KAAP AGRI

INTERIM REPORT 2011

UNAUDITED REPORT
FOR THE SIX MONTHS TO 31 MARCH 2011

REPORT

The Group interim report provides an overview of the Group's activities, results and financial position for the six months ended 31 March 2011. Where the comments refer to "previous year", they refer to the corresponding six-month period of the previous year.

ENVIRONMENT

As agricultural services group Kaap Agri was also exposed to varying agricultural conditions. Product prices in most production sectors were satisfactory but in some sectors farming margins were under severe pressure due to low prices. Although the agricultural environment is less sensitive to short-term fluctuations, the positive and negative trends do have an effect on Kaap Agri's results, but sometimes also only in the next season. The abundant rain, as well as flood damage experienced in the country, had a relatively small impact on Kaap Agri's activities.

ACTIVITIES

Kaap Agri has continued its expansions since the previous year by establishing nine new operating outlets in the form of Agrimark outlets, Liquormark shops, Villagemarts, Savemarts and fuel forecourts, predominantly in the Western Cape, Namibia and the Limpopo Province. The different trademarks are used to serve specific target markets that fall outside the traditional agricultural market. Some of these expansions are already contributing towards profit, although not necessarily in relation to their contribution in turnover, while others are still in a development phase. We accept that there will inevitably be a learning curve when new markets are entered and that all the expansions will not be profitable in the first year. However, these new branches place Kaap Agri in a favourable position to expand its activities beyond its traditional areas of operation and client base.

Grain marketing is aimed at providing a one-stop service to grain producers, thus ensuring maximum throughput and utilisation of the silo infrastructure, against alternative storage facilities that only compete for producers' wheat on a price basis.

RESULTS

Operating activities

Total turnover, which includes the value of direct transactions, increased by 6%, while income, excluding direct transactions, increased by 4%. Margins were unchanged and the increase in gross profit is in line with the increase in turnover. The increase of 10% in total expenses, mainly due to the expansions, caused the total adjusted headline earnings from operations to decline by 3% to R55,5 million.

The turnover of the Trading division, which includes the trading branches and packing material distribution, increased by 5% compared to the previous year. Unchanged margins and increases in costs, referred to above, caused profit to be 3% lower than the previous year. This division remains the main contributor with 75% of the profit from operations before tax. The turnover and profit of Mechanisation, which includes marketing of farming implements, spare parts and workshops, were respectively 16% and 21% lower than the previous year. The turnover of Products, which include grain handling and storing, as well as seed processing, was 6% higher than the previous year but the profit was virtually unchanged. The wheat crop was approximately 30% lower than the previous year but faster despatching patterns meant that handling and storage costs were recovered earlier. Agriplas irrigation performed very well with an increase of 11% in turnover and profit more than doubled.

The Corporate division represents the cost of support services and showed an increase of 7% in costs. Treasury represents the net external interest received less interest paid, and remained unchanged.

The equity BEE transaction, in terms of which 20% of the equity in the operating company was issued to black empowerment groups, has been finalised. The BBE groups' interests in the Kaap Agri Group are indicated as "non-controlling interest" in the Statement of financial position and the Income statement.

Investment activities

Kaap Agri's total equity interest in Pioneer Foods is 26,3% but, due to limitations on voting rights and profit (dividend) sharing of other shares, the voting interest is 28,8% and the economic interest in profit 31,1%.

Pioneer Foods' income increased by 4% to R8 308,3 million. Headline earnings increased by 193% to R422 million or 237 cents per share, but it decreased by 15% against the adjusted headline earnings of the previous year.

The summarised results are as follows:	**Six months to 31 March 2011 Unaudited**	Six months to 31 March 2010 Unaudited	12 months to 30 September 2010 Audited
Income (R million)	**8 308,3**	7 954,4	15 731,3
Earnings (R million)	**431**	155	235
Adjusted headline earnings (R million)	**422**	494	891
Adjusted headline earnings per share (cents)	**236,8**	280,1	503,0

Adjusted headline earnings represent the earnings from operations before provision for possible administrative penalties in the previous year. Pioneer Foods has meanwhile paid or made provision for all amounts and obligations as agreed upon with the Competition Commission.

Pioneer Foods resumed its dividend payments and announced an interim dividend of 40 cents per share. Pioneer Foods' performance for the full year will depend on the manner in which it can sustain its margins in an environment of rising raw material prices and unpredictable consumer spending patterns.

Total

The total equity-accounted earnings increased by 78% to R186,9 million. The adjusted headline earnings attributable to owners of the group are 16% lower than the previous year, and the adjusted headline earnings per share are 70,99 cents compared to the corresponding period's 85,73 cents. The dilution in earnings as a result of the BEE transaction was 3,84 cents per share.

STATEMENT OF FINANCIAL POSITION

The increase in property, plant and equipment represents renovations, improvements and expansions in the ordinary course of business.

The investment in associated companies consists mainly of the investment in Pioneer Foods that is shown at the equity-accounted value. The equity-accounted value at which the investment is shown in Kaap Agri's statements is R30,69 per share compared to the current trading value of approximately R56,00 per share.

Current assets increased by 13%, mainly due to an increase of 16% in debtors. Although the increase in debtors exceeds the increase in turnover and the carry-over debt also increased accordingly, the Board still believes that the debtors book is generally sound and contains no proven risks.

The increase in current assets was funded by cash profit and the increase in creditors and bank overdraft.

CASH FLOW

The Group's cash flow is neutral in that the cash profit was primarily employed for the increase in net operating assets. This is however a temporary situation and the additional investment in operating capital should be unlocked in cash. The Group operates comfortably within its available financing facilities.

RISK MANAGEMENT

Kaap Agri settled on an administrative fine of no more than R1,2 million with the Competition Commission regarding certain alleged transgressions with its participation and membership in Grain Silo Industry (Pty) Ltd. This settlement is still subject to confirmation from the Competition Tribunal. Kaap Agri is satisfied with the intended settlement as it was never the intention to break any laws and gave its full cooperation to the Commission. There are currently no other complaints that the Competition Commission is pursuing against Kaap Agri.

DIVIDEND

An interim dividend of 12 cents per share (2010: 2 cents) will be paid on approximately 22 June 2011. The last day to trade is 31 May 2011.

PROSPECTS

Environmental factors currently look normal for a good planting season. Better grain prices are expected to lead to an increase in plantings. With the exception of some crops, indications are that normal plantings, expansions and replacements will take place.

Due to the seasonal nature of clients' activities, profit is not earned evenly throughout the year and therefore the profit for the first six months is not expected to be repeated in the last six months. Kaap Agri should nevertheless at least make up the current backlog against the previous year and improve on the previous year's profit.

GD Eksteen
Chairperson

CA Botha
Managing director

STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 31 March 2011 R'000	Unaudited 31 March 2010 R'000	Audited 30 September 2010 R'000
ASSETS				
Non-current assets				
Property, plant and equipment	2	**313 451**	299 660	305 262
Investment in associated companies		**1 707 069**	1 544 238	1 570 452
Loans		**36 703**	–	–
Deferred taxation		**3 230**	1 810	4 555
		2 060 453	1 845 708	1 880 269
Current assets				
Inventory		**364 475**	340 559	363 241
Trade and other receivables		**821 744**	706 182	756 721
Financial instruments for hedging		**1 613**	2 150	556
Cash and cash equivalents		**5 452**	7 603	15 737
Income tax		**–**	269	269
		1 193 284	1 056 763	1 136 524
Total assets		**3 253 737**	2 902 471	3 016 793
EQUITY AND LIABILITIES				
Capital and reserves		**2 357 643**	2 219 183	2 263 407
Non-controlling interest		**113 059**	–	–
Total equity		**2 470 702**	2 219 183	2 263 407
Non-current liabilities				
Deferred taxation		**2 290**	502	2 271
Provisions for other liabilities and charges		**16 768**	16 075	16 067
		19 058	16 577	18 338
Current liabilities				
Trade and other payables		**371 553**	321 174	383 633
Financial instruments for hedging		**1 613**	2 150	556
Short-term portion of provisions for other liabilities and charges		**3 016**	5 004	4 913
Short-term borrowings		**382 785**	332 346	344 645
Income tax		**5 010**	6 037	1 301
		763 977	666 711	735 048
Total liabilities		**783 035**	683 288	753 386
Total equity and liabilities		**3 253 737**	2 902 471	3 016 793
Total shareholders' equity to Total assets employed		**76,18%**	75,64%	74,66%
Net interest-bearing debt to Total assets employed		**11,42%**	11,87%	11,56%
Net asset value per share				
– Associates included at the equity method		**R9,57**	R9,01	R9,19
Operations		**R3,10**	R2,74	R2,81
Investments		**R6,47**	R6,27	R6,38
– Associates included at market value after deduction of capital gains tax		**R13,75**	R10,56	R12,52
Shares issued (number – '000)		**246 340**	246 340	246 340

INCOME STATEMENT

	Unaudited six months to 31 March 2011 R'000	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000
Revenue	1 452 114	1 401 445	2 449 556
Cost of sales	(1 213 845)	(1 173 892)	(2 036 058)
Gross profit	238 269	227 553	413 498
Operating profit before interest received	58 129	63 856	70 434
Interest received	30 254	31 315	62 083
Operating profit	88 383	95 171	132 517
Finance costs	(11 720)	(15 920)	(25 401)
Share in profit of associated companies	131 276	47 540	66 156
Profit before tax	207 939	126 791	173 272
Income tax	(20 991)	(21 982)	(26 871)
Profit for the period	186 948	104 809	146 401
Profit for the period attributable to:			
Equity holders of the holding company	177 667	104 809	146 401
Non-controlling interest	9 281	–	–
	186 948	104 809	146 401
Earnings per share – basic and diluted (cents)	72,12	42,55	59,43

HEADLINE EARNINGS RECONCILIATION

	Unaudited six months to 31 March 2011 R'000	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000
Profit for the period	186 948	104 809	146 401
Net profit on disposal of assets	(192)	(165)	(836)
Gross	(266)	(229)	(1 161)
Tax effect	74	64	325
Net proceeds with insurance claim due to fire	–	–	(2 013)
Gross proceeds	–	–	(3 583)
Property, plant and equipment written off	–	–	1 232
Tax effect	–	–	338
Goodwill written off	–	–	800
Headline earnings adjustment for associated companies	(2 624)	(3 468)	597
Headline earnings	184 132	101 176	144 949
Associated company – Competition Commission penalties	–	110 000	205 603
Adjusted headline earnings	184 132	211 176	350 552
Operations	55 480	57 104	78 196
Investments	128 652	154 072	272 356
Adjusted headline earnings for the period attributable to:			
Equity holders of the holding company	174 883	211 176	350 552
Non-controlling interest	9 249	–	–
	184 132	211 176	350 552
Adjusted headline earnings per share (cents)	70,99	85,73	142,30
Operations	18,77	23,18	31,74
Investments	52,22	62,55	110,56
Weighted average number of shares issued ('000)	246 340	246 340	246 340

STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months to 31 March 2011 R'000	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000
Profit for the period	186 948	104 809	146 401
Other comprehensive income:	5 341	2 585	10 144
Cash flow hedges	–	–	(39)
Share of other comprehensive income of associated companies	5 341	2 585	10 183
Total comprehensive income for the period	192 289	107 394	156 545
Total comprehensive income for the period attributable to:			
Equity holders of the holding company	183 008	107 394	156 545
Non-controlling interest	9 281	–	–
	192 289	107 394	156 545

STATEMENT OF CHANGES IN EQUITY

	Unaudited six months to 31 March 2011 R'000	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000
Share capital and premium	661 922	661 922	661 922
Other reserves	913 931	749 536	772 342
Opening balance	772 342	746 335	746 335
Other comprehensive income	5 341	2 585	10 144
Transfer between reserves	136 248	616	15 863
Retained profit	790 909	816 844	838 262
Opening balance	838 262	766 846	766 846
Non-controlling interest sold in Kaap Agri Bedryf Limited	(34 577)	–	–
Profit for the period	177 667	104 809	146 401
Dividends paid	(54 195)	(54 195)	(59 122)
Transfer between reserves	(136 248)	(616)	(15 863)
Treasury shares	(9 119)	(9 119)	(9 119)
Capital and reserves	2 357 643	2 219 183	2 263 407
Non-controlling interest	113 059	–	–
Non-controlling interest sold in Kaap Agri Bedryf Limited	103 778	–	–
Profit for the period	9 281	–	–
Total equity	2 470 702	2 219 183	2 263 407

STATEMENT OF CASH FLOWS

	Unaudited six months to 31 March 2011 R'000	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000
Cash profit from operating activities	94 848	100 118	137 786
Changes in operating capital	(79 310)	(13 162)	(16 415)
Cash generated by operations	15 538	86 956	121 371
Income tax paid	(15 669)	(15 851)	(26 456)
Cash flow from operating activities	(131)	71 105	94 915
Cash flow from investment activities	(14 876)	30 429	16 862
Cash flow from financing activities	4 722	(111 212)	(113 321)
Net cash utilised	(10 285)	(9 678)	(1 544)
Cash and cash equivalents at the beginning of the period	15 737	17 281	17 281
Cash and cash equivalents at the end of the period	5 452	7 603	15 737

INFORMATION ABOUT BUSINESS SEGMENTS

Segment income and results

	Segment income			Segment results		
	Unaudited six months to 31 March 2011 R'000	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000	**Unaudited six months to 31 March 2011 R'000**	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000
Trade	**1 125 509**	1 074 922	1 927 949	**58 300**	60 070	81 062
Mechanisation	**83 420**	99 101	159 124	**3 541**	4 495	4 185
Products and seed processing	**203 809**	191 671	284 709	**14 932**	14 966	17 175
Irrigation: manufacturing and wholesale	**38 131**	34 464	70 037	**3 338**	1 517	3 584
Total for reportable segments	**1 450 869**	1 400 158	2 441 819	**80 111**	81 048	106 006
Corporate	**1 245**	1 287	7 737	**(26 460)**	(24 790)	(49 531)
Treasury	**–**	–	–	**23 012**	22 993	50 641
Investment in associated companies	**–**	–	–	**131 276**	47 540	66 156
Total external income	**1 452 114**	1 401 445	2 449 556			
Profit before tax				**207 939**	126 791	173 272
Income tax				**(20 991)**	(21 982)	(26 871)
Profit for the period				**186 948**	104 809	146 401

Segment assets and liabilities

	Segment assets			Segment liabilities		
	Unaudited six months to 31 March 2011 R'000	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000	**Unaudited six months to 31 March 2011 R'000**	Unaudited six months to 31 March 2010 R'000	Audited twelve months to 30 September 2010 R'000
Trade	**474 368**	419 653	503 510	**246 764**	223 724	314 183
Mechanisation	**36 876**	39 377	42 381	**394**	587	12 352
Products and seed processing	**70 321**	79 520	48 627	**4 429**	5 065	14 775
Irrigation: manufacturing and wholesale	**21 914**	25 381	23 927	**5 924**	5 713	5 680
Total for reportable segments	**603 479**	563 931	618 445	**257 511**	235 089	346 990
Corporate	**145 418**	112 214	107 051	**140 449**	115 351	59 480
Trade debtors	**794 541**	680 278	716 290	**–**	–	–
Short-term borrowings	**–**	–	–	**382 785**	332 346	344 645
Investment in associated companies	**1 707 069**	1 544 238	1 570 452	**–**	–	–
Deferred taxation	**3 230**	1 810	4 555	**2 290**	502	2 271
	3 253 737	2 902 471	3 016 793	**783 035**	683 288	753 386

NOTES

1. **Basis of presentation and accounting policies**

   The condensed Group interim financial statements for the six months to 31 March 2011 were prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies used to prepare the interim results are consistent with those applied in the previous period.

	Unaudited 31 March 2011 R'000	Unaudited 31 March 2010 R'000	Audited 30 September 2010 R'000
2. Property, plant and equipment			
Reconciliation of movements in carrying value:			
Carrying value beginning of period	**305 262**	286 985	286 985
Additions	**15 145**	19 405	33 179
Disposals	**(3)**	(96)	(342)
Written off as a result of fire	**–**	–	(1 232)
Improvements to leased premises written off	**(358)**	(136)	(355)
Depreciation	**(6 595)**	(6 498)	(12 973)
Carrying value end of period	**313 451**	299 660	305 262

ADMINISTRATION

Board of directors

Non-executive

GD Eksteen (Chairman)
ASM Karaan (Vice-chairman)
FA du Plessis
BS du Toit
NC Loubser
HS Louw
CA Otto
HM Smit
JH van Niekerk

Executive

CA Botha (Managing)
JJ Matthee (Financial)
S Walsh (Operations)

Company secretary and registered office

RH Köstens
65 Voortrekker Road, Malmesbury, 7300
PO Box 22, Malmesbury, 7299
Telephone number: 022 482 8000
Fax number: 022 482 8008
Internet address: www.kaapagri.co.za

Share transfer office

Contact person: Lizelle Bleeker
PO Box 13, Porterville, 6810
Telephone number: 022 931 8200
Fax number: 086 636 7200
E-mail: lbleeker@kaapagri.co.za

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