2022

KAAP AGRI

Summary consolidated financial statements

Salient features

+48,4%
15 700 499
REVENUE (R'000)
(2021: 10 582 588)

+22,3%
556,30
HEADLINE EARNINGS PER SHARE (CENTS)
(2021: 454,92)

+21,1%
578,23
RECURRING HEADLINE EARNINGS PER SHARE (CENTS)
(2021: 477,55)

+9,9%
122,00
FINAL DIVIDEND PER SHARE (CENTS)
(2021: 111,00)

+11,3%
168,00
TOTAL DIVIDEND PER SHARE (CENTS)
(2021: 151,00)

Commentary

FINANCIAL REVIEW

The Kaap Agri Limited ("**Kaap Agri**" or the "**Group**") summary report provides an overview of the activities, results and financial position of the Group for the year ended 30 September 2022.

Over the past seven years, Kaap Agri has diversified from a largely agricultural focused business to a diversified group with trading activities in agricultural, general retail, retail fuel, fuel convenience and quick service restaurant markets ("**QSR**"). Our customer base has expanded from mainly farmers to now also include families, friends, and our fur family. The Group's strategic footprint and facilities, which also include financial, grain handling and agency services, support a diverse client network through 273 business units spread across all nine South African provinces as well as Namibia. This footprint now includes PEG Retail Holdings (Pty) Ltd ("**PEG**"), acquired in July 2022.

In line with the ongoing diversification of the Group, both from a sectoral and regional perspective, the board of directors of Kaap Agri ("**Board**") intends changing the name of the company from "Kaap Agri Limited" to "KAL Group Limited". This will be voted on by shareholders at the AGM in February 2023.

OPERATING ENVIRONMENT

The Group has delivered a solid trading performance, despite an environment dominated by above-average inflation across most product categories and fuel prices which have remained high throughout the period. The impact of the Russia/Ukraine conflict has negatively impacted farming input costs, specifically fertiliser and fuel, with prices likely to stay at higher levels for some time. Global consumer demand has been impacted by reduced consumer buying power, impacting fruit exporters negatively. The effects of COVID-19 have largely annualised in our results together with changed consumer behaviour and, as such, we do not anticipate any significant further recovery from this. The logistical challenges at ports were exacerbated by the floods in KwaZulu-Natal and, more recently, by strike action and have further increased costs for the agri value chain. South African retail sales remain constrained and high fuel prices are dampening fuel consumption.

Notwithstanding the immense challenges highlighted above, the Group's agri-trading has shown real growth of 14,7% compared to the same period last year. This real growth was largely on the back of, by value, market share gains in fertiliser, packing materials and animal feeds and was further supported by strong mechanisation (tractors and combine harvesters), horticulture and animal health category performance. Excluding the acquisition of PEG, retail-trading continued to grow market share with real growth in turnover of 1,5% year-on-year ("**YOY**"). Both retail- and agri-trading margins have improved compared to the same period last year. The Group managed to outperform a struggling building materials sector with growth in revenue and trading margin across all building material categories.

Although the retail fuel industry has experienced severe fuel volume decreases stemming from changed consumer behaviour due to high fuel prices, TFC Operations (Pty) Ltd ("**TFC**"), excluding PEG, has performed well with litres decreasing by only 2,3% and showing continuous improvement. Convenience and QSR offerings have recovered strongly. Agrimark fuel volumes dropped marginally by 1,1% aided by market share gains, comparing very favourably to industry trends. The addition of PEG will have a significant positive impact on fuel volume growth in this income channel.

Manufacturing turnover was negatively impacted by the abovementioned rising agri-input costs, as well as impaired farm income due to fruit export logistical challenges, resulting in curtailed farm infrastructural spend. The manufacturing outlook, however, remains positive going forward, given the relatively healthy state of dam levels in most areas of the country and the potential in product manufacturing innovations in process.

Agrimark Grain's performance is ahead of last year due largely to the increased wheat volumes. Mechanisation agencies have continued their strong performance from the prior year.

FINANCIAL RESULTS

As referred to in the announcement published on the JSE Limited's Stock Exchange News Service on 1 August 2022, the acquisition by TFC, a subsidiary of Kaap Agri, of 100% of the issued ordinary shares in, and loan claims against, PEG became unconditional with an effective date of 1 July 2022. As such, only three months of PEG's performance is included in Kaap Agri's financial results for the year ended 30 September 2022. The PEG operations performed according to expectation during this three-month period.

The Group continued its strong performance during the year, increasing revenue by 48,4% to R15,70 billion, up from R10,58 billion in the previous financial year, with like-for-like comparable growth of 24,0%. The revenue growth was achieved on the back of a 54,3% increase in the number of transactions (7,9% increase excluding PEG). Compared to pre-COVID-19, revenue has grown at a compound annual growth rate ("**CAGR**") of 22,9%.

Retail sales growth was encouraging and reflected real growth when excluding the impact of inflation. Although agri-input inflation has been high as mentioned above, we achieved strong real growth indicative of enhanced market share. Product inflation is estimated at 24,2% for the year. Fuel price inflation had a YOY impact on total inflation, however, when excluding the impact of fuel inflation in the revenue basket, inflation was 9,3%.

The Group's ongoing diversification is expected to reduce the negative impact of future unforeseen events and to contribute to sustainable and improved results going forward. Various business-to-business and business-to-consumer initiatives are expected to further enhance the Group's market reach. In line with our digital transformation strategic objective, Agrimark Online was launched at the end of September 2022, and includes an e-catalogue of over 40 000 products across 25 categories with a selected range of 7 500 products available for online purchase and delivery with the rest being available in-store.

The Group's growth strategy to expand its footprint, combined with the upgrade and improvement of existing offerings continued during the period. While only one new site was added to TFC, the acquisition of 41 PEG business units contributed to Group fuel volumes increasing by 21,1% in the year. Collectively, six new retail and agri-trade sites were added to the Group and two smaller unviable trade offerings were closed. The remaining 40% shareholding in Partridge Building Supplies (Pty) Ltd ("**Forge**") was acquired during the period. Several smaller Agrimark upgrades and expansions were completed, and an additional 18 026 tons were added to our grain storage capacity. The disposal of TFC Properties (Pty) Ltd ("**TFC Properties**"), and subsequent leaseback of 21 properties, was completed during the year, releasing R455,9 million of underperforming capital for further investment and enhancing Group ROIC returns. Gearing levels and investment returns improved during the period and although additional gearing was incurred for the acquisition of PEG, Group gearing levels remain well within internal thresholds. The business continues to investigate further value-enhancing opportunities.

Gross profit increased by 27,1% but at a rate lower than revenue growth due largely to the higher contribution of lower margin fuel revenue. Our ability to increase our central distribution centre throughput as well as the implementation of several strategic supply chain imperatives has translated into enhanced retail trading margins. Despite the increase in both retail and agri-trade margins during the year, it is expected that retail margins will remain under pressure as consumer spending patterns adapt to a changed and constrained economic environment. Fuel prices increased steadily throughout the year and, despite a slight reprieve in August and September, ended 27,5% higher (petrol) and 55,6% higher (diesel) compared to last year.

Effective cost management remained a key focus area during the period, specifically the optimisation of salary-related expenditure and associated costs. The non-like-for-like impact of costs related to the conversion of two managed fuel sites to owned sites, the addition of seven new TFC and Agrimark sites, the disposal of TFC Properties and the subsequent leaseback of the properties as well as the PEG acquisition, resulted in expenditure increasing by 32,4% in the current year while like-for-like expenditure grew by 12,2%. Transactional banking costs on high inflation-related fuel transactions remain problematic as these costs need to be absorbed by fuel retailers without any increase in margin. Furthermore, loadshedding has added unnecessary operational costs in terms of backup energy supplies.

The improvement in performance of Agrimark operations in Namibia accelerated during the year largely due to the ongoing focus on market share growth, margin improvement through various procurement initiatives as well as in-store upgrades and sales execution.

Interest received increased by 48,9% due to a combination of higher debtor balances, increased interest rates on debtor's accounts and the inclusion of PEG's strong cash generation. Interest paid to banks increased by 36,6%, a combination of higher interest rates and higher average borrowings for the period, which included the funding of the PEG acquisition, resulting in an increase in net interest received of R20,1 million.

EBITDA grew by 21,8% and lower than gross profit growth, due to increased expenditure detailed above.

The Group's effective tax rate of 25,9% (2021: 27,8%) is lower than last year due mainly to the effect of non-taxable capital gains on the disposal of TFC Properties as well as other non-deductible expenditure of a capital nature.

Headline earnings increased by 23,5% while recurring headline earnings ("**RHE**") grew by 24,0%. Once-off items, predominantly costs associated with new business development, are excluded from headline earnings to calculate RHE.

Earnings per share of 562,54 increased by 23,1%. Headline earnings per share of 556,30 cents increased by 22,3% while recurring headline earnings per share ("**RHEPS**") of 578,23 cents grew by 21,1% on last year. RHEPS has grown at a CAGR of 15,5% when compared to pre-COVID-19.

OPERATING RESULTS

Segmental reporting has been improved in that trade debtors and borrowings, as well as the associated interest received and interest paid, have been allocated to the segment to which they relate. This provides a more accurate representation of invested capital within the various segments.

Income growth from the Agrimark division, which includes the Agrimark retail branches, Forge branches, Agrimark Packaging distribution centres, Agrimark Mechanisation agency services and spare parts as well as fuel depots, increased by 24,8% YOY, with operating profit before tax increasing by 19,9%. Key focus areas in this environment were margin enhancement, cost management and stock and footprint optimisation.

Retail Fuel & Convenience, which now also includes PEG, increased income by 107,1% with operating profit before tax increasing by 39,5%. Revenue increases were driven by the addition of PEG, non like-for-like sites, fuel price increases and strong contributions from convenience store and QSR offerings. Despite the positive impact on ROIC, the sale and leaseback of TFC Properties sites resulted in additional rental expenditure compared to the prior year. Overall good expense management and fuel price increases contributed to higher profitability. The performance of this division has been encouraging given the economic challenges faced by consumers.

Agrimark Grain, which includes grain handling and storage of grain and related products, seed processing and potato seed marketing, delivered another robust year, growing revenue by 32,7% and operating profit before tax by 14,5%. The improved performance was due to the increased wheat harvest. Latest harvest estimates indicate the likelihood of an average wheat harvest for the new financial year across the total Swartland region.

Manufacturing produces dripline, sprinkler irrigation products and plastic bulk bins for the agricultural market as well as offering agency services for imported irrigation products. Irrigation-related revenue was negatively impacted by the curtailment of infrastructure spend with segment revenue decreasing by 11,6%. Tego's expected improvement in the year was delayed, however, Tego's new XVP bulk bin has come into production and expectations are positive for the coming year. Segment operating profit before tax reduced by 47,0%.

The Corporate division, which includes the cost of support services as well as other costs not allocated to specific segments, decreased from 0,8% of revenue to 0,7%, the result of leveraged centralised support services.

FINANCIAL POSITION

Capital investment of R262,1 million was incurred which included R44,5 million for the acquisition of Engen False Bay, R22,2 million relating to replacement capital expenditure and R195,4 million spent on various expansion activities. A further net R654,4 million was spent on the acquisition of PEG and the buyout of minorities in Forge. The disposal of TFC Properties generated R455,9 million.

Although working capital increased significantly due to abnormally high inflation and real growth, the business has managed the impact thereof effectively. Trade debtors have grown at a rate marginally above the increase in credit sales, but out of terms have decreased by 0,6% of trade debtors, which further showcases the quality and resilience of the debtors book. Debtors' turn of 4,1 times per year (2021: 4,1 times) has remained stable. Securities are held where appropriate and we believe we are suitably provided for when considering the health of the debtors' book.

Our investment in centralised procurement and distribution as well as stock management continues to generate positive results, with inventory growing by only 33,2% compared to revenue growth of 48,4%. Creditors' days, excluding the increased impact of shorter-term fuel suppliers, are in line with last year. Return on net assets increased to 10,3% from 9,8% last year. YOY ROIC improved from 11,1% last year to 11,6% this year and remained above the weighted average cost of capital in the business, this despite the inclusion of the full investment in PEG but only three-months' worth of returns.

While strong trading performance and the effective management of capital expenditure had a positive impact on borrowings, high inflation increased working capital requirements and the PEG transaction resulted in a higher net debt position. As at 30 September 2022, net interest-bearing debt increased by R686,3 million (R75,1 million decrease excluding PEG funding). When excluding the impact of the funding required for the PEG acquisition, the Group's debt-to-equity ratio, calculated on average balances, decreased to 47,0% (2021: 56,1%) with net debt to EBITDA decreasing to 1,8 times (2021: 2,2 times) and interest cover of 6,3 times (2021: 6,8 times). Including the impact of the PEG funding, the Group's debt-to-equity ratio increased by only 3,4% to 59,5% when compared to last year. Gearing levels are in line with expectation given the PEG acquisition funding requirement which is fully ringfenced within TFC. Inflationary pressures, specifically on working capital, have put pressure on funding headroom. However, facilities are in place to meet the coming year's requirements. Return on equity increased to 16,5% (2021: 15,3%) including PEG.

Group cash generation remains strong and will increase going forward due to the cash generative nature of PEG. The focus on driving returns on capital previously invested in the business continues. While the level of investment in terms of footprint growth was high this year mainly due to the PEG transaction, the coming year will see a more normalised pattern of capital expenditure.

DIVIDEND

A gross final dividend of 122,00 cents per share (2021: 111,00 cents) has been approved and declared by the Board from income reserves, for the period ended 30 September 2022. The final dividend amount, net of South African dividends tax of 20%, is 97,60 cents per share for those shareholders not exempt from dividend tax or who are not entitled to a reduced rate in terms of the applicable double tax agreement. Including the interim dividend, the total dividend for the year ended 30 September 2022 of 168,00 cents per share (2021: 151,00 cents) increased by 11,3% over the prior year. The total dividend per share represents a dividend cover of 3,3 times (2021: 3,0 times), slightly higher than the prior year due to debt repayments, largely PEG related, from attributable earnings.

The salient dates for this dividend distribution are:

Declaration date	Thursday, 24 November 2022
Last day to trade cum dividend	Tuesday, 14 February 2023
Trading ex dividend commences	Wednesday, 15 February 2023
Record date to qualify for dividend	Friday, 17 February 2023
Date of payment	Monday, 20 February 2023

The number of ordinary shares in issue at declaration date is 74 567 680 and the income tax number of Kaap Agri is 9312717177.

Share certificates may not be dematerialised or rematerialised between Wednesday, 15 February 2023 and Friday, 17 February 2023, both days inclusive.

OUTLOOK

The overall agriculture outlook is stable, however, producer cashflow pressure continues due to high input costs and logistical and export payment challenges. Below average rainfall towards the end of the wheat season has resulted in expectations of a more normalised wheat harvest compared to the prior year, with all indications pointing to an average yield across the total Swartland region. Although always weather dependent, the outlook for fruit and vegetable production in the upcoming agricultural season looks encouraging, with good yields expected, but at a higher cost to the farmer.

Concerning trends in the agri-environment include rising input costs, curtailed capacity expansion and ongoing logistics challenges, specifically export related. It is also expected that pressure will remain on fuel volume sales partly offset by constantly improving convenience and QSR spend. Although the focus continues on driving returns on capital already invested in the business, selective high return-generating capital investment opportunities will be pursued.

The addition of PEG will accelerate the growth in both retail and fuel revenue in the coming year and will increase the cash component of revenue significantly, boding well for future dividends once the acquisition-related debt has been settled.

Throughout the many challenges endured during the year, the business has been unrelenting in its commitment to exceeding our customers' expectations and, with the continued support of all stakeholders, has once again delivered results ahead of expectation and in support of our strategic growth objectives. Our balance sheet has strengthened during the period and cash generation has improved.

We are committed to harnessing the opportunities that the challenging economic environment may present and together with our growth and diversification strategy, will continue the momentum to enhance sustainable value creation. We believe the Group is well positioned and equipped to capitalise on any improvement in economic and trading conditions and are cautiously optimistic for the coming year.

EVENTS AFTER THE REPORTING DATE

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 summarised consolidated financial statements by the Board.

APPRECIATION

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

On behalf of the Board

GM Steyn
Chairman

S Walsh
Chief Executive Officer

22 November 2022

Consolidated statement of financial position

at 30 September	Note	2022 R'000	2021 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1 317 415**	1 545 524
Right-of-use assets	6	**617 701**	253 804
Intangible assets	7	**1 618 207**	517 764
Investment in joint venture	8	**41 377**	33 923
Financial assets at fair value through other comprehensive income		**5 580**	5 580
Trade and other receivables	9	**52 433**	52 153
Loans		**17 573**	26 732
Deferred taxation		**12 912**	7 181
		3 683 198	2 442 661
Current assets			
Inventory		**1 627 370**	1 221 339
Trade and other receivables	9	**2 661 293**	2 053 669
Derivative financial instruments		**2 492**	35 983
Short-term portion of loans		**4 915**	7 238
Cash and cash equivalents		**359 484**	51 534
		4 655 554	3 369 763
Total assets		**8 338 752**	5 812 424
EQUITY AND LIABILITIES			
Capital and reserves			
Equity attributable to shareholders of the holding company		**2 691 033**	2 288 444
Non-controlling interest		**131 444**	109 722
		2 822 477	2 398 166
Non-current liabilities			
Deferred taxation		**56 330**	108 683
Financial liability at fair value through profit or loss	11	**82 396**	76 100
Lease liabilities	6	**628 772**	232 208
Instalment sale agreements		**45 402**	62 914
Employee benefit obligations		**14 526**	14 875
Borrowings		**837 813**	325 000
		1 665 239	819 780
Current liabilities			
Trade and other payables	10	**2 504 155**	1 656 660
Financial liability at amortised cost	11	**–**	23 651
Short-term portion of instalment sale agreements		**28 030**	29 166
Short-term portion of Employee benefit obligations		**2 032**	2 169
Short-term portion of lease liabilities	6	**50 019**	23 827
Short-term borrowings		**1 257 457**	842 096
Income tax		**9 343**	16 909
		3 851 036	2 594 478
Total liabilities		**5 516 275**	3 414 258
Total equity and liabilities		**8 338 752**	5 812 424
Total shareholders' equity to Total assets employed* (%)		**36,9%**	40,8%
Net interest bearing debt to Total assets employed* (%)		**21,9%**	22,9%
Net asset value per share (rand)		**R38,24**	R32,56
Shares issued (number – '000)		**70 368**	70 282
Total number of ordinary shares in issue**		**74 568**	74 170
Treasury shares		**(4 200)**	(3 888)

* *Ratios calculated on average balances.*

** *There was no change in the issued share capital between 30 September 2022 and the dividend declaration date, being 74 567 680 shares.*

Consolidated income statement

for the year ended 30 September

	2022 R'000	2021 R'000
Revenue	**15 700 499**	10 582 588
Cost of sales	**(13 697 089)**	(9 006 338)
Gross profit	**2 003 410**	1 576 250
Operating expenses	**(1 455 683)**	(1 118 450)
Operating profit before interest received	**547 727**	457 800
Interest received	**147 496**	99 066
Operating profit	**695 223**	556 866
Finance costs	**(145 387)**	(99 048)
Share in profit of joint venture	**7 454**	2 381
Profit before tax	**557 290**	460 199
Income tax	**(144 331)**	(127 923)
Profit for the period	**412 959**	332 276
Attributable to equity holders of the holding company	**396 368**	321 099
Non-controlling interest	**16 591**	11 177
Earnings per share – basic (cents)	**562,54**	456,88
Earnings per share – diluted (cents)	**553,23**	451,79
Dividend per share (cents)	**168,00**	151,00

Headline earnings reconciliation

for the year ended 30 September

	2022 R'000	2021 R'000
Profit for the period	**412 959**	332 276
Attributable to equity holders of the holding company	**396 368**	321 099
Non-controlling interest	**16 591**	11 177
Net profit on disposal of assets	**(4 419)**	(1 470)
Gross	**(4 722)**	(2 042)
Tax effect	**303**	572
Headline earnings	**408 540**	330 806
Attributable to equity holders of the holding company	**391 972**	319 722
Non-controlling interest	**16 568**	11 084
Headline earnings per share – basic (cents)	**556,30**	454,92
Headline earnings per share – diluted (cents)	**547,10**	449,86
Weighted average number of shares (number – '000)	**70 460**	70 281
Weighted average number of diluted shares (number – '000)	**71 646**	71 072

Consolidated statement of comprehensive income

for the year ended 30 September

	2022 R'000	2021 R'000
Profit for the period	**412 959**	332 276
Other comprehensive income:		
Cash flow hedges	**844**	204
Gross	**1 155**	283
Tax	**(311)**	(79)
Total comprehensive income for the period	**413 803**	332 480
Attributable to equity holders of the holding company	**397 212**	321 303
Non-controlling interest	**16 591**	11 177

Consolidated statement of changes in equity

for the year ended 30 September

	2022 R'000	2021 R'000
Stated capital	**451 316**	446 571
Gross shares issued	**496 664**	480 347
Treasury shares	**(45 348)**	(33 776)
Other reserves	**15 129**	12 552
Opening balance	**12 552**	10 112
Share-based payments	**1 733**	2 236
Other comprehensive income	**844**	204
Retained profit	**2 224 588**	1 829 321
Opening balance	**1 829 321**	1 571 475
Profit for the period	**396 368**	321 099
Acquisition of minority shares in subsidiary	**22 462**	–
Change in ownership	**17 116**	–
Put Options lapsed	**(10 544)**	–
Put Options relinquished	**80 400**	–
Dividends paid	**(110 535)**	(63 253)
Equity attributable to shareholders of the holding company	**2 691 033**	2 288 444
Non-controlling interest	**131 444**	109 722
Opening balance	**109 722**	98 545
Profit for the period	**16 591**	11 177
Sale of share in subsidiary	**(34 467)**	–
Acquisition of minority shares in subsidiary	**(22 462)**	–
Addition through business acquisition	**96 462**	–
Change in ownership	**(17 116)**	–
Dividends paid	**(17 286)**	–
Capital and reserves	**2 822 477**	2 398 166

Consolidated statement of cash flows

for the year ended 30 September

	2022 R'000	2021 R'000
Cash flow from operating activities	**213 072**	425 734
Net cash profit from operating activities	**709 832**	563 226
Interest received	**148 731**	101 304
Working capital changes	**(419 934)**	(108 104)
Income tax paid	**(225 557)**	(130 692)
Cash flow from investment activities	**(427 375)**	(109 603)
Purchase of property, plant and equipment	**(217 571)**	(64 764)
Proceeds on disposal of property, plant and equipment	**6 641**	13 623
Proceeds on disposal of subsidiary	**455 949**	–
Gross increase in loans	**11 482**	820
Acquisition of operations	**(44 526)**	(59 282)
Acquisition of share in subsidiary	**(639 350)**	–
Cash flow from financing activities	**522 253**	(299 414)
Increase/(decrease) in short-term borrowings	**262 924**	(50 443)
Gross increase in long-term borrowings	**725 000**	–
Repayment of long-term borrowings	**(97 750)**	(31 250)
Repayment of instalment sale agreements	**(29 367)**	(31 087)
Acquisition of shares from non-controlling shareholders	**(15 068)**	–
Lease payments	**(32 401)**	(25 612)
Interest paid	**(143 395)**	(97 769)
Treasury shares acquired	**(19 869)**	–
Dividends paid	**(127 821)**	(63 253)
Net increase in cash and cash equivalents	**307 950**	16 717
Cash and cash equivalents at the beginning of the year	**51 534**	34 817
Cash and cash equivalents at the end of the year	**359 484**	51 534

Notes to the summary consolidated financial statements

for the year ended 30 September

1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The summary consolidated financial statements for the year ended 30 September 2022 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa, Act 71 of 2008, as amended, applicable to summary financial statements. 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**"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council and also, as a minimum, to contain the information required by IAS 34 "Interim Financial Reporting".

This summarised report is extracted from the audited information, but is not itself audited. The annual financial statements for the year were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the company's registered office and on the website, www.kaapagri.co.za. The Group's auditors have not reviewed nor reported on any comments relating to prospects.

The directors take full responsibility for the preparation of the preliminary report and that the financial information has been correctly extracted from the underlying annual financial statements.

The summary consolidated financial statements for the year ended 30 September 2022 were prepared by GC Victor CA(SA), the Group's financial manager under supervision of GW Sim CA(SA) the Group's financial director.

2 ACCOUNTING POLICIES

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived, are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous annual financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these summary consolidated financial statements, the significant judgements 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 2022. 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates

Properties

Properties 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 estimated and assessed based on industry knowledge and past experience with similar assets, taking into account the location and current condition of the properties. Properties are continuously maintained and kept up to standard.

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.

Judgements

Purchase price allocations

Judgement is used in determining the fair value of the identifiable assets within a purchase price allocation. Refer to note 15 for the considerations listed that results in the recognition of goodwill in the business combination transactions as well as the considerations applied to other intangible assets.

Inventory provisions

The Group makes certain judgements relating to the provision of inventory, based on the frequency of movement in different inventory types. This determines the rates applied per age bucket in calculating the inventory provision to be recognised.

Goodwill and indefinite useful life assets

The Group makes certain judgements relating to the impairment testing of goodwill, based on projections and assumed growth rates in income, expenses and terminal growth rates while using a pre-tax discount rate determined by management. These judgements are used to determine if an impairment of goodwill or indefinite useful life assets are applicable. Given that the retail licences remain valid for as long as the licence holder operates as a going concern, the estimated useful life of the individual retail licences is considered to be indefinite.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Judgements (continued)

Extension periods with regards to lease contracts

The Group makes certain judgements relating to the extension periods of leases during the IFRS 16 right-of-use asset and lease liabilities calculations. If it is more likely than not that the lease will be extended based on all the available factors, the extension option is taken into account in determining the lease. Most of the rent paid is for Agrimark stores and based on the history of the relationship with lessors and the group's strategies with the stores, the contracts will be extended. Most of the store leases are renewed based on the fact that the stores are at strategic locations and most has been there for some time, it will disrupt business if moved to different locations. Where the lease is not beneficial to the group, the extension option will not be applied. The lease term is reassessed if an option is actually exercised (or not exercised) or the group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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

The only financial instruments 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). The investment in Signafi Capital (Pty) Ltd is a level 3 financial instrument based on the observable market data as these are unlisted shares.

Level 2 hedging derivatives comprise forward purchase and sale contracts and options. The effects of discounting are generally insignificant for Level 2 derivatives.

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
- Long-term borrowings
- Instalment sale agreements

	2022 R'000	2021 R'000
5 PROPERTY, PLANT AND EQUIPMENT		
Reconciliation of movements in carrying value:		
Carrying value beginning of period	**1 545 524**	1 525 678
Additions	**228 290**	75 585
Land and buildings	**93 487**	7 297
Grain silos	**602**	2 196
Machinery and equipment	**37 221**	27 857
Vehicles	**14 473**	9 418
Office furniture and equipment	**15 186**	17 280
Assets under construction	**67 321**	11 537
Additions through business combinations	**36 060**	17 229
Disposals	**(425 576)**	(11 581)
Depreciation	**(66 883)**	(61 387)
Carrying value end of period	**1 317 415**	1 545 524
Land and buildings	**828 261**	1 143 791
Grain silos	**26 177**	24 193
Machinery and equipment	**240 816**	213 364
Vehicles	**45 150**	41 941
Office furniture and equipment	**128 543**	109 951
Assets under construction	**48 468**	12 284
Vehicles include the following amounts where the Group has instalment sale agreements:		
Cost	**45 468**	56 059
Accumulated depreciation	**(16 022)**	(23 505)
Carrying value	**29 446**	32 554
Equipment include the following amounts where the Group has instalment sale agreements:		
Cost	**107 548**	107 781
Accumulated depreciation	**(12 306)**	(7 041)
Carrying value	**95 242**	100 740

		2022 R'000	2021 R'000
6	**RIGHT-OF-USE ASSETS AND LEASE LIABILITY**		
	Right-of-use assets		
	Buildings	**612 806**	251 898
	Vehicles	**4 895**	1 906
		617 701	253 804
	Reconciliation of movements in carrying value:		
	Carrying value at beginning of year	**253 804**	236 302
	Additions	**441 230**	39 221
	Modification of lease contracts	**(22 315)**	10 871
	Depreciation charge of Right-of-use assets	**(55 018)**	(32 590)
	Buildings	**(53 480)**	(31 389)
	Vehicles	**(1 538)**	(1 201)
	Carrying value at end of year	**617 701**	253 804
	Lease liabilities		
	Current	**50 019**	23 827
	Non-current	**628 772**	232 208
		678 791	256 035
	Interest expense (included in finance costs)	**37 917**	20 573
	Expense relating to short-term leases and low value assets (included in administrative expenses)	**17 060**	10 439
	Cash flow expense for leases and low value and short-term leases	**(49 461)**	(36 051)

The group's leasing activities and how these are accounted for

The group leases various retail stores, storage sites and forklifts. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options as described below. 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.

6 RIGHT-OF-USE ASSETS AND LEASE LIABILITY (CONTINUED)

Sale and leaseback transaction

During the year the subsidiary TFC Properties (Pty) Ltd was sold to an external party. The historical rationale for acquiring retail fuel and convenience properties was aligned with the strategic drive of footprint growth in this new market. Given that TFC has now successfully entered the retail fuel and convenience markets, and upon reviewing the returns generated on capital invested, it has been decided to dispose of TFC Properties, and in doing so enter into long-term leases to ensure tenure on its fuel retail sites. Proceeds from the disposal of TFC properties was used as funding for higher return generating acquisition opportunities, namely the acquisition of the PEG Retail Group.

All of the properties sold are being leased back by the group thus concluding in a Sale and Leaseback transaction. The new lease agreements will endure for 12 years from the Effective Date. The rental will escalate at the higher of 1) escalation attributable to the CAPEX portion of the RAS Schedule or 2) the consumer price index, from time to time.

The impact of the Group's sale and leaseback transaction is disclosed below:

	2022 R'000	2021 R'000
Cash proceeds received	**455 949**	–
Carrying amount of subsidiary at disposal date	**(386 278)**	–
Right-of-use asset recognised	**345 688**	–
Lease liability recognised	**(412 447)**	–
Profit on sale and leaseback transaction	**2 912**	–

		2022 R'000	2021 R'000
7	**INTANGIBLE ASSETS**		
	Reconciliation of movements in carrying value:		
	Carrying value beginning of period	**517 764**	471 012
	Additions through business combinations	**1 194 310**	48 135
	Disposal of subsidiary	**(91 313)**	–
	Amortisation	**(2 554)**	(1 383)
		1 618 207	517 764
	Reconciliation of movements in carrying value:		
	Goodwill	**1 399 631**	497 995
	Carrying value at beginning of year	**497 995**	455 532
	Additions through business combinations	**992 949**	42 463
	Disposal of subsidiary	**(91 313)**	–
	Fuel retail licences	**193 738**	–
	Additions through business combinations	**193 738**	–
	Tradename	**14 405**	14 795
	Carrying value at beginning of year	**14 795**	12 480
	Additions through business combinations	**–**	2 595
	Amortisation recognised in profit or loss	**(390)**	(280)
	Customer relationships	**3 359**	4 974
	Carrying value at beginning of year	**4 974**	3 000
	Additions through business combinations	**–**	3 077
	Amortisation recognised in profit or loss	**(1 615)**	(1 103)
	Computer software	**7 074**	–
	Additions through business combinations	**7 623**	–
	Amortisation recognised in profit or loss	**(549)**	–
		1 618 207	517 764

7 INTANGIBLE ASSETS (CONTINUED)

In order to assess the goodwill and retail fuel licences that originated from business acquisitions in the Retail Fuel & Convenience segments, a value in use calculation was done per Cash Generating Unit ("**CGU**"). More information is disclosed below:

The Retail Fuel & Convenience acquisition strategy is cluster based, focusing on increasing scale in identified geographic locations and grouped as such based on geographic location, the nature and how the clusters are managed and monitored. The goodwill is monitored for impairment based on these clusters. The fuel clusters are included in the Retail Fuel & Convenience segment. The most significant clusters to which goodwill has been allocated include the clusters listed below:

	2022 R'000	2021 R'000
Carrying value		
Eastern Cape cluster	**56 475**	65 880
Northern Cape cluster	**111 016**	133 719
Northern Province cluster	**213 528**	272 093
Western Province cluster	**38 145**	–
Highway cluster	**954 804**	–

The following table sets out the key assumptions applied in determining the recoverable amount of each CGU used per cluster:

	2022 %	2021 %
Pre-tax discount rate	**11,0 – 12,0**	10,0 – 11,0
Revenue growth rate	**9,0 – 15,0**	9,0 – 9,5
Expenses growth rate	**7,5 – 8,5**	7,5 – 8,0
Terminal growth rate	**6,0**	6,0

The approved budget for the next financial year was used as base data after which the relevant inputs were extrapolated for the next 4 years with the long-term growth rate being applied in the terminal year. The growth rate in revenue is more or less the same as the prior year based on sustainable strategic plans in place to focus on the growth of the sites in the clusters. The expenses were grown with more or less the same range as the prior year. The pre-tax discount rate is higher as a result of a higher cost of capital based on a higher cost of interest bearing debt.

7 INTANGIBLE ASSETS (CONTINUED)

Management has performed a sensitivity analysis on the key assumptions in the impairment model using possible changes in these key assumptions including pre-tax discount rates, growth in expenses, expenses growth rate and terminal growth rate used. Listed below is the increase/decrease in assumptions required to deplete the headroom after which a portion of goodwill will start to be impaired:

	PRE-TAX DISCOUNT RATE		GROSS PROFIT PERCENTAGE		EXPENSES GROWTH RATE	
	2022	2021	**2022**	2021	**2022**	2021
Eastern Cape cluster	**+6,8%**	+4,9%	**-6,5%**	-7,8%	**+5,9%**	+7,8%
Northern Cape cluster	**+12,9%**	+12,5%	**-11,7%**	-12,9%	**+12,1%**	+15,5%
Northern Province cluster	**+5,0%**	+10,7%	**-5,6%**	-10,0%	**+5,6%**	+11,6%
Western Province cluster	**+16,5%**	–	**-6,5%**	–	**+7,3%**	–
Highway cluster	**+18,3%**	–	**-2,2%**	–	**+7,2%**	–

Even if the terminal growth rate is zero, no impairment is identified. There is sufficient headroom and no risk of impairment noted.

The Agrimark acquisition strategy focusses on increasing scale in identified geographic locations and diversifying the business. The Forge and Farmsave branded branches is included in the Agrimark segment for the group. The goodwill raised through the business combination with Partridge Building Supplies (Pty) Ltd ("**PBS**") in previous years was tested for impairment using a value in use calculation.

	2022 R'000	2021 R'000
Carrying value		
Goodwill – business combination relating to PBS	**22 033**	22 033
Goodwill – business combination relating to Farmsave	**1 186**	1 827

7 INTANGIBLE ASSETS (CONTINUED)

The following table sets out the key assumptions applied in determining the recoverable amount of the goodwill raised:

	2022 %	2021 %
Goodwill – business combination relating to PBS and Farmsave		
Pre-tax discount rate	**11,4**	15,7
Revenue growth rate	**10,0 – 12,0**	10,0
Expenses growth rate	**8,5 – 9,0**	8,0
Terminal growth rate	**6,0**	6,0

The approved budget for the next financial year was used as base data after which the relevant inputs were extrapolated for the next four years with the long-term growth rate being applied in the terminal year. The pre-tax discount rate is higher as a result of a higher cost of capital based on a higher cost of interest bearing debt. Growth in revenue is more or less in line with prior years. Expenses increased in line with inflation. No impairment was noted.

In relation to PBS, management performed a sensitivity analysis on goodwill in relation to the key assumptions in the impairment model, considering possible changes in these key assumptions (including pre-tax discount rate, growth in gross profit, expenses and terminal value).

An impairment only becomes applicable when the discount rate is increased with 7,2% (2021: 23,9%). If the expenses increase with 6,2% per year (2021: 10,1% per year), a portion of goodwill will be impaired. If the gross profit decreases with 0,4% per year (2021: 0,8%), a portion of goodwill will be impaired. Even if the terminal growth rate is zero, no impairment is identified. Thus, there is sufficient headroom and no risk of impairment.

The remaining CGU in the Trade segment was also assessed for goodwill impairment and sufficient headroom noted. Carrying amount of R2,4 million (2021: R2,4 million).

		2022 R'000	2021 R'000
8	**INVESTMENT IN JOINT VENTURE**		
	Kaap Agri (Namibia) (Pty) Ltd		
	Beginning of year	**33 923**	6 542
	Loan capitalised – shares issued	**–**	25 000
	Share in total comprehensive income	**7 454**	2 381
		41 377	33 923
9	**TRADE AND OTHER RECEIVABLES**		
	Trade debtors	**2 583 856**	2 056 188
	Provision for impairment	**(44 213)**	(54 460)
		2 539 643	2 001 728
	VAT	**94 053**	43 788
	Other debtors	**80 030**	60 306
		2 713 726	2 105 822
	Trade and other receivables – current	**2 661 293**	2 053 669
	Trade and other receivables – non-current	**52 433**	52 153
		2 713 726	2 105 822
10	**TRADE AND OTHER PAYABLES**		
	Trade creditors	**2 220 823**	1 501 529
	Employee accruals	**136 427**	75 467
	Other creditors	**146 905**	79 664
		2 504 155	1 656 660

	2022 R'000	2021 R'000
11 DERIVATIVE FINANCIAL INSTRUMENTS		
Financial liability at amortised cost		
Written Put Option		
Partridge Building Supplies (Pty) Ltd	**–**	(23 651)
Opening balance	**(23 651)**	(14 213)
Put exercised during the year	**15 068**	–
Interest	**(114)**	(1 279)
Remeasurement through profit or loss	**–**	(8 159)
Put unexercised, thus lapsed through equity	**8 697**	–
Minority Put Option		
Partridge Building Supplies (Pty) Ltd		
Put option raised through equity	**(19 240)**	–
Interest	**(260)**	–
Put exercised during the year	**19 500**	–
As a result of the acquisition of the minority shares in the subsidiary the non-controlling interest was derecognised	**22 462**	–
Financial liability at fair value through profit or loss		
Written Put Option		
C-Max Investments (Pty) Ltd	**–**	(76 100)
Opening balance	**(76 100)**	(76 600)
Remeasurement through profit and loss	**(4 300)**	500
Put relinquished through equity	**80 400**	–

Financial liability at amortised cost

Through the acquisition of the 60% shareholding in Partridge Building Supplies (Pty) Ltd in prior years, the Group entered into a once-off written put agreement over the remaining 40% interest in the aforementioned Company. The option was exercisable after the finalisation of the financial statements for the year ending 30 September 2021 and the consideration on exercise was 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. During this financial period 25% of the remaining 40% shareholding was purchased as part of the Written Put Option, and the rest of the Written Put Option was not exercised. This portion of the written put option lapsed and the liability was derecognised with a corresponding adjustment to equity.

A new Minority Put Option was raised in January as a financial liability at amortised cost. 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 was 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 was 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 is exercised. As at the end of the period this option was exercised and shares were issued as payment method to clear out the liability as at 31 March 2022.

11 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Financial liability at fair value through profit or loss

During the current year the financial liability was relinquished. A new Memorandum of Incorporation was created for TFC Operations and in terms of the agreement C-Max Investments (Pty) Ltd no longer has the contractual right to put the shares to Kaap Agri, thus the financial liability relinquished through equity.

As part of the asset-for-share transaction in prior years, the Group entered into a once-off written put agreement, 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 and it lapses after the notice period has passed, which is 30 days after sign-off of the 30 September 2023 financial statements. 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 forecast profit after tax). The financial liability was 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 was accounted for in the income statement.

	2022 R'000	2021 R'000
Financial liability at fair value through profit or loss		
Low risk retention payment – contingent consideration		
Purchase	**(80 778)**	–
Interest	**(1 618)**	–
	(82 396)	–

The low risk retention payment resulted with the purchase of the subsidiary PEG Retail Holdings (Pty) Ltd. A contingent consideration amount has been allocated in respect of each site where a required five-year renewal of the lease agreement should be obtained. Within five business days of receipt by TFC of the signed renewal agreement, TFC will make the relevant payments. The low risk retention payment will be increased by a factor equal to prime less 1% calculated from effective date to the date of actual payment. Management is of the opinion that based on history and the current relationships with the Oil companies, the probability of the lease agreements to be renewed and the low risk retention payment to be made in full is highly probable. This liability is expected to be settled before 31 December 2025.

12 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 as well as the fact that they share similar economic characteristics. The Executive Committee considers the business from a divisional perspective. The performance of the following divisions are separately considered: Agrimark, Retail Fuel & Convenience, Agrimark Grain as well as Manufacturing. The performance of the operating segments are assessed based on a measure of revenue and net profit before taxation.

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

Retail Fuel & Convenience provides a full retail fuel offering to a diverse range of customers and includes convenience store and quick service restaurant outlets of TFC and PEG. The nature of products, services, type of customers and regulatory environment of both TFC and PEG have similar economic characteristics and thus aggregated into one reporting segment.

Agrimark Grain 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, other irrigation equipment, food grade plastic bulk bins for the agricultural market and distributes other irrigation parts.

Corporate includes all assets and liabilities not specifically used by the other identified segments to generate income or expenses.

	SEGMENT REVENUE		SEGMENT RESULTS	
	2022 R'000	2021 R'000	**2022 R'000**	2021 R'000
Segment revenue and results				
Agrimark	**7 829 295**	6 271 932	**481 343**	401 457
Retail Fuel & Convenience	**6 274 506**	3 029 734	**100 462**	72 036
Agrimark Grain	**1 391 930**	1 049 238	**70 939**	61 972
Manufacturing	**204 768**	231 684	**7 443**	14 040
Total for reportable segments	**15 700 499**	10 582 588	**660 187**	549 505
Corporate	**–**	–	**(102 897)**	(89 306)
Total external revenue	**15 700 499**	10 582 588		
Profit before tax			**557 290**	460 199
Income tax			**(144 331)**	(127 923)
Profit after tax			**412 959**	332 276

Included in the Agrimark segment's results is a share in profit of joint venture of R7,5 million. Refer note 8.

	SEGMENT ASSETS		SEGMENT LIABILITIES	
	2022 R'000	2021 R'000	**2022 R'000**	2021 R'000
12 INFORMATION ABOUT OPERATING SEGMENTS (CONTINUED)				
Segment assets and liabilities				
Agrimark	**4 901 360**	3 962 781	**2 774 111**	2 162 664
Retail Fuel & Convenience	**2 910 698**	1 309 023	**2 373 086**	801 573
Agrimark Grain	**94 630**	133 385	**30 545**	39 543
Manufacturing	**338 407**	317 978	**252 698**	212 646
Total for reportable segments	**8 245 095**	5 723 167	**5 430 440**	3 216 426
Corporate	**80 745**	82 076	**75 826**	171 545
Deferred taxation	**12 912**	7 181	**10 009**	26 287
	8 338 752	5 812 424	**5 516 275**	3 414 258

Included in the Agrimark segment's assets is an Investment in Joint Venture of R 41,4 million. Refer note 8.

	2022 R'000	2021 R'000
13 CAPITAL COMMITMENTS		
Contracted	**73 366**	33 888

These commitments have been approved by the Board of directors. The commitments will be financed by own and borrowed funds. The Group remains focused on disciplined cash management, specifically in the areas of working capital, capital expenditure and cost control.

14 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.

These adjustments relate to non-recurring expenses, which consists predominantly of costs associated with corporate transactions (legal and external consultation costs).

	2022 R'000	2021 R'000
Headline earnings	**408 540**	330 806
Attributable to equity holders of the holding company	**391 972**	319 722
Non-controlling interest	**16 568**	11 084
Non-recurring items	**21 981**	16 402
Non-recurring expenses	**17 307**	7 464
Revaluation of Put Options	**4 674**	8 938
Recurring headline earnings	**430 521**	347 208
Attributable to equity holders of the holding company	**407 421**	335 630
Non-controlling interest	**23 100**	11 578
Recurring headline earnings per share (cents)	**578,23**	477,55

15 BUSINESS COMBINATIONS

Purchase of fuel operations site as a business.

In line with the Group's growth strategy to acquire businesses in the fuel sector, a retail fuel operations site was acquired. The retail licence was obtained and thus the operations were acquired and treated as a business combination under IFRS 3. Goodwill on acquisition was paid on this business which represents synergies within the Group and have future earnings potential.

The Group's acquisition strategy specific in the Retail Fuel & Convenience sector is cluster based, focusing on increasing scale in identified geographic locations. This geographic scale allows for enhanced synergistic benefits. The synergies 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 offerings to preferred suppliers
- 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

In the Retail Fuel & Convenience sector, 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.

Based on the purchase of the fuel site a provisional purchase price allocation ("PPA") as required by IFRS 3: Business combinations was performed and no intangible assets were identified. 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.

15 BUSINESS COMBINATIONS (CONTINUED)

The assets and liabilities at the date of acquisition can be summarised as follows:

	Engen False Bay R'000
Carrying value	
Assets	
Plant and equipment	1 455
Inventory	4 926
	6 381
Fair value	
Assets	
Plant and equipment	1 455
Goodwill	38 145
Inventory	4 926
Purchase consideration	44 526
– paid in cash (current period)	44 526

For the sites where no property forms part of the business combination the following applies:

– Engen False Bay - a lease contract was entered into after the business combination, thus no Right-of-use asset formed part of the PPA allocation. However a Right-of-use asset and Lease liability was subsequently recognised.

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

	Engen False Bay R'000
Revenue	
– since acquisition date	146 648
– as if from the beginning of the year	251 726
Profit before tax	
– since acquisition date	3 574
– as if from the beginning of the year	7 770

15 BUSINESS COMBINATIONS (CONTINUED)

Purchase of a subsidiary through acquiring shares

Effective 1 July 2022, the Group also acquired 100% of the ordinary shares in PEG Retail Holdings (Pty) Ltd. The transaction has been concluded as part of TFC Operations' strategy to expand its portfolio of service stations operated within South Africa. Goodwill on acquisition was paid on this transaction as management are of the view that the PEG Group is a well-managed, established business, operating prime service stations in the country, has strong relationships with franchisors in the industry and is a highly cash generative business. This allows the Group to expand its footprint and services within the service station industry in South Africa.

Based on the purchase of the 100% shares in PEG Retail Holdings (Pty) Ltd a provisional PPA as required by IFRS 3: Business combinations was performed and some intangible assets were identified. The transaction has been concluded at the overall business level and the business will be managed as a single unit called the Highway cluster based on the nature of the operating fuel sites and how it is managed and monitored. Management will monitor the performance of the PEG Group as a whole, with no separate monitoring by operating entity or other disaggregation only on a voluntary basis. 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. The PEG brand is relatively unknown in South Africa among end-customers as it is secondary to the brands of the relevant oil companies and franchisors which are displayed at the various service stations operated by the PEG Group. The PEG brand is not displayed at the sites and thus based on the considerations, the PEG brand name is considered to have limited brand equity and is not considered to be the key driver of value for the PEG Group. The Group has therefore not identified the PEG brand as a material intangible asset that requires valuation and recognition. No customer relations were recognised as the Group did not acquire any customer list, they are all commercial sites offering products to clients that could be purchased anywhere.

There is value in the fact that the PEG Group holds the relevant retail licences for each of its operating sites. However, these licences are relatively inexpensive and a market participant with the necessary BEE credentials would be able to obtain these licences within the application process period. The Group also notes that there are numerous retail licences available in the industry as opposed to other industries where there are a limited number of licences available. The retail licences are contractual in nature and meet the recognition criteria in terms of IFRS 3. We have therefore identified the retail licences as separately identifiable intangible assets requiring valuation. The replacement cost approach was considered to be an appropriate valuation method to value the retail licences. Given that the retail licences remain valid for as long as the licence holder operates as a going concern, the estimated useful live of the individual retail licences is considered to be indefinite.

The goodwill is attributable to the workforce, the high profitability of the acquired business and the geographic spread of the fuel sites across South Africa.

15 BUSINESS COMBINATIONS (CONTINUED)

The assets and liabilities at the date of acquisition can be summarised as follows:

	PEG Retail Holdings R'000
Carrying value	
Assets	
Plant and equipment	34 606
Right-of-use asset	41 411
Computer software	539
Deferred tax	4 648
Inventory	112 756
Trade and other receivables	46 783
Cash and cash equivalents	309 786
Liabilities	
Borrowings	(38 000)
Trade and other payables	(410 320)
Tax payable	(54 930)
Lease liability	(22 165)
	25 114
Fair value	
Assets	
Plant and equipment	34 606
Right-of-use asset	41 411
Fuel retail licences	193 738
Computer software	7 623
Deferred tax	(49 719)
Inventory	112 756
Trade and other receivables	46 783
Cash and cash equivalents	309 786
Liabilities	
Borrowings	(38 000)
Trade and other payables	(410 317)
Tax payable	(54 930)
Lease liability	(22 165)
Net identifiable assets acquired	171 572
Less: Non-controlling interest	(24 347)
Add: Goodwill	954 804
Net assets acquired	1 102 029
Purchase consideration	1 102 029
– paid in cash (current period)	949 136
– shares issued in subsidiary (increase in non-controlling interest)	72 115
– contingent consideration	80 778

15 BUSINESS COMBINATIONS (CONTINUED)

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

	PEG Retail Holdings R'000
Revenue	
– since acquisition date	**2 105 480**
– as if from the beginning of the year	**7 524 051**
Profit before tax	
– since acquisition date	**52 493**
– as if from the beginning of the year	**287 984**

16 EVENTS AFTER REPORTING DATE

A gross final dividend of 122,00 cents per share (2021: 111,00 cents) has been approved and declared by the Board from income reserves, for the year ended 30 September 2022.

The directors are not aware of any further matters or circumstances that occurred since the end of the financial year up to the date of this report that has not been dealt with in the report or financial statements and which may have a significant influence on the activities of the group or the results of those activities.

Corporate information

KAAP AGRI LIMITED (“KAAP AGRI”)

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*#
I Chalumbira*
B Mathews *# (appointed 22 September 2022)

* *Non-executive*
\# *Independent*

Company Secretary

KAL Corporate Services (Pty) Ltd

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.

Transfer Secretaries

Computershare Investor Services (Pty) Ltd
Registration number: 2004/003647/07
Rosebank Towers, 15 Biermann Avenue,
Rosebank, Johannesburg, 2196
Private Bag X9000, Saxonwold, 2132
Fax number: 086 636 7200

Sponsor

PSG Capital (Pty) Ltd
Registration number: 2006/015817/07
1st Floor, Ou Kollege Building, 35 Kerk Street,
Stellenbosch, 7600
PO Box 7403, Stellenbosch, 7599

and

Suite 1105, 11th Floor, Sandton Eye Building,
126 West Street, Sandton, 2196
PO Box 650957, Benmore, 2010

Announcement date

24 November 2022