Quantum Foods Holdings Limited
Incorporated in the Republic of South Africa
Registration number: 2013/208598/06
Tax registration number: 9095455193
Share code: QFH
(ISIN code: ZAE000193686)
("**Quantum Foods**" or "**the Group**" or "**the Company**")

Unaudited condensed consolidated interim financial statements

For the six months ended 31 March 2020

SALIENT FEATURES

	2020	2019	% change
Revenue	**R2 439 million**	R2 103 million	16
Operating profit (before items of a capital nature)*	**R91 million**	R121 million	(25)
Operating profit	**R91 million**	R121 million	(24)
Headline earnings	**R67 million**	R96 million	(30)
Earnings per share	**34.5 cents**	45.2 cents	(24)
Headline earnings per share	**34.5 cents**	45.4 cents	(24)
Interim dividend per share	**6 cents**	8 cents	(25)

* *Income or expenditure of a capital nature in the statement of comprehensive income, i.e. all profit or loss items that are excluded in the calculation of headline earnings per share. The principal items excluded under this measurement are profits or losses on disposal of property, plant and equipment.*

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COMMENTARY

The first six months of the 2020 financial year proved to be as challenging as was expected. Individual businesses performed in line with expectation. Egg prices, however, declined more sharply than expected during the first three months of the 2020 calendar year, resulting in the egg business recording a loss for the period under review.

OPERATING ENVIRONMENT

The cost of key feed raw materials was largely impacted by the Rand weakening against the US Dollar from an average of R14.15 in 2019 to an average of R15.04 in 2020. This resulted in upward pressure on the price of yellow maize on South African Futures Exchange (SAFEX), which increased by 5.4%. The bran and hominy chop prices increased by 17.2% and 9.7% respectively. The net effect of these increases was that the cost of layer and broiler feed increased by 4.3% compared to 2019.

At the end of March 2020 South Africa and many other countries went into a lockdown due to COVID-19. This did not impact the performance of the Company for the first six months of the financial year, but will have a substantial impact on businesses and economic conditions within South Africa and the rest of the world.

SEGMENTAL OVERVIEW

Animal feeds

The animal feeds business performed very well during the period under review. Volumes increased by 18.0% (driven by both internal and external volumes). Increased earnings were supported by the increase in volumes and an increase of 2.2% in margins. Despite an increase in nominal costs compared to 2019, the cost per unit declined. Given the constraints of load shedding, all the feed mills ran at close to capacity during the period. Load shedding continued to have an adverse financial effect on the feeds business.

Farming

The layer breeding operational performance continued to exceed the breed standard. Production volumes of day-old pullets and point-of-lay hens increased by 6.8% and 11.6% respectively. This resulted in the Company incurring above-inflation cost increases in the layer breeder business. External sales of chicks declined, and more chicks and pullets were placed on Company-owned farms. This contributed to an increase in eggs available for sale. The commercial layer farms' efficiency continues to improve and have reached the highest level since 2014. The aggregate of the commercial layer farms achieved the expected financial performance for the period under review.

The financial performance of the broiler business was satisfactory. Volumes of day-old chicks increased by 4.1% and overhead costs were well managed. Although the breeder section of this business is still under pressure, we saw an improvement in the performance of the recent grandparent genetics received. Commercial broiler performance remained at a very high level.

Eggs

The egg industry is under severe pressure due to the oversupply of eggs. Egg prices declined sharply, by 7.4% on a comparative basis. The Nulaid business recorded losses for the reporting period. Volumes increased by 16.3%. The decline in egg prices, together with the increase in feed costs, resulted in a further contraction of margins. Operational effectiveness remained at high levels, despite the higher volume of eggs managed by the business. Overhead costs were well managed and, although nominal costs increased, the cost per dozen decreased.

Other Africa

The other African businesses are all operating in challenging conditions.

Increased raw material prices, variable climatic conditions and general difficult economic environments are all having a severely negative effect on these businesses. Operationally the businesses in Uganda and Mozambique are performing well. In Uganda, good progress has been made with the capital projects. We are pleased to report that the new Lohmann Breeder farm received its first parents in the period under review. The financial performance of the egg businesses in Zambia and Uganda was acceptable for the period, but not so for the breeder businesses. Lower day-old chick demand in both countries contributed negatively to financial performance. The financial performance of the Mozambique business was better than expected.

FINANCIAL OVERVIEW

Group revenue increased by 16.0% to R2.4 billion, with a 15.9% increase of R317 million in the South African operations and a 17.3% increase of R19 million in other African operations. Revenue from other African operations contributed 5.3% of the Group's revenue for 2020 (2019: 5.2%).

Revenue from South African operations:

- Increased by R301 million for the feeds segment. This increase of 38.3% is due to an increase in volumes sold and the adjustment of selling prices for higher input costs.
- Decreased by R25 million for the farming segment. This decrease is mainly due to a change in the broiler farming business model in the North West province, where day-old chicks and feed are supplied in terms of a long-term supply agreement and no longer live broilers. This change, implemented in the second half of the 2019 financial year, also contributed to the higher volumes sold and revenue reported for the feeds business.
- Increased by R41 million for the eggs segment, where an average price decrease of 7.4% and a volume increase of 16.3% was achieved.

Cost of sales increased by 18.0% to R1.9 billion. Cost of sales includes the fair value adjustments of biological assets (livestock) and agricultural produce (eggs) that were realised and included in other gains and losses in the statement of comprehensive income. These fair value adjustments for the six-month period ended 31 March 2020 amounted to R33 million (2019: R65 million), with the decrease mostly reflective of the decreased margins in the egg business. Gross profit, excluding these fair value adjustments, increased by R16 million to R578 million at a margin of 23.7% (2019: 26.7%).

Cash operating expenses were well managed and although nominal costs increased by 9.8%, costs decreased on a per unit basis.

Operating profit before items of a capital nature decreased by 24.6% to R91 million for the period under review. South African operations recorded a 19.3% decrease of R23 million to a profit of R96 million at a margin of 4.2% (2019: 6.0%). Feeds and farming improved by R8 million and R16 million respectively, while eggs weakened by R47 million. Feeds profit benefited from the increase in sales volumes to the external market as well as the increased volumes required by the internal layer farming business. The improvement in farming profit is due to improved production efficiencies and volumes on broiler and layer farms in 2020. Other African operations recorded a decrease in profits of R6 million, mainly due to lower profitability from the Zambia business.

Headline earnings per share ("**HEPS**") decreased to 34.5 cents from the 45.4 cents per share of 2019. This decrease of 24.1% includes the effect of the repurchase of shares in the second half of 2019 and during the current reporting period.

Cash inflow from operations amounted to R74 million for the reporting period. This includes an increased investment of R73 million in working capital.

Capital expenditure for the period amounted to R55 million, with the main projects in addition to maintenance capital being the new layer breeder farm in Uganda and an egg-grading machine for the East London packing station.

Cash and cash equivalents decreased from R220 million at 30 September 2019 to R174 million at 31 March 2020. This decrease includes the R48 million final dividend for 2019.

The Group's borrowings at 31 March 2020 only comprised lease liabilities as accounted for in terms of International Financial Reporting Standards ("**IFRS**") 16 – Leases.

DIVIDEND AND SHARE REPURCHASE

In recent years the Group has targeted a full-year HEPS cover of approximately four times for the declaration of dividends. While the Group continues to trade as a provider of essential products, current uncertainty about the full impact of COVID-19 on its operations, financial performance and cash flows remain. This resulted in the Board resolving to declare a gross interim dividend of 6 cents per share, from income reserves, for the six-month period ended 31 March 2020.

At a rate of 20%, dividends tax will amount to 1.2 cents per share. Consequently, shareholders who are not exempt from dividends tax will receive a net dividend amount of 4.8 cents per share. Such tax will be withheld unless beneficial owners of the dividend have provided the necessary documentation to the relevant regulated intermediary to indicate that they are exempt therefrom, or entitled to a reduced rate as a result of the double tax agreement between South Africa and their country of domicile.

The applicable dates are as follows:

Declaration date	Thursday, 21 May 2020
Last date of trading cum dividend	Monday, 15 June 2020
Trading ex-dividend commences	Wednesday, 17 June 2020
Record date	Friday, 19 June 2020
Dividend payable	Monday, 22 June 2020

Share certificates may not be dematerialised or materialised between Wednesday, 17 June 2020 and Friday, 19 June 2020, both days inclusive.

During the period under review, a subsidiary of Quantum Foods purchased 1 296 647 shares at a cost of R4.3 million, equating to an average of R3.31 per share. These shares are held as treasury shares and used for corporate purposes. The Board intends to continue with the repurchase of shares.

The shares in issue as at declaration date are 200 024 716.

OUTLOOK

Given the change in the economic landscape due to the unknown impact of COVID-19, it is extremely difficult to provide an accurate outlook for the next six months. In general, raw material prices are expected to increase – only due to the effect of the devaluation of the Rand. This will result in a cost push throughout the business. A portion of this impact should be recoverable in the farming and feeds businesses.

We expect an improvement in the supply and demand balance of eggs in the second half of the financial year. Egg supply should decrease slightly due to lower placements of day-old chicks. Egg prices will be managed judiciously to balance the requirements of ensuring a sustainable business and the needs of the consumer.

The same COVID-19 uncertainty will also impact the Group's other African operations in the coming period, but the African segment is expected to remain profitable.

WA Hanekom
Chairman

HA Lourens
Chief Executive officer

21 May 2020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 31 March 2020 R'000	Unaudited 31 March 2019 R'000	Audited 30 September 2019 R'000
ASSETS				
Non-current assets		**1 259 159**	1 153 096	1 181 521
Property, plant and equipment		**1 172 345**	1 134 013	1 160 768
Right-of-use assets		**59 935**	–	–
Intangible assets		**6 341**	9 170	7 722
Investment in associates	6	**16 169**	9 230	8 998
Trade and other receivables		**3 690**	–	3 356
Deferred income tax		**679**	683	677
Current assets		**1 343 562**	1 244 006	1 332 808
Inventories		**278 931**	251 712	288 029
Biological assets		**397 570**	333 575	379 596
Trade and other receivables		**477 086**	410 251	433 280
Derivative financial instruments		**11 476**	3 281	4 658
Current income tax		**4 218**	150	7 651
Cash and cash equivalents		**174 281**	245 037	219 594
Total assets		**2 602 721**	2 397 102	2 514 329
EQUITY AND LIABILITIES				
Capital and reserves attributable to owners of the parent		**1 857 510**	1 809 574	1 837 412
Share capital		**1 465 069**	1 500 248	1 465 069
Treasury shares		**(25 521)**	–	(23 947)
Other reserves		**(29 894)**	(219 328)	(210 432)
Retained earnings		**447 856**	528 654	606 722
Total equity		**1 857 510**	1 809 574	1 837 412
Non-current liabilities		**313 901**	239 247	256 790
Interest-bearing liability		**–**	6 078	6 021
Lease liabilities		**53 222**	–	–
Deferred income tax		**252 753**	225 451	242 843
Provisions for other liabilities and charges		**7 926**	7 718	7 926
Current liabilities		**431 310**	348 281	420 127
Trade and other payables		**410 223**	342 604	420 019
Current income tax		**99**	5 574	–
Interest-bearing liability		**–**	103	108
Lease liabilities		**20 988**	–	–
Total liabilities		**745 211**	587 528	676 917
Total equity and liabilities		**2 602 721**	2 397 102	2 514 329

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 31 March 2020 R'000	Unaudited Six months ended 31 March 2019 R'000	Audited Year ended 30 September 2019 R'000
Revenue	3	**2 439 066**	2 103 328	4 417 674
Cost of sales		**(1 893 927)**	(1 605 653)	(3 395 377)
Gross profit		**545 139**	497 675	1 022 297
Other income		**5 172**	5 032	9 915
Other gains/(losses) – net	4	**29 402**	62 691	149 517
Sales and distribution costs		**(130 478)**	(121 588)	(251 995)
Marketing costs		**(6 788)**	(4 933)	(13 278)
Administrative expenses		**(65 537)**	(60 713)	(126 517)
Other operating expenses		**(285 470)**	(257 547)	(544 706)
Operating profit		**91 440**	120 617	245 233
Investment income		**3 280**	10 406	15 102
Finance costs		**(4 072)**	(262)	(3 959)
Share of profit of associate companies		**1 171**	441	209
Profit before income tax		**91 819**	131 202	256 585
Income tax expense		**(25 190)**	(36 072)	(67 390)
Profit for the period		**66 629**	95 130	189 195
Other comprehensive income for the period				
Items that may subsequently be reclassified to profit or loss:				
Fair value adjustments to cash flow hedging reserve		**14 745**	(4 900)	(1 227)
For the period		**34 270**	16 656	26 178
Deferred income tax effect		**(3 367)**	(1 003)	(1 426)
Current income tax effect		**(6 228)**	(3 661)	(5 903)
Realised to profit or loss		**(13 791)**	(23 461)	(27 883)
Deferred income tax effect		**1 426**	18	18
Current income tax effect		**2 435**	6 551	7 789
Movement on foreign currency translation reserve				
Currency translation differences		**(3 258)**	8 337	13 080
Total comprehensive income for the period		**78 116**	98 567	201 048
Profit for the period attributable to owners of the parent		**66 629**	95 130	189 195
Total comprehensive income for the period attributable to owners of the parent		**78 116**	98 567	201 048
Earnings per ordinary share (cents)	5	**34.5**	45.2	92.6
Diluted earnings per ordinary share (cents)	5	**34.1**	44.8	91.3

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 March 2020 R'000	Unaudited Six months ended 31 March 2019 R'000	Audited Year ended 30 September 2019 R'000
Share capital and treasury shares	**1 439 548**	1 500 248	1 441 122
Opening balance	**1 441 122**	1 498 707	1 498 707
Shares repurchased and cancelled	**–**	–	(35 179)
Ordinary shares acquired by subsidiary	**(4 296)**	(2 299)	(27 368)
Ordinary shares transferred – share appreciation rights	**2 722**	3 840	4 962
Other reserves	**(29 894)**	(219 328)	(210 432)
Opening balance	**(210 432)**	(226 402)	(226 402)
Other comprehensive income for the period	**11 487**	3 437	11 853
Common control reserve reclassified to retained earnings	**167 877**	–	–
Recognition of share-based payments	**4 412**	7 060	8 090
Ordinary shares transferred – share appreciation rights	**(3 238)**	(3 423)	(3 973)
Retained earnings	**447 856**	528 654	606 722
Opening balance	**606 722**	582 086	582 086
Adjustment to opening retained earnings*	**(9 864)**	(795)	(795)
Profit for the period	**66 629**	95 130	189 195
Dividends paid	**(48 270)**	(147 350)	(162 775)
Common control reserve reclassified to retained earnings	**(167 877)**	–	–
Ordinary shares transferred – share appreciation rights	**516**	(417)	(989)
Total equity	**1 857 510**	1 809 574	1 837 412

* *Refer to note 2(a) for details regarding the restatement of the opening balance of retained earnings on 1 October 2019.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 March 2020 R'000	Unaudited Six months ended 31 March 2019 R'000	Audited Year ended 30 September 2019 R'000
NET CASH FLOW FROM OPERATING ACTIVITIES	**73 741**	50 835	162 706
Net cash profit from operating activities	**144 465**	165 555	329 847
Working capital changes	**(73 058)**	(84 357)	(109 244)
Cash effect of hedging activities	**13 549**	(10 322)	(6 736)
Net cash generated from operations	**84 956**	70 876	213 867
Income tax paid	**(11 215)**	(20 041)	(51 161)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(51 967)**	(79 643)	(140 946)
Additions to property, plant and equipment	**(55 160)**	(90 900)	(152 587)
Additions to intangible assets	**–**	–	(4)
Proceeds on disposal of property, plant and equipment	**247**	851	3 271
Advance of non-interest-bearing loan	**–**	–	(6 728)
Interest received	**2 946**	10 406	15 102
Net cash surplus/(deficit)	**21 774**	(28 808)	21 760
NET CASH FLOW FROM FINANCING ACTIVITIES	**(67 139)**	(149 745)	(225 941)
Principal elements of lease payments (2019: Principal elements of finance lease payments)	**(10 656)**	(46)	(98)
Shares repurchased	**–**	–	(35 179)
Treasury shares acquired by subsidiary	**(4 296)**	(2 299)	(27 368)
Interest paid	**(3 996)**	(262)	(724)
Dividends paid to ordinary shareholders	**(48 191)**	(147 138)	(162 572)
Net decrease in cash and cash equivalents	**(45 365)**	(178 553)	(204 181)
Effects of exchange rate changes	**52**	1 129	1 314
Net cash and cash equivalents at beginning of period	**219 594**	422 461	422 461
Net cash and cash equivalents at end of period	**174 281**	245 037	219 594

	Unaudited Six months ended 31 March 2020 R'000	Unaudited Six months ended 31 March 2019 R'000	Audited Year ended 30 September 2019 R'000
Segment revenue	**2 439 066**	2 103 328	4 417 674
Eggs	**578 126**	537 248	1 095 195
Farming	**646 646**	671 365	1 325 152
Animal feeds	**1 085 437**	784 859	1 758 627
Other African countries	**128 857**	109 856	238 700
Segment results – excluding items of a capital nature	**91 310**	121 164	244 611
Eggs	**(19 469)**	27 265	38 341
Farming	**67 819**	51 959	112 087
Animal feeds	**48 061**	40 258	89 100
Other African countries	**637**	6 654	14 226
Head office costs	**(5 738)**	(4 972)	(9 143)
Items of a capital nature per segment included in other gains – net			
Profit/(loss) on disposal of property, plant and equipment before income tax	**130**	(547)	622
Eggs	**(1)**	(27)	(96)
Farming	**77**	(520)	1 053
Animal feeds	**–**	–	(426)
Other African countries	**54**	–	91
Segment results	**91 440**	120 617	245 233
Eggs	**(19 470)**	27 238	38 245
Farming	**67 896**	51 439	113 140
Animal feeds	**48 061**	40 258	88 674
Other African countries	**691**	6 654	14 317
Head office costs	**(5 738)**	(4 972)	(9 143)
A reconciliation of the segment results to profit before income tax is provided below:			
Segment results	**91 440**	120 617	245 233
Adjusted for:			
Investment income	**3 280**	10 406	15 102
Finance costs	**(4 072)**	(262)	(3 959)
Share of profit of associate companies	**1 171**	441	209
Profit before income tax per statement of comprehensive income	**91 819**	131 202	256 585

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 – Interim Financial Reporting, the Listings Requirements of the JSE Ltd, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act, Act 71 of 2008, as amended, of South Africa.

These results or any comments relating to the prospects of the Group have not been audited or reviewed by the Company's external auditors. The condensed consolidated interim financial statements have been prepared under the supervision of AH Muller, CA(SA), chief financial officer.

The accounting policies applied in the preparation of these interim financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements for the year ended 30 September 2019, apart from the adoption of the new and amended standards, as set out below.

1.1 New and amended standards adopted by the Group

New or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 – Leases.

The impact of the adoption of the Leases standard and the new accounting policies are disclosed below. The other amended standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 – Leases on the Group's financial statements. It also discloses the new accounting policies that have been applied from 1 October 2019, where they are different to those applied in prior periods. The Group has adopted IFRS 16 retrospectively from 1 October 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 October 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 – Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 October 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 10.2%.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in a measurement adjustment of R6.1 million for variable lease payments not based on an index or rate. R5.5 million of this remeasurement to the lease liabilities was recognised as an adjustment to the related right-of-use asset immediately after the date of initial application, and an adjustment to profit and loss.

	R'000
Operating lease commitments disclosed as at 30 September 2019	**52 529**
Discounted using the lessee's incremental borrowing rate at the date of initial application	(20 461)
Add: finance lease liabilities recognised as at 30 September 2019	6 128
(Less): short-term leases recognised on a straight-line basis as expense	(1 155)
(Less): low-value leases recognised on a straight-line basis as expense	(209)
Add: lease extensions (highly likely to be exercised)	45 823
Add/(less) adjustments relating to changes in the index or rate affecting variable payments	(179)
Lease liability recognised as at 1 October 2019	**82 476**
Of which are:	
Current lease liabilities	20 570
Non-current lease liabilities	61 906

Right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 March 2020 R'000	1 October 2019 R'000
Land and buildings	**20 073**	21 817
Plant, machinery and equipment	**9 141**	16 149
Vehicles	**30 721**	29 581
Total right-of-use assets	**59 935**	67 547

2. CHANGES IN ACCOUNTING POLICIES (continued)

The change in accounting policy affected the following items in the statement of financial position on 1 October 2019. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the amounts provided.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EXTRACT)	30 September 2019 As originally presented R'000	IFRS 16 impact R'000	1 October 2019 R'000
ASSETS			
Non-current assets	1 181 521	62 023	1 243 544
Property, plant and equipment	1 160 768	(5 524)	1 155 244
Right-of-use assets	–	67 547	67 547
Total assets	2 514 329	62 023	2 576 352
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent	1 837 412	(9 864)	1 827 548
Retained earnings	606 722	(9 864)	596 858
Non-current liabilities	256 790	51 786	308 576
Interest-bearing liability	6 021	(6 021)	–
Lease liability	–	61 906	61 906
Deferred income tax	242 843	(4 099)	238 744
Current liabilities	420 127	20 101	440 228
Trade and other payables	420 019	(361)	419 658
Interest-bearing liability	108	(108)	–
Lease liability	–	20 570	20 570
Total liabilities	676 917	71 887	748 804
Total equity and liabilities	2 514 329	62 023	2 576 352

The change in accounting policy had no impact on the statement of comprehensive income.

(i) Impact on segment disclosures and earnings per share

Segment results for 31 March 2020 all included a profit as a result of the change in accounting policy. The following segments were affected by the change in policy:

	Segment results R'000
Eggs	**2 081**
Farming	**1 269**
Animal feeds	**1 088**
Other African countries	**22**
	4 460

Earnings per share increased by 0.2 cents per share for the six months to 31 March 2020 as a result of the adoption of IFRS 16.

2. CHANGES IN ACCOUNTING POLICIES (continued)

(ii) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to re-assess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 – Determining whether an Arrangement Contains a Lease.

(b) The Group's leasing activities and how these are accounted for

The Group leases various farms, equipment, warehouses and delivery vehicles. Lease agreements are typically made for fixed periods of 2 to 5 years but may have extension options as described in (ii) on the next page. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 October 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

2. CHANGES IN ACCOUNTING POLICIES (continued)

(b) The Group's leasing activities and how these are accounted for (continued)

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Restoration costs

Payments associated with short-term leases, variable lease payments not based on an index or a rate in (i) below, and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly IT equipment.

(i) Variable lease payments

Estimation uncertainty arising from variable lease payments

Variable lease payments relate to the lease of solar panels whereby the rental payments are 100% based on the energy generated by the solar panels. These variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

(ii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the lease payments made in 2020 were optional.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of R2.7 million have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, there were no revisions to lease terms resulting from changes in our view on extension or terminations options in lease contracts.

	Unaudited Six months ended 31 March 2020 R'000	Unaudited Six months ended 31 March 2019 R'000	Audited Year ended 30 September 2019 R'000
3. REVENUE			
Disaggregation of revenue from contracts with customers:			
Revenue	**2 439 066**	2 103 328	4 417 674
Eggs	**578 126**	537 248	1 095 195
Layer farming	**99 864**	92 704	197 058
Broiler farming	**546 782**	578 661	1 128 094
Animal feeds	**1 085 437**	784 859	1 758 627
Zambia	**74 851**	66 072	144 538
Uganda	**28 359**	22 951	48 966
Mozambique	**25 647**	20 833	45 196
4. OTHER GAINS/(LOSSES) – NET			
Biological assets fair value adjustment	**39 806**	47 552	105 091
Unrealised – reflected in carrying amount of biological assets	**(884)**	(1 793)	790
Realised – reflected in cost of goods sold	**40 690**	49 345	104 301
Agricultural produce fair value adjustment	**(8 645)**	12 070	40 015
Unrealised – reflected in carrying amount of inventory	**(648)**	(3 122)	(2 891)
Realised – reflected in cost of goods sold	**(7 997)**	15 192	42 906
Foreign exchange differences	**519**	486	339
Foreign exchange contract fair value adjustments	**(29)**	1 134	3 003
Foreign exchange contract cash flow hedging ineffective (losses)/gains	**(2 379)**	1 996	447
Profit/(loss) on disposal of property, plant and equipment	**130**	(547)	622
	29 402	62 691	149 517

	Unaudited Six months ended 31 March 2020 R'000	Unaudited Six months ended 31 March 2019 R'000	Audited Year ended 30 September 2019 R'000
5. EARNINGS PER ORDINARY SHARE			
Basic			
The calculation of basic earnings per share is based on profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the period:			
Profit for the period	**66 629**	95 130	189 195
Weighted average number of ordinary shares in issue ('000)	**192 987**	210 365	204 298
Diluted			
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive contingent ordinary shares. Share appreciation rights issued in terms of the share incentive scheme have a potential dilutive effect on earnings per ordinary share.			
The calculation of diluted earnings per share is based on profit for the period attributable to owners of the parent divided by the diluted weighted average number of ordinary shares in issue during the period:			
Profit for the period	**66 629**	95 130	189 195
Diluted weighted average number of ordinary shares in issue ('000)	**195 138**	212 579	207 185
Headline earnings is calculated in accordance with Circular 1/2019 issued by the South African Institute of Chartered Accountants.			

	Unaudited Six months ended 31 March 2020 R'000	Unaudited Six months ended 31 March 2019 R'000	Audited Year ended 30 September 2019 R'000
5. EARNINGS PER ORDINARY SHARE (continued)			
Reconciliation between profit for the period attributable to owners of the parent and headline earnings			
Profit for the period	**66 629**	95 130	189 195
Items of a capital nature			
(Profit)/loss on disposal of property, plant and equipment	**(103)**	396	(554)
Gross	**(130)**	547	(622)
Tax effect	**27**	(151)	68
Headline earnings for the period	**66 526**	95 526	188 641
Earnings per share (cents)	**34.5**	45.2	92.6
Diluted earnings per share (cents)	**34.1**	44.8	91.3
Headline earnings per share (cents)	**34.5**	45.4	92.3
Diluted headline earnings per share (cents)	**34.1**	44.9	91.0

6. INVESTMENT IN ASSOCIATES

On 8 March 2020, Quantum Foods (Pty) Ltd acquired a 20% interest in Klipvlei Broilers (Pty) Ltd. The agreement for the acquisition of the interest determines that a third party will determine the fair value of the interest for settlement by 8 March 2021. This valuation is currently in process and as such the value of the interest has been accounted for using a management valuation.

The carrying amount of equity-accounted investments has changed as follows in the six months to March 2020:

	Unaudited Six months ended 31 March 2020 R'000
Beginning of the period	**8 998**
Additions	**6 000**
Profit for the period	**1 171**
End of the period	**16 169**

Klipvlei Broilers (Pty) Ltd operates in the poultry industry in South Africa and supplies the Group with broiler live birds.

7. CONTINGENCIES AND FUTURE CAPITAL COMMITMENTS

No new litigation matters with a potential adverse financial impact have been reported to the Group at the reporting date.

Capital expenditure approved by the Board and contracted for amounts to R39.9 million (30 September 2019: R14.6 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R45.9 million (30 September 2019: R86.0 million).

8. EVENTS AFTER THE REPORTING PERIOD

There have been no 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 interim financial statements by the Board.

By 20 May 2020, COVID-19 has not had a significant effect on the operations of the Group.

DIRECTORS

WA Hanekom (Chairman)#, PE Burton#, GG Fortuin#, Prof. ASM Karaan#, N Celliers, T Golden#,
HA Lourens (CEO)*, AH Muller (CFO)*
* *Executive* # *Independent*

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