group gross profit margin %.

In support of increased revenue and market share gains, expenditure grew 20,0%, a direct result of new acquisitions and the annualisation of non like-for-like stores. Expenditure growth was also impacted by certain non-recurring costs associated with acquisitions of new businesses. Cost control remains a core focus area within the business with various initiatives in place aimed at improved expense management. Our cost focus is especially relevant given the impact of suppressed margins and waning consumer and business confidence. However, the business continues to invest in human capital and its supply chain, as well as in various growth acceleration initiatives in line with our strategic medium-term plan.

The performance of Kaap Agri (Namibia) has improved during the year, largely due to the positive impact of procurement initiatives, in-store upgrades and footprint expansion. The combined strength and offering of the two joint venture parties has yielded positive results during the period.

Forge's performance has been disappointing with the region's producers experiencing early season drought and low milk prices. Forge also saw a significant slowdown in infrastructural expansion-related building material spend. The new Nottingham Road store is performing in line

Commentary (continued)

with expectation, but low opening margins have impacted the business' earnings. Forge remains strategic in terms of footprint expansion and agri diversification and further revenue enhancing opportunities are being explored.

Interest received grew by 8,5% due to increased credit sales and a higher average debtors book. Interest paid increased by 29,4% due to additional gearing of R317,6 million to finance the acquisition of operations and capital expansion.

EBITDA grew by 15,1%, outperforming the increase in recurring headline earnings, due to growth-related interest paid and depreciation as well as adjustments related to the revaluation of put options exercisable by non-controlling subsidiary shareholders.

The Group's effective tax rate of 26,0% (2018: 27,8%) is lower than last year due to non-taxable learnership incentive income and supplier development deductions.

Headline earnings increased by 14,0% while recurring headline earnings grew by 6,6%. Once-off items, predominantly adjustments for the interest and remeasurement of liabilities relating to put options exercisable by non-controlling subsidiary shareholders, as well as costs associated with new business development, are excluded from headline earnings to calculate recurring headline earnings.

Headline earnings per share of 397,85 cents increased by 14,0% while recurring headline earnings per share ("RHEPS") of 375,19 cents grew by 6,0% on last year, resulting in a five-year compound annual growth rate in RHEPS of 10,9% until 30 September 2019. Return on revenue has reduced to 3,2% from 3,8% last year, largely impacted by the increased mix contribution of lower margin fuel and fuel price increases.

OPERATING RESULTS

Income growth from the Trading division, which includes the Agrimark retail branches, Forge Agri, Forge Build, Pakmark packaging material distribution centres, mechanisation services and spare parts increased by 20,6% year on year with operating profit before tax declining by 0,4%. Excluding the non-comparable impact of Forge, income grew by 12,5%. Improved retail margins have been offset by reduced agri and fuel margins.

TFC grew income by 36,4% and operating profit before tax increased by 18,0%. Profits have grown at a rate lower than revenue due largely to a combination of fuel price increases with regulated margins as well as the revenue impact of managed sites converting to owned sites. Managed site profitability is included in the base as management fee, but the actual revenue thereof is only recorded once sites are owned. This division continues to reflect strong growth.

Wesgraan, which includes grain handling and storage of grain and related products, seed processing and potato seed marketing, recovered from the previous year's drought related performance, increasing income by 91,5% and growing operating profit before tax by 113,8%. The latest harvest estimates indicate the likelihood of a slightly below average wheat harvest for the new year across the total Swartland region due to poor late season rainfall and abnormally high temperatures during key periods.

Manufacturing, which produces dripline and sprinkler irrigation products and offers agency services for imported irrigation products, continued to be impacted by the prolonged recovery from the drought as well as reduced infrastructural spend resulting from policy uncertainty around land rights. Although agricultural conditions improved in the northern parts of the country, income remained under pressure and reduced year on year by 1,3%. However, through margin opportunities and good cost control operating profit before tax increased by 0,6%.

The Corporate division, which includes the cost of support services as well as other costs not allocated to specific segments continues to be well controlled and represents 1,2% of turnover (2018: 1,4%).

Treasury income, being net internal interest received less interest paid, grew by 1,4%.

FINANCIAL POSITION

Capital expenditure of R347,9 million was incurred during the year, with R195,1 million allocated to expansion, R46,4 million on replacement assets and R106,4 million on TFC new site acquisition deposits. Additionally, R50,8 million was incurred in the acquisition of businesses, mainly Forge. Spend by division remains heavily weighted to our strategic growth areas. The Forge acquisition contributed significantly to Trade spend and TFC continued to receive considerable capital allocation. Storage capacity was increased in Wesgraan and various software and system implementations are nearing conclusion, including a Manufacturing Execution System in our Manufacturing Division aimed at improving efficiencies in the manufacturing process, as well as a number of modules of Supply Chain Optimisation software.

Working capital has been well controlled. Although debtors have grown slightly above the increase in credit sales, we have reduced out of terms debt by 16.7% year on year. Prior year payment extensions to producers affected by the drought have been collected with no default. Security is held where appropriate and we believe we are suitably provided for when considering the health of the debtors book.

Commentary (continued)

Stock days have remained relatively constant year on year courtesy of higher retail and fuel sales contributions and the continued increased participation of our centralised distribution centre. Creditors' days have reduced slightly due to the increased contribution of fuel payments. Return on net assets has decreased to 9,0% from 9,6% last year, the result of subdued current year earnings growth and ongoing investment in the business. Return on invested capital has decreased by 0,1% year on year due to subdued and partial period returns and continued investment. This is expected to improve going forward as earnings improve to grow in line with our strategic plans and newly acquired operations are included for a full financial year.

Net interest-bearing borrowings increased by 36,1% to R1,3 billion, largely the result of strategic capital expenditure to support growth and the increased debtors book. The Group's debt-to-equity ratio, calculated on average balances, increased to 63,5% (2018: 52,4%) with net debt to EBITDA of 2,4 times (2018: 2,1 times) and interest cover of 5,0 times (2018: 5,5 times). Gearing remains at levels within our internal thresholds with sufficient headroom available to meet the coming year's requirements. Return on equity decreased to 14,6% (2018: 15,2%), slightly below the targeted minimum level of 15%.

The Group continues to generate strong cash flows from operations and significant investment has been made back into the business to support growth, in terms of increased capital expenditure and acquisitions.

DIVIDEND

A gross final dividend of 90,00 cents per share (2018: 84,70 cents) has been approved and declared by the Board from income reserves, for the period ended 30 September 2019, representing a 6,3% increase on the previous year. The final dividend amount, net of South African dividends tax of 20%, is 72,00 cents per share for those shareholders not exempt from dividend tax. Including the interim dividend, the total dividend for the year ended 30 September 2019 of 123,50 cents per share (2018: 116,70 cents) increased by 5,8% over the prior year and has grown at a compound annual growth rate of 13.7% over five years. The total dividend per share represents a dividend cover of 2,9 times (2018: 2,9 times)

The salient dates for the distribution are:

Declaration date	Thursday, 28 November 2019
Last day to trade cum dividend	Tuesday, 11 February 2020
Trading ex dividend commences	Wednesday, 12 February 2020
Record date to qualify for dividend	Friday, 14 February 2020
Date of payment	Monday, 17 February 2020

The number of ordinary shares in issue at declaration date is 74 170 277 and the income tax number of Kaap Agri Limited is 9312717177.

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 February 2020 and Friday, 14 February 2020, both days inclusive.

OUTLOOK

Agricultural conditions in the Western Cape have largely improved year on year, however certain areas are still experiencing drought. Low rainfall through the latter parts of the wheat season have resulted in a decrease in the anticipated wheat harvest when compared to that of last year, with all indications pointing to a slightly below average yield across the total Swartland region. Conditions in the northern regions of the country as well as KwaZulu-Natal are encouraging. The agricultural environment is however cautious given erratic climatic conditions as well as policy uncertainty around land rights.

We anticipate that retail sales and general retail performance will remain under pressure in the short term as a result of subdued consumer confidence and spending, and any potential exchange rate weakening will negatively impact product and raw material imports. Pressure will remain on fuel volume sales; however, in addition to new sites, we have and will continue to capitalise on convenience store and quick service restaurant revenue and margin opportunities at existing sites.

The past two years have been challenging for the Group, but we believe our growth strategies and resilience have delivered respectable results given the conditions under which we have traded. We have continued and accelerated our focus on selective strategic revenue generating expansion and acquisition opportunities and we remain committed to improving the customer experience and simplifying our business processes.

Commentary (continued)

We believe the business is suitably positioned to take advantage of an improvement in trading conditions and to execute in terms of our strategic imperatives.

EVENTS AFTER THE REPORTING DATE

Subsequent to year-end, Tego Plastics (Pty) Ltd ("Tego") commenced operations as a wholly-owned subsidiary of Kaap Agri. Tego will initially produce high-quality, food grade plastic bulk bins for the agricultural market through an injection moulding manufacturing process, with the opportunity to manufacture additional solid form products at a later stage. This is in line with our strategy to diversify our manufactured product range into non-irrigation agri-related products. R94,8 million of the above mentioned capital expenditure was allocated for this strategy to date.

A service station (Kaapweg Motors) was purchased from Kaapweg Motor CC. The acquisition date for the business was November 2019.

There have been no other events that may have a material effect on the Group that occurred after the end of the reporting period and up to the date of approval of the condensed consolidated financial results by the Board.

APPRECIATION

The board of directors records its appreciation for the continued support and loyalty of the Group's employees, shareholders, customers and suppliers.

On behalf of the board

GM Steyn
Chairman

S Walsh
Chief Executive Officer

27 November 2019

Statement of financial position

at 30 September

	Note	2019 Reviewed R'000	2018 Audited R'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1 375 392**	1 097 159
Intangible assets	7	**298 169**	168 165
Investment in joint venture	8	**8 901**	11 941
Financial assets at fair value through other comprehensive income		**5 580**	–
Loans		**58 959**	26 397
Deferred taxation		**–**	1 234
		1 747 001	1 304 896
Current assets			
Inventory		**1 083 930**	911 151
Trade and other receivables	9	**1 908 560**	1 664 483
Derivative financial instruments		**1 882**	6 487
Cash and cash equivalents		**46 369**	40 214
		3 040 741	2 622 335
Total assets		**4 787 742**	3 927 231
EQUITY AND LIABILITIES			
Capital and reserves		**1 926 248**	1 742 746
Non-current liabilities			
Deferred taxation		**72 778**	41 905
Financial liability at fair value through profit and loss	11	**79 100**	–
Financial liability at amortised cost	12	**14 800**	–
Finance lease liabilities		**23 694**	17 402
Employee benefit obligations		**15 924**	16 367
		206 296	75 674
Current liabilities			
Trade and other payables	10	**1 319 209**	1 095 812
Short-term portion of finance lease liabilities		**16 120**	8 542
Short-term portion of Employee benefit obligations		**2 028**	1 914
Short-term borrowings		**1 309 447**	1 000 907
Income tax		**8 394**	1 636
		2 655 198	2 108 811
Total liabilities		**2 861 494**	2 184 485
Total equity and liabilities		**4 787 742**	3 927 231
Total shareholders' equity to Total assets employed* (%)		**42,1%**	45,3%
Net interest bearing debt to Total assets employed* (%)		**26,8%**	23,8%
Net asset value per share (rand)		**R27,42**	R24,84
Shares in issue (number – '000)		**70 237**	70 162
Total number of ordinary shares in issue**		**74 170**	74 170
Treasury shares		**(3 933)**	(4 008)

* *Ratios calculated on average balances.*

** *There was no change in the issued share capital between 30 September 2019 and the dividend declaration date, being 74 170 277 shares.*

Income statement

for the year ended 30 September

	Note	2019 Reviewed R'000	2018 Audited R'000
Revenue	13	**8 451 520**	6 548 793
Cost of sales		**(7 142 281)**	(5 446 480)
Gross profit		**1 309 239**	1 102 313
Operating expenses		**(938 946)**	(787 094)
Movement on expected credit loss allowance		**(2 805)**	–
Operating profit before interest received		**367 488**	315 219
Interest received		**125 694**	115 840
Operating profit		**493 182**	431 059
Finance costs		**(111 014)**	(82 739)
Share in loss of joint venture		**(2 327)**	(3 416)
Profit before tax		**379 841**	344 904
Income tax		**(98 562)**	(95 947)
Profit for the period		**281 279**	248 957
Attributable to equity holders of the holding company		**277 320**	246 247
Non-controlling interest		**3 959**	2 710
Earnings per share – basic (cents)		**394,98**	349,80
Earnings per share – diluted (cents)		**393,48**	346,90
Dividend per share (cents)		**123,50**	116,70

Headline earnings reconciliation

for the year ended 30 September

	2019 Reviewed R'000	2018 Audited R'000
Profit for the period	**281 279**	248 957
Attributable to equity holders of the holding company	**277 320**	246 247
Non-controlling interest	**3 959**	2 710
Net profit on disposal of assets	**(255)**	(578)
Gross	**(354)**	(803)
Tax effect	**99**	225
Impairment of goodwill	**2 250**	–
Headline earnings	**283 274**	248 379
Attributable to equity holders of the holding company	**279 332**	245 669
Non-controlling interest	**3 942**	2 710
Headline earnings per share – basic (cents)	**397,85**	348,98
Headline earnings per share – diluted (cents)	**396,33**	346,09
Weighted average number of shares (number – '000)	**70 211**	70 396
Weighted average number of diluted shares (number – '000)	**70 479**	70 984

Statement of comprehensive income

for the year ended 30 September

	2019 Reviewed R'000	2018 Audited R'000
Profit for the period	**281 279**	248 957
Other comprehensive income/(loss):		
Cash flow hedges	**1 462**	(394)
Gross	**2 031**	(547)
Tax	**(569)**	153
Total comprehensive income for the period	**282 741**	248 563
Attributable to equity holders of the holding company	**278 782**	245 853
Non-controlling interest	**3 959**	2 710

Statement of changes in equity

for the year ended 30 September

	Note	2019 Reviewed R'000	2018 Audited R'000
Stated capital		**444 901**	443 921
Gross shares issued		**480 347**	480 347
Treasury shares		**(35 446)**	(36 426)
Other reserves		**9 797**	9 172
Opening balance		**9 172**	3 893
Share-based payments		**(837)**	5 673
Other comprehensive income/(loss)		**1 462**	(394)
Retained profit		**1 371 364**	1 286 943
Opening balance		**1 286 943**	1 121 445
Effect of adopting IFRS 9 – Financial Instruments	2	**(815)**	–
Effect of adopting IFRS 9 – Financial Instruments – Joint Venture	8	**(713)**	–
Partial disposal of subsidiaries		**5 471**	–
Redemption liability – part of business combination	11, 12	**(113 823)**	–
Profit for the period		**277 320**	246 247
Dividends paid		**(83 019)**	(80 749)
Non-controlling interest		**100 186**	2 710
Opening balance		**2 710**	–
Non-controlling interest on acquisition of subsidiary	17	**17 198**	–
Non-controlling interest on partial disposal of subsidiaries	17	**78 578**	–
Profit for the period		**3 959**	2 710
Dividends paid		**(2 259)**	–
Capital and reserves		**1 926 248**	1 742 746

Statement of cash flows

for the year ended 30 September

	2019 Reviewed R'000	Restated 2018 Audited R'000
Cash flow from operating activities	**353 979**	237 025
Net cash from operating activities	**417 257**	335 591
Interest received*	**118 991**	115 840
Working capital changes	**(97 768)**	(127 150)
Income tax paid	**(84 501)**	(87 256)
Cash flow from investment activities	**(437 378)**	(283 503)
Purchase of property, plant and equipment	**(241 473)**	(130 615)
Proceeds on disposal of property, plant and equipment	**1 666**	2 736
Deposits made during the year	**(106 419)**	(52 900)
Acquisition of financial assets at fair value through other comprehensive income	**(5 580)**	
Gross decrease/(increase) in loans	**(34 821)**	11 776
Acquisition of operations, net of cash acquired	**(50 751)**	(114 500)
Cash flow from financing activities	**89 554**	51 604
Increase in short-term loans	**293 938**	236 015
Decrease in finance lease liabilities	**(14 277)**	(8 201)
Interest paid	**(107 088)**	(82 739)
Treasury shares acquired	**–**	(12 722)
Dividends paid	**(83 019)**	(80 749)
Net increase in cash and cash equivalents	**6 155**	5 126
Cash and cash equivalents at the beginning of the year	**40 214**	35 088
Cash and cash equivalents at the end of the year	**46 369**	40 214

* *Interest received was previously included in net cash from operating activities, and was reclassified during the year to be disclosed separately as interest received under cash flows from operating activities. The reclassification had no impact on total cash flow from operating activities, the statement of financial position, income statement, statement of comprehensive income or statement of changes in equity.*

Notes to the condensed consolidated financial statements

for the year ended 30 September

1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements, unless otherwise stated.

The directors take full responsibility for the preparation of the condensed consolidated ("Group") financial statements and that the financial information has been correctly extracted from the underlying financial records.

The condensed consolidated Group financial statements for the year ended 30 September 2019 were prepared by GC Victor CA(SA), the Group's financial manager under supervision of GW Sim CA(SA) the Group's financial director.

These condensed consolidated financial statements have been reviewed by the external auditors. Their report is included on page 26.

Nature of activities

The Group specialises in trading in agricultural-, fuel- and related retail markets in Southern Africa. With its strategic footprint, infrastructure, facilities and client network, it follows a differentiated market approach. In support of the core retail business, the Group also offers grain handling and agency services.

2 ACCOUNTING POLICIES

The accounting policies applied in the preparation of the consolidated Group financial statements from which the condensed consolidated Group financial statements were derived, are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated Group annual financial statements except for the adoption of the following new standards on 1 October 2018:

> IFRS 9 – Financial Instruments; and

> IFRS 15 – Revenue from Contracts with Customers

The Group adopted all new as well as amended accounting pronouncements issued by the International Accounting Standards Board ("IASB") that are effective for financial years commencing 1 October 2018. However, none of the other new or amended accounting pronouncements had a material impact on the consolidated results of the Group.

IFRS 9 – Financial Instruments.

Impact of initial application

The Group applies the simplified approach for providing for expected credit losses (ECL) prescribed by IFRS 9, which permits the use of a lifetime expected loss provision for all trade receivables. Comparative information has not been restated. The impact of initial application was applied retrospectively as an adjustment to opening retained amounting to R815 000 as reflected below..

	2019 R'000	2018 R'000
Movement in the loss allowance (2018: IAS 39 provision for impairment)		
Opening balance (calculated under IAS 39)	**(39 909)**	(45 313)
Adjustment to the expected credit loss allowance on adoption of IFRS 9	**(815)**	–
Movement in the expected credit loss allowance	**(2 805)**	5 404
Balance with acquisition of subsidiary	**(696)**	–
Balance at the end of the year calculated under IFRS 9 (2018: IAS 39)	**(44 225)**	(39 909)

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

Classification and measurement

On the date of initial application management assessed which business models apply to the financial assets held by the Group and classified its financial instruments into the appropriate categories. Trade receivables, Cash and cash equivalents and Loan receivables are shown at amortised cost under the new standard whereas these were classified as loans and receivables under IAS 39. Investments acquired in the current year which would previously have been classified as available-for-sale-investments are now shown at fair value through other comprehensive income. Derivative assets and liabilities and financial liabilities relating to certain written put options (2019) are shown at fair value through profit and loss and other financial liabilities comprising the redemption obligation for certain written put options, trade and other payables and short-term borrowings remain at amortised cost.

Impairment

The Group has the following financial assets that are subject to the expected credit loss impairment model in terms of IFRS 9:

> Trade and other receivables
> Loans receivable
> Cash and cash equivalents

The Group determines loss allowances by taking into account available forward looking information which could adversely impact a debtor's ability to pay.

Financial assets subject to impairment are written off when there is no reasonable expectation of recovery and the amount is recognised in profit or loss within 'operating expenses'.

Trade receivables

The Group adopted the simplified approach for measuring impairment provisions for trade receivables. In terms of this approach, the loss allowances are calculated with reference to lifetime ECLs. The Group determines expected credit loss allowances both on a specific (credit impaired) and a contingency (not credit impaired) basis.

The Group has a specific loss allowance and a contingency loss allowance. The group defines "outside terms" debtors as all debtors more than 90 days "outside terms". The specific loss allowance is determined on all outside terms debtors as their risks are different than the rest of the debtors book within terms and they are assessed individually. The assessment for the specific loss allowance takes into account security held, reputation and expected payments in the future to determine the value of the specific loss allowance. Regarding the contingency loss allowance, the group divides the rest of the debtors book (after taking into account the specific loss allowance) into different categories with risk factors applied to each category. The categories are based on different type of produce commodities mostly in the agricultural sector. The percentage expected credit loss applied to each category depends on the forward looking risk of default and expectations on macro-economic factors including; market share, competitor strength, industry risk, profitability, price volatility risks and climate changes.

Other financial assets

Loss allowances relating to loans receivable and cash and cash equivalents and deposits and other receivables are determined in terms of the general expected credit loss model, taking into account a 12-month expected credit loss.

In terms of this model the Group considers whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date compared to the credit risk at initial recognition date. It considers available reasonable and supportive forwarding-looking information that could be indicative of a deterioration in the counterparty's ability to pay. The Group assesses factors such as credit ratings, actual/adverse conditions in the industry or changes in value of security held.

For these financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of counterparty and adjusts these for forward-looking information. The impact of the adoption of IFRS 9 and at the end of the reporting period was not material for other financial assets.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

2 ACCOUNTING POLICIES (continued)

Derivatives

The Group is applying IFRS 9 in terms of hedge accounting requirements, which has not resulted in treatment different to the prior year in terms of IAS 39.

IFRS 15 – Revenue from Contracts with Customers

According to IFRS 15 applicable to the 2019 financial year, revenue needs to be recognized at a point in time or over time depending on the performance obligations linked to separate elements of the contract with the customer. This is recognised when the Group satisfies performance obligations and transfers control of goods or services to its customers at an amount that reflects the consideration the Group expects to be entitled to in exchange for these goods or services. The Group's revenue consists mostly of sales of products delivered to customers at the point of sale and does not have multiple performance obligations included in each contract.

Impact of initial application

The adoption of IFRS 15 did not impact the Group's timing of revenue recognition since the point in time at which the control of goods are transferred (IFRS 15) agrees with the point in time at which the relevant risks and rewards (IAS 18) were transferred to the customer. Additional disclosure was added in the current year as a result of the implementation of IFRS 15.

Sale of goods

The Group specialises in trading in agricultural-, fuel- and related retail markets in Southern Africa. At the point-of-sale in the trade and manufacturing environment, the client takes ownership of the goods bought. Revenue is thus recognised at that point when control of the products has transferred, the customer has accepted inventory risk related to the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products and the Group has a present right to payment. In these segments prices are determined centrally. Fuel sales follow the same principles as the client takes ownership once the product is sold and transferred to the customer. Fuel prices are regulated. Grain sales follow a similar process as over-the-counter sales as the product is delivered to the client and the revenue is recognised at that point in time when the customer takes ownership of the goods sold. Grain sales prices are based on fixed contract SAFEX prices. Invoicing occurs as soon as control of the goods has been transferred to the customer.

The adoption of IFRS 15 did not impact the Group's measurement of revenue from sale of goods.

Variable consideration

The Group assessed if the contracts entered into include variable consideration, but none were noted, other than trade discounts provided at the point-of-sale. Revenue for the sale of merchandise from ordinary Group-operating activities, net of value added tax and trade discounts and after eliminating sales within the Group are recognised at a point in time.

Sale of services

Sale of services include grain handling revenue which is revenue received for the storage and handling of the clients grains. The other services are provided within the mechanisation division where labour is invoiced as a service to repair and maintain client's machinery or vehicles. Revenue received for these services is recognised over time. Revenue is recognised at a fair value (determined based on a fixed price per tonnage/hour charged) of services rendered and are invoiced on a regular basis as the services are rendered.

The adoption of IFRS 15 did not impact the Group's measurement of revenue from sale of services.

Agent vs principal

Direct sales relates to sales made, where goods purchased by clients are directly delivered to the client by the suppliers of the Group. Only the margin earned on direct sales is recognised as revenue. The margin is recognised on delivery of products by the supplier to the customer. The group assessed the treatment of these sales as agent or principal in terms of IFRS 15. No changes in the treatment noted, thus the Group still accounts for these margins as revenue.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

3 NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE AND NOT EARLY ADOPTED

IFRS 16 – Leases replaces IAS 17 – Leases and will be effective for the Group's financial year commencing 1 October 2019. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise an asset representing the right to use the leased item and a related liability to pay rentals. The only exceptions are short-term and low-value leases and the Group will elect to adopt these exemptions. A lease agreement of which the underlying asset's value is R100 000 or less will be considered a low-value lease.

The new standard for leases, IFRS 16, requires a lessee to recognise a right-of-use asset and corresponding lease liability on the statement of financial position for almost all lease contracts. Currently operating lease expenses are charged to the income statement on a straight line basis over the term of the lease. The Group leases various properties, machinery, equipment and vehicles under operating lease agreements. Management evaluated the effect of IFRS 16. The new standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees (recognition of a right-of-use asset to use the leased item and a financial liability to pay the rentals). The standard replaces IAS 17 Leases and related interpretations. The income statement will also be affected because the total expense is generally higher under IFRS 16 in the earlier years of a lease and lower in later years. Additionally, the operating lease expense will be replaced with interest and depreciation, resulting in an expected change in EBITDA and the EBITDA margin. The Group plans to implement the new standard in the year ending 30 September 2020. During the 2019 financial year, the Group performed a detailed impact assessment of the implementation of IFRS 16. The Group expects to recognise right-of-use assets of approximately R146 million and lease liabilities of approximately R160 million. The deferred tax impact relating to the initial recognition of the right-of-use assets on adoption of IFRS 16 is still being considered and will be concluded before final implementation. On application of IFRS 16 to the 2020 financial year income statement, EBITDA would be higher due to the fact that the operating lease expense recognised under IAS 17 is replaced with interest and depreciation under IFRS 16 (which are excluded from EBITDA). In accordance with the transitional provisions of IFRS 16, the Group will adopt the modified retrospective application option on adoption of the new standard with the cumulative impact recognised as an adjustment to opening retained earnings at the date of initial application. The Group has re-assessed all leases under the requirements of IFRS 16.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these condensed consolidated Group financial statements, the significant judgements and estimates made by management in applying the Group's accounting policies of estimation uncertainty were the same as those that applied to the Group annual financial statements for the year ended 30 September 2018. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates

Property, plant and equipment

Property, plant and equipment are depreciated over their useful lives, taking into account their residual values at the end of their useful lives. The residual values and useful lives are based on industry knowledge and past experience with similar assets.

Loss allowance on trade receivables

In estimating the loss allowance on trade receivables, management makes certain estimates and judgements relating to the estimated recovery rate of debtors. This includes an assessment of current and expected future payment profiles and customer specific risk factors such as economic circumstances, geographical location and the value of security held

Financial liabilities related to put options

The measurement of these financial instruments is based on various valuation calculations requiring estimated inputs and assumptions as disclosed in notes 11 and 12.

Judgements

Inventory provisions for slow-moving and obsolete stock

The Group makes certain judgements relating to the recoverability of inventory, based on the frequency of movement in different inventory types. These judgements are used to determine the extent of inventory provisions.

Management agreements

TFC site acquisitions are at various stages of conclusion. On these sites the Group enters into management agreements while waiting for regulatory approval for the retail site licenses. The group manages these sites under management agreements, but does not have the right to control the relevant activities. Therefore these sites are not consolidated in the Group.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

5 FAIR VALUE ESTIMATION

Financial instruments measured at fair value, are disclosed by level of the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

  The financial instruments in this category that are carried at fair value are derivative financial instruments held for hedging. The fair value is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price (Level 2). Level 2 hedging derivatives comprise forward purchase and sale contracts and options. The effects of discounting are generally insignificant for Level 2 derivatives.

- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

  The investment in Signafi Capital (Pty) Ltd is a level 3 financial instrument based on the unobservable market data as these are unlisted shares. The financial liability at fair value through profit and loss comprising the redemption obligation for a written put option is recorded at fair value, refer to note 11 for the inputs used in determining the fair value.

The fair value of the following financial instruments approximate their carrying amount at the reporting date:

- Trade and other receivables
- Loans
- Trade and other payables
- Short-term borrowings
- Finance lease liabilities
- Cash and cash equivalents
- Financial liability at amortised cost

	2019 R'000	2018 R'000
6 PROPERTY, PLANT AND EQUIPMENT		
Reconciliation of movements in carrying value:		
Carrying value beginning of period	**1 097 159**	947 617
Additions	**259 638**	140 148
Land and buildings	**63 270**	31 275
Grain silos	**2 795**	4 122
Machinery and equipment	**21 011**	13 027
Vehicles	**15 376**	10 397
Office furniture and equipment	**16 748**	11 198
Leasehold properties	**10 264**	433
Assets under construction	**130 174**	69 696
Additions through business combinations	**79 361**	61 017
Disposals	**(1 312)**	(1 933)
Depreciation	**(59 454)**	(49 690)
Carrying value end of period	**1 375 392**	1 097 159
Land and buildings	**947 087**	807 595
Grain silos	**27 022**	21 636
Machinery and equipment	**102 228**	95 877
Vehicles	**46 172**	28 915
Office furniture and equipment	**103 283**	87 116
Leasehold properties	**30 950**	22 568
Assets under construction	**118 650**	33 452
Vehicles include the following amounts where the group is a lessee under a finance lease:		
Cost	**64 092**	39 451
Accumulated depreciation	**(25 114)**	(16 826)
Carrying value	**38 978**	22 625

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

		2019 R'000	2018 R'000
7	**INTANGIBLE ASSETS**		
	Reconciliation of movements in carrying value:		
	Carrying value beginning of period	**168 165**	99 482
	Additions through business combinations	**133 892**	69 744
	Impairment of goodwill	**(2 250)**	–
	Amortisation	**(1 638)**	(1 061)
	Carrying value end of period	**298 169**	168 165
	Goodwill	**281 337**	167 695
	Trade name	**12 740**	–
	Customer relations	**4 092**	470

To assess for impairment of goodwill, a value in use calculation was done per Cash Generating Unit ("CGU"). Using the budget as base data, income was increased with 6% and expenses were increased at the expected inflation rate for five years and a pre-tax discount rate of 12% to 15% was used depending on the CGU's specific risk profile. An impairment of R2,2 million was recognised for Kempena Motors as the value in use was lower than the total net assets of the CGU as the CGU was underperforming. For the rest of the balance no indicators were noted that the calculation is sensitive to a reasonable change in assumptions. The most significant CGU's being the Eastern Cape cluster (carrying value of goodwill: R42,4 million) and the Northern Province's cluster (carrying value of goodwill: R199,5 million) calculated with pre-tax discount rates of between 12% – 15% and terminal growth rates of 6% in line with the industry. The remaining CGU's were also assessed for impairment and sufficient headroom noted. The TFC acquisition strategy is cluster based, focusing on increasing scale in identified geographic locations, thus the CGU's are mostly determined based on these clusters.

The goodwill raised through the business combination with Partridge Building Supplies was tested for impairment using a value in use calculation. Using the budget as base data, income was increased between 7% – 9% and expenses were increased at the expected inflation rate for five years and a discount rate of 23% was used. No impairment was noted. There is sufficient headroom and an impairment only becomes applicable when the discount rate is increased to 26%.

		2019 R'000	2018 R'000
8	**INVESTMENT IN JOINT VENTURE**		
	Kaap Agri (Namibia) (Pty) Ltd		
	Beginning of year	**11 941**	15 357
	Share in total comprehensive income	**(2 327)**	(3 416)
	Effect of adopting IFRS 9 – Financial Instruments	**(713)**	–
		8 901	11 941

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

		2019 R'000	2018 R'000
9	**TRADE AND OTHER RECEIVABLES**		
	Trade debtors	**1 756 212**	1 549 498
	Expected credit loss allowance (2018: IAS 39 – Provision for Impairment)	**(44 225)**	(39 909)
		1 711 987	1 509 589
	VAT	**38 759**	45 932
	Deposits	**106 419**	52 900
	Other debtors	**51 395**	56 062
		1 908 560	1 664 483
	Movement in the expected credit loss allowance (2018: IAS 39 – Provision for Impairment)		
	Opening balance (calculated under IAS 39)	**(39 909)**	(45 313)
	Adjustment to the expected credit loss allowance on adoption of IFRS 9	**(815)**	–
	Movement in the expected credit loss allowance (2018: provision for impairment)	**(2 805)**	5 404
	Balance with acquisition of subsidiary	**(696)**	–
	Balance at the end of the year calculated under IFRS 9 (2018: IAS 39)	**(44 225)**	(39 909)
10	**TRADE AND OTHER PAYABLES**		
	Trade creditors	**1 235 009**	1 000 982
	Employee accruals	**37 523**	42 177
	Other creditors	**46 677**	52 653
		1 319 209	1 095 812

		2019 R'000	2018 R'000
11	**FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	Written put option		
	C-Max Investments (Pty) Ltd		
	Initial recognition at 1 October 2018	**(70 200)**	–
	Remeasurement through profit or loss	**(8 900)**	–
		(79 100)	–

As part of the asset-for-share transaction, the Group entered into a once off written put agreement, which became effective during the year, whereby C-Max Investments (Pty) Ltd may put their 23.5% shareholding in both TFC Operations (Pty) Ltd and TFC Properties (Pty) Ltd ("the TFC Companies") to Kaap Agri Bedryf Limited. This option shall not apply in the event that any of the TFC Companies are listed on the JSE. The put option is not exercisable prior to the end of the financial year ending 30 September 2021.

The value of the put option is based on the lower of the market value of TFC Operations (Pty) Ltd (which has been calculated with reference to the enterprise value to EBITDA ("EV/EBITDA") multiple of comparable listed companies, adjusted for company specific risk) and a value determined based on a recurring headline earnings multiple of the Kaap Agri Group (which has been performed by applying the current price to recurring headline earnings ("Price/RHEPS") multiple of Kaap Agri, to the forecasted profit after tax). In the current year valuation, a multiple of between 4 and 6 times was used and a discount rate of 10%.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

11 FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The market value of the shares in TFC Properties (Pty) Ltd is determined using a market related capitalization rate based on the underlying properties held. In the current year valuation, a capitalisation rate of 10% was used and a discount rate of 10%.

The amount that may become payable under the option on exercise date is initially recognised at the present value of the value as determined in line with the principles outlined above. The corresponding charge is accounted for directly as a reduction in the parent's equity since the risks and rewards of the shares have not been transferred to the parent until the option is exercised. The liability is subsequently adjusted for changes in the estimated market value and increased/decreased up to the amount that is payable at the date at which the option becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The financial liability has been designated at fair value through profit or loss because the put option obligation varies with changes in TFC's share price. Any changes in the future fair value of the liability will be accounted for in the income statement. A 1% change in the discount rate will change the liability and profit before tax by R3 million. A 0.5 change in the multiple will change the liability and profit before tax by R13.7 million.

	2019 R'000	2018 R'000
12 FINANCIAL LIABILITY AT AMORTISED COST		
Written put option		
Partridge Building Supplies (Pty) Ltd		
Initial recognition at 1 October 2018	**(43 623)**	–
Finance costs	**(3 926)**	–
Remeasurement through profit or loss	**32 749**	–
	(14 800)	–

Through the acquisition of the 60% shareholding in Partridge Building Supplies (Pty) Ltd, the Group entered into a once-off written put agreement over the remaining 40% interest in the afore-mentioned company. The option is exercisable after the finalisation of the Financial Statements for the year ending 30 September 2021 and the consideration on exercise will be determined based on the growth ratio (determined as the actual/forecasted EBITDA divided by the targeted EBITDA over the period determined), net debt value and EBITDA figures of Partridge Building Supplies (Pty) Ltd at that time. The exercise price is formula based. In the current year valuation, a growth ratio of between 60% and 65% was used and an EBITDA multiple of 6.5 times. Refer to note 17 for the disclosures of the Partridge Building Supplies (Pty) Ltd business combination.

The amount that may become payable under the option on exercise date is initially recognised at the present value of the redemption amount. The corresponding charge is accounted for directly as a reduction in the parent's equity since the risks and rewards have not been transferred to the parent until the option is exercised. The liability is subsequently adjusted for changes in the estimated performance and increased/decreased up to the redemption amount that is payable at the date at which the option becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

Given that the fair value of the liability varies with non-financial variables that are specific to the parties in the contract, management has classified this put option as a financial liability at amortised cost.

A 1% change in the discount rate will change the liability and profit before tax by R0,3 million. A 10% increase in the growth ratio will change the liability and profit before tax by R4,2 million.

At year end, the value of the Put Option Liability of Partridge Building Supplies (Pty) Ltd decreased as the revised forecast up to the date that the option becomes exercisable was lower at year end than initially anticipated. The goodwill raised through the business combination was tested for impairment and no impairment noted, refer to note 7 for more information.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

		2019 R'000	2018 R'000
13	**REVENUE FROM CONTRACTS WITH CUSTOMERS**		
	Sales of goods	**8 244 792**	6 380 258
	– Trade	**4 848 407**	3 996 848
	– The Fuel Company (TFC)	**2 457 152**	1 802 049
	– Wesgraan	**754 906**	394 606
	– Manufacturing	**184 327**	186 755
	Sales of services	**101 238**	67 826
	– Trade	**26 065**	24 361
	– Wesgraan	**75 173**	43 465
	Margin on direct transactions	**105 490**	100 709
	– Trade	**94 739**	99 659
	– Wesgraan	**10 751**	1 050
		8 451 520	6 548 793

14 INFORMATION ABOUT OPERATING SEGMENTS

Management has determined the operating segments based on the reports reviewed by the Executive Committee (whom are considered to be the Chief Operating Decision Maker (CODM)) that are used to make strategic decisions. The Executive Committee considers the business from a divisional perspective. The performance of the following divisions are separately considered : Trade, The Fuel Company (TFC), Wesgraan (grain division) as well as Manufacturing. The performance of the operating segments are assessed based on a measure of revenue and net profit before taxation.

Trade provides a complete range of production inputs, mechanisation equipment and services, and other goods to agricultural producers as well as the general public.

TFC provides a full retail fuel offering to a diverse range of customers, including convenience store and quick service restaurant outlets.

Wesgraan includes the sale of grain products and provides a complete range of services including storage and handling of grain products.

Manufacturing, manufactures and sells dripper pipe and other irrigation equipment and distributes other irrigation parts.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

14 INFORMATION ABOUT OPERATING SEGMENTS (continued)

Segment revenue and results

	Segment revenue		Segment results	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Trade	**4 969 211**	4 120 868	**240 903**	241 947
TFC	**2 457 152**	1 802 049	**101 275**	85 809
Wesgraan	**840 830**	439 121	**50 479**	23 611
Manufacturing	**184 327**	186 755	**26 118**	25 952
Total for reportable segments	**8 451 520**	6 548 793	**418 775**	377 319
Corporate	**–**	–	**(102 736)**	(94 237)
Treasury	**–**	–	**66 129**	65 238
Share in profit/(loss) of joint venture	**–**	–	**(2 327)**	(3 416)
Total external revenue	**8 451 520**	6 548 793		
Profit before tax			**379 841**	344 904
Income tax			**(98 562)**	(95 947)
Profit after tax			**281 279**	248 957

Segment assets and liabilities

	Segment assets		Segment liabilities	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Trade	**1 622 061**	1 430 303	**1 058 776**	982 786
TFC	**900 710**	546 449	**152 759**	26 833
Wesgraan	**105 100**	97 440	**47 660**	12 638
Manufacturing	**218 551**	82 851	**34 652**	25 925
Total for reportable segments	**2 846 422**	2 157 043	**1 293 847**	1 048 182
Corporate	**188 366**	221 027	**185 422**	93 491
Trade debtors	**1 711 987**	1 509 589	**–**	–
Investment in joint venture	**40 967**	38 338	**–**	–
Short-term borrowings	**–**	–	**1 309 447**	1 000 907
Deferred taxation	**–**	1 234	**72 778**	41 905
	4 787 742	3 927 231	**2 861 494**	2 184 485

In the prior year disclosure the Loan receivable from Kaap Agri (Namibia) (Pty) Ltd was included as an asset in Corporate, which was moved in the current year disclosure to be part of the Investment in Joint Venture as this is a more reasonable presentation of the segments reported on. Comparatives have been restated accordingly.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

		2019 R'000	2018 R'000
15	**CAPITAL COMMITMENTS AND CHANGES IN SHORT -TERM BORROWINGS**		
15.1	**Contracted commitments**	**89 382**	71 956

These commitments have been approved by the Board of directors. The commitments will be financed by own and borrowed funds.

15.2 Short-term borrowings

Movements in short-term borrowings relate to utilisation of banking facilities in the normal course of business.

16 RECURRING HEADLINE EARNINGS

Kaap Agri considers recurring headline earnings to be a key benchmark to measure performance and to allow for meaningful year-on-year comparison.

The pro forma adjustments below regarding recurring headline earnings are shown for illustrative purposes only and, because of their nature, may not fairly present Kaap Agri's financial position, changes in equity, results of operations or cash flows. These adjustments relate to non-recurring expenses, which consist predominantly of costs associated with acquisitions of new businesses, and the interest and remeasurement of the liability relating to put options and the remeasurement of the liabilities relating to put options.

The pro forma financial effects are presented in accordance with the JSE Listings Requirements, the Guide on Pro Forma Financial Information issued by SAICA and the measurement and recognition requirements of International Financial Reporting Standards. The accounting policies applied in quantifying pro forma adjustments are consistent with Kaap Agri's accounting policies. The pro forma financial information is the responsibility of the directors.

An assurance report (in terms of ISAE 3420: Assurance Engagement to Report on the Compilation of Pro Forma Financial Information) has been issued by the Group's auditors in respect of the pro forma financial information included in this announcement. Th assurance report is available for inspection at the registered office of the company.

	2019 R'000	2018 R'000
Headline earnings	**283 274**	248 379
Attributable to equity holders of the holding company	**279 332**	245 669
Non-controlling interest	**3 942**	2 710
Non-recurring items	**(14 721)**	3 604
Non-recurring expenses	**5 202**	3 604
Remeasurement of put options	**(19 923)**	–
Recurring headline earnings	**268 553**	251 983
Attributable to equity holders of the holding company	**263 428**	249 273
Non-controlling interest	**5 125**	2 710
Recurring headline earnings per share (cents)	**375,19**	354,10

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

17 BUSINESS COMBINATIONS

In line with the Group's growth strategy to acquire businesses in the fuel sector, certain retail fuel operations and accompanying retail fuel properties were acquired. Goodwill on acquisition was paid on these businesses, which represents synergies within the Group and have future earnings potential.

The TFC acquisition strategy is cluster based, focusing on increasing scale in identified geographic locations. This geographic scale allows for enhanced synergistic benefits which include, but are not limited to, the following:

> Alignment and improvement of supplier and service provider trading terms and service level agreements, both fuel and non-fuel related
> Ability to convert fuel brand offering to preferred supply
> Enhanced logistics, both fuel and non-fuel related
> Ability to add or convert convenience store and quick service restaurant offerings
> Alignment of franchise trading terms
> Utilisation of Group shared services, including information management, finance, human resources, property management and internal audit
> Shared regional operational structures
> Improved skills transfer and succession planning

Improved synergies contribute to either a lower cost per litre to serve or a higher cents per litre income, thus enhancing returns on invested capital.

A purchase price allocation as required by IFRS 3 – Business Combinations was performed and no intangible assets were identified, other than fuel site operating licences. The site licences are considered to be identifiable due to arising from contractual/legal rights, with an indefinite useful life. The site licence useful life is assessed to be indefinite as there is no foreseeable limit to the period over which the assets are expected to generate net cash flows for the Group. The site licences do not require any renewals or renewal payments and the Group expects to continue selling fuel products indefinitely from the businesses acquired. The licences are grouped with the land that it relates to as one asset as these assets have similar useful lives, being indefinite. The Group assessed all intangible assets that can typically be expected in a business combination of this nature, the most relevant of which are tradenames and customer relations. No tradename was recognised as there was no tradename acquired as part of these transactions. In addition, any payments made in relation to the brand are considered to be market related. No customer relations were recognised as the Group did not acquire any customer list, they are commercial sites offering products to clients that could be purchased anywhere.

The Group acquired the following assets through business combinations in the fuel sector:

> Sasol Verbaard service station on 15 October 2018
> Sasol East Rand Mall service station on 1 November 2018
> Total Summit Road service station on 22 November 2018

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

17 BUSINESS COMBINATIONS (continued)

	Total R'000	Sasol East Rand Mall R'000	Total Summit Road R'000	Sasol Verbaard R'000
Carrying value				
Assets				
Land and buildings	**78 741**	**–**	**40 900**	**37 841**
Plant and equipment	**867**	**123**	**513**	**231**
Inventory	**2 605**	**799**	**589**	**1 217**
	82 213	**922**	**42 002**	**39 289**
Fair value				
Assets				
Land and buildings	**59 900**	**–**	**27 280**	**32 620**
Plant and equipment	**867**	**123**	**513**	**231**
Goodwill	**93 858**	**10 649**	**32 745**	**50 464**
Inventory	**2 605**	**799**	**589**	**1 217**
Liabilities				
Deferred taxation	**(16 772)**	**–**	**(7 638)**	**(9 134)**
Purchase consideration	**140 458**	**11 571**	**53 489**	**75 398**
– paid in cash (current period)	**2 920**	**997**	**–**	**1 923**
– paid in cash (previous period)	**53 489**	**–**	**53 489**	**–**
– paid through issue of subsidiary shares	**84 049**	**10 574**	**–**	**73 475**

The land, inclusive of the site license, and the buildings are valued using the Net Income Capitilised Approach.

Buildings have a finite useful life and the cumulative effect of depreciation since acquisition is not material.

As part of the business combination shown above (for Sasol East Rand Mall and Sasol Verbaard), the purchase consideration was paid through issuance of shares of a subsidiary. This resulted in a 23,5% non-controlling interest in TFC Properties (Pty) Ltd. Refer to the statement of changes in equity for the effect in non-controlling interest of R78,6 million.

The fair value of the 15 715 919 shares issued as part of the consideration paid for Sasol Verbaard and Sasol East Rand Mall (R84,0 million) was based on fair value calculations. The valuation of the property was based on the ability of the fixed property to generate a rental income. The estimated rental is based on the volume throughput. The value of the operations is determined using an EBITDA multiple. Issue costs of R0,9 million which were directly attributable to the issue of the shares have been netted against the deemed purchase price.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

17 BUSINESS COMBINATIONS (continued)

The acquired businesses contributed as follows to the Group's results for the full financial year:

	Total R'000	Sasol East Rand Mall R'000	Total Summit Road R'000	Sasol Verbaard R'000
Revenue				
– since acquisition date	**291 956**	**35 978**	**96 507**	**159 471**
– as if from the beginning of the year	**314 967**	**40 089**	**108 780**	**166 098**
Profit/(loss) before tax				
– since acquisition date	**9 617**	**(338)**	**3 762**	**6 193**
– as if from the beginning of the year	**9 475**	**(299)**	**3 614**	**6 160**

In line with the Group's growth strategy to grow its outlet footprint through strategic acquisitions a 60% share was acquired in a business in the retail sector. Goodwill on acquisition was paid on this business representing synergies within the Group and have further earnings potential. Enhanced synergistic benefits include, but are not limited to, the following:

> Alignment and improvement of supplier and service provider trading terms and service level agreements

> Utilisation of Group shared services, including information management, finance, human resources, property management and internal audit

> Shared regional operational structures

> Improved skills transfer and succession planning

A purchase price allocation as required by IFRS 3 – Business Combinations was performed and no material intangible assets were identified, other than a tradename and customer relations.

The Group acquired the following assets through business combinations in the retail sector:

> A 60% shareholding in Partridge Building Supplies (Pty) Ltd on 1 October 2018

	Partridge Building Supplies R'000
Carrying value	
Assets	
Plant and equipment	**18 594**
Inventory	**37 735**
Trade and other receivables	**43 606**
Cash and cash equivalents	**1 116**
Liabilities	
Finance lease liabilities	**(9 982)**
Trade and other payables	**(44 036)**
Deferred taxation	**(1 280)**
Short-term borrowings	**(15 718)**
	30 035

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

17 BUSINESS COMBINATIONS (continued)

	Partridge Building Supplies R'000
Fair value	
Assets	
Plant and equipment	**18 594**
Goodwill	**22 034**
Trade name	**13 000**
Customer relations	**5 000**
Inventory	**37 735**
Trade and other receivables	**43 606**
Cash and cash equivalents	**1 116**
Liabilities	
Finance lease liabilities	**(9 982)**
Deferred taxation	**(6 320)**
Trade and other payables	**(44 036)**
Short-term borrowings	**(15 718)**
Equity	
Non-controlling interest measured at the proportionate value	**(17 198)**
Purchase consideration – paid in cash	**47 831**
The acquired businesses contributed as follows since acquisition to the Group's results:	
Revenue	**337 732**
Net profit before tax	**1 477**

The fair value of the acquired trade receivables is R36,4 million. The gross contractual amount for trade receivables due is R37,1 million with a loss allowance of R0,7 million recognised on acquisition.

The trade name was valued based on the relief from royalty method. This estimates the amount someone would be prepared to pay for the trade name if they wished to utilise the same asset.

The multi-period excess earnings method ("MEEM") was used to determine the fair value of the customer relationships. The MEEM is a variation of the income method whereby the projected cash flows that a business expects to generate is allocated to the assets that contribute to generating this cash flow.

Notes to the condensed consolidated financial statements (continued)

for the year ended 30 September

18 EVENTS AFTER REPORTING DATE

Subsequent to year-end, Tego Plastics (Pty) Ltd ("Tego") commenced operations as a wholly-owned subsidiary of Kaap Agri. Tego will initially produce high-quality, food grade plastic bulk bins for the agricultural market through an injection moulding manufacturing process, with the opportunity to manufacture additional solid form products at a later stage.

In line with the Group's growth strategy to acquire businesses in the fuel sector, certain retail fuel operations were acquired after year-end.

A service station (Kaapweg Motors) purchased from Kaapweg Motors CC. The purchase consideration of R28,5 million was paid and treated as a prepayment in the current year.

In terms of IFRS 3 Business Combinations the purchase price of the transaction will be allocated to tangible assets (mainly property,plant and equipment and other net assets) and the balance will be allocated to goodwill and if applicable to other intangible assets. At the date of the publication of the audited consolidated results, the acquisition date fair values of acquired net assets have not yet been determined.

A gross final dividend of 90,00 cents per share (2018: 84,70 cents) has been approved and declared by the Board from income reserves, for the period ended 30 September 2019.

	2019 R'000	2018 R'000
19 RELATED PARTY TRANSACTIONS		
Outstanding balances with related parties:		
Loan – Lionshare Holdings (Pty) Ltd	**26 893**	–
Loan – Kaap Agri (Namibia) (Pty) Ltd	**32 066**	26 397
Transactions with directors and outstanding balances		
Sales	**66 137**	51 622
Trade receivables	**12 365**	14 870

Kaap Agri (Namibia) (Pty) Ltd is a investment in Joint Venture for the Group. M Pupkewitz & Sons (Pty) Ltd holds the other 50% shareholding in the Joint Venture. Refer to note 8.

Lionshare Holdings (Pty) Ltd is a related company to one of the non-executive directors.

The companies in the Group sell products in the normal course of business to directors and all other related companies on terms and conditions applicable to all clients.

INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF KAAP AGRI LIMITED

We have reviewed the Condensed Consolidated Financial Statements of Kaap Agri Limited, set out on pages 5 to 25 of the reviewed 2019 Condensed Consolidated Financial Statements, which comprise the condensed consolidated statement of financial position as at 30 September 2019 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and selected explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, as set out in note 1 to the financial statements, and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on these financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, which applies to a review of historical financial information performed by the independent auditor of the entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements of Kaap Agri Limited for the year ended 30 September 2019 are not prepared, in all material respects, in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, as set out in note 1 to the financial statements, and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.
Director: H Zeelie
Registered Auditor
Stellenbosch
27 November 2019

Corporate information

Kaap Agri Limited

Incorporated in the Republic of South Africa
Registration number: 2011/113185/06
Income tax number: 9312717177
Share code: KAL
ISIN code: ZAE000244711

Directors

GM Steyn (Chairman)*#
S Walsh (Chief Executive Officer)
GW Sim (Financial Director)
BS du Toit*#
D du Toit*#
JH le Roux*
EA Messina*#
WC Michaels*#
CA Otto*#
HM Smit*#
JH van Niekerk*#
I Chalumbira*#

* *Non-executive*
\# *Independent*

Transfer secretaries

Computershare Investor Services (Pty) Ltd
Registration number: 2004/003647/07
Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg 2196
PO Box 61051, Marshalltown 2107
Fax number: 086 636 7200

Company Secretary

RH Köstens

Registered address

1 Westhoven Street, Paarl 7646
Suite 110, Private bag X3041, Paarl 7620
Telephone number: 021 860 3750
Fax number: 021 860 3314
Website: www.kaapagri.co.za

Auditors

PricewaterhouseCoopers Inc.

Sponsor

PSG Capital (Pty) Ltd
Registration number: 2006/015817/07
1st Floor, Ou Kollege, 35 Kerk Street, Stellenbosch 7600
PO Box 7403, Stellenbosch 7599
and
2nd Floor, 11 Alice Lane, Sandhurst, Sandton 2196
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