QUANTUM FOODS

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 2019

SALIENT FEATURES

	2019	2018	% change
Revenue	**R2 103 million**	R2 035 million	3
Operating profit (before items of a capital nature)*	**R121 million**	R244 million	(50)
Operating profit	**R121 million**	R244 million	(51)
Headline earnings	**R96 million**	R183 million	(48)
Earnings per share	**45.2 cents**	82.4 cents	(45)
Headline earnings per share	**45.4 cents**	82.5 cents	(45)
Interim dividend per share	**8 cents**	20 cents	(60)

* *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

INTRODUCTION

During the first six months of the 2019 financial year, the operating environment once again underwent major changes. Significant increases in feed raw material costs, especially maize, and decreases in egg selling prices impacted the industry.

These changes are inherent in our industry and Quantum Foods is structured to operate in this volatile environment.

The price of yellow maize increased by 29.5% on the back of dry conditions in the maize-producing areas of North West and the western Free State. Maize prices also increased due to an exchange rate weakening of the ZAR against the USD.

There were no reported incidences of avian influenza ("AI") in commercial poultry during the reporting period. The South African layer flock is being replenished at a rapid rate and according to the forecast of the South African Poultry Association, the national layer flock was expected to reach 26.1 million hens during March 2019, up from 24.8 million in September 2018. As a consequence of this increase in egg supply, egg prices decreased to below the pre-AI levels of June 2017 at the end of this reporting period.

OPERATIONAL OVERVIEW

Animal feeds

The animal feeds business lost some external volumes due to competitor activity. Internal volumes are slowly increasing as the commercial layer flock numbers are replenished. Total volumes declined by 0.9% compared to 2018. Loadshedding had an adverse effect on the feed business in that more than 2 000 tonnes of feed had to be procured from other feed mills at higher prices. Loadshedding also negatively affected the cost recovery in the feed mills. However, overhead costs in general were well managed, with the rand per tonne cost increasing below inflation. Both the Pretoria and Olifantskop expansion projects are progressing according to plan and should be in production in the fourth quarter of fiscal year 2019.

Farming

The layer-breeding operational performance remained above breed standard and continued to contribute positively to the profitability of Quantum Foods. The commercial layer farms' efficiency continues to improve on a completed flock basis, but some challenges remain. Problematic farms have been identified and are receiving special attention.

The broiler breeder efficiencies remained depressed and, although changes to husbandry practices have been made, a return to targeted productivity levels is not foreseen in the short term. Commercial broiler production performance remained at a very high level.

Eggs

The egg business showed good resilience when egg prices decreased and remained profitable in the reporting period. Egg prices declined by 14.1% and volumes increased by 2.9%. With egg prices declining and input costs increasing, the pressure on margins increased. Operational efficiency continued to improve and, with minor exceptions, these efficiencies were at their highest levels ever.

Other Africa

The other African businesses all had disappointing financial results.

In Zambia the increase in raw material costs could not be recovered in the price of eggs. The breeder farm started its recovery and produced a profit for the six months compared to a loss in the previous period. A new feed factory was commissioned, and the sales performance from this factory was satisfactory. The weakened kwacha also negatively influenced the financial performance of the business, but within this challenging environment, the operational performance of local management was good.

In Uganda the operational business performance was satisfactory, but the business also had to contend with higher raw material costs. A decision was made to empty the breeder farm in Kampala completely due to a recurring disease challenge that adversely affected productivity. A temporary breeding site was established on the Masindi egg farm. This has added cost implications for the business, especially regarding logistics, but should lead to improved breeder productivity in the longer term.

The Masindi egg operation performed very well under the circumstances and improved its profitability compared to the previous year.

The Mozambique business suffered from the same industry dynamics as the South African egg business. Despite very challenging conditions, the business remained cash positive. Local management is actively seeking ways to become less affected by South African conditions. Farm productivity also improved during this period.

FINANCIAL OVERVIEW

Group revenue increased by 3.3% to R2.1 billion, with a 3.5% increase of R68 million in the South African operations and a 0.1% increase in other African operations. Revenue from other African operations contributed 5.2% of the Group's revenue for 2019 (2018: 5.4%).

Revenue from South African operations:

- increased by R53 million for the feed segment. This is a result of the adjustment to selling prices in response to higher average raw material costs, while volumes sold decreased by 3.6%;
- increased by R84 million for the farming segment. Similar to the feeds segment, selling prices were increased as a result of higher average feed cost used in determining selling prices. Revenue further increased due to an increase in both the volume of live broilers supplied and the volume of point-of-lay hens produced; and
- decreased by R70 million for the eggs segment, where an average price decrease of 14.1% and a volume increase of 2.9% was achieved.

Cost of sales increased by 1.5% to R1.6 billion. Cost of sales include 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 2019 amounted to R65 million (2018: R225 million), with the decrease mostly reflective of the decreased margins in the egg business. Gross profit, excluding these fair value adjustments, decreased by R116 million to R562 million at a margin of 26.7% (2018: 33.3%).

Cash operating expenses were well managed and increased by 0.9% in 2019.

Operating profit before items of a capital nature decreased by 50% to R121 million for the period under review. South African operations recorded a 50% decrease of R119 million to a profit of R119 million at a margin of 6.0% (2018: 12.4%). Feeds and farming improved by R1 million and R8 million respectively, while eggs weakened by R129 million. Feeds profit benefited from the increase in volumes to the internal layer farming business, but was negatively affected by the decline in sale volumes to the external market. The improvement in farming profit is mostly due to no reoccurrence of the AI incidents that affected the Western Cape layer farm operations in 2018. Other African operations recorded a decrease in profits of R4 million, with lower profitability in all three countries.

Headline earnings per share ("HEPS") decreased to 45.4 cents from the 82.5 cents per share of 2018.

Cash inflow from operations amounted to R51 million for the reporting period. This includes an increased investment of R84 million in working capital.

Capital expenditure for the period amounted to R91 million, with the main projects being the capacity expansion projects at the Olifantskop feed mill, the Pretoria feed mill, the layer hatchery in Bronkhorstspruit, the Mega Eggs farm in Zambia, the Uganda breeder and egg business and the replacement of an egg-grading machine at the Pinetown packing station.

Cash and cash equivalents decreased from R422 million at 30 September 2018 to R245 million at 31 March 2019, the decrease including the R147 million final dividend for 2018.

The Group had minimal borrowings at 31 March 2019, which comprised an arrangement to purchase electricity generated from solar panels, capitalised as a finance lease in terms of International Financial Reporting Standards ("IFRS").

DIVIDEND

The Group targets a HEPS cover of approximately four times for the declaration of total dividends.

The Board has approved and declared a gross interim dividend of 8 cents per share from income reserves for the six months ended 31 March 2019. However, the Board considered the cash outflow of the planned repurchase of shares to be voted on by shareholders on 27 May 2019 and therefore increased the HEPS cover.

Dividends tax, at a rate of 20%, will amount to 1.6 cents per share. Consequently, shareholders who are not exempt from dividends tax will receive a net dividend amount of 6.4 cents per share. Such tax must be withheld unless beneficial owners of the dividend have provided the necessary documentary proof to the relevant regulated intermediary that they are exempt therefrom or are entitled to a reduced rate as a result of the double tax agreement between South Africa and the country of domicile of such owner.

The applicable dates are as follows:

Last date of trading *cum* dividend	Tuesday, 18 June 2019
Trading *ex* dividend commences	Wednesday, 19 June 2019
Record date	Friday, 21 June 2019
Dividend payable	Monday, 24 June 2019

Share certificates may not be materialised or dematerialised between Wednesday, 19 June 2019 and Friday, 21 June 2019, both days inclusive.

The number of shares in issue at declaration date was 210 529 716.

PROSPECTS

The period ahead is expected to be characterised by a further decline in egg prices and higher feed input costs. The eggs and other African businesses' profitability is therefore expected to be under increased pressure during the second half of 2019. The animal feeds and farming businesses are, however, expected to produce stable financial results compared to the first half of 2019.

By order of the Board

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer

23 May 2019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 March 2019 R'000	Unaudited 31 March 2018 R'000	Audited 30 September 2018 R'000
ASSETS			
Non-current assets	**1 153 096**	1 045 890	1 091 867
Property, plant and equipment	**1 134 013**	1 023 208	1 071 869
Intangible assets	**9 170**	12 124	10 637
Investment in associate	**9 230**	8 582	8 789
Deferred income tax	**683**	1 976	572
Current assets	**1 244 006**	1 284 885	1 422 816
Inventories	**251 712**	199 532	240 396
Biological assets	**333 575**	295 437	332 058
Trade and other receivables	**410 251**	430 827	425 424
Derivative financial instruments	**3 281**	–	–
Current income tax	**150**	–	2 477
Cash and cash equivalents	**245 037**	359 089	422 461
Total assets	**2 397 102**	2 330 775	2 514 683
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent	**1 809 574**	1 755 328	1 854 391
Share capital	**1 500 248**	1 549 972	1 500 248
Treasury shares	**–**	–	(1 541)
Other reserves	**(219 328)**	(242 213)	(226 402)
Retained earnings	**528 654**	447 569	582 086
Total equity	**1 809 574**	1 755 328	1 854 391
Non-current liabilities	**239 247**	234 703	234 405
Interest-bearing liability	**6 078**	6 181	6 128
Deferred income tax	**225 451**	220 914	220 559
Provisions for other liabilities and charges	**7 718**	7 608	7 718
Current liabilities	**348 281**	340 744	425 887
Trade and other payables	**342 604**	319 926	424 661
Derivative financial instruments	**–**	1 096	1 127
Current income tax	**5 574**	19 631	–
Interest-bearing liability	**103**	91	99
Total liabilities	**587 528**	575 447	660 292
Total equity and liabilities	**2 397 102**	2 330 775	2 514 683

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 31 March 2019 R'000	Unaudited Six months ended 31 March 2018 R'000	Audited Year ended 30 September 2018 R'000
Revenue	3	**2 103 328**	2 035 426	4 121 901
Cost of sales		**(1 605 653)**	(1 582 390)	(3 187 855)
Gross profit		**497 675**	453 036	934 046
Other income		**5 032**	8 247	33 148
Other gains/(losses) – net	4	**62 691**	223 683	420 072
Sales and distribution costs		**(121 588)**	(114 691)	(232 391)
Marketing costs		**(4 933)**	(6 282)	(15 205)
Administrative expenses		**(60 713)**	(54 936)	(118 196)
Other operating expenses		**(257 547)**	(264 872)	(548 195)
Operating profit		**120 617**	244 185	473 279
Investment income		**10 406**	10 271	24 919
Finance costs		**(262)**	(277)	(1 116)
Share of profit of associate company		**441**	498	706
Profit before income tax		**131 202**	254 677	497 788
Income tax expense		**(36 072)**	(71 487)	(135 561)
Profit for the period		**95 130**	183 190	362 227
Other comprehensive income for the period				
Items that may subsequently be reclassified to profit or loss:				
Fair value adjustments to cash flow hedging reserve		**(4 900)**	(4 589)	4 982
For the period		**16 656**	(4 268)	23 627
Deferred income tax effect		**(1 003)**	145	(18)
Current income tax effect		**(3 661)**	1 050	(6 598)
Realised to profit or loss		**(23 461)**	(2 106)	(16 707)
Deferred income tax effect		**18**	568	568
Current income tax effect		**6 551**	22	4 110
Movement on foreign currency translation reserve				
Currency translation differences		**8 337**	(39 179)	(36 299)
Total comprehensive income for the period		**98 567**	139 422	330 910
Profit for the period attributable to owners of the parent		**95 130**	183 190	362 227
Total comprehensive income for the period attributable to owners of the parent		**98 567**	139 422	330 910
Earnings per ordinary share (cents)	5	**45.2**	82.4	164.3
Diluted earnings per ordinary share (cents)	5	**44.8**	81.6	162.6

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 March 2019 R'000	Unaudited Six months ended 31 March 2018 R'000	Audited Year ended 30 September 2018 R'000
Share capital and treasury shares	**1 500 248**	1 549 972	1 498 707
Opening balance	**1 498 707**	1 552 670	1 552 670
Shares repurchased and cancelled	**–**	(2 698)	(52 422)
Ordinary shares acquired by subsidiary	**(2 299)**	–	(2 520)
Ordinary shares transferred – share appreciation rights	**3 840**	–	979
Other reserves	**(219 328)**	(242 213)	(226 402)
Opening balance	**(226 402)**	(200 991)	(200 991)
Other comprehensive income for the period	**3 437**	(43 768)	(31 317)
Recognition of share-based payments	**7 060**	2 546	6 633
Ordinary shares transferred – share appreciation rights	**(3 423)**	–	(727)
Retained earnings	**528 654**	447 569	582 086
Opening balance (after restatement)*	**581 293**	339 966	339 966
Profit for the period	**95 130**	183 190	362 227
Dividends paid	**(147 352)**	(75 587)	(119 855)
Ordinary shares transferred – share appreciation rights	**(417)**	–	(252)
Total equity	**1 809 574**	1 755 328	1 854 391

Refer to note 2(b) for details regarding the restatement of the opening balance of retained earnings on 1 October 2018.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 March 2019 R'000	Unaudited Six months ended 31 March 2018 R'000	Audited Year ended 30 September 2018 R'000
Net cash flow from operating activities	**50 835**	203 949	431 555
Net cash profit from operating activities	**165 555**	279 278	547 802
Working capital changes	**(84 357)**	(20 375)	12 889
Cash effect of hedging activities	**(10 322)**	(3 828)	8 884
Net cash generated from operations	**70 876**	255 075	569 575
Income tax paid	**(20 041)**	(51 126)	(138 020)
Net cash flow utilised in investing activities	**(79 643)**	(21 606)	(87 355)
Additions to property, plant and equipment	**(90 900)**	(32 101)	(115 749)
Additions to intangible assets	**–**	(282)	(283)
Proceeds on disposal of property, plant and equipment	**851**	506	3 758
Interest received	**10 406**	10 271	24 919
Net cash (deficit)/surplus	**(28 808)**	182 343	344 200
Net cash flow utilised in financing activities	**(149 745)**	(78 516)	(175 320)
Repayment of interest-bearing liability	**(46)**	(46)	(91)
Shares repurchased	**–**	(2 698)	(52 422)
Treasury shares acquired by subsidiary	**(2 299)**	–	(2 520)
Interest paid	**(262)**	(277)	(554)
Dividends paid to ordinary shareholders	**(147 138)**	(75 495)	(119 733)
Net (decrease)/increase in cash and cash equivalents	**(178 553)**	103 827	168 880
Effects of exchange rate changes	**1 129**	(6 207)	(7 888)
Net cash and cash equivalents at beginning of period	**422 461**	261 469	261 469
Net cash and cash equivalents at end of period	**245 037**	359 089	422 461

SEGMENTAL ANALYSIS

	Unaudited Six months ended 31 March 2019 R'000	Unaudited Six months ended 31 March 2018 R'000	Audited Year ended 30 September 2018 R'000
Segment revenue	**2 103 328**	2 035 426	4 121 901
Eggs	**537 248**	607 001	1 206 489
Farming	**671 365**	587 047	1 232 798
Animal feeds	**784 859**	731 634	1 460 387
Other African countries	**109 856**	109 744	222 227
Segment results – excluding items of a capital nature	**121 164**	244 420	472 350
Eggs	**27 265**	156 109	286 669
Farming	**51 959**	43 715	98 464
Animal feeds	**40 258**	39 033	69 413
Other African countries	**6 654**	10 793	31 036
Head office costs	**(4 972)**	(5 230)	(13 232)
Items of a capital nature per segment included in other gains – net			
(Loss)/profit on disposal of property, plant and equipment before income tax	**(547)**	(235)	929
Eggs	**(27)**	(172)	1 943
Farming	**(520)**	(51)	(504)
Animal feeds	**–**	(12)	(510)
Segment results	**120 617**	244 185	473 279
Eggs	**27 238**	155 937	288 612
Farming	**51 439**	43 664	97 960
Animal feeds	**40 258**	39 021	68 903
Other African countries	**6 654**	10 793	31 036
Head office costs	**(4 972)**	(5 230)	(13 232)
A reconciliation of the segment results to profit before income tax is provided below:			
Segment results	**120 617**	244 185	473 279
Adjusted for:			
Investment income	**10 406**	10 271	24 919
Finance costs	**(262)**	(277)	(1 116)
Share of profit of associate company	**441**	498	706
Profit before income tax per statement of comprehensive income	**131 202**	254 677	497 788

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the Listings Requirements of the JSE Ltd, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements.

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.

These condensed consolidated interim financial statements incorporate accounting policies that are consistent with those applied in the Group's annual financial statements for the year ended 30 September 2018, apart from the adoption of the new and amended standards, as set out below.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2018.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

– *IFRS 9 Financial Instruments,* and

– *IFRS 15 Revenue from Contracts with Customers*

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

Impact of standards issued but not yet effective

IFRS 16 *Leases* was issued in January 2016. It will result in almost all leases being recognised in the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The standard will affect primarily the Group's operating leases. The Group leases various poultry houses, warehouses, machinery, equipment and vehicles under operating lease agreements. As at 30 September 2018, the Group had non-cancellable operating lease commitments of R52 million. Management performed an initial analysis of all lease contracts and as at 30 September 2018 the value of the right-of-use asset to be capitalised will be about R97 million, this being the net present value of the future lease payments.

Apart from the right-of-use asset and lease liability being recognised in the statement of financial position, the effect of the change in the standard would be a reduction in the operating lease expenses in profit or loss, and an increase in depreciation charges (on the right-of-use asset) and finance cost (interest expense of lease liability). The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements. It also discloses the new accounting policies that have been applied from 1 October 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As explained below, IFRS 9 and IFRS 15 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 30 September 2018 but are recognised in the opening statement of financial position on 1 October 2018.

The following tables show the adjustments recognised for each individual line item. 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 numbers provided. The adjustments are explained in more detail below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EXTRACT)	30 September 2018 As originally presented R'000	IFRS 9 impact R'000	1 October 2018 R'000
ASSETS			
Non-current assets	**1 091 867**	11	1 091 878
Deferred income tax	**572**	11	583
Current assets	**1 422 816**	(1 009)	1 421 807
Trade and other receivables	**425 424**	(1 009)	424 415
Total assets	**2 514 683**	(998)	2 513 685
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent	**1 854 391**	(795)	1 853 596
Retained earnings	**582 086**	(795)	581 291
Non-current liabilities	**234 405**	(203)	234 202
Deferred income tax	**220 559**	(203)	220 356
Total liabilities	**660 292**	(203)	660 089
Total equity and liabilities	**2 514 683**	(998)	2 513 685

No impact on the statement of comprehensive income.

(b) IFRS 9 Financial Instruments – *Impact of adoption*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 October 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements (refer to note 2(a) above). In accordance with the transitional provisions in IFRS 9 (7.2.15), comparative figures have not been restated.

There has been no change to the classification and measurement of financial assets and financial liabilities of the Group, except for the impact of the new impairment requirements. IFRS 9 did not result in significant changes to accounting policies.

(i) Derivatives and hedging activities

The foreign currency forwards in place as at 30 September 2018 qualified as cash flow hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

For foreign currency forwards, the Group only designates the spot component of the change in fair value in cash flow hedge relationships. The spot component is determined with reference to the relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as forward points. It is discounted, where material. Changes in the fair value related to forward points were recognised in the statement of comprehensive income prior to 1 October 2017. The Group continues to recognise this cost of hedging (forward points) immediately in profit and loss.

(ii) Impairment of financial assets

The Group has the following types of financial assets that are subject to IFRS 9's new expected credit loss ("ECL") model:

- trade receivables for sales of inventory;
- other receivables; and
- cash and cash equivalents.

The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table above. While cash and cash equivalents and other receivables are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to such trade receivables and the economic environment. Trade receivables have been grouped together based on shared characteristics and the days past due. The calculation of the expected credit loss takes into account the insurance cover in place.

The Group has a history of minimal bad debt write-offs and has credit insurance in place over a large portion of its trade debtors.

2. CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9 Financial Instruments – *Impact of adoption (continued)*

The loss allowances for trade receivables as at 30 September 2018 reconcile to the opening loss allowances on 1 October 2018 as follows:

	Trade receivables – impairment provision R'000
At 30 September 2018 – calculated under IAS 39	**21 873**
Amount restated through opening retained earnings	**1 009**
Opening loss allowance as at 1 October 2018 – calculated under IFRS 9	**22 882**

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due and/or when the legal process has not enabled recovery.

(c) IFRS 15 Revenue from Contracts with Customers – *Impact of adoption*

The new standard is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a customer. IFRS 15 establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Group's revenue consists mostly of the sale of eggs, animal feeds and live birds, delivered to customers at the customers' premises. There are no material changes to the revenue recognition for revenue from sale of goods under IFRS 15.

	Unaudited Six months ended 31 March 2019 R'000	Unaudited Six months ended 31 March 2018 R'000	Audited Year ended 30 September 2018 R'000
3. REVENUE			
Disaggregation of revenue from contracts with customers:			
Revenue	**2 103 328**	2 035 426	4 121 901
Eggs	**537 248**	607 001	1 206 489
Layer farming	**92 704**	85 767	183 901
Broiler farming	**578 661**	501 280	1 048 897
Animal feeds	**784 859**	731 634	1 460 387
Zambia	**66 072**	62 946	128 522
Uganda	**22 951**	24 645	49 263
Mozambique	**20 833**	22 153	44 442
4. OTHER GAINS/(LOSSES) – NET			
Biological assets fair value adjustment	**47 552**	35 627	74 063
Unrealised – reflected in carrying amount of biological assets	**(1 793)**	726	(775)
Realised – reflected in cost of goods sold	**49 345**	34 901	74 838
Agricultural produce fair value adjustment	**12 070**	191 387	344 783
Unrealised – reflected in carrying amount of inventory	**(3 122)**	993	1 142
Realised – reflected in cost of goods sold	**15 192**	190 394	343 641
Foreign exchange differences	**486**	(1 028)	4 413
Foreign exchange contract fair value adjustments	**1 134**	(138)	(1 243)
Foreign exchange contract cash flow hedging ineffective losses	**(1 486)**	(1 930)	(2 873)
Futures contract cash flow hedging ineffective profit	**3 482**	–	–
(Loss)/profit on disposal of property, plant and equipment	**(547)**	(235)	929
	62 691	223 683	420 072

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. EARNINGS PER ORDINARY SHARE

	Unaudited Six months ended 31 March 2019 R'000	Unaudited Six months ended 31 March 2018 R'000	Audited Year ended 30 September 2018 R'000
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	**95 130**	183 190	362 227
Weighted average number of ordinary shares in issue ('000)	**210 365**	222 211	220 468
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	**95 130**	183 190	362 227
Diluted weighted average number of ordinary shares in issue ('000)	**212 579**	224 578	222 821
Headline earnings is calculated in accordance with Circular 4/2018 issued by the South African Institute of Chartered Accountants.			

5. EARNINGS PER ORDINARY SHARE (continued)

	Unaudited Six months ended 31 March 2019 R'000	Unaudited Six months ended 31 March 2018 R'000	Audited Year ended 30 September 2018 R'000
Reconciliation between profit for the period attributable to owners of the parent and headline earnings			
Profit for the period	**95 130**	183 190	362 227
Items of a capital nature			
Loss/(profit) on disposal of property, plant and equipment	**396**	169	(782)
Gross	**547**	235	(929)
Tax effect	**(151)**	(66)	147
Headline earnings for the period	**95 526**	183 359	361 445
Earnings per share (cents)	**45.2**	82.4	164.3
Diluted earnings per share (cents)	**44.8**	81.6	162.6
Headline earnings per share (cents)	**45.4**	82.5	163.9
Diluted headline earnings per share (cents)	**44.9**	81.6	162.2

6. CONTINGENCIES AND FUTURE CAPITAL COMMITMENTS

Customer claim

The Group received a summons in the 2016 reporting period in respect of a claim for performance of day-old pullets delivered to the customer. The claim was withdrawn as part of a settlement agreement. The settlement had no adverse financial impact on the Group.

There have been no changes since the previous reporting period in the status of the other litigation against the Group (allegations of anti-competitive trade practices – Zambia and dispute with egg contract producer).

Capital expenditure approved by the Board and contracted for amounts to R51.2 million (30 September 2018: R50.0 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R33.0 million (30 September 2018: R95.3 million).

7. 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.

NOTES

Directors: WA Hanekom (Chairman)[#], PE Burton (Lead independent director)[#], GG Fortuin[#], Prof. ASM Karaan[#], N Celliers, T Golden[#+], HA Lourens (CEO)*, AH Muller (CFO)*
**Executive* *[#]Independent* *[+]Appointed 10 December 2018*

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Transfer secretaries: Computershare Investor Services (Pty) Ltd, PO Box 61051, Marshalltown 2107, South Africa

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