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## **OUR BRANDS**

























## **INVESTMENT CASE**

## BALANCED AND OPTIMISED PORTFOLIO

- With the Group's exit from the broiler meat market in 2016, Quantum Foods has reduced exposure to the cyclical nature of the poultry industry.
- The Group has established itself as the largest contract producer of live broilers, supplying its own day-old chicks and feed to the South African market.
- Continued focus on growing revenue from external feed sales, livestock and the Group's other African operations.
- Established egg business in South Africa, with Nulaid achieving the status of the best egg brand in the country for the sixth consecutive year.
- A strong market position with growth potential in animal feeds and livestock.

## AFRICA GROWTH TRACTION AND PROSPECTS

- Proven track record of success in Africa operating in Zambia and Uganda for over 19 years.
- Further expansion of the existing table egg businesses in Zambia, Uganda and Mozambique.
- Strategic opportunities in other African countries will be considered.

#### **EFFICIENT COST BASE**

- The Group has an efficient cost base, and cost management remains a key focus.
- The current cost base provides an ideal position from which bolt-on acquisitions can be made.
- Targeted cost-saving initiatives are identified annually.

#### SOLID CASH-GENERATING ABILITY

- Quantum Foods has no material debt on its balance sheet and has sufficient debt capacity to enable organic growth, as well as growth through acquisitions.
- The Group has a healthy asset base from which to grow production of feed, layer and broiler livestock, as well as drive egg and broiler sales, without significant further investment.

#### THE RIGHT PEOPLE

 The Group has a team of talented, experienced and motivated employees with a strong desire to succeed, while maintaining sound ethical standards and regard for the environment.



Through the Group's business activities, Quantum Foods generates financial and non-financial value for its stakeholders:



Group revenue increased by 2% to

R4 122 million

with increased revenue from eggs and the other African operations offsetting decreased revenue from external feed and livestock sales.



Headline earnings increased from R112m to

R361 million

mostly due to a substantial increase in profitability from the eggs business.



increased from 55.7 cents to

164.3 cents



Headline earnings per share increased from 49.0 cents to

163.9 cents

A first interim dividend of 20 Cents
per share was declared in May 2018

The total dividend per share increased to 90 Cents from 34.0 cents in 2017

Number of employees increased from 2 159 in 2017 to 2 295 in 2018

5.3% of shares in issue were repurchased and cancelled during 2018



Nulaid received the 2018/2019 Ask Africa Icon Brand Surveyor egg category award



More information is provided in the business overview section on page 24.

## ABOUT THIS REPORT

#### Overview

The King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV")¹ and the International Integrated Reporting Council's ("IIRC's") Integrated Reporting Framework were considered in the compilation of this report. In accordance with the Framework, the Group considers the six capitals, namely financial, manufactured, intellectual, human, social and relationship, and natural capital, in the compilation of this report.

#### Scope and boundary

Quantum Foods is a public company, duly incorporated in South Africa under the provisions of the Companies Act, Act 71 of 2008, as amended, and its regulations ("the Companies Act"). It is listed on the Johannesburg Stock Exchange Ltd ("JSE") main board in the "Farming and Fishing" sector under the share code QFH.

The report provides financial and non-financial performance data on the Group's business activities in all its operating geographies, including South Africa, Mozambique, Uganda and Zambia, and for all subsidiaries of the Group.



More information is provided in the business overview section on page 24.

The scope of non-financial information provided in this report expands on that provided in the previous year, with a primary focus on the Group's South African business activities. Quantum Foods is committed to improving the level of integration of its reporting over time.

#### Report principles and comparability



The summary consolidated financial statements provided in this integrated report are extracted from the full statutory financial statements available on the Group's website: https://quantumfoods.co.za/financial-reports/.

The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Companies Act and the Listings Requirements of the JSE ("JSE Listings Requirements") and were audited by PricewaterhouseCoopers Inc. ("PwC").

There were no material changes to the business's operating model during the reporting period that affect historical comparability.

#### **Assurance**

The Group did not seek external assurance for the integrated report as a whole. However, assurance for certain elements of this report was provided by a combination of internal and external sources. This integrated report is the product of comprehensive and detailed internal content development and control processes, with oversight and responsibility at executive level. Quantum Foods' broad-based black economic empowerment ("B-BBEE") score was externally assured by AQRate. The Group appreciates the need for an increased level of external assurance in its reporting of non-financial elements in particular and will continue to pursue improvement in this area.

#### Forward-looking statements

Certain statements in this integrated report may constitute "forward-looking statements". Actual results and performance of the Group may differ materially from those implied by such statements due to many factors. Readers are therefore cautioned not to place undue reliance on such statements. The Group does not undertake any obligation to update any revisions to these statements publicly after the date of this report.

<sup>1</sup> Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.

## **COMMONLY USED TERMS**

The following industry terms are commonly used throughout this report:

Birds	All varieties of live chicken, i.e. meat-type chicken, egg-type chicken, day-old chicken, layer chicken, etc.		
Broilers	Also "broiler chickens": a young, tender chicken of a meat-type strain suitable for roasting or grilling		
Day-old chicks	Chicks that are one day old, usually from the same stock as broilers		
Day-old pullets	Female layer chicks that are one day old		
Feed conversion rate	The quantity of feed, in kilograms, required by birds of the egg type to produce one dozen table eggs, or required by birds of the meat type to produce one kilogram of broiler meat		
Free-range eggs	Eggs produced from poultry kept in natural conditions that include freedom of movement		
Hatching eggs	Fertile eggs produced on a breeding farm		
Higher-value eggs	Extra-large, jumbo, free range, canola and pasteurised eggs		
Layers	Mature female chickens (at least 19 weeks old) used to produce marketable egg products		
Liquid eggs	A product especially for the catering industry, where eggs are sold in liquid form		
Livestock	Farmed animals kept for commercial use		
Parent stock	Chickens bred specifically for further reproduction. There is different parent stock for broiler and egg-type chickens		
Point-of-lay	The age at which a pullet lays its first eggs		
Poultry	All forms of domestic fowl, e.g. chickens, turkeys, ducks, geese, etc.		
Rearing	The process of growing a day-old chick or pullet into a mature bird		
Table eggs	Eggs intended for consumption. Table eggs are normally graded according to a number of criteria, including weight and quality		

# WELCOME TO OUR 2018 INTEGRATED REPORT

This is the integrated report for Quantum Foods Holdings Ltd and its subsidiaries ("Quantum Foods", "the Group" or "the Company"). It covers the financial period from 1 October 2017 to 30 September 2018.

This report is aimed primarily at the Group's shareholders and other interested stakeholders. It provides a holistic overview of Quantum Foods' strategy, performance and business activities, as well as a measure of the Group's ability to ensure a sustainable business future.



For more information about the scope and boundary of this report, go to page 6. For more information on the terms commonly used in this report, go to page 7.

#### **FEEDBACK**

Quantum Foods is committed to communicating meaningfully with its stakeholders. The Group would therefore appreciate feedback on the effectiveness of this report. Any feedback can be emailed to Quantum Foods' company secretary, Marisha Gibbons, at Marisha. Gibbons@quantumfoods.co.za.



This report is available on the Company's website: www.quantumfoods.co.za/annual-reports/.

#### **BOARD APPROVAL**

Quantum Foods' board of directors ("the Board"), assisted by its audit and risk and other committees, is ultimately responsible for overseeing the integrity of the integrated report. The Board confirms that it has collectively reviewed the output of the reporting process and the content of the integrated report, and therefore approves the report for release.

Man >

**WA Hanekom** Chairman

**HA Lourens** 

Chief Executive Officer

#### **NAVIGATIONAL ICONS**



This icon refers to where additional information can be found in this report.



This icon refers to where additional information can be found on the Company's website: www.quantumfoods.co.za.



## **MATERIAL MATTERS**

Senior decision-makers of the Group were involved in a structured process to identify and prioritise the following economic, environmental and social matters for inclusion in this report. These matters were presented to and approved by the Board. These matters have further been linked to our strategic themes and to the risks faced by Quantum Foods.

More information is available throughout this report, as referenced, and more information about our strategic themes and risks is available from page 31. -

Quantum Foods has identified the matters that could significantly impact its value-creation abilities. Mitigating the risks and capitalising on the opportunities identified per material matter is integral to the execution of the Group's strategy.

MAT	ED		BAAT	TED
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#### **CONTEXT AND BUSINESS RESPONSE**

#### Economic

Growth opportunities

The Group's experience, expertise and footprint in Africa enable it to identify and realise growth opportunities on the continent, in the table eggs, livestock and feed value chains.

Read more on page 26. - 10-

#### **Opportunities**

Profitability is less cyclical in the Group's feed and livestock businesses. Increasing sales volumes in these businesses therefore supports the strategic theme to improve Group profitability through various industry cycles. This is achieved by expanding capacity at the Group's feed mills and hatcheries.

Read more on page 25.-6-

#### Risks

Increases to raw material prices can impact overall profitability. Growing volumes in the feed and livestock businesses improves the Group's ability to withstand the impact of this, as selling prices in these businesses are more easily adjusted in line with changes in the cost of production.

### Welcome to our 2018 integrated report



#### **MATERIAL MATTER**

#### **CONTEXT AND BUSINESS RESPONSE**

#### **Economic**

Ability to recover rising input costs

A volatile rand and fluctuations in the cost of local and international grain crops threaten the Group's profitability.

Read more on page 24. - 10-

#### **Opportunities**

Quantum Foods recovers rises in input costs through a relentless focus on procurement, currency movement, efficiencies, and cost and margin management. For example, the Group continued its programme to upgrade older poultry houses to more modern, environmentally controlled facilities to improve efficiency. This supports the strategic theme of operational excellence.

#### Risks

The Group's main exposure to this matter is in the egg business, where the selling price of eggs is determined by supply and demand and, to a lesser extent, by the cost of production (of which feed is the main contributor). These dynamics within the egg business result in highly cyclical profitability due to varying margins and the risk of not being able to recover fluctuations in raw material costs in final product prices. Operational excellence reduces the cost of production and improves profitability.

## MATERIAL MATTER

#### **CONTEXT AND BUSINESS RESPONSE**

#### **Economic**

Manage industry profitability cycles

Poultry companies are significantly exposed to changes in the cost of feed raw materials, which is impacted by crop growing conditions and the value of the currency, as well as the prices that can be achieved for products in a market where supply and demand dynamics, and not the cost of production, impact the prices that can be achieved.

#### **Opportunities**

During the year, 71% of Group revenue (2017: 74%) was generated by the feeds, farming and other African operations.

The lower contribution to revenue year on year was due to the significant increases in egg prices experienced in 2018. Historically, these businesses have been more resilient to industry cycles than the egg business. Growing these businesses therefore supports the strategic theme to grow Group profitability through the industry cycles.

#### Risks

The main exposure of the Group is in the egg business where supply and demand imbalances can significantly impact selling prices. This is irrespective of changes in the cost of production, which are largely driven by the cost of raw materials and production efficiencies. The Group has limited ability to mitigate this risk by monitoring industry trends for the production of day-old layer chicks and adjusting egg farm production planning accordingly.

Operational excellence and costs management are therefore key focus areas to optimise profitability through these industry cycles.

Innovation

For the Group to diversify, grow and sustain its margins, it should develop products that cater for customers and markets.

#### **Opportunities**

Feed formulation for optimal animal nutrition, in particular, is a highly technical field with many opportunities to innovate. In the Group's broiler and egg businesses, innovation is focused on the continuous enhancement of farming practices to optimise livestock health and production efficiencies. These activities support the strategic themes of customer and product focus and operational excellence.

#### Risks

Innovation and providing optimal feed solutions to customers mitigates the risk of increased competition.

## Welcome to our 2018 integrated report



MATERIAL MATTER	CONTEXT AND BUSINESS RESPONSE		
Environmental	Environmental		
Poultry disease	Outbreaks of poultry disease can	Opportunities	
	significantly impact the productivity, efficiency and financial performance of the Group's farming operations.  Read more on page 38. · •	Biosecurity, vaccination and monitoring programmes are continually reviewed with the assistance of veterinary companies to improve the protection of the birds and ultimately improve farm production efficiencies. This supports the strategic theme of operational excellence.	
		Risks	
		The outbreak of highly pathogenic Avian Influenza ("AI") in South Africa in 2017 significantly increased this risk and has the potential to greatly reduce the national flock. While limited incidences of AI occurred in the national poultry flock during 2018, the risk remains high. The Group therefore invested in improved biosecurity at farms, specifically aimed at reducing AI risk.	
Optimised procurement	The cost and availability of key raw	Opportunities	
and the availability of key raw materials	materials required for animal feeds production are an ongoing concern.  Read more on page 38. · •	The Group's centralised procurement team, which sources and secures feed raw materials through agreements with dependable local and international suppliers, mitigates this risk. Judicious procurement of feed raw materials is key to achieving profitable growth through industry cycles.	
		Risks	
		Feed raw material costs are the largest contributor to overall poultry production costs for both broiler meat and eggs. Incorrect procurement decisions can therefore significantly impact business profitability.	

MATERIAL MATTER	CONTEXT AND BUSINESS RESPONSE		
Environmental			
Protecting the environment	As an agricultural business, the long-term sustainability of Quantum Foods depends on its ability to access a range of natural resources.	Opportunities  The Group has implemented various initiatives to reduce wastage of water and reduce electricity consumption generated from non-	
	It is therefore in the interest of the Group to contribute towards the protection of the environment by promoting sustainable agricultural and production practices, particularly with regard to water usage.	renewable sources. These initiatives not only assist in reducing the environmental impact of the Group's operations but also improve efficiencies in support of the strategic theme of operational excellence.	
	Read more on page 53. · •	Read more about these initiatives on page 54. • • •	
Water availability	To sustain a healthy agricultural	Opportunities	
and quality	business, the Group is dependent on continuous access to high- quality water across its operations, particularly in its poultry operations.	Water supply and quality are key to achieving optimal production efficiencies, without which operational excellence will not be possible.	
	Read more on page 53	Risks	
		While the Group successfully manages access to high-quality water, climate change has the potential to impact the business in the long term. Water availability, especially in the Western and Eastern Cape, remains a concern. This is despite the higher rainfall experienced in the Western Cape in the winter of 2018. The Group has water contingency plans in place that can be implemented if its current water supply is interrupted.	

Social  Ensuring the necessary skills to drive a high-performance culture  Attracting and retaining talented employees who can drive a high-performance culture is a priority for the Group.  Read more on page 56. • • • • • • • • • • • • • • • • • • •	ts
Ensuring the necessary skills to drive a high-performance culture  Attracting and retaining talented employees who can drive a high-performance culture is a priority for the Group.  Read more on page 56. • • • • • • • • • • • • • • • • • • •	ts
skills to drive a high- performance culture  employees who can drive a high- performance culture is a priority for the Group.  Read more on page 56. • • • • • • • • • • • • • • • • • • •	ts
performance culture  performance culture is a priority for the Group.  Read more on page 56. • • • • • • • • • • • • • • • • • • •	ts
made during the year. This will ensure to Group is able to deliver on its strategic theme to enhance and maintain a performance culture.  The Group continued its internship programme during the year.  Read more about this on page 35.	
theme to enhance and maintain a performance culture.  The Group continued its internship programme during the year.  Read more about this on page 35 10-	
programme during the year.  Read more about this on page 35 69-	
Risks	
The business requires rare skill sets. The particularly relevant in the farming oper and egg business, where succession at the external appointment of suitably sk candidates can be challenging.	ations nd
Product safety The Group produces products for <b>Opportunities</b>	
human and animal consumption. Quantum Foods therefore adheres to strict food safety protocols to retain its licence to operate.  Read more on page 52. ••  human and animal consumption.  Producing products according to require standards and customer specifications supports the Group's strategic theme to ensure it retains its customer and product focus.	
Risks	
The Group has stringent quality control processes in place and a dedicated consumer feedback channel is actively monitored to ensure any issues that ari are attended to swiftly and professional	se
B-BBEE transformation  Quantum Foods recognises its	
obligation to contribute towards improving the socio-economic While the agricultural industry faces ma	
status of historically disadvantaged South Africans ("HDSAs").  transformation and skills challenges, the Group is committed to identifying and	9
developing new managers and leaders  Read more on page 57. • especially at farm level. The focus remains	
on transformation with priority pillars th	at
include ownership, management controls skills development, supplier and entergo	,
development and preferential procuren B-BBEE and transformation will receive	
strong management focus in 2019 in	
support of our strategic theme to enha and maintain a performance culture.	nce

MATERIAL MATTER	CONTEXT AND BUSINESS RESPONSE			
Social				
Animal welfare Livestock husbandry is critical to the		Opportunities		
	success of the business. Quantum Foods therefore has an obligation to treat animals in accordance with required protocols, not only from an ethical and legal perspective, but also due to the concomitant	Optimal livestock husbandry practices and facilities create an environment for improved farming production efficiencies. This supports the Group's strategic theme of operational excellence.		
	impact on mortality and livestock production.	Risks		
	Read more on page 59 6-	The Group has a zero-tolerance approach to non-compliance with animal welfare regulations and requirements. The Group frequently engages with external parties on matters related to animal welfare in a transparent and open manner. Internal audits and regular employee training are conducted to ensure compliance to standards.		
Health and safety Quantum Foods is committed to		Opportunities		
	ensuring that its operations are conducted in an environment that supports the health and safety of employees and the animals with which they work.	Improving health and safety for employees and animals supports the Group's strategic themes of operational excellence and retaining a strong customer and product focus.		
	Read more on page 56. · •	Risks		
		Internal audits of premises are conducted regularly, on a rotational basis, to evaluate and improve health and safety compliance. Training of employees to ensure the necessary health and safety awareness and competency remains a priority.		



## **QUANTUM FOODS AT A GLANCE**

#### **PROFILE**

Quantum Foods is a fully integrated, diversified feed and poultry business with four focus areas:



Animal feeds



Layer and broiler farming



**Eggs** 



Related business on the African continent

The Group provides quality animal feeds and poultry products to selected South African and African markets and is the largest producer of eggs in South Africa.

#### **GEOGRAPHIC FOOTPRINT**

5.4%

of Group revenue from other African operations (2017: 5.0%)

## 635 000 tons

of feed supplied in South Africa (2017: 632 000 tons)

## 847 million

eggs and egg products sold in South Africa (2017: 915 million)

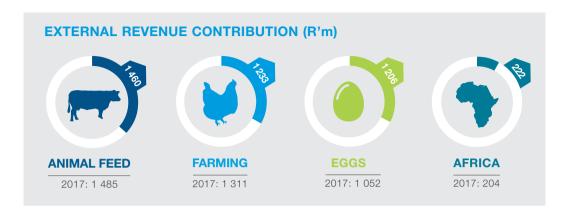
## 55.8 million

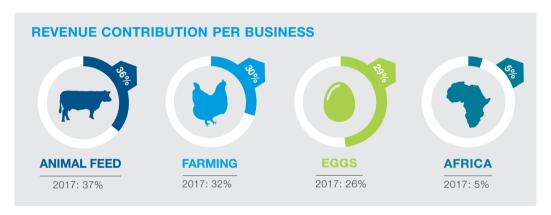
day-old broiler chicks produced in South Africa (2017: 52.7 million)



### Quantum Foods at a glance







#### **GROUP STRUCTURE**

Quantum Foods Holdings Ltd

100%

Quantum Foods (Pty) Ltd

100%

Interest is 100% unless otherwise indicated

- Lohmann Breeding SA (Pty) Ltd\*
- Philadelphia Chick Breeders (Pty) Ltd
- Ouentum Foods Zambia Ltd
- Quantum Foods Uganda Ltd
- Quantum Foods Mozambique, S.A
- Bergsig Breeders (Pty) Ltd (29.9%) (2017: 28.0%)\*\*
- \* The assets and operations of Lohmann Breeding SA (Pty) Ltd were acquired by Quantum Foods (Pty) Ltd on 30 September 2018 through an internal restructuring.
- \*\* Bergsig Breeders (Pty) Ltd repurchased and cancelled 6.3% of its issued share capital during 2018, resulting in the increase.

#### South Africa

Animal feeds are manufactured and sold under the *Nova Feeds* brand. External sales amounted to 364 002 tons for the year (2017: 343 205 tons), representing 57% of total feed volumes produced (2017: 54%). The balance is consumed internally by the Group's integrated layer and broiler poultry operations. During 2018, the internal feed requirement from the layer farming division was reduced. This followed a reduction in bird numbers as a result of the Al outbreaks experienced from September 2017. The majority of external feed sales are to the dairy market, constituting 54% (2017: 53%).

Table eggs are sold under the *Nulaid*, *Safe Eggs*, *Quantum* and retailers' own brands, while layer livestock (day-old chicks and point-of-lay hens of the Lohmann breed) are sold under the *Bergvlei Chicks* brand. During the year, *Nulaid* sold approximately 784 million (2017: 845 million) eggs of which the Group supplied 66% (2017: 60%) to the retail sector. *Nulaid* also sold approximately 63 million eggs as liquid egg products (2017: 70 million).

Day-old broiler chicks of the Cobb500 breed are sold under the *Bellevue Chicks* brand. An average of 1 073 300 (2017: 1 012 700) day-old broiler chicks per week were produced for sale, either as day-old broiler chicks or as live broilers, to third-party abattoirs or in the live-bird market, under the *Tydstroom* brand.

#### Other African countries

In Zambia, Quantum Foods operates a broiler and layer breeder business (selling day-old chicks), a feed business and a table egg business. The table egg business sold 84 million eggs during the year (2017: 89 million). The decrease is due to the closure of a rental facility in the Chipata province in 2017.

The Group's Ugandan business comprises a broiler and layer breeder business, a feed business and a table egg business. The table egg production facility near Masindi was completed in 2016 and reached full production capacity in June 2017. The table egg business sold 17 million eggs for the year (2017: 11 million). The increase is due to 2018 being the first financial year during which the farm was in full production.

In Mozambique, the business comprises a table egg business located near Maputo, which supplies both the retail and informal markets. This business was acquired in September 2016 and sold 26 million eggs during the year (2017: 25 million). The increase was due to improved production following increased management focus on farming practices and the completion of a project to upgrade facilities.

### Quantum Foods at a glance



## VALUE CHAIN AND BUSINESS MODEL

Quantum Foods generates value by providing affordable access to poultry products for the full spectrum of consumers in selected South African and African markets. This takes the form of eggs and broilers as a core source of human nutrition, especially in Africa, where there is a need to mitigate the increasing risk of food and resource scarcity.

The Group creates value for customers and consumers by ensuring a consistent and fresh supply of:

- eggs and egg products for human consumption or further processing;
- live broilers for processing by customers; and
- feed for animal consumption.

Products are competitively priced and are trusted and market-leading brands. The Group's business activities enable an integrated and diversified value chain that supports Quantum Foods' own poultry operations, while servicing the external market locally and in selected African countries. A strong focus on responsive and customised service and technical solutions (particularly in feed), is supported by leading expertise and dedicated points of contact.

Intellectual property ("IP") and licensing rights ensure continued value creation and provide shareholders with the certainty that the Group's competitive position remains viable and sustainable, with growth opportunities in market expansion and product innovation.

The Group's value creation is supported by its stock of the six capitals:



**Financial** 



Manufactured



Intellectual



Human



Social and relationship



Natural

The combination of a largely ungeared statement of financial position, sufficient debt capacity to enable growth, revenue generated, and investment by shareholders and financial institutions provides Quantum Foods with the financial capital it needs to grow.

Strategically located packing stations, feed mills, commercial hatcheries and poultry farms support Quantum Foods' business activities and enable extensive distribution coverage, locally and into Africa.

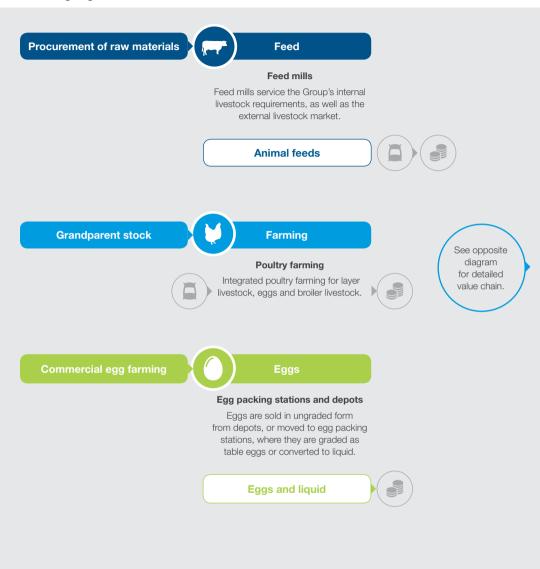
Leading brands, access to world-class poultry genetics, in-house expertise and feed and farming capabilities (particularly with regard to layers, broilers and feed formulation) provide Quantum Foods with intangible assets that support value creation.

The rare skills, expertise and experience of Quantum Foods' employees are critical in creating value.

A wide range of activities and interactions support Quantum Foods' relationship with its customers, suppliers and communities. The Group's working relationship with the National Society for the Prevention of Cruelty to Animals ("NSPCA") supports animal welfare, which is critical to the success of the business. The Group's involvement in education and food security projects further supports community upliftment.

The Group relies on a range of natural resources to enable its business activities. This includes, most importantly, grain, water, coal and gas.

The following diagrams illustrate Quantum Foods' business activities and value chain:





Indicates in which areas of the value chain feed for internal use is applicable.



Sales to market.

### Quantum Foods at a glance





## **BUSINESS OVERVIEW**

#### **Industry features**

Companies operating in the feed and poultry industries in South Africa, Mozambique, Uganda and Zambia benefited from improved trading conditions in the reporting period.

In particular, companies benefited from lower feed raw material costs. This was due to the recovery of grain crop harvests following the ongoing drought experienced in South Africa and other parts of Africa. In South Africa and Mozambique, lower feed raw material costs were supplemented by substantially higher egg selling prices due to a decrease in egg supply following the 2017 Al outbreak in South Africa. World stock levels of key raw materials remained sufficient and supported relatively low international prices during the year.

However, certain issues faced by the industry continued during the year.

These include, for example, volatile currencies and muted consumer demand due to low levels of economic growth; continued pressure on the South African broiler industry due to dumping by international broiler exporters; and, in particular, South African layer flock diseases that negatively impacted poultry productivity.

#### **RAND VS US\$**



#### SAFEX YELLOW MAIZE RAND PER TON



While the devastating effects of AI on poultry did not repeat in the reporting period, the risk of AI persists in South Africa. AI results in substantial financial loss due to the immediate decimation of infected poultry, as well as lost production capacity as birds cannot be replaced immediately. Possible solutions include preventative vaccination, which is currently in use in other parts of the world but not yet approved by the government for use in South Africa.

The South African government entered into an agreement with the United States in 2016 that allows for chicken meat to be imported at lower duties for South Africa to remain a beneficiary of the African Growth and Opportunity Act ("AGOA"). This, as well as the continued import of vast quantities of broiler meat from other countries, continues to increase pressure on broiler producers in South Africa.

Quantum Foods is not a direct participant in South Africa's broiler meat market and is therefore not directly exposed to these effects. However, financial pressure experienced by the abattoirs that are supplied by the Group could impact Quantum Foods.

The Mozambican, Ugandan and Zambian egg markets are less developed in terms of production volumes and *per capita* consumption than the South African egg market. These markets have been impacted by a slow-down in economic growth related to the international commodity cycle, as well as increased raw material costs following the drought in previous years. Their recovery in 2018 was supported by an improved commodity cycle that led to more stable currencies, lower inflation rates and improved prospects for growth. The broiler market in Zambia, however, remains highly competitive following the expansion of mostly South African broiler producers into the country.

Layer hens and broilers remain highly efficient converters of feed into animal protein, with favourable conversion ratios of feed to final product compared to other animal protein sources. With the availability of arable land and water supply coming under continued strain, together with the expected increase in global demand for animal protein, poultry will remain a critical source of human nutrition in future.

### Quantum Foods at a glance (



#### South Africa

#### Animal feeds manufacturing

Quantum Foods' feed mills are located in Malmesbury, George, Paterson and Pretoria, where feed is sold under the *Nova Feeds* brand.

The Malmesbury site consists of two factories, bringing the total number of feed mills to five, with a total production capacity of approximately 62 500 tons per month (2017: 60 000 tons). These mills are highly automated and are equipped to manufacture a wide variety of feeds for optimal animal nutrition. Integrated quality and safety systems are in place at all mills to ensure the consistent output of high-quality products for livestock consumption. Projects to increase the production capacity at the Olifantskop feed mill in Paterson and the Pretoria feed mill are in progress and expected to be completed by July 2019. These projects will add a further 9 700 tons per month to the Group's total production capacity – a 16% increase.

Nova Feeds has extensive expertise in the production and formulation of feeds for monogastric livestock (such as poultry) and ruminant livestock (such as cows). The main feed categories include poultry (broiler and layer), dairy, pig, ostrich and sheep feed. Feed is supplied to the integrated poultry farming operations and the external feed market.

Dairy feed represents the largest component of external sales, followed by poultry, pig, ostrich and sheep feed. *Nova Feeds* is the leading supplier of dairy feed in the Western Cape and Eastern Cape, and supplies feed to several of the country's leading dairy farmers.

To unlock value for customers, the Group remains focused on providing customised feed solutions supported by high levels of technical service.

#### **Farming**

#### Layer farming

Quantum Foods owns the rights to import pedigree grandparent layer stock of the Lohmann breed, as well as distribute next generation parent stock, exclusively in South Africa and non-exclusively to some southern African countries.

Day-old parent chicks are reared and placed on the Group's parent layer farm near Bronkhorstspruit as well as on a rented facility in KwaZulu-Natal. Fertile hatching eggs are incubated at the Group's commercial hatchery in Bronkhorstspruit, Gauteng, which has a current capacity to produce 8.3 million day-old pullets per annum. These female day-old chicks are either sold or placed on the Group's six commercial rearing farms. The expansion of the Highveld layer hatchery is under way and will increase production capacity by 24% to 10.3 million chicks per year.

Bergvlei Chicks is the sales brand under which layer parent stock, hatching eggs, day-old pullets and point-of-lay hens are sold. The Group distributes nationally and into Botswana, Mozambique, Angola and Swaziland – with strategically located commercial rearing farms ensuring extensive distribution coverage.

The Group owns 13 and rents two commercial layer farms on which an average of 5.6 million dozen eggs are produced per month (2017: 6.0 million). The farms are located in the Western Cape, Eastern Cape, Free State, Gauteng and North West. Free-range eggs are produced on two of the farms. The Group procured approximately 0.4 million dozen eggs per month from contract farmers (2017: 0.6 million). This equates to a total of 857 million eggs per year (2017: 921 million).

#### Broiler farming

Quantum Foods owns the rights to import pedigree grandparent broiler stock of the Cobb500 breed, which supplies next generation parent stock for its own requirements and non-exclusively for some customers in other countries in Africa.

Day-old parent stock is placed on the three parent rearing farms in the Western Cape and, thereafter, on six parent layer farms. Of these six farms, four are owned by the Group and the remaining two are contracted farms that supply the Group with fertile hatching eggs.

Day-old commercial broiler chicks are produced at three hatcheries. The expansion of the Hartbeespoort broiler hatchery was completed in 2018. This resulted in a 33% increase in production capacity at this unit – from 280 000 to 373 000 chicks per week. Following the capacity expansion at the Hartbeespoort hatchery, Quantum Foods' three hatcheries have an annual capacity of 63.8 million day-old chicks (2017: 60 million).

The day-old chicks are transferred to commercial Company-owned and contract-grower broiler farms, with the balance sold to the open market.

The Group supplied abattoirs in the Western Cape and Gauteng with approximately 834 000 live broilers per week (2017: 833 000), with the majority supplied to Astral and Sovereign Foods in terms of long-term supply agreements. This supports the alignment of the Group's broiler value chain and growing position as a significant contract grower of broiler livestock in South Africa.

The Group sells broiler hatching eggs and broiler dayold chicks to the market under the *Bellevue Chicks* brand to ensure that its broiler breeder production capacity is utilised efficiently and in support of the strategy of increasing livestock sales.

#### Eggs

Eggs are processed at six grading and packing facilities located in the Western Cape, Eastern Cape, Free State, KwaZulu-Natal and Gauteng.

The eggs are distributed nationally as graded, ungraded or in liquid form. Graded eggs are sold under the *Nulaid*, *Safe Eggs* and dealer-own brands. Ungraded eggs are sold mainly under the *Quantum* brand.

Graded eggs are sorted in the packing facilities according to weight (for example, medium, large, extra-large and jumbo). Fresh and pasteurised liquid eggs are produced in egg breaking plants, where the shells are removed from the product for sale. Fresh

and pasteurised liquid eggs are predominantly sold to industrial customers.

Quantum Foods' pasteurised eggs are produced at the grading and packing facility in Gauteng and distributed to other provinces through the Group's packing facilities.

#### Other African countries

#### 7ambia

Quantum Foods Zambia commenced operations in 1997. Operations are conducted in two regions in the country, namely Lusaka and the Copperbelt.

In Lusaka, there is a parent breeding facility, a hatchery and a feed mill. The Lusaka facility produced 1.5 million Lohmann day-old pullets (2017: 1.4 million) and 1.8 million Cobb500 day-old chicks (2017: 1.6 million) per annum. The Lohmann day-old chicks are supplied to the Chingola layer rearing farm and for external sales. The feed facility produced 2 352 tons of feed (2017: 3 560 tons). A new feed mill was built on the Lusaka farm in 2018 to improve quality and enable the Group to enter the external market with feed produced in a modern facility.

Quantum Foods Zambia's major egg operation is located near Chingola in the Copperbelt and operates under the *Mega Eggs* brand. At this location, 84 million eggs are produced per annum (2017: 85 million) and more than 12 900 tons (2017: 13 000 tons) of feed is produced for consumption on the farm and for sale to external customers.

The expansion of the *Mega Eggs* farm in Zambia was approved in 2018 and will increase production capacity on the farm by 15%.

The distribution capacity of the Zambia business was enhanced during the year with the opening of an additional nine small retail shops that sell eggs, dayold chicks and feed. The total number of retail shops at the end of 2018 was 30 (2017: 21).

### Quantum Foods at a glance



#### Uganda

Quantum Foods Uganda commenced operations in 2000.

The business operates three facilities located near Kampala, and a commercial rearing and layer-egg farm in the Masindi area, north-west of Kampala.

The Kampala sites comprise parent breeding facilities and a hatchery. The Kampala site produced 1.4 million Lohmann day-old pullets (2017: 1.1 million) and 1.6 million Cobb500 (2017: 1.3 million) day-old chicks during the reporting period. The Lohmann dayold chicks are either transferred to the Masindi layer rearing farm or sold to external customers.

The Masindi farm, which includes a feed mill, layer rearing and egg laving facilities reached full production during June 2017. The facility produced 17 million eggs (2017: 11 million), and 4 596 tons of feed during the year (2017: 2 460 tons).

The expansion of the Masindi egg farm in Uganda was approved in 2018. The expansion will increase production capacity on the farm from 60 000 layers to 100 000 layers.

Eggs are either sold directly from the Masindi farm or through a network of three small retail shops.

#### Mozambique

Quantum Foods Mozambique acquired a layer farm in Maputo in September 2016. The farm produced 25.7 million eggs in the past year (2017: 25.0 million). The increase was due to improved production on the farm following increased management focus on farming practices and the completion of a project to upgrade the egg laying facilities. Feed is procured from a third party, and the farm is stocked with pointof-lay birds that are produced by the Group in South Africa. Eggs are sold under the Galovos brand with the majority of sales in the formal retail market.



#### Feedback on management focus areas identified for 2018

BUSINESS AREA	MANAGEMENT FOCUS AREA IDENTIFIED FOR 2018	KEY ACTIONS UNDERTAKEN DURING THE YEAR
Animal feeds	Increase contribution from external sales	External feed sales volumes increased by 6% compared to 2017. The approved expansion of the Olifantskop and Pretoria feed mills will further support the Group's ability to grow external sales volumes.
Farming	Improve layer farm productivity and reduce non-feed cost per unit	The Group remained focused on improving the quality of its point-of-lay hens, with emphasis on achieving targeted bird weights at the end of each week during the rearing phase. Improving the quality of point-of-lay hens will benefit egg production on Quantum Foods' layer farms going forward. Egg production productivity achieved in 2018 showed a marginal improvement from 2017. Non-feed cost per unit increased in 2018 as a result of layer farms being out of production following the Al incidents in 2017 and early in 2018.
	Ensure world-class broiler farm results	A relentless focus on broiler farm efficiencies and favourable farming conditions across the Group's broiler farms resulted in world-class broiler farm results being achieved, especially in the Western Cape.
	Increase broiler livestock volumes	Day-old broiler chick production increased by 6% following the completion of the Hartbeespoort hatchery expansion and conversion of a layer hatchery to a broiler hatchery in 2017. Day-old broiler chick production efficiencies were, however, lower in 2018 following the introduction of new Cobb500 male line genetics <sup>1</sup> , which reduced the number of day-old chicks produced per parent and the number of chicks available for sale.
	Optimally manage any potential outbreak of AI in the Group's poultry flocks	A further outbreak of Al occurred on a layer rearing farm in the Western Cape in the first half of 2018. However, the experience gained from managing Al in 2017 was successfully applied to manage the outbreak.
Eggs	Achieve packing station efficiency targets	Egg packing station efficiencies improved in 2018 with significantly lower egg returns and stock write-offs. The lower volumes distributed by the pack stations and increased management focus to manage these efficiencies contributed positively to the improvement. A new 18-egg pulp carton was introduced in 2018. This should result in improved production costs per unit, compared to the previously wrapped product that required an additional process to complete packaging.
Africa	Extract value from expansions in Mozambique, Uganda and Zambia	Favourable trading conditions and improved efficiencies led to increased profitability in all three countries.

<sup>&</sup>lt;sup>1</sup> The introduction of Cobb500 male line genetics affected producers globally. The new male line benefits meat production at the commercial broiler level (birds grow faster and with less feed). However, this affected parent stock level as the new males require new management techniques to maintain fertility. Lower fertility resulted in fewer chicks being hatched from the same quantity of eggs produced by females.

## Quantum Foods at a glance



### 2019 management focus areas

Animal feeds	<ul> <li>Successfully complete expansion projects at Olifantskop and Pretoria feed mills</li> <li>Increase contribution from external sales</li> </ul>
Farming	<ul> <li>Improve layer farm productivity and contain non-feed cost per unit</li> <li>Ensure world-class broiler farm results at breeder and commercial broiler level</li> <li>Increase broiler livestock volumes</li> </ul>
Eggs	<ul> <li>Remain the leading fully integrated egg business in South Africa</li> <li>Maintain the operational efficiencies achieved in 2018</li> <li>Improve profitability through industry cycles</li> </ul>
Africa	<ul> <li>Pursue organic growth in all product categories</li> <li>Investigate additional territories to expand into through acquisitive growth opportunities</li> </ul>
В-ВВЕЕ	Achieve B-BBEE compliance with the amended AgriBEE Sector Code







We are truthful





We are Quantum Foods



## STRATEGIC FOCUS



VISION

Quantum Foods aims to be the leading feed and poultry business in Africa delivering sustainable returns.



PURPOSE

To build the best feed and poultry business.



**VALUES** 

# The Group's commitment to its values supports its vision and purpose:

- We value teamwork.
- We are resilient and adapt to new situations.
- We take accountability: we own up and we learn from our mistakes.
- We are truthful in everything we do.
- We aim to exceed our customers' and consumers' expectations.

Quantum Foods has identified strategic themes that support the successful execution of its vision and purpose.

Five strategic themes were initially approved by the Board in 2015, following the unbundling of Quantum Foods from Pioneer Foods in 2014. At the time, the Group's strategy focused on Quantum Foods' exit from the broiler meat market and on specific matters related to its supply chain. This included, for example, centralising procurement categories and changing logistics service providers. These five strategic themes were:

- Business/product composition
- Unlock supply-chain value
- World-class efficiency
- Organic growth
- High-performance human capacity

Quantum Foods' business has now proved to be sustainable, with well-established business focus areas. As such, the five previous strategic themes were reduced to four during the Group's 2018 strategy review process (concluded at a session of the Board on 18 September 2018).

These new strategic themes will guide Quantum Foods' performance from 2019 onwards, most likely for a period of between three to five years:

- Profitable growth through industry cycles
- Customer and product focus
- Operational excellence
- Enhance and maintain a performance culture

As per previous years, performance initiatives and targets are set per strategic theme. These initiatives and targets are approved at the annual Board strategy meeting. Actual performance against the targets set in the previous year is also evaluated at this strategy meeting. These performance initiatives and targets are then cascaded down the various management and employee levels of the Group and form the foundation of Quantum Foods' employee performance management system. This ensures that the execution of the strategy is aligned throughout the business.

#### Quantum Foods' strategic framework

The following table outlines the Group's performance against its previous five strategic themes, which guided Quantum Foods' business approach for the past financial year:

PERFORMANCE INITIATIVE	OUTCOME	
Strategic theme: Business/product composition		
Increase external sales volumes of the Group's feed business	External sales volumes increased by 6% for the year.	
Increase the volume of broiler day-old chicks and live broiler birds sold	Broiler day-old chick sales volumes increased by 40%, with increased sales from the Western Cape and Hartbeespoort hatcheries. The number of live broiler birds sold remained consistent with the previous year.	
Increase sale of higher-value eggs	Higher-value eggs comprised 14% of total egg sales in 2018, an increase of 1 percentage point. The increase in higher-value eggs can be attributed to increased management focus on ensuring an optimal sales mix.	
Increase egg sales outside South Africa	Egg sales outside South Africa increased by 2%.	
	Read more on page 42 🚳 -	
Further the Group's footprint outside South Africa	No new territories were entered during 2018. However, a much improved operating margin and profit contribution was realised from the other African operations.	
	Read more about the Group's other African operations on page 26 60 -	
Strategic theme: Unlock supply chair	n value	
Implement projects to reduce distribution costs	Anticipated improvement in efficiency and customer experience were realised. The Group successfully completed a project to allow a higher number of birds to be transported with a single load by converting its live-bird trailers. This resulted in lower distribution costs per bird transported.	
Consolidate the Group's inbound farm logistics	Expected benefits were not realised due to the impact of lower volumes following the Al outbreak at the end of 2017.	
Implement energy-saving projects	Further energy-saving projects were implemented.	
and initiatives	Read more on page 54	
Further centralisation of procurement	The centralisation of the procurement of further overhead expense categories continued during the year, with a specific focus on maintenance items.	

PERFORMANCE INITIATIVE	OUTCOME	
Strategic theme: World-class efficiency		
Reach farm efficiency targets	The broiler value chain experienced lower operating efficiency at breeder level following the introduction of new Cobb500 male line genetics. Management practices were not adjusted in time, which resulted in fewer day-old chicks per parent. Efficiencies at commercial broiler level, however, improved further, especially in the Western Cape where performance was world class. Efficiencies in Gauteng and the North West improved but remain below those achieved in the Western Cape.	
	In the layer value chain, efficiency targets were achieved in the breeding operation. Efficiencies in the commercial rearing operations improved and reached targeted levels during the year. However, due to the longer production cycle of layer hens, these improvements did not fully benefit egg farm performance where efficiencies were only marginally improved from the previous year. This excludes the impact of Al experienced in 2017, which was not repeated in 2018.	
Non-feed cost per unit increase below inflation	The impacts of AI (which resulted in lower internal feed requirements, lower egg production and the implementation of additional AI mitigation measures) resulted in targets for increases in non-feed cost per unit not being achieved.	
Decrease waste at egg-packing	Targeted efficiency improvements were achieved during the year.	
stations	Read more on page 28. · •	
Ensure a safe environment and safe products	This was achieved, and no material safety-related complaints were recorded during the year.	



PERFORMANCE INITIATIVE	OUTCOME			
Strategic theme: Organic growth				
Grow external feed volumes	Achieved, with external sales volumes increasing by 6%.			
	Read more on page 28 🚳 -			
Grow layer livestock	Sales of day-old pullets increased by 62%, with demand increasing as the industry recovered from the Al losses experienced in 2017. Sales volumes of point-of-lay hens were below target. This was due to the Western Cape rearing farm not being in production for the whole of 2018 following the outbreak of Al on the farm.			
Grow broiler livestock  Grow table eggs	Volumes of day-old chicks produced increased by 6%. These day-old chicks are either sold or reared as live broilers. Sales volumes of day-old chicks increased by 40%, while volumes of live broilers sold remained flat year on year. The increase in volumes of day-old chicks was assisted by the capacity expansion at the Hartbeespoort hatchery and increased demand from customers in the Western Cape. While the volume of live broilers supplied remained consistent, total weight supplied decreased. This was due to lower average bird weights being demanded by customers of the abattoirs supplied by the Group to improve affordability.  Egg volumes declined by 7% due to the impact of AI. This decline was caused by lower production as affected farms stood empty for the majority of the year. Production capacity was increased			
	as planned, with previously dormant facilities being utilised. This reduced the impact of an initial 17% decrease in hen numbers following the Al outbreak.			
Strategic theme: High performance I	numan capacity			
Strengthen the egg business through strategic appointments	Achieved and all key positions have been filled.			
Grow talent <i>via</i> farm internships	Final-year agricultural students are granted the opportunity to complete practical training as interns at Quantum Foods. The Group further awards bursaries to students studying at Elsenburg Agricultural College. Most of these interns and students are awarded employment at the Group once they complete their studies. Internships were awarded to seven students during the year.			
Improve the Group's B-BBEE profile	This was not achieved, and the Group received a non-compliant status on the new codes, which were introduced in December 2017 and are applicable to all South African-based agricultural enterprises. The subminimum requirements for ownership, preferential procurement, and skills development were not achieved.			
Build a sustainable performance culture	An employee engagement model was rolled out to all operations outside of South Africa, as planned in 2017. In addition, a formal programme to entrench the Group's values across all operations was rolled out to all employees during the year.			

The following table outlines the Group's four revised strategic themes, which will guide Quantum Foods' performance initiatives for 2019:

#### PERFORMANCE INITIATIVE **GOING FORWARD** Strategic theme: Profitable growth through industry cycles Achieve targeted additional profit from Improve profitability from the less cyclical feeds business. feed mill capacity expansion Maintain broiler livestock volumes Maintain levels of profitability from the less cyclical broiler farming supplied to customer abattoirs business. Judicious feed raw material Maintain cost competitiveness of key input costs – this includes the procurement cost of maize and soybean meal, which are the largest contributors to total feed costs. Achieve targeted operating margin in Improve Group operating margin by achieving targeted profitability other African countries from businesses outside South Africa, which traditionally achieve margins higher than in South Africa. Strategic theme: Customer and product focus Maintain optimal product performance and ensure satisfied Supply products within specification customers and consumers. Contract additional customers with Improve the Group's service offering to livestock and feed livestock and feed customers. Implement customer days for layer Improve service offering to the Group's livestock customers. livestock Strategic theme: Operational excellence Manage operational costs per unit Ensure increases in operating costs are contained. below inflation Pursue lower feed conversion costs and achieve more eggs Improve layer farm production available for sale. efficiency Improve broiler breeder production Increase the number of day-old chicks per parent hen, resulting in increased volumes available for sale. efficiency Maintain commercial broiler farm Maintain conversion costs and profitability. production efficiency Maintain operational efficiencies in egg Control waste levels and ensure an optimal sales mix is achieved. packing stations Strategic theme: Enhance and maintain a performance culture Continue to strengthen the Group's Fill the additional strategic positions identified by the Group. management team Further roll out training to farm Increase skills by increasing employees' access to training material. employees

strategy.

Improve management's ability to effectively execute the Group's

recognition

Enhance Company values through

## STRATEGIC RISKS

Proactive risk management is essential for the effective implementation of the Group's strategy and to remain a competitive and sustainable business. Risk management improves operational effectiveness and enables improved value creation. Quantum Foods' risk management process consists of the following steps:

Potential risks arise from the Group's business activities and operating environment – this includes economic, environmental and social risks.



Identify and evaluate the risks that may have a material impact on the Group's ability to achieve its strategy A workshop was conducted by Quantum Foods' internal auditors with the senior management team to identify and evaluate risks. This workshop occurs at least every second year and the results of the workshop are reported to and approved by the audit and risk committee ("ARC"), which oversees the Group's risk management framework.



Define mitigating controls for each risk

The risks and relevant mitigating controls form the Group's combined assurance framework. This framework is approved by the ARC and forms the basis for Quantum Foods' internal audit programme.

Read more about the Group's combined assurance framework on page 70. -  $\ensuremath{ \bullet}$  -



Assess any residual risk if the Group's mitigating strategies are effective

Key residual risks are identified.



Ensure ongoing risk management

Day-to-day risk management is the responsibility of operational and senior management and the executive committee.



Report on risks that occurred

The executive committee has an ongoing responsibility to monitor risks and report back to the ARC and the Board. The Group's risk appetite framework sets out thresholds for material risks that cannot only be reported on at a planned meeting but that require immediate reporting to the ARC and Board. This assists the ARC and Board to continuously monitor the level of risk at which the Group is operating.



Update the Group's risk register and mitigating controls on an ongoing basis

Any new risks that are identified (including additional mitigation controls) are updated and included as part of the Group's combined assurance framework.

#### The top 10 residual risks are provided in the summary below:

- 1. Poultry diseases impacting the productivity of poultry.
- 2. Inability to cope commercially with raw material price increases particularly maize and soya meal.
- 3. Declining consumer spend impacting sales.
- 4. Supply and demand imbalances oversupply resulting in pricing challenges (eggs).
- 5. New market entrants increasing competition.

- 6. Key management exposure (leadership team).
- 7. Suboptimal corporate culture negatively impacting strategy execution.
- 8. Non-compliance with animal welfare regulations and requirements.
- 9. Inability to recruit suitably skilled candidates for specialised positions.
- 10. Cyber security breach resulting in loss of information.

RISK DESCRIPTION	MITIGATION TO CREATE OPPORTUNITIES
Poultry diseases impacting the productivity of poultry	<ul> <li>The Group runs a comprehensive vaccination and flock health monitoring programme. The Group enforces strict biosecurity management.</li> <li>Specific additional monitoring and biosecurity measures were implemented due to the increased threat of AI.</li> <li>The geographical spread and number of Quantum Foods' farming operations provide the Group with some protection from the impact of poultry disease.</li> </ul>
Inability to cope commercially with raw material price increases – particularly maize and soybean meal	<ul> <li>Raw materials are procured and monitored according to a Board-approved hedging strategy and policy for the Group's own production requirements. No speculative positions are taken.</li> <li>Regular monitoring of the Group's raw material cost position informs margin management.</li> <li>The centralised raw material procurement department observes market</li> </ul>
Declining consumer spend impacting sales	<ul> <li>trends daily.</li> <li>The Group supplies animal feeds and produces eggs and broilers that fulfil basic nutritional requirements. Poultry is an excellent, cost-effective converter of animal feeds to protein (eggs and broiler meat).</li> <li>The Group ensures a continuous focus on efficiencies and cost management.</li> </ul>
Supply and demand imbalances – oversupply resulting in pricing challenges (eggs)	<ul> <li>The egg production plan is adjusted based on the monitoring of industry trends and available statistics to forecast potential egg supply and demand imbalances.</li> <li>The Group no longer sells broiler meat to the market but rather sells live broilers to abattoirs. Pricing models reflect production and not market risk.</li> </ul>
New market entrants increasing market competition	<ul> <li>The Group maintains an awareness of new competitors entering the market through its market research initiatives.</li> <li>A relentless focus on production efficiencies and cost management enables the Group to remain competitive.</li> </ul>



RISK DESCRIPTION	MITIGATION TO CREATE OPPORTUNITIES
Key management exposure (leadership team)	<ul> <li>The Group maintains a formal succession plan, which includes a biannual talent planning review.</li> <li>A long-term and short-term incentive system is in place to retain senior</li> </ul>
	management.
Suboptimal corporate culture negatively impacting strategy execution	<ul> <li>Quantum Foods' values are entrenched according to a formal roll-out plan, which includes rewarding exceptional adherence to the Group's values. This is a separate initiative that does not form part of Quantum Foods' remuneration policy.</li> </ul>
Non-compliance with animal welfare regulations and	<ul> <li>Formal training programmes are in place, assisted by third-party veterinary consultants.</li> </ul>
requirements	<ul> <li>Internal and external audits are conducted regularly to monitor compliance.</li> </ul>
	Formal meetings are held with the NSPCA to discuss relevant matters.
Inability to recruit suitably skilled candidates for	<ul> <li>The Group builds relationships with universities and offers bursary programmes.</li> </ul>
specialised positions	Formalised development plans for internally identified talent are monitored.
	<ul> <li>The annual intake of interns for animal production training helps build necessary skills.</li> </ul>
	<ul> <li>Partnerships with recruitment agencies are in place to facilitate and improve access to potential candidates.</li> </ul>
Cyber security breach resulting in loss of information	<ul> <li>Information technology ("IT") security is outsourced to the Business Connextion Group, a third-party supplier that houses the Group's IT information in highly secure data warehouses.</li> </ul>
	<ul> <li>A formal cyber security risk review was conducted by PricewaterhouseCoopers Inc. ("PwC") in 2017, and mitigating controls and procedures are currently being rolled out across the Group's operations.</li> </ul>
	Cyber risk insurance cover was put in place during the year.

# JOINT REPORT OF THE CHAIRMAN AND CEO



The financial performance of 2018 was truly exceptional, supported by significant tailwinds experienced by the egg business.

The year was characterised by the impact of the highly pathogenic Avian Influenza ("AI") outbreaks in South Africa, which caused a substantial increase in egg prices. These outbreaks further increased biosecurity and logistics costs and resulted in a significant reduction in the feed volumes required by the Group's internal layer farms.



The effects of the AI outbreak in 2017 continued into 2018. These effects included a nationwide egg shortage, which had a significant impact on the egg industry generally and on the Group in particular.

Due to the outbreak, the commercial layer population in South Africa declined from a high of approximately 24.4 million hens during 2017 to a low of approximately 21 million in 2018. The resultant lower supply of eggs caused egg prices to increase by 23.7% year on year.

The Group experienced a further outbreak of AI early in the 2018 financial year. While management expertise gained from the 2017 outbreak was effectively applied to reduce the impact, additional costs were incurred throughout the business to mitigate the risk of further AI outbreaks. These costs included additional biosecurity measures on farms, in the feed mills as well as the egg packing stations.

The South African economy remains under pressure and fell into a recession during the year. It is particularly concerning that South Africa has suffered from a *per capita* income decline since 2013. *Per capita* income growth is the most important driver of protein consumption.

In the first few years following Quantum Foods' listing, the business was focused on implementing sustainable business practices. These included practices to reduce the significant swing in the profitability of Quantum Foods as a result of industry cycles caused by fluctuating input costs for feed raw materials and changes in final product prices due to supply and demand. This has been successfully achieved with the exit from the broiler meat market and positioning of the Group as a significant producer of broiler livestock in South Africa, together with its solid external feed business and more efficient egg business. Subsequently, the Group strategy was reviewed during the year. This process resulted in four key strategic themes being identified by the Group that will enable the business to deliver increased value going forward. These themes are:

- profitable growth through industry cycles;
- customer and product focus;
- operational excellence; and
- enhance and maintain a performance culture.

The main cost drivers that impact Quantum Foods' operations are maize and soybean meal prices. Fortunately, raw material costs were lower during the year due to the good South African maize and soybean meal harvests in 2017.

#### **OPERATIONAL OVERVIEW**

Although the maize crop in 2018 was not as large as in 2017, sufficient maize was produced for domestic consumption. Maize prices, however, started to increase from February 2018.

Soybean meal prices were more volatile and traded between US\$300 and US\$380 per ton during the year. This instability not only resulted in an increased risk of procuring key raw materials at suboptimal price points, but also led to increased difficulty in managing margins. This was particularly evident in the feed business.

For the egg business, a longer maize position was held by utilising lower maize prices on SAFEX earlier in the year. This further contributed to the business's profit.

Overall, operational costs in the business were well managed given the additional costs incurred following the Al outbreak.

#### **SEGMENTAL OVERVIEW**

Nova Feeds' profit declined in the year under review. External sales volumes grew by 6.1%, margins came under pressure and the business felt the impact of reduced tons of feed supplied to the Group's Nulaid farms as a result of the Al outbreaks in 2017 and early

in 2018. Generally, the feed industry remains highly competitive. Despite this, the *Nova Feeds* business continues to perform well, and additional capital has been allocated to increase capacity in 2019.

The broiler farming business performed well on commercial level and record-high productivity levels were achieved. Unfortunately, the excellent performance by parent breeder operations seen in previous years was not repeated. The introduction of new Cobb500 male line genetics resulted in commercial broilers performing well in terms of growth (with fewer mortalities and improved feed consumption). There were, however, negative impacts. These included reduced egg production and hatchability at breeder level. The Group subsequently made several changes to the management of the parent flock and breeder productivity began to improve toward the end of the 2018 financial year. Hatchery capacity was successfully enhanced and the Group achieved a 6% increase in day-old chick volumes.

The productivity of the layer farming business continued to improve. The layer breeders outperformed the Lohmann breed standards and, commercially, all short-term productivity indicators are improving. The productivity index for commercial layers improved by nearly 2%.

The sales volume of day-old layer chicks increased by 61.8%. However, due to a large rearing farm being affected by AI, point-of-lay sales declined by 22.5%. Additional commercial layer capacity was successfully created during the year to mitigate the production losses resulting from the AI outbreak.

The egg business delivered a strong performance on the back of favourable industry conditions. Due to AI, egg prices increased by 23.7% and volumes declined by 7.4% year on year. This price movement was a significant contributor to and positively impacted the profitability of the egg business. The business improved its operational efficiencies and compares well with similar operations globally. A further success was the change in customer mix in the northern part of South Africa whereby the quantity of graded eggs supplied to the formal market reduced and the quantity of ungraded eggs supplied directly from farms increased. This resulted in improved efficiencies in both channels.

The Group ensured that all key customers' egg volume requirements were met during the year, with only one significant customer being out of stock for a short period during the initial Al outbreak. The geographical spread of the Group's egg farms throughout South Africa mitigates the disease risk; however, distributing eggs to the Western Cape from the Gauteng/North West layer farms created a logistical challenge. This challenge was managed exceptionally well by the egg business, which is now being led by a much stronger management team than two years ago.

Quantum Foods' other African businesses performed well. Macroeconomic factors in all three countries were more favourable during the past year than in 2017.

Uganda experienced a complete turnaround year on year. This was partly due to a substantial decline in 2018 maize prices following a good harvest after two previously dry seasons. The financial benefits of the Masindi egg farm investment also commenced.

In Zambia, the Mega Eggs business performed well, and earnings from the Lusaka breeder farm started to improve towards the end of the financial period. The investment in a new feed mill at the Lusaka farm was completed in September 2018.

The Mozambican business posted its maiden profit. The characteristics of the South African egg market influenced the Mozambican market and egg prices increased while feed prices decreased. The business was able to sell a larger percentage of eggs to the formal retail market. Capital was successfully invested to ensure better protection at chicken houses during periods of extreme heat, which negatively impacted the business's layer flock in 2017.

## Report from leadership

#### **FINANCIAL OVERVIEW**

Revenue from South African operations:

- decreased by R25 million for the feeds segment.
   This is a result of the adjustment to selling prices in response to lower average raw material costs and volumes sold increasing by 6.1%;
- decreased by R78 million for the farming segment.
   Similar to the feeds segment, broiler selling prices were reduced as a result of lower average feed costs, while the layer farming business had less volumes to sell; and
- increased by R155 million for the eggs segment, where an average price increase of 23.7% and a volume decline of 7.4% was achieved.

Cost of sales decreased by 2.1% to R3 188 million. 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 year ended 30 September 2018 amounted to R418 million (2017: R165 million), with the increase mostly reflective of the improved margins in the layer farming and egg businesses. Gross profit, excluding these fair value adjustments, increased by R394 million to R1 353 million at a margin of 32.8% (2017: 23.7%).

Group revenue increased by 1.7% to R4 122 million, with a 1.4% increase of R52 million in South African operations and an 8.7% increase of R18 million in other African operations. Revenue from other African operations contributed 5.4% to Group revenue for 2018 (2017: 5.0%). Cash operating expenses increased by 8.3% in 2018. Factors contributing to this increase ahead of inflation include:

- additional AI risk mitigation measures that were implemented;
- increased operational costs of the Western Cape broiler farms owned by the Group following the exit of some contract producers during the previous period; and
- increased short-term incentive benefits payable to qualifying management.

Operating profit, before items of a capital nature, increased by 216% to R472 million for the period under review.

South African operations recorded a 165% increase of R283 million to a profit of R455 million at a margin of 11.7% (2017: 4.5%). Eggs and farming improved by R240 million and R51 million respectively, while feeds weakened by R8 million. Eggs profit benefited from substantially higher margins due to the increase in selling prices, lower feed production costs and improved operational efficiency. Included in farming profits are the proceeds from an insurance claim for Al of R22 million, while the majority of the Al losses were incurred in the previous year. Feeds profit benefited from the increase in sales volumes to the external market. However, profit was negatively affected by the decline in volumes required by the internal layer farming business and lower margins achieved on external sales. Other African operations recorded an increase in earnings of R41 million, which resulted in a profit of R31 million. Earnings increased in all three countries supported by improved operating conditions.

## Headline earnings per share ("HEPS") increased to 163.9 cents from the 49.0 cents of 2017.

Cash inflow from operations amounted to R432 million for the reporting period. This includes a reduced investment of R13 million in working capital.

Capital expenditure for the period amounted to R116 million, with the main items being a project to increase capacity at the broiler hatchery in Hartbeespoort, building a new feed mill in Lusaka, expanding the Masindi layer farm in Uganda, expanding the feed mills in Pretoria and Olifantskop, expanding the layer hatchery in Bronkhorstspruit, as well as capital expenditure to renovate previously dormant commercial layer houses in South Africa.

Cash and cash equivalents increased from R261 million at 30 September 2017 to R422 million at 30 September 2018.

At 30 September 2018, the Group had minimal borrowings, 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 AND SHARE REPURCHASE**

The Group targets a HEPS cover of approximately four times for the declaration of dividends. However, in its declaration of a total gross final dividend of 70 cents per share, the Board further considered the cash generated by and the healthy cash position of the Group at 30 September 2018.

Full-year dividend at a HEPS cover of four times	41 cents
Special dividend due to 2018 cash generation	49 cents
Total dividend for the year (2017: 34 cents per share)	90 cents
Less interim dividend declared	(20 cents)
Total final dividend	70 cents

Dividends tax, at a rate of 20%, will amount to 14 cents per share; consequently, shareholders who are not exempt from dividends tax will receive a net dividend amount of 56 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.

During the year under review, Quantum Foods bought back and cancelled 11 784 941 shares at a cost of R52.4 million. In addition, a subsidiary of Quantum Foods purchased 546 815 shares at a cost of R2.5 million. These shares are held as treasury shares. The issued share capital at 30 September 2018 is 210 529 716 shares. The Board intends to continue with the repurchase of shares.

The applicable dates are as follows:

Last date of trading cum dividend	Tuesday, 15 January 2019
Trading ex dividend commences	Wednesday, 16 January 2019
Record date	Friday, 18 January 2019
Dividend payable	Monday, 21 January 2019

Share certificates may not be dematerialised or materialised between Wednesday, 16 January 2019 and Friday, 18 January 2019, both days inclusive.

## Report from leadership

#### **PROSPECTS**

There is uncertainty about the size of the maize crop that will be planted for the 2018/2019 season. However, given the surplus maize stock harvested in 2018, there should be an adequate supply of maize domestically. Globally, stock levels of maize and soybean meal remain sufficient.

A major uncertainty for the Group going forward is the rand to US dollar exchange rate. Volatility in exchange rates directly impacts maize and soybean meal prices.

The current dynamics experienced in the egg market are significantly different to what Quantum Foods experienced 12 months ago. Sufficient layer hens have been placed in South Africa to ensure that supply will exceed demand. The Group expects egg prices to decrease in 2019 – a testimony to the cyclical nature of the egg business. However, the egg business is in a much stronger position to navigate the expected headwinds. This includes, for example, improved management and operational efficiency, assisted by the replacement of egg grading and packing equipment in the Group's largest packing stations.

The broiler and feed businesses have further demonstrated their resilience through their strong contributions to the Group's profitability. The other African businesses now have experienced management teams and that, together with investments made to expand capacity, should result in improved resilience from these businesses going forward.

#### **APPRECIATION**

Many people contributed to the success of Quantum Foods during the past year. In particular, the leadership team would like to extend its gratitude to the Board, the executive team and all of the Group's employees, as well as its customers and suppliers, for their constructive contribution to the business.

WA Hanekom

**HA Lourens** 

# BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE



Back row (L to R): Patrick Ernest Burton, Geoffrey George Fortuin, Roelof Viljoen, André Hugo Muller, Jan Hendrik van Rhyn, Norman Celliers, Prof. Abdus Salam Mohammad Karaan, James Joseph Murray, Marthinus Petrus van Lill, Lesego Amos Selaledi



Front row (L to R): Hendrik Albertus Lourens, Marisha Octavia Gibbons, Heather Elizabeth Pether, Adel Deidré van der Merwe, Wouter André Hanekom

## **BOARD OF DIRECTORS**



WOUTER ANDRÉ HANEKOM (59)

#### Chairman

André was nominated and elected as chairman of the Board on 28 April 2015.

#### Qualifications

CA(SA)

#### Quantum Foods Board and Committee Membership

Chairman, remuneration and human capital and social and ethics.

André joined Bokomo Breakfast Cereals in 1988 as a financial manager. He was later appointed as operational executive and. in 1994, he was appointed as chief executive officer of Bokomo. After the merger between Sasko Bokomo, André served as the executive responsible for Sasko Milling and Baking, after which he was appointed as chief executive officer of Pioneer Foods in 1999. André retired as chief executive officer of Pioneer Foods in March 2013.



PATRICK ERNEST BURTON (65)

Lead independent

Patrick was appointed to the Board on 29 July 2014.

#### Qualifications

BCom (Hons) Financial Management, HDip in Tax Law

#### Quantum Foods Board and Committee Membership

Non-executive director, audit and risk (chairman), remuneration and human capital (chairman).

Patrick is an experienced businessman with experience as a director. This includes non-executive positions in fishing, food, insurance, financial services and investment holdings companies. Patrick sits on the board of directors of various listed and unlisted companies.



GEOFFREY GEORGE FORTUIN (51)

Independent nonexecutive director

Geoff was appointed to the Board on 28 April 2015.

#### Qualifications

BCom (Acc), BCom (Acc) (Hons), CA(SA)

#### Quantum Foods Board and Committee Membership

Non-executive director and audit and risk

Geoff was previously a partner at Deloitte & Touche for 15 years during which time he was responsible for several South African listed companies. He was also a member of the Deloitte South Africa Board. Geoff is currently the financial director of Brimstone Investment Corporation Ltd.



PROF. ABDUS SALAM MOHAMMAD KARAAN (50)

Independent nonexecutive director

Mohammad was appointed to the Board on 10 June 2014.

#### Qualifications

BSc Agric, BSc Agric (Hons), MSc Agric, PhD (Agric)

#### Quantum Foods Board and Committee Membership

Non-executive director, audit and risk and social and ethics (chairman).

Mohammad ioined the Development Bank of Southern Africa in Johannesburg as economist and later returned to Stellenbosch to join the Rural Foundation as head of research. 1997, he joined Stellenbosch University as a lecturer in the Agricultural Faculty. In October 2008, he became dean of the Faculty of AgriSciences at Stellenbosch University. He serves on various boards.



**NORMAN CELLIERS (45)** 

#### Non-executive director

Norman was appointed to the Board on 10 June 2014.

#### Qualifications

BEng (Civil), MBA

#### Quantum Foods Board and Committee Membership

Non-executive director and remuneration and human capital.

Norman's professional experience includes engineering, management consulting and private equity in South Africa and abroad. He is currently the chief executive officer of Zeder Investments Ltd.



HENDRIK ALBERTUS LOURENS (55)

#### Chief executive officer

Hennie was appointed as chief executive officer of Quantum Foods in 2007, while it was a division of Pioneer Foods and was appointed to the Board on 27 January 2014.

#### Qualifications

BCom (Hons), MCom, BProc

#### Quantum Foods Board and Committee Membership

Executive director – Group managing director

Hennie commenced his services with Pioneer Foods as the human resources manager for Bokomo in 1996 and was later appointed as general manager for the Sasko Grain Business. He has been in the fast-moving consumer goods ("FMCG") industry for over 20 years.



ANDRÉ HUGO MULLER (48)

#### Chief financial officer

André was appointed to the Board on 27 January 2014.

#### Qualifications

CA(SA)

#### Quantum Foods Board and Committee Membership

Executive director - Group financial director

André joined Quantum Foods in 2003, while it was still a division of Pioneer Foods. He started at Nulaid as financial manager and was later appointed as the farming operations manager for Nulaid, a position he held for four years. André spent a year as national sales and marketing manager Tydstroom before being appointed as head of finance for Quantum Foods in 2012.



MARISHA OCTAVIA GIBBONS (27)

Company secretary and legal advisor

Marisha has been with Quantum Foods since 17 May 2018.

#### Qualifications

LLB

Company secretary

Marisha joined Quantum Foods in May 2018 from Parmalat SA (Pty) Ltd, where she practised as a legal advisor for two years. She completed her articles at ENSafrica (Stellenbosch) in the corporate commercial department. She has four years' experience in the legal and compliance environment.

## **EXECUTIVE COMMITTEE**

The executive committee comprises a team of experienced senior managers with sound industry knowledge and who have been with the business at least since its listing on the JSE in 2014. This contributes positivity to the execution of the business strategy and operational performance.



HENDRIK ALBERTUS LOURENS (55)

#### Chief executive officer

Hennie has been with Quantum Foods since 2007.

#### Qualifications

BCom (Hons), MCom, BProc

Hennie was appointed as executive of Quantum Foods in 2007, while it was a division of Pioneer Foods. He commenced his services with Pioneer Foods as the human resources manager for Bokomo in 1996 and was later appointed as general manager for the Sasko Grain Business. He has been in the FMCG industry for over 20 years.



ANDRÉ HUGO MULLER (48)

#### Chief financial officer

André has been with Quantum Foods since 2003.

## **Qualifications** CA(SA)

André joined Quantum Foods while it was a division of Pioneer Foods. He started at Nulaid as financial manager and was later appointed as the farming operations manager for Nulaid, a position he held for four years. André spent a year as national sales and marketing manager for Tydstroom before being appointed as head of finance for Quantum Foods in 2012.



**ROELOF VILJOEN (52)** 

### Executive: Supply

Roelof has been with Quantum Foods since 2008.

## **Qualifications** CA(SA)

Roelof was a financial manager and a sales manager at Sasko Grain, before joining Quantum Foods while it was still a division of Pioneer Foods. He has 17 years' experience in the food industry, of which nine years were spent in the poultry industry. Roelof was appointed in his current role in 2016.



MARTHINUS PETRUS VAN LILL (48)

#### **Executive: Feeds**

Thinus has been with Quantum Foods since 1997.

#### Qualifications

BCom (Acc), BCompt (Hons), SAIPA (PA)

Thinus has been with Nova Feeds since 1997, while it was still a division of Pioneer Foods. He has since progressed from a financial manager to the executive responsible for Feeds. He has 21 years' experience in the animal feeds and poultry industry.

Quantum Foods' executive committee meets regularly and acts as a consolidating oversight committee for the Group. The committee is responsible for managing the Group's operations, developing strategy and policy proposals for the Board's consideration, and implementing the Board's directives.



ADEL DEIDRÉ VAN **DER MERWE (47)** 

**Executive: Eaas** 

Adel has been with Quantum Foods since 2008

#### Qualifications

BCom Management Accounting

Adel started out in the corporate finance department of Pioneer Foods in 1995 and moved to central procurement where she spent the bulk of her time involved in raw materials commodities procurement. In 2008, she joined Nova Feeds while it was still a division of Pioneer Foods. She joined the Eggs business during 2016. She has more than eight years' experience in the animal feeds and food industry.



JAMES JOSEPH MURRAY (61) **Executive: Broiler** 

farming

Jimmy has been with Quantum Foods since 2013

#### Qualifications

National Diploma in Agricultural Extension and Soil Conservation

Jimmy has 37 years' experience in poultry industry. Most of his early experience was gained at Rainbow Chicken I td various senior farming production roles. After Rainbow Chicken Ltd. he spent five years as managing director of Hv-Line SA (importer of Hy-Line grandparent layers), followed five years as chief executive officer of Grendon (an integrated poultry operation KwaZulu-Natal).



**HEATHER ELIZABETH** PETHER (50)

Executive: Human resources

Heather has been with Quantum Foods since 2005

#### Qualifications

National Diploma in Human Resources

Heather has 22 years' experience in the human resources field. She spent seven years as the human resources manager of Tydstroom while it was a division of Pioneer Foods. She was appointed as the executive responsible human resources at Quantum Foods in 2012



JAN HENDRIK VAN RHYN (53)

Executive: Africa

Jannie has been with Quantum Foods since 2014

#### Qualifications

BEng, MSc. RC<sub>om</sub> (Hons)

Jannie spent nine years with Naspers Ltd. during which time he was involved in many startup internet and internetrelated businesses in South Africa, China and a number of African countries. This includes Nigeria, where he was based for three years. Jannie was involved in projects. business development and operations in sub-Saharan Africa for 13 years. He joined Quantum Foods in November 2014 and is responsible for the business in the rest of Africa.



**LESEGO AMOS** SELALEDI (41)

Executive: Layer farming

Amos has been with Quantum Foods since 1999

#### Qualifications

BlnstAgrar BAgric, (Hons), MPhil, BBA, MBA

Amos joined Quantum Foods in 1999, while it was still a division Pioneer Foods. He started at Nova Feeds as a technical specialist and joined Nulaid in 2003 as a technical manager. He then became regional manager then national manager before being appointed as the executive layer farming January 2017. He has 19 years' experience in the poultry industry.

## **ENSURING RESPONSIBLE BUSINESS**

Quantum Foods' stakeholders contribute to the success of its business. The Group therefore takes stakeholder concerns seriously, and strives to continuously improve its governance, transformation and sustainability initiatives.

The Group is committed to creating value for its stakeholders by ensuring the sustainability of its business model. The value of sustainability will be realised through an improved ability to attract capital from socially responsible investors, an increased ability to attract and retain a diverse pool of talent, and the ability to provide shareholders with positive returns on their investment.



Read more about the Group's approach to stakeholder engagement on page 71.

## PRODUCT SAFETY AND CUSTOMER COMPLAINTS

#### **Feeds business**

Quantum Foods aims to provide safe feed according to good manufacturing practices in the animal feeds industry and is also a member of the Animal Feed Manufacturers Association ("AFMA"). Quality assurance is crucial and all feed mills have Integrated Management Systems ("IMS") in place that are subject to annual external audits and reviews to ensure adherence to industry, regulatory and product safety standards. Some of the audits are conducted by internationally accredited certification bodies. This includes a complete re-certification audit which is done every three years. An internal audit programme is in place that enables continuous monitoring and improvement of the IMS.

Customer satisfaction is important and the Group has a formal customer complaint system in place. Furthermore, an independent customer satisfaction survey is conducted on an annual basis to measure overall satisfaction, identify trends and benchmark performance.

Quality assurance and customer satisfaction remain the responsibility of management and form part of monthly reporting. The quality system is used to identify non-conformance, record specific customer complaints and identify preventative and corrective actions. These trends are used by management to improve the IMS, as well as customer satisfaction.

#### Farming business

The Group's farming operations and subsequent health of poultry flocks play an important role in the production of safe food. Stringent biosecurity measures are in place at all farms and are audited at regular intervals by both internal employees, as well as by the external veterinarians contracted by the Group.

In addition to biosecurity measures, the Group implemented vaccination programmes and monitors serology, environmental and water quality results to maintain a healthy flock capable of producing safe food. At a minimum, internal health and safety audits are conducted annually at all layer farms, cull depots and broiler farms.

#### Egg business

It is important that Quantum Foods provides safe and reliable products to its customers and consumers. The Group's grading facilities are subject to external audits, which are conducted at regular intervals to ensure compliance to food safety management systems, applicable laws and regulations. The Group's grading facilities are also subject to audits from national retail customers. An internal health and safety audit is conducted annually at all grading facilities.

As complaints in the egg business are generally more generic than those received in the feeds business,

## **Ensuring responsible business**



the Group uses an external company to monitor complaints. A toll-free number is available to both customers and consumers, and all calls are logged and managed. A weekly report is generated and monitored by senior management to identify trends and assist the Group in developing a customer-centric culture.

**Environment** 

As a business reliant on agriculture, the Group is concerned about changing weather patterns, droughts, floods and the other likely effects of climate change. A conscious effort is made to minimise Quantum Foods' environmental impact and to support the effective consumption of resources, with a specific focus on water and energy.

Poultry farming contributes a large component of the Group's water consumption requirements, with limited opportunities for reduction beyond ensuring that water

is not wasted. The aim is to critically analyse waste production and to ensure that all relevant aspects are managed responsibly.

The table below outlines the Group's overall performance for 2018 and in comparison with the previous year. This enables stakeholders to monitor performance, and helps the Group identify improvement opportunities.

#### **Environmental performance indicators**

Consumption	Units	2018	(Decrease)/ increase from 2017	Commentary to explain shifts in environmental performance indicators
Water	Kilolitres	1 337 449	21%	The Group increased production of live broilers on own farms, which were previously supplied by contract producers. Water meters have been installed at all layer farms, increasing the accuracy of consumption figures.
Electricity	kWh'000	42 415	(1%)	Energy saving initiatives are being continuously rolled out.
				Read more on page 54 6-
Coal	Tons	2 986	45%	A gas heating system was replaced by coal heating on a broiler farm as a cost-saving initiative.
Gas	Kg	1 401 808	0%	The increased production of live broilers on own farms offset a decrease following the gas to coal conversion. Consumption reduced on the layer rearing farms affected by AI.
Diesel/petrol/ paraffin	Litres	924 053	(7%)	Lower volumes of product were transported in the layer farming business due to the 2017 Al outbreak.
Heavy fuel oil ("HFO")	Litres	1 025 030	2%	
Packaging	Tons	13 121	(15%)	Lower volumes were sold in the egg business.
Waste				
Litter/manure produced	Tons	135 720	(7%)	There were lower hen numbers on layer farms due to the 2017 Al outbreak.
Mortalities to landfill/waste pit	Tons	714	(65%)	Birds were culled on layer farms in 2017 due to the Al outbreak.
Effluent water	Kilolitres	60 909	4%	

#### Conservation

The relationship with the Western Cape Nature Conservation Board in respect of the perpetual biodiversity agreement at a portion of the Farm Zouterivier continues. This conservation area is known as the Quantum Foods' Atlantis Sand Fynbos Conservation Area, and critically endangered Atlantis Sand Fynbos is conserved on the property.

#### **Energy efficiency**

With the assistance of external service providers, energy-saving opportunities are continuously evaluated across the Group's integrated value chain. Quantum Foods' main energy-intensive activities relate to the boilers used in the preparation of animal feeds, the temperature control of hatching eggs, the rearing of layer and broiler chicks and the overall production of egg packing stations. Opportunities for energy efficiency and savings include process optimisation and the introduction of advanced technologies to reduce the burden of the Group's energy-intensive activities.

In the last quarter of 2018, a solar panel system was installed on a layer farm near Port Elizabeth. This system provides enough electricity for both the farm and pack station operations. Additionally, energy-efficient LED lights were fitted on two farms, two pack stations and at the head office. Performance of all these initiatives is measured monthly and meets expectations. Further initiatives will be undertaken in the future, with an emphasis on improving efficiencies at an optimal cost-benefit ratio.

Going forward, Quantum Foods will expand these programmes and identify opportunities to reduce energy consumption within the business.

#### **Human resources**

#### Diversity and employment equity

Quantum Foods is committed to addressing inequalities with regard to race, gender and disability. The Group believes that a diverse and transformed workplace adds value in the form of improved employee capabilities and shared values that strengthen, motivate and enhance employee productivity to the ultimate benefit of society. Increasing the percentage of management deemed HDSA is a direct focus area in terms of the Group's employment equity strategy.

The employment equity statistics for the Group's South African operations are provided in the table below:

1 756 (2017: 1 609) employees were permanently employed by the South African operations of the Group at 30 September 2018 Permanent employees HDSA:

91.9%

(2017: 88.9%)

Management
HDSA grade 12+

34.2%

(2017: 28.3%)

Permanent employees who

42.3%

(2017: 42.1%

South African employees on fixed-term contracts:

3.19%

(2017: // 1%)

#### Employment equity statistics as at 30 September 2018

	Afi	rican	Col	oured	Ind	lian	W	hite	Forei	gners	;
Occupational levels	F	М	F	М	F	M	F	M	F	М	Total
Top management	0	1	2	0	0	0	1	6	0	0	10
Senior management	1	3	2	0	0	0	2	17	0	0	25
Professionally qualified, experienced specialists and											
mid-management	1	15	5	9	1	1	8	45	0	0	85
Skilled technical and qualified employees, junior management, supervisors, foremen											
and superintendents	27	100	46	49	4	4	32	32	0	0	294
Semi-skilled and discretional											
decision-making employees	115	203	101	71	1	2	7	1	0	0	501
Unskilled and defined decision-											
making employees	321	390	41	29	0	0	0	0	0	3	784
Total permanent employees	465	712	197	158	6	7	50	101	0	3	1 699
Non-permanent employees	15	16	- 1	8	- 1	0	5	10	0	- 1	57
Total	480	728	198	166	7	7	55	111	0	4	1 756

#### Total number of employees as at 30 September 2018

The employee numbers for the South African operations are reflected in the table below:

	2018	2017
Salaried	480	470
Salaried contractors	38	35
Waged	1 219	1 073
Waged contractors	19	31
Total	1 756	1 609

During the year the Group's employee complement increased by 9% as the business made a concerted effort to shift from temporary to permanent labour.

By ensuring a high percentage of permanent employees, the Group provides more individuals with access to the retirement and disability benefits provided by the Group. Permanent employees further provide the Group with a stable and experienced skills base that will increase the competence of the business over time.

The Group employs 371 (2017: 382) individuals in Zambia, 98 (2017: 101) individuals in Uganda and 70 (2017: 67) individuals in Mozambique.

#### **Training**

The Group invests in the development of its employees' skills, knowledge and capabilities. Legislative training was completed and several workshops and seminars were attended by employees during the year. Workshops included a specific focus on the Group's values and the associated behaviours that support Quantum Foods' strategy.

The graphs below indicate the number of participants in the different training initiatives:

The table below indicates the training spend for 2018:

Training spend	2018	2017
Total number of employees trained	318¹	306 <sup>1</sup>
Employee training spend	R3.20m	R2.08m
Employee training spend as a percentage of payroll	1.0%	0.7%

<sup>1</sup> Excludes the Group's value sessions, which formed part of the roll out of its employee engagement model.



#### Occupational health and safety

To provide a safe work environment for its employees, Quantum Foods strives to adhere to and comply with all relevant health and safety legislation across its operations. Occupational health and safety training is conducted annually.

	2018	2017	Narrative to explain year-on-year trend		
Number of fatalities	0	1			
Total number of recordable injuries	84	58	The increase is due to more vigilant recording of incidents to better inform the Group's occupational health and safety strategy going forward.		
Number of lost days	658	195	Three serious incidents were recorded during the period resulting in significant increase in the number of lost days year on year.		

All appointments in terms of sections 16(1) and 16(2) of the Occupational Health and Safety Act, Act 85 of 1993, have been implemented, and health and safety meetings are held regularly. The Group's feed factories are on the National Occupational Safety Association ("NOSA") system, which formalises the management of occupational health and safety systems. ISO 14001 is an internationally accepted environmental management certification system used to manage environmental risks at the Group's feed factories.

### **Ensuring responsible business**



#### **Employee turnover**

	2018	2017
Total turnover <sup>1</sup>	19.2%	23.1%
Management turnover (South African operations)	2.9%	3.4%
Not in management turnover (South African operations)	16.3%	19.7%

Number of individuals who departed relative to the total number of employees at year-end. 2017 turnover includes the restructure of operations in the layer business.

#### Labour union management

	2018	2017
Percentage of employees who belong	48.9%	51.9%
to a trade union		

Quantum Foods supports it employees' rights to collective bargaining. Employees are represented by nine trade unions.

The Food and Allied Workers' Union ("FAWU") has the highest overall representation among Quantum Foods' employees. At 30 September 2018, 34% of the Group's wage employees in its South African operations belonged to FAWU (2017: 36%). While negotiations between FAWU and the animal feeds business are centralised, negotiations between the union and the Group's other business units are decentralised. Wage negotiations were concluded between March and August 2018. The next round of negotiations will commence in January 2019 for implementation in March 2019.

#### **B-BBEE**

Quantum Foods recognises its obligation to contribute towards improving the socio-economic status of HDSAs. The introduction of the amended AgriBEE Sector Code in December 2017 significantly raised the bar for compliance, specifically with the introduction of subminimum requirements for the ownership, skills development and enterprise and supplier development (including preferential procurement) elements, which, if not achieved, immediately result in a lower overall B-BBEE score.

In addition to this, the percentage of manpower costs to be spent on training of HDSAs to achieve compliance has been increased significantly. This resulted in a reduction of the level 6 achieved by Quantum Foods in 2017 on the previous scorecard to non-compliance according to the 2018 measurement. The level 8 achieved on the overall score was discounted to a non-compliant status due to the subminimum on the ownership, preferential procurement and skills development elements not being achieved in 2018. Achieving a B-BBEE compliant status with the next measurement is a key management focus area for the new year.

The audit was carried out by AQRate (2017: Empowerdex), an accredited verification agency, using the revised scorecard introduced in December 2017. The 2017 rating was verified by Empowerdex using the previous Agricultural Sector Code. This rating for Quantum Foods is valid from 19 December 2018 to 18 December 2019.

Empowerment indicator	AgriBEE indicative scorecard	Quantum Foods' score
Ownership (land and equity)	25	7.95
Management control – including employment equity	19	6.57
Skills development	20	5.10
Enterprise and supplier development – including preferential procurement	40	13.66
Socio-economic development	15	9.20
Total score*	119	42.48

<sup>\*</sup> Discounted to non-compliant due to not achieving subminimum requirements.

The Group continues to contribute to enterprise and supplier development. Current initiatives include the rental of a farm in Bronkhorstspruit from an HDSA, as well as egg procurement from an HDSA egg producer in the Western Cape. Benefits of R7.5 million (2017: R5.0 million) accrued for the year.

Other projects to assist smaller HDSA suppliers continued during the year. This includes assisting suppliers with their administrative systems. The Group identified a number of senior appointments that will increase its management control and employment equity scores. Some of these appointments were made in 2017 with three more in 2018.

#### Community projects

The Group's involvement in its "adopted" primary school, which is situated close to its head office in Wellington, has grown. Quantum Foods' funding to the school increased by 38% to R1.25 million. Through its Social Club, Quantum Foods' employees involved the school in a number of its social activities.

As the Group is passionate about education, it provided R450 000 in funding to Khula Development – an organisation that supports out-of-school children in the Paarl east area. The organisation's mission is to integrate at-risk children back into the school system.

To improve food security and support this basic human requirement, Quantum Foods continued its support of FoodForward SA. FoodForward SA collects edible surplus food from manufacturers, wholesalers and

retailers, and redistributes this food to verified non-profit organisations that collectively feed thousands of hungry people daily.

The Group contributed R800 000 to FoodForward SA in 2018 (2017: R285 000) and was listed as one of the initiative's top financial donors in its 2018 annual report.

In 2018 Quantum Foods become involved with 2nd Harvest, a non-profit organisation dedicated to providing meals to the hungry and skills development to youth across South Africa. In particular, the Group contributed R500 000 to 2nd Harvest's Vita Kidz programme. This programme aims to ensure that junior school learners' nutritional requirements are met, thereby strengthening their ability to concentrate and learn while at school.

The Group will continue with its scholarship programme by offering bursaries to HDSAs who are studying towards an agricultural qualification. Currently, the Group is supporting three students studying at the Elsenburg Agricultural College.

## Ensuring responsible business (2)



Corporate social investment spend	2018	2017
Total corporate social investment spend	R3 304 745	R1 495 291
Spend on feeding programmes	R1 300 000	R286 800
Product donations	R304 745	R291 424
Spend on education	R1 700 000	R917 067

#### **Human rights**

Quantum Foods is committed to, and strives to protect, basic human rights as defined in the Constitution of the Republic of South Africa, and according to internationally proclaimed human rights standards. No incidents of human rights violations were reported during the year.

#### Animal welfare

The welfare of the Group's birds remains a major focus area. Regular internal audits are conducted on all the Group's farms to ensure adherence to set internal

standards. These audits were, however, reduced during the reporting period due to the additional biosecurity measures in place to mitigate the spread of Al.

Quantum Foods regularly engages with the NSPCA and conducts audits with inspectors from the NSPCA to ensure compliance. In addition, strict biosecurity measures are in place at all farms to protect chickens against diseases and illnesses. Animal welfare and biosecurity training, also using video media, has been rolled out to farming operations.





## CORPORATE GOVERNANCE

## Quantum Foods is a JSE listed entity and monitors its compliance with the principles of good corporate governance.

King IV defines corporate governance as the exercise of ethical and effective leadership by the Board to achieve the following outcomes:

#### OUTCOME HOW THE GROUP'S GOVERNANCE STRUCTURES HELP ACHIEVE THE OUTCOME Ethical The Board considers it a business imperative that all actions taken on behalf of Quantum culture Foods are executed ethically and professionally. The Board accepts collective responsibility for defining how ethics and ethical behaviour should be implemented in the Group. In line with the Group's code of conduct and ethics policies, the Board acts in good faith and in line with the best interest of the Company by: ensuring the legitimate interests of stakeholders are considered when making decisions; declaring directorships in other companies at least once a year; completing the declaration of interest at every Board meeting; and setting out the conduct of individual Board members to ensure integrity, competence, responsibility, accountability, fairness and transparency - thereby setting the tone from the top to support an ethical culture within the Group. Quantum Foods' social and ethics committee ("SEC") is tasked with governing and managing ethics. Management is further tasked with ensuring that the code of conduct and ethics policies are familiar to all employees and other stakeholders. For example, awareness initiatives are conducted to ensure that stakeholders are aware of the avenues available for reporting fraud or irregular conduct of employees. In addition, employees are encouraged to disclose unethical behaviour. All Group employees are required to declare any gifts received from stakeholders in a register that is monitored by the executive committee and the SEC. A competitor contact register is also monitored by the executive committee and the SEC. These matters are regulated in the code of ethics. Suppliers to the Group are required to be ethical in their conduct at all times and this is embedded in the supplier selection as well as the performance evaluation. To assist the Group in monitoring and managing its ethical performance, a Tip-offs Anonymous line is available. During the year, eight tip-offs were investigated and resolved appropriately (2017: 10). The tip-offs line is managed independently and tip-offs as well as the result of subsequent investigations are reported to the ARC. SEC and Board. The Board-approved insider trading policy regulates trading in Group shares by employees during open and closed periods. In this regard, all executives and Board members must request permission to trade in shares from the properly authorised individuals. No form of bribery, corruption, theft or fraud by the Group's employees is tolerated. Quantum Foods is guided by the Prevention and Combating of Corrupt Practices Act, Act 12 of 2004, which clearly defines the offense of corruption. The SEC, as well as the ARC, monitors these matters and reports to the Board on the overall ethical performance of Quantum Foods.

OUTCOME	HOW THE GROUP'S GOVERNANCE STRUCTURES HELP ACHIEVE THE OUTCOME
Good performance	The Board strives to achieve performance across all the capitals to demonstrate the balance between the pursuit of financial capital with long-term sustainability by:
	steering the business and setting its strategic direction by reviewing and approving the annual strategy presented by management;
	reviewing compliance, timelines and progress with the implementation of the strategy;
	considering the legitimate and reasonable needs, interests and expectations of material stakeholders when making strategic decisions;
	overseeing approved policies and operational plans delegated to management;
	continually assessing and responding in a responsible manner to the consequences of Quantum Foods' activities and outputs on the triple context in which it operates and the capitals which it uses and affects; and
	<ul> <li>reviewing Quantum Foods' going concern status biannually (including the liquidity and solvency of the Company) before committing funds in accordance with the provisions of the Companies Act.</li> </ul>
Effective	The Board ensures that it oversees and monitors the performance of the Company by:
control	remaining responsible for all internal and external audit reports;
	ensuring accountability for performance through reporting and disclosure to stakeholders;
	continuously being guided in its duties by the Board charter, which is reviewed at least every second year;
	having unrestricted access to all Company information, records, documents and property;
	each director having access to external consultants to assist the Board member where required, subject to following a Board approval process; and
	<ul> <li>holding at least four meetings per financial year. Attendance at meetings is detailed on page 67 of this report.</li> </ul>
	The ARC provides oversight of the governance, risk management, internal audit function and the external financial audit, while ensuring that an effective control system and environment is maintained.

OUTCOME	HOW THE GROUP'S GOVERNANCE STRUCTURES HELP ACHIEVE THE OUTCOME				
Legitimacy	The Board ensures legitimacy and accountability by:				
	overseeing the organisation's core purpose and values and ensuring its strategy and conduct are congruent with it being a responsible corporate citizen;				
	approving the materiality of matters that are reported on by management;				
	having appointed an independent non-executive director as the chairman of the Board;				
	having appointed an independent non-executive director as the lead independent director to act as chairman when the chairman is unable to do so, as well as evaluating the chairman's performance annually;				
	<ul> <li>ensuring succession planning in its work plan – this includes a focus on diversity at Board level;</li> </ul>				
	ensuring that all members of committees are Board members or prescribed officers of Quantum Foods;				
	ensuring that the ARC members collectively have the prerequisite knowledge, skills and experience to exercise their duties and are independent non-executive directors;				
	ensuring that new directors are adequately inducted;				
	<ul> <li>providing an opportunity for the external and internal auditors to have a discussion without management present at each meeting of the ARC; and</li> </ul>				
	formally evaluating the performance of the governing body and its committees by means of an annual survey.				

The practices underpinning the principles espoused in King IV are entrenched in many of the Group's internal controls, policies and procedures that govern its corporate conduct, as described above. The Group is focused on strengthening its corporate governance and aspires to align itself with corporate governance best practice for a company of its nature and size.

#### Governing structures and delegations

#### The Board

Quantum Foods' Board acts as the focal point for, and custodian of, corporate governance. The key roles and responsibilities of the Board include:

- determining the strategies and strategic objectives of the Group;
- determining and setting the tone for the Group's values;

- satisfying itself that the Group is governed effectively and in accordance with corporate governance best practices;
- monitoring the implementation of the Board's decisions and policies;
- ensuring that the Group has an effective and independent ARC, remuneration and human capital committee ("RHCC") and SEC;
- ensuring that disputes are resolved effectively and efficiently; and
- appointing and evaluating the performance of the chief executive officer and the company secretary.



A disclosure register detailing the Group's adherence to King IV is available at www.quantumfoods.co.za/company-documents.

## The Board's focus areas and activities during the year included the following:

TOPIC	PROGRESS AND ACTIONS ARISING				
Group strategy	The Board reviewed and approved the Group strategy presented by management on 18 September 2018. This is a three-stage process:				
	The executive committee holds a working session with external facilitators who guide the team in the development of the Group strategy.				
	The executive committee and senior management team then identify and determine appropriate operational targets that support strategy implementation.				
	3. The executive committee then provides feedback to the Board on the previous strategy, the revised strategy and the relevant operational targets. The strategy is then discussed and amended as necessary, before being approved by the Board.				
	As an outcome of the strategy review process undertaken in 2018, the Group revised its strategic themes and the performance initiatives and operational targets per theme.				
	More detail about this process is provided on page 32 of this report				
Appointment of a new director	The Board oversaw the process of appointing a new director. In reviewing Board composition, the Board considered what is required to enable it to discharge its duties and responsibilities effectively. As part of this review, the Board recognised the need for increased diversity as essential in maintaining its competitive advantage.				
	The appointment of a new director was therefore guided by the Board's diversity policy, which it developed and approved during the year. Subsequently, Tanya Golden was appointed to the Board on 10 December 2018.				
	Read more about this process on page 68				
Odd lot and specific repurchase offer	Quantum Foods made a voluntary odd lot and specific repurchase offer to smaller shareholders, who either held less than 100 shares for the odd lot offer or between 100 and 5 000 shares for the specific repurchase offer.				
	The Board considered and approved this offer to reduce the ongoing administrative costs of servicing a large number of smaller shareholders.				
	The offers were successfully executed, with 142 804 shares being repurchased and substantially reducing the number of shareholders on the register.				
Tender offer to repurchase shares	Quantum Foods made a voluntary <i>pro rata</i> tender offer to all shareholders to repurchase up to 11 080 481 ordinary no par value shares in the Group's share capital.				
	The tender offer was guided by the Board's view that a liquidity event should be provided to shareholders who wish to sell their shares and as an effective method of returning surplus cash to these shareholders, while the tender offer would be enhancing to shareholders who did not participate.				
	The tender offer was successfully executed with 11 080 359 shares being repurchased at a total consideration of R49.7 million on 17 August 2018.				

TOPIC	PROGRESS AND ACTIONS ARISING
Declaration of a first interim and special final dividend	The Board considered and declared a maiden interim dividend of 20 cents per share in 2018 and a final dividend of 70 cents per share, consisting of a normal dividend of 21 cents per share and a special dividend of 49 cents per share.
	The Board was guided by the targeted dividend cover of four times announced in 2017 as well as the exceptional financial performance and cash generation in 2018 in declaring the first interim and the special dividend.
Approval of capital projects over R5 million	The Board reviewed and approved capital expenditure projects during the year. The Board evaluates projects in accordance with affordability, expected return, support of Group strategy, risk and environmental impact.
The impact of Al on Quantum Foods	The Board oversaw the processes implemented by management to mitigate the impact of Al on the business during the year.
	These included increased expenditure on biosecurity measures, the re-introduction of previously dormant layer facilities to reduce the volume of eggs lost, the transport of substantial volumes of egg from the Gauteng and North West regions to supply Western Cape customers, as well as the process to settle claims for Al losses with the insurers of the Group.

In addition to the key focus areas outlined above, the Board:

- reviewed, discussed and approved the Group's interim and full financial results;
- reviewed and approved the Group's budget for the 2019 financial year;
- reviewed and approved the Group Governance Framework; and
- reviewed amendments to the decision-making framework, which sets out the balance of power and authority at Board level and ensures that no one director has unfettered powers of decisionmaking. As an outcome of the annual review of the decision-making framework, the Board is satisfied that the delegation of authority framework contributes to role clarity and effective exercising of authority and responsibilities.

Members of the Board are regularly updated on industry matters and applicable laws, rules and codes. Opportunities are further made available to members of the Board to ensure their ongoing development. This includes visits to Quantum Foods' business operations. This is part of the Board's ongoing responsibility to take reasonably diligent steps to become informed about matters requiring its oversight and direction. Overall, the Board is satisfied that it fulfilled its responsibilities in accordance with its charter and annual work plan.

The Board and all its committees are constituted in terms of approved charters, which are reviewed at least every second year. The Board is assisted by three committees to fulfil its mandate, but ultimately remains responsible and accountable for all matters.

The Board assumes ultimate responsibility for strategy, performance and reporting. The Board delegates the daily management of the Company in accordance with the Group Governance Framework to the executive committee, under the leadership of the chief executive officer, and monitors performance through its various subcommittees. All subsidiaries have formally adopted the Group Governance Framework at their respective Board meetings.

The Board is satisfied that each committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively. The committees of the Board are as follows:

#### The Board

## Audit and risk committee ("ARC")

#### Members:

Mr. PE Burton (chairman)
Prof. ASM Karaan
Mr. GG Fortuin

The ARC comprises three independent non-executive directors. Mr. HA Lourens and Mr. AH Muller, in their respective capacities as chief executive officer and chief financial officer, are permanent invitees to the meeting. The internal and external auditors also attend the meetings of the committee. The ARC holds a minimum of three meetings per annum. One of the meetings specifically focuses on risk to ensure risk management is adequately addressed. During the reporting period, there were no changes to the composition of the committee.

## Social and ethics committee ("SEC")

#### Members:

Prof. ASM Karaan (chairman)

Ms. HE Pether

Mr. WA Hanekom

The SEC comprises two independent non-executive directors, namely Prof. ASM Karaan and Mr. WA Hanekom and one prescribed officer, as described in the Companies Act, Ms. HE Pether. Mr. HA Lourens, Mr. AH Muller and Mr. JJ Murray in their capacities as chief executive officer, chief financial officer and broiler farming executive are permanent invitees to the meetings. No external advisors attended meetings of the committee during the year. The SEC holds a minimum of two meetings per annum. The SEC monitors the sustainable development and non-financial performance of the Group.

More information about the functions and responsibilities of the SEC during the year is provided in the SEC report on page 74. -

## Remuneration and human capital committee ("RHCC")

#### Members:

Mr. PE Burton (chairman)
Mr. N Celliers
Mr. WA Hanekom

The RHCC comprises three independent non-executive directors. Mr. HA Lourens, Mr. AH Muller and Ms. HE Pether in their capacities as chief executive officer, chief financial officer and human resources executive are permanent invitees of the committee. The RHCC is primarily responsible for reviewing and approving the executives' remuneration and assisting the Board in reviewing non-executive directors' remuneration recommendations. The RHCC takes cognisance of both local and international best practices to ensure that the Group's remuneration practices are fair and reasonable for the executives and the Company.

More information about the functions and responsibilities of the RHCC during the year is provided in the RHCC report on page 76. • • •

#### IT steering committee

More information about the functions and responsibilities of the IT steering committee during the year is provided in the IT governance report on page 72.

Subsidiary boards

**Executive management** 

The Board assumes ultimate responsibility for strategy, performance and reporting. The Board delegates the daily management of the Company to the executive committee, under the leadership of the chief executive officer, and monitors performance through its various subcommittees.

#### The Board

The Board and all its committees are constituted in terms of approved charters, which are reviewed at least every second year. The Board is assisted by three committees to fulfil its mandate, but ultimately remains responsible and accountable for all matters.

#### Meeting attendance

The Board held five scheduled meetings during the reporting period. The Board members also attended a full-day session during which the 2019 strategy was approved. The SEC had two scheduled meetings during the year, the ARC had three scheduled meetings, and the RHCC held two scheduled and one additional ad hoc meeting. Members who could not attend a meeting excused themselves accordingly.

The Board is satisfied with the contribution by its directors as well as the attendance of meetings by the members of the Board and its committees.

	Status	AGM	Board	RHCC	ARC	SEC	Strategy session
WA Hanekom	Chairman, independent non-executive director	1/1	5/5	3/3*	3/3^	2/2	1/1
PE Burton	Lead independent non-executive director	0/1	5/5	3/3*	3/3	n/a	1/1
N Celliers	Non-executive director	1/1	4/5	3/3*	n/a	n/a	1/1
Prof. ASM Karaan	Independent non-executive director	1/1	5/5	n/a	2/3	2/2	1/1
GG Fortuin	Independent non-executive director	0/1	4/5	1/3*^	3/3	n/a	0/1
HA Lourens	Chief executive officer	1/1	5/5	3/3*^	3/3^	2/2^	1/1
AH Muller	Chief financial officer	1/1	5/5	3/3*^	3/3^	2/2^	1/1

<sup>\*</sup> The committee held one additional ad hoc meeting.

<sup>^</sup> WA Hanekom attended the ARC meetings as an invitee, GG Fortuin attended the RHCC meeting as an invitee and HA Lourens and AH Muller attended the RHCC, ARC and SEC meetings as invitees.

The members of the Board are seasoned directors who understand their duty to act with care, skill and diligence.

#### Composition and functions of the Board

The Board consists of seven directors, five of whom are non-executive directors. Four of the directors are independent non-executive directors. The chairman, Mr. André Hanekom, an independent non-executive director, presides over meetings of the Board.

Mr. Patrick Burton, an independent non-executive director, is the lead independent director of the Board. The duties and functions performed by Mr. André Hanekom as chairman and independent non-executive director are separate from those performed by the chief executive officer, Mr. Hennie Lourens, who is an executive director.

The chief executive officer is responsible for leading the implementation and execution of the strategy and for policy and operational planning and serves as the chief link between management and the Board. The RHCC annually oversees the succession planning of the chief executive officer and the executives and is satisfied that sufficient measures are in place to ensure continuity. The chief executive officer is not a member of any other governing body outside of Quantum Foods.

The Board appoints the chief executive officer and the company secretary. The independence of each non-executive director is regularly assessed by monitoring information submitted by directors relating to their relevant business interests.

Quantum Foods elected not to have a nominations committee. The appointment of directors is considered a matter for the Board as a whole. The appointment of directors is transparent and takes place according to a formal process that includes proposal submissions from all incumbent directors, followed by interviews with nominated directors.

The Board is diverse in terms of race, business acumen and tenure. While this diversity provides for challenging and robust discussion and views, leveraging an appropriate mix of knowledge, skills, experience, diversity and independence, the Board recognises the gender gap that currently exists. The Board therefore undertook a process of appointing a female director during the year. The Board has further adopted and approved a diversity policy, which specifically identifies gender diversity as a focus area and addresses diversity attributes generally.

When identifying suitable candidates for appointment to the Board, the Board will consider candidates on merit against objective criteria with due regard for the potential benefits of gender diversity at a Board level. Targets for gender and race were considered in 2018 resulting in the decision to add a black female non-executive director to the Board. Going forward, gender and race diversity will be considered as part of the Board's succession planning. The Board will continue to discuss, and annually agree on, measurable targets for achieving gender diversity at Board level.

There were no changes to the Board during the reporting period. At each annual general meeting ("AGM"), one-third of the non-executive directors retire by rotation but are eligible for re-election. Any non-executive director who has already held office for a period of more than three years since his/her last election for appointment at the AGM retires at the next AGM but remains eligible for re-election.

A director shall be obliged to retire at the conclusion of the AGM relating to the financial year in which he/she becomes 70 years old and shall not be eligible for re-election.

A brief professional profile of each candidate standing for election or re-election at the AGM is available in the Group's notice of AGM. The Board supports all candidates standing for election or re-election.

An internal appraisal of the Board and committees was done during the reporting period and no material issues were identified. The Board is satisfied that the evaluation process is improving its performance and effectiveness. Going forward the Board will consider using an external provider to facilitate the appraisal process of the Board and its committees.

#### Company secretary

All Board members have access to the advice and services of the company secretary, who is responsible for the proper administration of the Board and the implementation of sound corporate governance procedures. This includes corporate announcements, investor communications and unrestricted access to information about developments that may affect the Company and its operations. This includes access to company information, records, documents and property. Following a Board approved procedure, Board members may also seek independent advice in connection with their duties at the cost of the Group. The company secretary may access external legal advice.

The performance of the company secretary is evaluated annually. The Board is of the opinion that the company secretary is suitably qualified, competent and experienced to carry out her duties as stipulated under section 88 of the Companies Act. The Board is satisfied that an arm's-length relationship exists between the company secretary and the Board. The company secretary reports directly to the Board on statutory matters and to the chief financial officer in relation to her other duties.

The Board believes effective arrangements for accessing professional corporate governance advice are in place.

#### Legal compliance

The Board recognises its responsibility to ensure that Quantum Foods complies with all applicable laws and monitors adherence to all regulatory charters, codes and standards. Board members have experience in, and knowledge of, the agricultural industry, and are aware of the potential impact of legislative changes. The responsibility for implementation and execution of effective compliance management is delegated

to management and management continually monitors the regulatory environment and identifies appropriate responses to changes and developments. Such changes are reported to the Board.

On an ongoing basis, the Company monitors key identified legislation for any changes and developments that could potentially impact the business. The company secretary reports to the Board and the Board reviews and monitors updates to legislation on a quarterly basis.

During the reporting period, Quantum Foods received an administrative fine from the Department of Environmental Affairs for its Moredou Farm for an inherited unlawful expansion of the farm conducted by the previous owner. Quantum Foods has since paid the fine of R50 000. Furthermore, the Competition and Consumer Protection Committee of Zambia found Quantum Foods Zambia Ltd to have contravened the Competition Act in 2013 and imposed a penalty of ZMK4.3 million. An appeal has been lodged with the Tribunal and a provision for the possible penalty was raised in the reporting period. Other than the aforementioned, no further regulatory penalties, sanctions or fines for contraventions or noncompliance with statutory obligations were imposed on the Company or any of its directors or officers.

In 2019, the Group will continue to monitor key identified legislation for any changes and developments.

#### Combined assurance

Quantum Foods has defined the Group's combined assurance model in line with King IV, which is updated alongside the risk profile of the Company and its subsidiaries. The objective of combined assurance is to enable effective control of the Group's risk environment. Assurance processes in the Group include management, various second line and external assurance providers such as health and safety, as well as internal and external audit. These various assurance role players oversee corporate governance at Quantum Foods and provide different types of assurance. They are differentiated by their levels of independence from the Group's operational activities and the Group itself.

Through the use of Quantum Foods' combined assurance model, the independence of assurance gradually increases over four lines.

1 MANAGEMENT OVERSIGHT

The senior and line management of each division and business unit are responsible for day-to-day risk management and for managing, measuring and mitigating operational risk.

2 GOVERNANCE OF RISK AND COMPLIANCE

The ARC operates within written guidelines instituted by the Board and is responsible for reviewing and monitoring the Company's risk management performance and providing a high-level risk assessment to the Board on an ongoing basis.

3 INTERNAL AUDIT

The internal auditors serve as an independent appraisal and assurance body that fulfils a core requirement within the Group's governance structures. It aims to add value by providing the Group with autonomous and objective assurance.

4 EXTERNAL AUDIT AND OTHER INDEPENDENT THIRD-PARTY ASSURANCE PROVIDERS

In line with the Group's Governance Framework, external assurance providers are appointed for the Group's operations. Feedback on the audits is monitored by the ARC. The external auditors are appointed by shareholders on recommendation of the ARC.

ARC >



Board

The ARC has reviewed and is satisfied with the effectiveness of the Group's combined assurance model.

#### Group external audit

The 2018 external audit services for the South African, Mozambican, Uganda and Zambian operations were provided by PwC. Feedback on the audits provided to the subsidiary boards is monitored by the ARC.



Read more about Group external audit in the ARC report on page 90.

#### Group internal audit

The Group's internal audit services for 2018 were provided by Deloitte & Touche. The internal audit service contract is valid for a further three years. The internal audit function is constituted in terms of the internal audit charter. Management and the ARC may identify additional risk areas to be included in the internal audit work plan that is developed by the internal audit function. Results and management actions undertaken

by internal audit are reported to the ARC (and escalated to the Board if necessary). The ARC assesses the effectiveness of both the internal audit function and the head of internal audit on at least an annual basis.

During the year, the internal auditors monitored the effectiveness and adequacy of the Group's risk framework and risk register. The assurance process was determined as being a combination of internal and external accountabilities. Risk mitigation was identified, and risks with a high probability and impact were prioritised and included in the internal auditors' programme for the year.



The report of the ARC is provided on pages 90 to 91.



Read more about the Group's strategic risks on page 37.

## Corporate governance

#### Stakeholder relations

Quantum Foods adopts a stakeholder inclusive approach and has an established stakeholder engagement process in place. These engagement mechanisms are designed for stakeholders and include Group discussions and one-on-one meetings. The following broad stakeholder groups have been identified:

- Employees
- · Customers and consumers

- Communities
- Shareholders and investors
- Suppliers and contractors
- Governments and regulatory bodies
- Industry bodies

In 2018, the Group's key areas of focus for stakeholder relations included:

TOPIC	PROGRESS AND ACTIONS ARISING
Ongoing engagement with the NSPCA	Continual engagement with the NSPCA remains a major focus for the Group to ensure best-in-class welfare standards for birds, which is critical to the success of the business. The strength of this relationship was evidenced during the year as Group employees assisted the NSPCA with staff training on animal welfare.
Engagement with shareholders	Following the release of the interim and final 2018 financial results, shareholders were invited to a presentation where the results were discussed. The presentation is also available as a broadcast for those shareholders who cannot physically attend. Shareholders were also invited to attend the AGM in February 2018.
	One-on-one meetings with a significant shareholder of the Group resulted in a review of the Rules of the Quantum Foods Equity-Settled Phantom Share Plan, which will be presented to shareholders for approval at the February 2019 AGM.
The Group-wide roll-out of the values programme	A formal programme aimed at entrenching Company values was rolled out across the Group during the year. This programme was made available to employees in all of the Group's operating geographies, including South Africa, Mozambique, Uganda and Zambia.

The Group's SEC is responsible for the governance and oversight of stakeholder relationships. Quantum Foods adopted a formal stakeholder engagement policy that outlines its approach to communicating and working with its stakeholders. Enquiries from shareholders are generally handled by the company secretary or directly by the chief executive officer or chief financial officer.

Going forward, the Company will ensure that all information relevant to the application of King IV is available on its website. This includes any supporting documentation, Group policies or charters.



The Group's stakeholder engagement policy is available on the Company's website: www.quantumfoods.co.za.

#### IT governance

IT is entrenched in the way that Quantum Foods does business and almost every business process is supported by IT. King IV recommends that the governing body should delegate to management the responsibility to implement and execute effective technology and information management. This delegation points to the establishment of an IT steering committee by the Board.

The Board is responsible for IT governance and is ultimately responsible for ensuring information and IT strategies are aligned with business strategies. The ARC assists the Board in carrying out these responsibilities. Management is responsible for the implementation of all the structures, processes and mechanisms for IT and information governance. Management delegates to the IT steering committee, which is independent and tasked with identifying key projects as well as the implementation and monitoring of such projects. The IT steering committee also monitors information security, and any significant security incidents are reported to the ARC.

The IT steering committee is governed by Quantum Foods' IT charter, which outlines the decision-making rights and accountability framework to effectively govern the Group's IT service landscape. The committee has decision-making authority with respect to its duties and is accountable to the Board, the ARC and the executive committee across the following areas of responsibility:

- Strategy
- Investment
- Sourcing
- Risk management
- Information security
- Disaster recovery

Quantum Foods' IT charter is based on the principles of the Control Objectives for Information and Related Technologies ("COBIT") framework for IT governance. COBIT is an internationally recognised IT framework that guides the Board in discharging its IT responsibilities. COBIT is published by the Information Systems Audit and Control Association ("ISACA").

An IT governance framework and reporting system provides the Board with assurance that the IT strategy, procedures and controls within the business reduce IT risk, including information security, to an acceptable level. PwC, as external advisors, assist with ensuring that measures are put in place to ensure the security of IT.

In 2017, a review was done to identify the business's key information assets and monitor the effectiveness of the measures in place to protect them. A cyber security risk review was also conducted with the assistance of PwC. As an outcome of this review, the following actions were implemented in 2018:

- A revision of the Group's IT policies
- The implementation of a cyber insurance policy
- The relocation of IT data to the more secure Microsoft Cloud environment

Other focus areas during 2018 included:

- An upgrade to the Group's network landscape to improve connectivity and replace fixed-line telephony with Voice over IP phones
- The implementation of SAGE 300 as financial reporting system for the operations in Zambia and Uganda
- Training of employees on key IT business processes

Going forward, the value delivered to the organisation through significant investments in IT will receive increased focus. Other planned areas of future focus include:

TOPIC	AREAS OF FUTURE FOCUS			
Protection of Personal Information Act	Ensure that personal information is adequately protected.			
Improved cyber risk	Further migration of IT data to the Microsoft Cloud environment.			
resilience	Introduction of software to improve the protection of information on mobile devices with access to the Company IT landscape.			
	Introduction of regular vulnerability assessment techniques to verify the Group's resilience to unauthorised access of its IT systems and data.			
Improved business resilience and disaster recovery	Expanding the existing business continuity programme.			

The Board is satisfied that, based on reports received from the ARC, an appropriate IT governance framework exists, is functioning and is effectively monitored.

## SOCIAL AND ETHICS COMMITTEE REPORT

The SEC is guided by the five main focus areas, as set out in regulation 43 of the Companies Regulations, 2011. These are social and economic development; good corporate citizenship; environment, health and safety; consumer relationships; and labour and employment.

The SEC monitors the sustainable development and non-financial performance of the Group, specifically relating to:

- stakeholder management, engagement and reporting;
- health and public safety, including occupational health and safety and the quality of the Group's products and services;
- B-BBEE:
- diversity management;
- · labour relations and working conditions;
- training and skills development;
- management and monitoring of the Group's environmental impact;

- · ethics management; and
- · corporate social investments.

A focus on the above ensures that the SEC is equipped with adequate knowledge and insight to monitor Quantum Foods' role as a responsible corporate citizen. It further ensures that the SEC is positioned to measure this commitment and assist the Board where necessary with the appropriate steps and procedures to strengthen Quantum Foods' non-financial performance.

The SEC monitors the impact of the business on the environment and society and guides its actions to ensure its sustainability for the future.

### During the year, the SEC's key focus areas were as follows:

TOPIC	PROGRESS AND ACTIONS ARISING			
B-BBEE and targets	The committee monitored the strategy and targets of the Company in line with the new B-BBEE codes. Read more about the Group's B-BBEE strategy on page 57 of this report. •			
Sponsorships and charitable donations	The SEC monitored the various product donations and continues to monitor the Group's social responsibility initiatives, which are detailed on page 58. •			
Water, energy and waste disposal management	The committee monitored water, energy and waste disposal management and a report containing usage details is reviewed biannually. The short-term aim is to reduce wastage of these elements across the Group's operations by monitoring performance year on year. Read more on page 53.			
Occupational compliance	During the year, the SEC noted progress in obtaining occupational certificates for various business premises. This is an ongoing process and R3.0 million (2017: R2.2 million) of capital was allocated to ensure progress on compliance.			

TOPIC	PROGRESS AND ACTIONS ARISING			
Customer complaints and food safety	The SEC monitored customer complaints and food safety and is satisfied that such matters were adequately monitored and dealt with during the year.			
Employment equity and training	The SEC monitored employment equity and training as set out on page 54			
Animal welfare	The SEC monitored engagement with the NSPCA and other stakeholders to ensure that animal welfare remains a priority.			
Ethics management	The SEC monitors ethics management and adherence to the code of conduct, which is reviewed annually. During the year, the Group made Tip-offs Anonymous lines that use local contact details available to stakeholders in each of Quantum Foods' other African operations. The values programme was rolled out across the Group, which further supports the business's commitment to ethical conduct by entrenching the value: we are truthful in everything we do. Read more about the Group's measures to ensure proper ethics management on page 61.			

The SEC evaluated and approved the non-financial information contained in this report. The SEC is satisfied that it has fulfilled its responsibilities in accordance with its charter and work plan for the reporting period.

The SEC has identified the following as the main area of future focus for 2019. This will be supported by ongoing monitoring of the various topics that form the committee's mandate.

TOPIC	AREAS OF FUTURE FOCUS
B-BBEE and targets	The SEC will oversee the Group's action plan to achieve compliance with the amended AgriBEE Sector Code, with a particular focus on ownership. The Group will also invest in strengthening its existing business activities that support transformation and empowerment. This includes, for example, supplier and enterprise development.

Prof. ASM Karaan

Chairman

Wellington

27 November 2018

## REMUNERATION REPORT

## Letter from the chairman of the RHCC to shareholders

Dear shareholders

This report summarises the remuneration policy that will apply to the employees of Quantum Foods and its subsidiaries in 2019. It highlights the activities of Quantum Foods' RHCC and addresses the outcomes of the implementation of the 2018 remuneration policy.

The Group achieved increased profitability during 2018. This was largely attributable to significantly improved profitability in the egg business. In particular, the egg business benefited from improved margins due to lower feed input costs and higher egg selling prices. These conditions were triggered by the 2017

outbreak of AI in South Africa, which reduced the supply of eggs.

In 2017, the profit of the farming business was negatively impacted by Al losses. Earnings increased in 2018 and included the insurance settlement for Al losses.

The feed business benefited from increased external sales volumes. However, profit was negatively impacted by the significant reduction in feed required internally from farms impacted by Al and lower margins. Increased profitability was achieved from other African operations, which experienced much improved trading conditions in all three countries.



Quantum Foods' full financial performance is discussed in the joint report of the chairman and CEO on pages 40 to 45.

### The RHCC made various key decisions in 2018. These included:

TOPIC	PROGRESS AND ACTIONS ARISING
National minimum wage and farming sectoral and non- sectoral employee salary	The RHCC reviewed and considered the legislative implications of the national minimum wage and the salary increase for farming sectoral and non-sectoral employees. The Group subsequently reviewed and adjusted the wages of all employees, where relevant, to ensure that these are aligned.
Short-term and long-term incentives and non-executive director fees	The RHCC reviewed the short-term incentive ("STI") and long-term incentive ("LTI") performance targets, as well as the proposed non-executive director ("NED") fees. The financial and operational performance targets included in the STI have been revised for the 2019 financial year.
	Read more about this on page 80 of this report. • • •
Equal pay for work of equal value	The RHCC reviewed the results of an equal pay for work of equal value exercise and reviewed salary bands to ensure that these are market related.

TOPIC	PROGRESS AND ACTIONS ARISING			
Phantom Share Plan Rules	In 2018, the RHCC was engaged by a shareholder on changes to the SAR Plan. This included suggestions to improve alignment between participants and shareholders and the impact of dividends declared by the Board. Following further engagement, the RHCC and Board reviewed and approved the proposed amendments to the Phantom Share Plan Rules which detailed:			
	The amendment to the calculation of the monetary value of Phantom Shares to include special dividends in the exercise price;			
	The market value definition to include the volume weighted average price;			
	<ul> <li>Introduction of specific rules applying to early retirement which clarify the application of the rules in the event of retirement and early retirement respectively; and</li> </ul>			
	<ul> <li>Increase of the maximum share threshold that may be allocated to a particular person, from 1 million to 4.5 million shares.</li> </ul>			
	These amendments will be presented to shareholders for approval at the 2018 annual general meeting ("AGM") in February 2019.			

In implementing the remuneration policy, the RHCC considered the advice of remuneration consultants. These consultants satisfied the RHCC's requirements for independence and objectivity.

At the 2018 AGM held on 23 February 2018, 92.05% of shareholders voted in favour of the Group's remuneration policy versus 7.95% against (2017: 87.27% for and 12.73% against). In addition, 97.22% of shareholders voted in favour of the Group's remuneration implementation report and 2.78% against. The 2018 AGM was the first meeting where this report was presented to shareholders for a separate, non-binding advisory vote. We will put the remuneration policy and implementation report to separate, non-binding advisory votes at the next AGM. If 25% or more of the voting rights exercised on any of the resolutions are dissenting, the RHCC shall initiate an engagement process with the dissenting shareholders.



This process is explained in more detail in the remuneration policy on page 84.



**PE Burton** Chairman

Wellington 16 November 2018

#### FY2019 Remuneration policy

#### Introduction

Part 2 of this report sets out the forward-looking remuneration policy, which will apply in 2019. Therefore, any changes to the policy which were made by the RHCC in 2018 are reflected in the relevant sections below. To the extent that some parts of the policy were not changed during 2018, these sections will remain the same.

The remuneration policy which applied in 2018 is set out in the 2017 remuneration report, which is available at www.quantumfoods.co.za/annual-reports. The implementation of this remuneration policy in 2018 is set out in part 3 of this report.

#### Remuneration governance

The RHCC is constituted as a committee of the Board and is responsible for the Group's remuneration policy. The RHCC consists of three NEDs, the majority of whom are independent. The RHCC is chaired by an independent NED.

The duties and responsibilities of the RHCC primarily revolve around the organisation-wide remuneration policy, as well as monitoring the effectiveness of management and succession planning. The RHCC performs the following main functions:

- Maintaining and approving human resource policies
- Enabling and recommending succession planning of the CEO and executive committee
- Monitoring the impact and implementation of applicable labour legislation that does not fall within the scope of the Social and Ethics Committee ("SEC")
- Determining the remuneration packages of directors and the executive committee
- Determining the performance targets for the STI scheme
- Determining Share Appreciation Rights ("SAR") awarded to participants of the LTI scheme
- Ensuring that all remuneration packages are fair, market-related and responsible
- Enabling the Group to attract, engage and retain talent

- Ensuring that directors' remuneration is accurately, completely and transparently disclosed and reported on
- Establishing the criteria to evaluate the performance of the executive committee and directors
- Evaluating and approving the Group's remuneration philosophy, strategy and policy

The detailed list of the RHCC's duties and responsibilities are set out in its committee charter. These should be read together with the remuneration policy.



The charter is available online at www.quantumfoods.co.za/company-documents and the policy is available online at www.quantumfoods.co.za/annual-reports.

At a minimum, the RHCC meets twice in every financial year. Selected individuals may attend these meetings by invitation from the RHCC.

The membership and meeting attendance records of the RHCC are disclosed in the corporate governance report on page 67. • • •

## Remuneration philosophy and fair and responsible remuneration

Quantum Foods' remuneration framework supports the delivery of the Company's business strategy. The RHCC's remuneration approach combines talent development, career growth opportunities, recognition of performance, and a corporate culture driven by performance and value creation. The remuneration philosophy is determined on an organisation-wide basis.

Quantum Foods aims to ensure that its remuneration policy (as part of its employee value proposition) is competitive enough to make it an employer of choice. Quantum Foods rewards individual, team and business performance, and encourages superior performance across the Group.

#### Fair and responsible remuneration

The RHCC observes the principle of fair and responsible remuneration. The RHCC continuously examines innovative methods to ensure that remuneration paid to executive directors is in line with the market and that it is justifiable in the context of overall employee remuneration.

In line with the provisions of the Employment Equity Act, Act 55 of 1998 as amended ("Employment Equity Act"), the RHCC oversees the results of the Company's TASK and ExecEval grading system. This system enables the RHCC to evaluate whether an employee's remuneration is in line with his or her peers within the same job category to identify and correct any unjustifiable differentials. This supports the principle of equal pay for work of equal value espoused in the Employment Equity Act.

Quantum Foods has a human resources strategy that supports career progression and the development of upcoming talent. Through its talent development programme (in partnership with certain institutions of higher education), students studying for qualifications in animal production participate in the Group's internship programme. Preference is given to students that will enhance the transformation profile of the Group.

#### Remuneration framework

The remuneration framework consists of total guaranteed package ("TGP") benefits and, depending on an employee's job category and seniority, variable remuneration. Profitability and efficient business processes are the key Group performance indicators for reward. Individual performance indicators are determined according to the key measurable areas which contribute to overall Group performance and strategy execution.

The different components of remuneration, their link to Quantum Foods' business strategy and their positive outcomes within the economic, social and environmental context within which the Group operates, are summarised in the table below:

COMPONENT AND POSITIVE OUTCOME	POLICY AND LINK TO BUSINESS STRATEGY
TGP (fixed; applicable to all employees)	Aimed at attracting and retaining talent and ensuring competitiveness.
Social – ensuring the necessary skills to enhance and maintain a performance culture.	Quantum Foods participates in reputable South African salary surveys and benchmarks total remuneration packages against the market value applicable to various job categories every second year. TGP is generally referenced to the job family market median. The surveys and benchmarks that are used include PwC's REMChannel® Survey. The RHCC is satisfied that these surveys and benchmarks are appropriate in the context of Quantum Foods and its business. Internal salary positioning is based on factors that include work experience, competence, performance, internal historical factors and market influences.
	Collective bargaining agreements for unionised employees are negotiated annually.
	The average salary for each job category is reviewed annually, bearing in mind the affordability restraints of the Company.
Benefits (fixed)  Social – allowing employees the flexibility of structuring according to individual requirements.	Benefits form part of TGP and include medical aid, retirement fund contributions, disability and life insurance, as well as additional benefits such as travel and cellphone allowances. Contributions are made according to statutory requirements and fund-specific rules. Employees receive a long-service bonus equal to one month's TGP for every completed 10 years of service. Employees receive a 13th cheque as part of their TGP. They can either elect to receive the 13th cheque on a once-off basis in December of every year, or have it paid to them in equal instalments over a 12-month period.

#### COMPONENT AND POSITIVE POLICY AND LINK OUTCOME TO BUSINESS STRATEGY STIs (variable) The STI constitutes a performance bonus. This bonus is designed to motivate and reward management for its contribution to the Economic – drives sound operational achievement of targets related to main business drivers, ultimately efficiency that assist the Group's increasing shareholder value. ability to recover rising input costs and improved returns on the asset Performance conditions: base. This enables the creation of Headline earnings before tax per share ("HEBTPS") target – the shareholder value calculation for the achievement of the target is based on an audited and agreed comparative base for the previous financial year. Growth in economic profit ("EP") - the growth calculation is based on the weighted average cost of capital over a rolling three-year period, applied to the average net asset base of the Group. • Farming production efficiency – the efficiency calculation is based on targets set for feed conversion ratios and egg production efficiency. Feed conversion ratios are calculated as the amount of feed (in kilograms) used to produce either one dozen of eggs for layer-type chickens, or one kilogram of meat for broiler-type chickens. Egg production efficiency is measured as the number of eggs produced per layer-type hen placed at the start of a laying cycle. Separate efficiency targets are set for STI participants employed in the other African operations of the Group. The production efficiency targets have been amended for the 2019 financial year and will now include efficiency targets applicable to the egg business. Details are set out in the STI section below and are also available in annexure 5 of the Notice to the February 2019 AGM. LTIs (variable) The LTI consists of an Equity-Settled Share Appreciation Right ("SAR") Plan designed to attract and retain talent over the long term, Economic – drives share price growth as well as align the interests of employees with that of shareholders. and by extension, the creation of shareholder value. 50% of the SAR award is subject to performance conditions (set out below). The remaining 50% is subject to continued employment. As the SAR Plan includes an inherent hurdle based on share price growth, no value will accrue to participants regardless of the performance condition being met, should the share price not grow. Performance condition: • Growth in Group headline earnings per share ("HEPS") – the hurdle for vesting is compound average growth ("CAGR") in HEPS equal to the consumer price index ("CPI"), plus 1% growth with full vesting at CPI plus 5% growth. The Board can increase the baseline HEPS for an allocation to ensure that the target for the vesting of this component is fair and reasonable to both shareholders and participants.

#### Pay mix

The pay mix for senior executives comprises a combination of TGP and variable pay. A sufficient portion of the pay mix is "at risk" to incentivise executives to meet financial performance targets and realise the Company's business strategy. The STI portion drives the achievement of share price growth in the short term, while the LTI portion incentivises long-term share price growth and alignment with shareholders. At lower levels, the on-target pay mix is weighted towards guaranteed pay.

#### **TGP**

The TGP and benefits offered by Quantum Foods are summarised in the remuneration framework above. Several employees fall within collective bargaining units. Therefore, their remuneration is determined outside of the remuneration policy and is subject to the applicable collective bargaining agreement. All South African employees participate in a Group-wide retirement scheme and a voluntary medical aid scheme.

#### Annual reviews and TGP increases

Annual reviews of TGP consider inflation, current market conditions, an employee's financial and non-financial individual performance against pre-set goals, as well as the performance of the Group. Increases are limited to an approved budget, and executive increases are considered within the context of average increases for employees throughout the Group. Employees whose individual performance falls below an acceptable standard will not be eligible for an increase. This is determined through the Company's performance management process.

#### **STIs**

Based on business and individual performance, executives and selected senior managers may participate in the STI scheme (as summarised above in the remuneration framework). A maximum bonus pool is calculated annually to govern the total amount of the STIs payable to participants. The bonus pool for the HEBTPS and EP components is self-funding, meaning that the achievement of targets is calculated after taking the bonus pool into account. The portion of the bonus dependent on operational efficiency targets, however, is not dependent on the achievement of HEBTPS targets.

#### Earnings potential for STI

The table below sets out the earning potential (as a % of TGP) of employees:

Position	Maximum earnings potential for STI (as a % of TGP)*
CEO	100%
CFO and executives	75%
Senior management	15% or 35%

\* The percentage of TGP that will be earned as STI should stretch performance be achieved for all three elements in the table on page 82. Linear vesting applies for partial achievement of performance measures.

Senior management with African country, national, or significant regional responsibility have an STI earning potential of 35% of TGP. Other senior management reporting directly to the executive team have an STI earning potential of 15% of TGP.

The maximum payment is determined by the bonus pool cap. The bonus pool cap is calculated based on the participant's cost to company, as well as maximum earning potential depending on the participant's level. The STI scheme is based on three performance measures that are applicable to all eligible employees for the 2019 financial year, as set out in the table on the following page.

#### 2019 STI performance measures

The RHCC has changed the measurement for the achievement of financial and operational targets for the STI for 2019.

#### Operational targets

The 2018 targets were for farming production efficiency only, with targets set for feed conversion ratios of broiler and layer-type chickens, and for egg production efficiency on layer farms. Two out of the three targets for 2018 were for the layer farming business, with no operating efficiency targets set for the egg business.

In determining the operational targets for 2019, the RHCC therefore considered the importance of optimal efficiency in the egg packing stations. The measurements for the layer farming business were retained. However, the weighting was reduced to one third from two thirds in 2018. The measurement for

the broiler farming business was changed to align with the breeding standards for day-old chicks produced per breeder hen placed at the start of the laying cycle. A target for the percentage of second-grade eggs sold at the egg packing stations was included as a new measurement for the egg business. Each of these three operational efficiency measurements will contribute one-third to the STI. The RHCC considers these measurements as the most important in each of the businesses to increase earnings and realise the Company's business strategy.

#### **HEBTPS** targets

In determining the HEBTPS targets for 2019 the RHCC considered the exceptional financial performance

achieved in the 2018 financial year by the egg business, where egg prices increased by 23.7% as a result of a shortage of eggs in South Africa following the outbreak of AI in 2017. Based on historical performance of the Group, the RHCC considers the HEBTPS target set for 2019 to be sufficiently stretching.

The hurdle rates for HEBTPS, the percentage of growth in EP included in the bonus pool and operational efficiency targets are determined annually by the Board to establish minimum and maximum potential bonus pay-outs.

The STI scheme is based on three performance measures that are applicable to all eligible employees, as set out in the table below:

Performance measure	Weighting	On-target performance	Stretch performance
Achievement of the Group's HEBTPS target	50%	118.7* cents per share	133.0* cents per share
Growth in the Group's EP	25%	25% of the three-year rolling average improvement in EP is included in the bonus pool.	
Achievement of operational efficiency targets	25%	Based on breed standards for table egg production and day-old broiler chick production as well as a target for the percentage of second-grade eggs sold at the egg packing stations.	

<sup>\*</sup> Targets for 2019. At performance of HEBTPS of 118.7 cents per share or lower, the bonus will be nil. The measurement of HEBTPS is impacted by the actual weighted average number of shares in issue. During 2018 the Group repurchased and cancelled 11 784 941 shares. The Board intends to continue with the repurchase of shares.

An employee's individual performance score, which is measured in line with his or her individual performance contract, must be at least satisfactory to participate in any STI pay-out. Individual performance targets are determined and evaluated by the employee's manager on a six-monthly basis. These targets are the basis of the performance contract of a specific employee. A percentage achievement of at least 65% is required for a satisfactory performance score and participation in any STI pay-out. These performance conditions are considered to be sufficiently stretching and appropriate to Quantum Foods' business model.

#### RHCC discretion

The RHCC has the discretion to review STI payments in the interest of all stakeholders. This decision may be guided by contextual realities that may have impacted the performance of the Group in the year under review and will be justifiably applied in exceptional circumstances.

#### LTI scheme

Selected employees, including executives, are given the opportunity to participate in the LTI scheme at the sole discretion of the Board.

#### SARs

Shareholders approved the scheme and Rules of the Equity-Settled Phantom SAR Plan ("the SAR Plan"), in compliance with the JSE Listings Requirements. In terms of the SAR Plan, selected employees are granted the opportunity to receive shares in the Company. The quantum of their awards is based on the future increase in the value of the strike price from the award date to the exercise date. The SAR Plan is intended to promote the continued financial growth of the Group. The RHCC determines the allocation to qualifying employees on an annual basis.

#### LTI allocation methodology

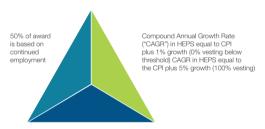
The SAR allocation levels are set out below:

Position	SAR allocation level (as a multiple of TGP)
CEO	7
CFO and executives	3
Senior management	1

Multiples of annual TGP are used to determine the annual allocation of SARs to qualifying employees. Employees are "topped up" each year to ensure that their unvested SARs are equal in value to the multiple. In determining annual top-up allocations, only unvested past allocations are considered. Top-up awards are made annually.

#### Performance conditions for vesting

The LTI performance conditions are illustrated below:



- SARs vest in 3 equal tranches on 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> anniversary of award date.
- Twelve-month excercise period.

  No resetting of performance conditions in
- No resetting of performance conditions is allowed and the relevant tranche will lapse if the applicable performance conditions are not met.



For more detail regarding the calculation of the SAR allocation levels, please refer to the SAR Plan Rules, which are accessible at www.quantumfoods.co.za/company-documents.

#### Settlement

Quantum Foods may settle SAR awards on the exercise date by issuing additional shares or purchasing shares in the market for transfer to qualifying employees. In 2018, shareholders approved an amendment to the Rules of the SAR Plan that enables participants to exercise SAR awards a maximum period of 12 months (previously a maximum period of six months) after the date of vesting.

#### Dilution limit

The total number of ordinary shares that may be transferred to qualifying employees under the SAR Plan is limited to 14.5 million shares, which amounts to 6.9% of Quantum Foods' issued share capital. The individual employee limit is 1 million shares, which amounts to 0.48% of the Company's issued share capital.

#### Early termination

For fault leavers as defined in the SAR Plan Rules, vested but unexercised SARs may be exercised within 30 days of termination of employment. All SARs (vested and unvested) will lapse thereafter. For no fault leavers as defined in the SAR Plan Rules, the participant will be entitled to the same rights, and subject to the same conditions, as they would have been if they remained employed by the Company.

#### Executive directors' service agreements

Executive directors' service agreements are prepared with input from the RHCC. These service agreements are similar to employment agreements for other employees, apart from a longer notice period of three months versus one month for most other employees.

The three-month period applies to executive directors (including the CEO), as well as all senior managers. Executive directors' service agreements do not contain restraint of trade provisions – this includes the service agreement for the CEO. Sign-on awards will only be made in exceptional circumstances to attract extraordinary talent. No such awards have been made to date. Executive contracts do not contain provisions that require the RHCC to make severance or balloon payments on termination of employment. Executives may serve on the boards of other companies as NEDs with the approval of the CEO.

The survey and benchmark that is used in determining executive directors' remuneration is the executive directors' remuneration practices and trends report (PwC). The RHCC is satisfied that the use of this report is appropriate in the context of Quantum Foods and its business.

#### **NED** fees

NEDs are paid a quarterly retainer fee in cash. The fee reflects the NEDs' assigned responsibilities. The fee is evaluated annually, and every two years movements are informed using the NEDs' fees practices and trends report (PwC). The RHCC is satisfied that the use of this report is appropriate in the context of Quantum Foods and its business. NEDs are paid an all-inclusive retainer fee and are not paid per meeting. NEDs do not receive supplementary fees for an increased workload or ad hoc meeting attendance; however, NEDs are re-imbursed for any related disbursements.

#### Shareholder engagement methods

In line with King IV and the JSE Listings Requirements, the remuneration policy and implementation report will be placed before shareholders for two separate non-binding advisory votes. In the event that 25% or more of shareholders vote against either of or both the remuneration policy and implementation report, the RHCC will initiate communication with shareholders via a SENS announcement following the AGM. This communication will aim to determine and address shareholders' concerns, including the

manner and timing of the engagement. The RHCC may, *inter alia*, schedule a meeting with dissenting shareholders to discuss their concerns, if it is practical to do so.

Considering feedback from shareholders, the RHCC reserves the right to modify aspects of the remuneration framework in line with best practice and shareholders' interests.

#### Implementation of the remuneration policy in 2018

#### **TGP**

The RHCC approved a salary increase mandate of 6.5% (2017: 7.0%) of total cost to company for non-sectoral employees and executives, and a 6.5% (2017: 7.4%) basic pay increase for sectoral employees. The RHCC reviewed executive directors' remuneration in 2018 to ensure market alignment. Remuneration was then adjusted accordingly, as required.

#### STI outcomes

In total R19.6 million of the bonus pool cap of R22.3 million accrued to participants of the STI in 2018. The table below sets out the STI performance outcomes for 2018:

Performance measure	Weighting	Actual achievement
HEBTPS	50%	50%
EP	25%	25%
Farming production efficiency	25%	14%
Total	100%	89%

The table below sets out further details on the achievement of farming production efficiency targets:

Performance measure	Weighting	Actual achievement
Feed conversion rate – live broilers	1/3	100%
Feed conversion rate – eggs	1/3	70%
Eggs per hen housed	1/3	0%
Weighted average achievement	100%	57%

The table below sets out the STIs of executive directors and prescribed officers in 2018, based on the achievement of performance targets:

Participant	2018 STI amount R'000	Actual STI (as % of TGP)	STI earning potential (as % of TGP)
HA Lourens	3 121	89.2%	100%
AH Muller	1 491	66.9%	75%
HE Pether	922	66.9%	75%

#### LTI outcomes

The first tranche of SARs (granted in 2015) vested in 2018. The table below sets out the achievement of the performance conditions for the SAR awards that vested during 2018.

Performance measure	Threshold	Stretch	Actual**
Compound annual growth in adjusted HEPS	CPI plus 1% growth	CPI plus 5% growth	CPI plus 15.1% growth
2015 SAR allocation*	33.7 cents	37.6 cents	49.0 cents***
Vesting %	0%	100%	100%
Vesting date	27 February 2018		
Performance period	1 October 2014 – 30 September 2017		
Employment period	27 February 2015 – 27 February 2018		

<sup>\* 2015</sup> adjusted headline earnings per share was 28.1 cents per share.

During the year under review, 6 460 040 SARs, at a strike price of R3.906 per share, were granted. The baseline HEPS of 49.0 cents per share for the 2018 allocation is the actual HEPS recorded for 2017. The Board did not increase the baseline HEPS for the 2018 allocation. Therefore, the total 100% vesting for the performance component of the 2018 allocation will be realisable at CAGR in HEPS of CPI plus 5%, from the baseline of 49.0 cents per share.

#### Unvested LTIs

The table below discloses the value of each executive director and prescribed officer's LTIs at 30 September 2018, whether allocated, settled, or forfeited, as well as the indicative value of SARs not yet settled. The indicative value of the closing number of SARs was calculated based on the number of SARs at the Company's year-end share price, less the grant price of the particular SARs granted.

<sup>\*\*</sup> Actual vesting is dependent on the employee being in service on the date of vesting.

<sup>\*\*\* 2017</sup> HEPS.

	Date awarded	Vesting date	Opening number	Granted during the year	Grant price Cents	Forfeited during the year	Settled during the year	Closing number	Indicative value R'000
HA Lourens									
	2015/02/27	Note 1	774 376	_	315	_	258 126	516 250	569
	2016/02/18	Note 2	634 240	-	266	_	_	634 240	1 008
	2017/02/23	Note 3	2 280 786	_	309	_	_	2 280 786	2 639
	2018/02/22	Note 4	_	2 267 972	391	_	_	2 267 972	780
AH Muller									
	2015/02/27	Note 1	477 854	-	315	_	159 284	318 570	351
	2016/02/18	Note 2	187 902	_	266	_	_	187 902	299
	2017/02/23	Note 3	510 736	-	309	_	_	510 736	591
	2018/02/22	Note 4	-	656 978	391	_	_	656 978	226
HE Pether									
	2015/02/27	Note 1	224 410	-	315	_	_	224 410	247
	2016/02/18	Note 2	122 190	_	266	_	_	122 190	194
	2017/02/23	Note 3	402 570	-	309	_	_	402 570	466
	2018/02/22	Note 4	-	345 174	391	-	-	345 174	119

Note 1: Vesting in three equal tranches on 27/02/2018, 27/02/2019 and 27/02/2020.

Note 2: Vesting in three equal tranches on 18/02/2019, 18/02/2020 and 18/02/2021.

Note 3: Vesting in three equal tranches on 23/02/2020, 23/02/2021 and 23/02/2022.

Note 4: Vesting in three equal tranches on 22/02/2021, 22/02/2022 and 22/02/2023.

LTIs settled during the year resulted in the first 212 396 of the maximum of 14.5 million shares being transferred to participants.

The table below discloses the value of each executive director and prescribed officer's LTIs at 30 September 2017, whether allocated, settled or forfeited, as well as the indicative value of SARs not yet settled. The indicative value of the closing number of SARs was calculated based on the number of SARs at the Company's year-end share price, less the grant price of the particular SARs granted.

	Date awarded	Vesting date	Opening number	Granted during the year	Grant price Cents	Forfeited during the year	Settled during the year	Closing number	Indicative value R'000
HA Lourens									
	2015/02/27	Note 1	774 376	_	315	_	_	774 376	Nil
	2016/02/18	Note 2	634 240	_	266	_	_	634 240	216
	2017/02/23	Note 3		2 280 786	309	_	-	2 280 786	Nil
AH Muller									
	2015/02/27	Note 1	477 854	-	315	_	-	477 854	Nil
	2016/02/18	Note 2	187 902	_	266	_	_	187 902	64
	2017/02/23	Note 3		510 736	309	_	_	510 736	Nil
HE Pether									
	2015/02/27	Note 1	224 410	-	315	_	-	224 410	Nil
	2016/02/18	Note 2	122 190	-	266	-	-	122 190	42
	2017/02/23	Note 3		402 570	309	_	-	402 570	Nil

Note 1: Vesting in three equal tranches on 27/02/2018, 27/02/2019 and 27/02/2020.

Note 2: Vesting in three equal tranches on 18/02/2019, 18/02/2020 and 18/02/2021.

Note 3: Vesting in three equal tranches on 23/02/2020, 23/02/2021 and 23/02/2022.

#### Remuneration outcomes for 2018

The table below sets out the single figure remuneration (i.e. TGP (basic salary and benefits), STI and LTI) received by executive directors and prescribed officers in 2018 and 2017, respectively:

30 September 2018	Basic salary R'000	Benefits R'000	STI R'000	LTI* R'000	Directors' fees R'000	Total R'000
HA Lourens	2 995	389	3 121	375	_	6 880
AH Muller	1 862	295	1 491	254	_	3 902
HE Pether	1 092	263	922	-	_	2 277
Total	5 949	947	5 534	629	_	13 059

30 September 2017	Basic salary R'000	Benefits R'000	STI R'000	LTI* R'000	Directors' fees R'000	Total R'000
HA Lourens	2 698	356	1 516	_	_	4 570
AH Muller	1 635	271	707	_	-	2 613
HE Pether	1 013	251	475	-	-	1 739
Total	5 346	878	2 698	-	-	8 922

<sup>\*</sup> Number of SARs exercised during the year under review multiplied by the share price on exercise date less the strike price payable of the SARs on grant date. The first vesting of SARs allocated was in 2018.

#### **NED** fees

The table below sets out the fees paid to NEDs in 2018:

Name	2018 R'000
WA Hanekom	402
N Celliers	266
Prof. ASM Karaan	318
PE Burton	344
GG Fortuin	266

#### Approval

The RHCC is satisfied that there were no material deviations from the remuneration policy during 2018.

This remuneration report was approved by the RHCC on 16 November 2018.



#### **Summary consolidated financial statements**



## **DIRECTORS' RESPONSIBILITY**

In accordance with the requirements of the Companies Act, Act 71 of 2018 ("Companies Act") the Board is responsible for the preparation of the summary consolidated financial statements of Quantum Foods. The audited annual financial statements of the Group for the year ended 30 September 2018, from which these summary consolidated financial statements have been derived, were prepared in accordance with the requirements of the Companies Act.

It is the responsibility of the independent external auditors to report on the fair presentation of the financial statements.

The Board is ultimately responsible for the internal control processes of Quantum Foods. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of financial records and of the financial statements and to adequately safeguard, verify and maintain accountability for the Group's assets. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going concern basis. Systems and controls include the proper delegation of responsibilities, effective accounting procedures and adequate segregation of duties.

Based on the information and reasons given by management and the internal auditors, the Board is of the opinion that the accounting controls are sufficient and the financial records may be relied upon for preparing the financial statements and maintaining accountability for the Group's assets and liabilities.

Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss, has occurred during the financial year and up to the date of this report. The Board has a reasonable expectation that the Group and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and continue adopting the going concern basis in preparing the financial statements.

The summary consolidated financial statements of the Group were approved by the Board on 28 November 2018 and are signed on its behalf by:

WA Hanekom

Chairman

**HA Lourens** 

Chief Executive Officer

#### NOTICE IN TERMS OF SECTION 29 OF THE COMPANIES ACT

The summary consolidated financial statements comprise a summary of the audited annual financial statements of the Group for the year ended 30 September 2018. The annual financial statements have been audited in compliance with the Companies Act. The annual financial statements have been prepared under the supervision of AH Muller, CA(SA), chief financial officer.



A copy of the full audited annual financial statements of the Group is available on www.quantumfoods.co.za/financial-reports/.

#### **COMPANY SECRETARY CERTIFICATE**

In accordance with section 88 of the Companies Act, for the year ended 30 September 2018, it is hereby certified that the Company and its subsidiaries have lodged with the Companies and Intellectual Property Commission all such returns that are required of a public company in terms of the Companies Act and that such returns are true, correct and up to date.

MO Gibbons

Company Secretary

## **AUDIT AND RISK COMMITTEE REPORT**

The audit and risk committee ("the committee") is constituted in terms of a charter which outlines the statutory duties in terms of the relevant provisions of the Companies Act and responsibilities highlighted in the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV")¹.

#### Audit and risk committee charter

The committee is guided by formal terms of reference. An annual work plan serves as a guideline for the committee in the execution of its mandate. Both the charter and work plan are reviewed annually and amended as necessary.

The committee's role and responsibilities outlined in the charter include both the statutory duties and responsibilities as required by the relevant provisions of the Companies Act as well as those highlighted in King IV.

#### Members of the audit and risk committee

As at 30 September 2018, the committee comprised three independent non-executive directors, namely Prof. ASM Karaan and Mr. GG Fortuin and is chaired by Mr. PE Burton.

These members will retire and avail themselves for re-election at the fifth annual general meeting ("AGM") of the Company in terms of section 94(2) of the Companies Act. All members are required to act objectively and independently, as described in the Companies Act and in King IV.

The Group chief executive officer and the chief financial officer are permanent invitees to the committee meetings. In addition, relevant senior managers are invited to attend meetings from time to time. The company secretary is the statutory secretary of the committee. The internal and external auditors frequently attend the meetings of the committee.

#### Meetings

The committee held three meetings during the year. Attendance of the meetings is shown on page 67 · • of the integrated report. The internal and external auditors attended the committee meetings in their capacity as assurance providers.

#### Functions and responsibilities of the committee

During the period under review, the committee was able to discharge the following functions outlined in its charter and ascribed to it in terms of the Companies Act and King IV:

- Reviewed the interim, preliminary and summary results as well as the year-end financial statements, culminating in a recommendation to the Board for approval. In the course of its review, the committee:
  - took the necessary steps to ensure that the financial statements are prepared in accordance with IFRS and the requirements of the Companies Act;
  - o considered and, when appropriate, made recommendations on internal financial controls; and
  - o ensured that a process is in place to be informed of any reportable irregularities (as per the Auditing Professions Act, Act 26 of 2005) identified and reported by the external auditor; and relating to the accounting practices and internal audit of the Group, the content of the financial statements, the internal financial controls of the Group or any related matter during the financial year. No such material concerns and/or complaints were raised during the financial year;
- Reviewed the external audit reports on the consolidated annual financial statements;
- Oversaw the integrated reporting process. The committee considered the Group's information pertaining
  to its non-financial performance as disclosed in the integrated report and has assessed its consistency
  with operational and other information known to committee members, and for consistency with the annual
  financial statements;
- Reviewed and confirmed that the non-audit services provided by the external auditors were not material.
   Any non-audit services to be performed above R500 000 must be approved by the Board;
- Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.

#### **Summary consolidated financial statements**



- Reviewed and confirmed the suitability and independence of PricewaterhouseCoopers Inc. ("PwC") as audit
  firm and Mr. RJ Jacobs as the designated auditor of the Group as stated in paragraph 22.15(h) of the JSE Ltd
  Listings Requirements;
- Recommended the re-appointment of PwC as the external auditor and Mr. RJ Jacobs as the designated
  auditor, after satisfying itself through enquiry that PwC is independent as defined in section 49(8) of the
  Companies Act. 2019 will be Mr. RJ Jacobs's first year as designated auditor of the Company. The reappointment of PwC as the recommended external auditor will be formally proposed to the shareholders
  at the AGM:
- Confirmed that PwC and the designated auditor are accredited by the JSE;
- Confirmed and approved the internal audit charter and annual risk-based internal audit year plan;
- Reviewed the internal audit risk reports and Tip-offs Anonymous reports;
- · Reviewed and approved the risk management policy and plan;
- · Reviewed business continuity capability, disaster management plans and insurance cover;
- Provided oversight over the combined assurance arrangements, including the external and internal auditors
  and satisfied itself of the effectiveness of the combined assurance model implemented by the Group; and
- Reviewed the effectiveness of the internal audit function and the head of internal audit.

The committee is satisfied that sufficient time was dedicated to risk governance and that it discharged its responsibilities as set out in the charter and work plan for the period under review.

The committee is satisfied with the assurance of the internal and external auditors, with the effectiveness of the design and with the implementation of internal financial controls. There were no significant weaknesses noted which resulted in material financial loss, fraud, corruption or error.

#### Internal audit

The internal audit function is a key element of the combined assurance structure. The Group outsourced its internal audit function to Deloitte & Touche. The committee was satisfied that the internal auditor fulfilled its roles and responsibilities, as outlined in the charter and the assessment of the internal control environment.

#### Chief financial officer and finance function

The committee considered and satisfied itself in terms of paragraph 3.84(g)(i) of the JSE Ltd Listings Requirements with the appropriateness of the expertise and experience of Mr. AH Muller as chief financial officer.

In addition, the committee considered and has satisfied itself with the appropriateness of the expertise and adequacy of resources of the financial function and experience of the senior members of management responsible for the financial function.

#### Going concern

The committee has considered and reviewed a documented assessment, including key assumptions, as prepared by management of the going concern status of the Group and has made recommendations to the Board accordingly. The Board's statement regarding the going concern status of the Group, as supported by the committee, is included in the directors' responsibility report on page 89.

#### Significant audit matters and quality of external audit

The committee considered and resolved that the key audit matters reported on by the external auditors are the only significant matters required for consideration of the annual financial statements. The committee is satisfied with the appropriateness of the key audit matters reported on by the external auditors. The committee was satisfied with the quality of the external audit.



PE Burton

Chairman: Audit and risk committee

Wellington 28 November 2018

## INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Quantum Foods Holdings Ltd

#### Opinion

The summary consolidated financial statements of Quantum Foods Holdings Ltd, set out on pages 93 to 101 of the integrated report 2018, which comprise the summary consolidated statement of financial position as at 30 September 2018, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Quantum Foods Holdings Ltd for the year ended 30 September 2018.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's ("JSE") requirements for summary financial statements, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

#### Summary consolidated financial statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

#### The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 28 November 2018. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

#### Directors' responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE's requirements for summary financial statements, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

#### Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing ("ISA") 810 (Revised) *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers Inc.

Prisonaterlas Congres Le.

Director: DG Malan Registered auditor Stellenbosch



## **SUMMARY CONSOLIDATED** STATEMENT OF FINANCIAL POSITION

as at 30 September 2018

	2018 R'000	2017 R'000
ASSETS		
Non-current assets	1 091 867	1 076 838
Property, plant and equipment	1 071 869	1 051 259
Intangible assets	10 637	13 304
Investment in associate	8 789	8 083
Deferred income tax	572	4 192
Current assets	1 422 816	1 177 817
Inventories	240 396	201 789
Biological assets	332 058	299 345
Trade and other receivables	425 424	411 395
Derivative financial instruments	_	1 876
Current income tax	2 477	1 943
Cash and cash equivalents	422 461	261 469
Total assets	2 514 683	2 254 655
EQUITY AND LIABILITIES		
Capital and reserves attributable to owners of the parent	1 854 391	1 691 645
Share capital	1 500 248	1 552 670
Treasury shares	(1 541)	-
Other reserves	(226 402)	(200 991)
Retained earnings	582 086	339 966
Total equity	1 854 391	1 691 645
Non-current liabilities	234 405	237 034
Interest-bearing liability	6 128	6 227
Deferred income tax	220 559	223 199
Provisions for other liabilities and charges	7 718	7 608
Current liabilities	425 887	325 976
Trade and other payables	424 661	321 549
Derivative financial instruments	1 127	_
Current income tax	_	4 336
Interest-bearing liability	99	91
Total liabilities	660 292	563 010
Total equity and liabilities	2 514 683	2 254 655

## SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018 R'000	2017 R'000
Revenue		4 121 901	4 051 890
Cost of sales		(3 187 855)	(3 257 803)
Gross profit		934 046	794 087
Other income		33 148	19 775
Other gains/(losses) – net	3	420 072	199 910
Sales and distribution costs		(232 391)	(215 953)
Marketing costs		(15 205)	(12 056)
Administrative expenses		(118 196)	(108 643)
Other operating expenses		(548 195)	(507 005)
Operating profit		473 279	170 115
Investment income		24 919	8 066
Finance costs		(1 116)	(1 665)
Share of profit of associate company		706	1 095
Profit before income tax		497 788	177 611
Income tax expense		(135 561)	(49 994)
Profit for the year		362 227	127 617
Other comprehensive income for the year Items that may subsequently be reclassified to profit or loss:			
Fair value adjustments to cash flow hedging reserve		4 982	4 039
For the year		23 627	(12 096)
Deferred income tax effect		(18)	(568)
Current income tax effect		(6 598)	3 955
Realised to profit or loss		(16 707)	17 706
Deferred income tax effect		568	(47)
Current income tax effect		4 110	(4 911)
Movement on foreign currency translation reserve  Currency translation differences		(36 299)	2 340
Total comprehensive income for the year		330 910	133 996
Profit for the year attributable to owners of the parent		362 227	127 617
Total comprehensive income for the year attributable to owners of the parent		330 910	133 996
οι τιο ραιοπι		330 310	100 990
Earnings per ordinary share (cents)	4	164	56
Diluted earnings per ordinary share (cents)	4	163	56



## **SUMMARY CONSOLIDATED** STATEMENT OF CHANGES IN EQUITY

	2018 R'000	2017 R'000
Share capital and treasury shares	1 498 707	1 552 670
Opening balance	1 552 670	1 581 402
Shares repurchased and cancelled	(52 422)	(28 732)
Ordinary shares acquired by subsidiary	(2 520)	_
Ordinary shares transferred – share appreciation rights	979	_
Other reserves	(226 402)	(200 991)
Opening balance	(200 991)	(211 432)
Other comprehensive income for the year	(31 317)	6 379
Recognition of share-based payments	6 633	4 062
Ordinary shares transferred – share appreciation rights	(727)	_
Retained earnings	582 086	339 966
Opening balance	339 966	226 178
Profit for the year	362 227	127 617
Dividends paid	(119 855)	(13 829)
Ordinary shares transferred – share appreciation rights	(252)	
Total equity	1 854 391	1 691 645

# SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	2018 R'000	2017 R'000
Cash flow from operating activities	431 555	257 688
Cash profit from operating activities	547 802	200 373
Working capital changes	12 889	115 232
Cash effect of hedging activities	8 884	3 413
Cash generated from operations	569 575	319 018
Income tax paid	(138 020)	(61 330)
Cash flow from investing activities	(87 355)	(32 745)
Additions to property, plant and equipment	(115 749)	(72 227)
Additions to intangible assets	(283)	(812)
Proceeds on disposal of property, plant and equipment	3 758	32 228
Interest received	24 919	8 066
Cash surplus	344 200	224 943
Cash flow from financing activities	(175 320)	(43 709)
Repayment of interest-bearing liability	(91)	(84)
Shares repurchased	(52 422)	(28 732)
Treasury shares acquired by subsidiary	(2 520)	_
Interest paid	(554)	(1 073)
Dividends paid to ordinary shareholders	(119 733)	(13 820)
Increase in cash and cash equivalents	168 880	181 234
Effects of exchange rate changes	(7 888)	724
Cash and cash equivalents at beginning of year	261 469	79 511
Cash and cash equivalents at end of year	422 461	261 469



## **NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS**

	2018 R'000	2017 R'000
SEGMENT INFORMATION		
Segment revenue	4 121 901	4 051 890
Eggs	1 206 489	1 051 375
Farming	1 232 798	1 310 907
Animal feeds	1 460 387	1 485 255
Other African countries	222 227	204 353
Segment results – excluding items of a capital nature	472 350	149 496
Eggs [	286 669	46 460
Farming	98 464	47 285
Animal feeds	69 413	77 786
Other African countries	31 036	(9 655)
Head office costs	(13 232)	(12 380)
Items of a capital nature per segment included in other gains/(losses) – net		
Profit/(loss) on disposal of property, plant and equipment before income tax	929	20 619
Eggs	1 943	(1 457)
Farming	(504)	18 422
Animal feeds	(510)	3 441
Other African countries	_	213
Segment results	473 279	170 115
Eggs	288 612	45 003
Farming	97 960	65 707
Animal feeds	68 903	81 227
Other African countries	31 036	(9 442)
Head office costs	(13 232)	(12 380)
A reconciliation of the segment results to profit before income tax is provided below:		
Segment results Adjusted for:	473 279	170 115
Investment income	24 919	8 066
Finance costs	(1 116)	(1 665)
Share of profit of associate company	706	1 095
Profit before income tax per statement of comprehensive income	497 788	177 611

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 September 2018

#### 1. BASIS OF PREPARATION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Ltd for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated annual 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 consolidated annual financial statements.

#### 2. ACCOUNTING POLICIES

These summary consolidated financial statements incorporate accounting policies that are consistent with those applied in the Group's consolidated financial statements for the year ended 30 September 2018 and with those of previous financial years, except for the adoption of the following amendments to the published standards that became effective for the current reporting period beginning on 1 October 2017:

- Amendment to IAS 12 'Income taxes'
- Amendments to IAS 7 'Cash flow statements'

The adoption of these amendments to the standards did not have any material impact on the Group's results and cash flows for the year ended 30 September 2018 and the financial position at 30 September 2018.

	2018 R'000	2017 R'000
3. OTHER GAINS/(LOSSES) - NET		
Biological assets fair value adjustment	74 063	40 810
Unrealised - reflected in carrying amount of biological assets	(775)	17 425
Realised - reflected in cost of goods sold	74 838	23 385
Agricultural produce fair value adjustment	344 783	143 754
Unrealised - reflected in carrying amount of inventory	1 142	2 325
Realised - reflected in cost of goods sold	343 641	141 429
Foreign exchange differences	4 413	1 891
Financial instruments fair value adjustments	(1 243)	(3 563)
Foreign exchange contract cash flow hedging ineffective losses	(2 873)	(3 601)
Profit on disposal of property, plant and equipment	929	20 619
	420 072	199 910

## Summary consolidated financial statements



	2018 R'000	2017 R'000
EARNINGS PER ORDINARY SHARE		
Basic		
The calculation of basic earnings per share is based on profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the year:  Profit for the year	362 227	127 617
Weighted average number of ordinary shares in issue ('000)	220 468	229 124
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 year	362 227	127 617
Diluted weighted average number of ordinary shares in issue ('000)	222 821	229 124
Headline earnings is calculated in accordance with Circular 4/2018 issued by the South African Institute of Chartered Accountants.		
Reconciliation between profit for the period attributable to owners of the parent and headline earnings		
Profit for the year	362 227	127 617
Remeasurement of items of a capital nature		
Profit on disposal of property, plant and equipment	(782)	(15 314
Gross	(929)	(20 619
Tax effect	147	5 305
Headline earnings for the year	361 445	112 303
Earnings per share (cents)	164	56
Diluted earnings per share (cents)	163	56
Headline earnings per share (cents)	164	49
Diluted headline earnings per share (cents)	162	49

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 September 2018

		2018 R'000	2017 R'000
5.	CONTINGENT LIABILITIES		
	Guarantees in terms of loans by third parties to contracted		
	service providers	29 550	24 355

#### Litigation

#### Customer claim

The Group received a summons in the 2016 reporting period in respect of a claim for performance of dayold pullets delivered to the customer. The matter will be defended in the High Court.

Management is of the view, based on legal advice regarding the merits of the claim against the Group, that the Group will not incur any material liability in this respect.

#### Allegations of anti-competitive trade practices – Zambia

The Group received a notice of investigation in the 2016 reporting period from the Zambian Competition and Consumer Protection Commission regarding alleged violation of the Competition and Consumer Protection Act ("the Act"). The investigation was finalised in March 2018 and Quantum Foods Zambia Ltd was found to be in contravention of certain provisions of the Act. An appeal has been lodged at the Competition and Consumer Protection Tribunal for Zambia. This previously disclosed contingent liability, meets the provision recognition criteria as per IAS 37. In accordance with IAS 37, a provision of R5.6 million was raised in this reporting period.

#### Dispute with egg contract producer

The Group has an outstanding trade receivable from a previous egg contract producer. The producer has filed a counterclaim against the Group for alleged breach of the terms of the terminated agreement. The claim of the Group and the counterclaim have been referred to arbitration.

Management is of the view that the Group will not incur any material liability in this regard.

#### 6. FUTURE CAPITAL COMMITMENTS

Capital expenditure approved by the Board and contracted for amounts to R50.0 million (2017: R23.9 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R95.3 million (2017: R42.5 million).

#### **Summary consolidated financial statements**



#### 7. EVENTS AFTER THE REPORTING PERIOD

Dividend

A gross final dividend of 70 cents per ordinary share has been approved and declared by the Board for the year ended 30 September 2018, on 28 November 2018. This will only be reflected in the statement of changes in equity in the next reporting period.

Additional information disclosed:

These dividends are declared from income reserves and qualify as a dividend as defined in the Income Tax Act, Act 58 of 1962.

Dividends will be paid net of dividends tax of 20%, to be withheld and paid to the South African Revenue Service by the Company. 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 entitled to a reduced rate as result of the double taxation agreement between South Africa and the country of domicile of such owner.

The net dividend amounts to 56 cents per ordinary share for shareholders liable to pay dividends tax. The dividend amounts to 70 cents per ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares is 210 529 716 as at the date of this declaration.

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

#### 8. PREPARATION OF FINANCIAL STATEMENTS

This summary consolidated financial statements have been prepared under the supervision of AH Muller, CA(SA), Chief Financial Officer.

#### 9. AUDIT

The consolidated annual financial statements 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.

## **CORPORATE INFORMATION**

#### QUANTUM FOODS HOLDINGS LTD

Incorporated in the Republic of South Africa Registration number: 2013/208598/06 Share code: QFH ISIN code: ZAE000193686

#### **DIRECTORS**

WA Hanekom (chairman) PE Burton (lead independent) GG Fortuin Prof. ASM Karaan

N Celliers

T Golden (appointed 10 December 2018) HA Lourens (chief executive officer)\* AH Muller (chief financial officer)\*

#### **COMPANY SECRETARY**

MO Gibbons

Email: Marisha. Gibbons@quantumfoods.co.za

#### **COMPANY DETAILS**

11 Main Road Wellington 7655 PO Box 1183 Wellington 7654 South Africa Tel: 021 864 8600

Fax: 021 873 5619

Email: info@quantumfoods.co.za

#### TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd PO Box 61051 Marshalltown 2107 South Africa

Tel: 011 370 5000 Fax: 011 688 5209

#### **SPONSOR**

PSG Capital (Pty) Ltd (Registration number 2006/015817/07) 1st Floor, Ou Kollege 35 Kerk Street Stellenbosch 7600 PO Box 7403 Stellenbosch 7599 Tel: 021 887 9602

And

Building 3 2nd Floor 11 Alice Lane Sandton 2196 PO Box 650957 Benmore 2010

Fax: 021 887 9624

<sup>\*</sup> Executive.

## SHAREHOLDERS' DIARY

Financial year-end 30 September 2019
Annual general meeting 15 February 2019

#### REPORTS

Interim report for the half-year ending 31 March 2019

Announcement of results for the year ending 30 September 2019

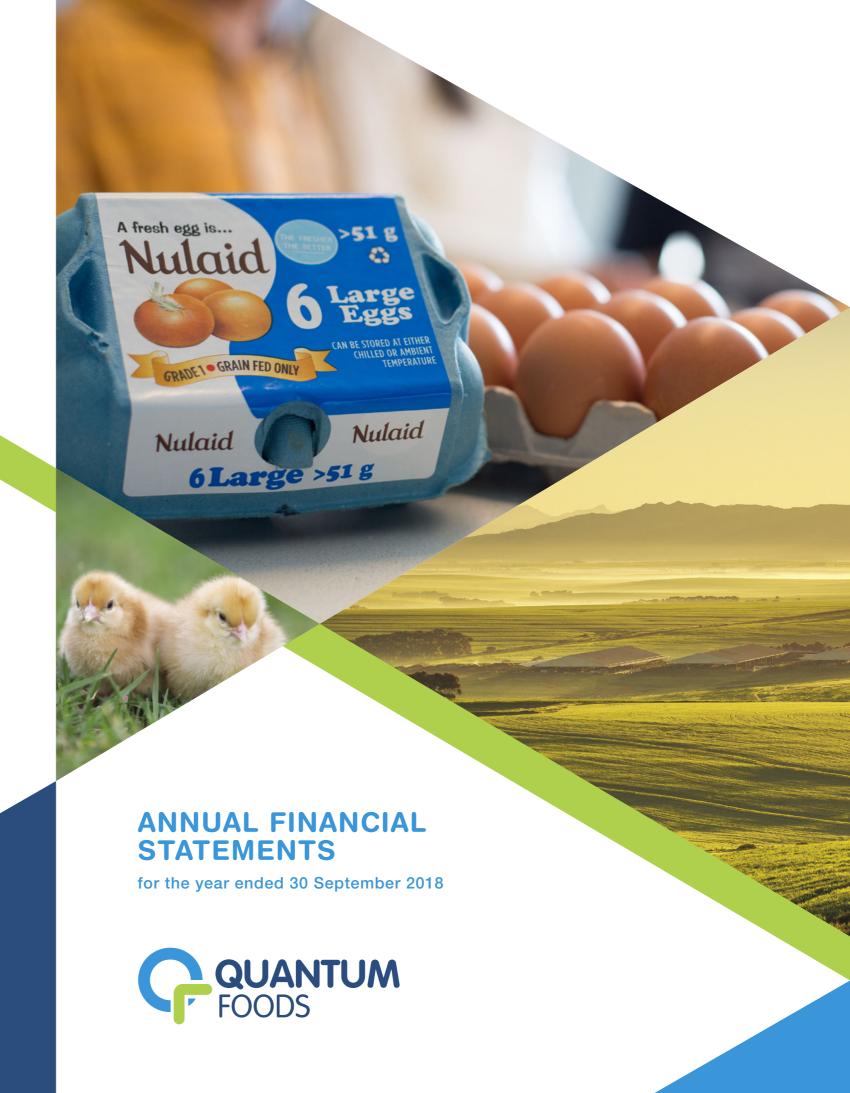
Integrated report for the year ending 30 September 2019

December 2019

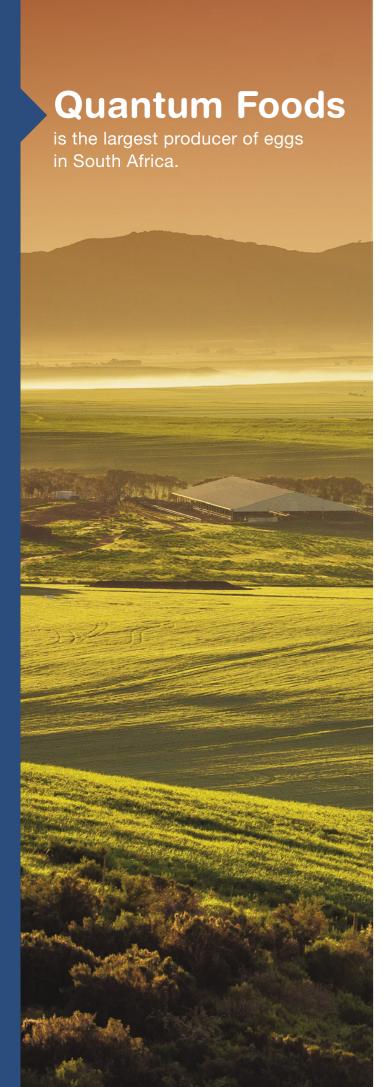
#### **DIVIDENDS**

Interim Announcement May 2019
Payment June 2019
Final Announcement November 2019
Payment January 2020

Control of the



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## **DIRECTORS' RESPONSIBILITY**

In accordance with the requirements of the Companies Act, Act 71 of 2008 ("Companies Act"), the Board is responsible for the preparation of the annual financial statements and the consolidated annual financial statements of Quantum Foods Holdings Ltd ("Quantum Foods" or the "Company"). These conform to International Financial Reporting Standards ("IFRS") and fairly present the state of Quantum Foods Holdings Ltd and its subsidiaries (the "Group") at the reporting date.

It is the responsibility of the independent external auditors to report on the fair presentation of the financial statements.

The Board is ultimately responsible for the internal control processes of Quantum Foods. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of financial records and of the financial statements and to adequately safeguard, verify and maintain accountability for the Group's assets. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates are applied on a consistent and going concern basis. Systems and controls include the proper delegation of responsibilities, effective accounting procedures and adequate segregation of duties.

Based on the information and reasons given by management and the internal auditors, the Board is of the opinion that the accounting controls are sufficient and that the financial records may be relied upon for preparing the financial statements and maintaining accountability for the Group's assets and liabilities.

Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss, has occurred during the financial year and up to the date of this report. The Board has a reasonable expectation that the Group and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and continue adopting the going concern basis in preparing the financial statements.

The annual financial statements which appear on pages 9 to 68 were approved by the Board on 28 November 2018 and are signed on its behalf by:

WA Hanekom

WA Hanekor Chairman HA Lourens

Chief Executive Officer

## NOTICE IN TERMS OF SECTION 29 OF THE COMPANIES ACT

These annual financial statements have been audited in compliance with the Companies Act. These annual financial statements have been prepared under the supervision of Mr. AH Muller, CA(SA), chief financial officer.

## **COMPANY SECRETARY CERTIFICATE**

In accordance with section 88 of the Companies Act, for the year ended 30 September 2018, it is hereby certified that the Company and its subsidiaries have lodged with the Companies and Intellectual Property Commission all such returns that are required of a public company in terms of the Companies Act and that such returns are true, correct and up to date.

Albers

MO Gibbons Company Secretary

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## **AUDIT AND RISK COMMITTEE REPORT**

The audit and risk committee ("the committee") is constituted in terms of a charter which outlines the statutory duties in terms of the relevant provisions of the Companies Act and responsibilities highlighted in the King Code on Corporate Governance™ for South Africa, 2016¹ ("King IV").

#### **AUDIT AND RISK COMMITTEE CHARTER**

The committee is guided by formal terms of reference. An annual work plan serves as a guideline for the committee in the execution of its mandate. Both the charter and work plan are reviewed annually and amended as necessary.

The committee's role and responsibilities outlined in the charter include both the statutory duties and responsibilities as required by the relevant provisions of the Companies Act as well as those highlighted in King IV.

#### MEMBERS OF THE AUDIT AND RISK COMMITTEE

As at 30 September 2018, the committee comprised three independent non-executive directors namely, Prof. ASM Karaan and Mr. GG Fortuin and is chaired by Mr. PE Burton.

These members will retire and avail themselves for re-election at the fifth annual general meeting ("AGM") of the Company in terms of section 94(2) of the Companies Act. All members are required to act objectively and independently, as described in the Companies Act and in King IV.

The Group chief executive officer and the chief financial officer are permanent invitees to the committee meetings. In addition, relevant senior managers are invited to attend meetings from time to time. The company secretary is the statutory secretary of the committee. The internal and external auditors frequently attend the meetings of the committee.

#### **MEETINGS**

The committee held three meetings during the year. Attendance of the meetings is shown on page 67 of the integrated report. The internal and external auditors attended the committee meetings in their capacity as assurance providers.

#### **FUNCTIONS AND RESPONSIBILITIES OF THE COMMITTEE**

During the period under review, the committee was able to discharge the following functions outlined in its charter and ascribed to it in terms of the Companies Act and King IV:

- Reviewed the interim, preliminary and summary results as well as the year-end financial statements, culminating in a recommendation to the board of directors ("Board") for approval. In the course of its review, the committee:
  - took the necessary steps to ensure that the financial statements are prepared in accordance with IFRS and the requirements of the Companies Act;
  - considered and, when appropriate, made recommendations on internal financial controls; and
  - ensured that a process is in place to be informed of any reportable irregularities (as per the Auditing Professions Act, Act 26 of 2005) identified and reported by the external auditor; and relating to the accounting practices and internal audit of the Group, the content of the financial statements, the internal financial controls of the Group or any related matter during the financial year. No such material concerns and/or complaints were raised during the financial year.
- Reviewed the external audit reports on the consolidated annual financial statements
- Oversaw the integrated reporting process. The committee considered the Group's information pertaining to its non-financial performance as
  disclosed in the integrated report and has assessed its consistency with operational and other information known to committee members, and
  for consistency with the annual financial statements
- Reviewed and confirmed that the non-audit services provided by the external auditors were not material. Any non-audit services to be performed above R500 000 must be approved by the Board
- Reviewed and confirmed the suitability and independence of PricewaterhouseCoopers Inc. ("PwC") as audit firm and Mr. RJ Jacobs as the
  designated auditor of the Group as stated in paragraph 22.15(h) of the JSE Ltd Listings Requirements
- Recommended the re-appointment of PwC as the external auditor and Mr. RJ Jacobs as the designated auditor, after satisfying itself through
  enquiry that PwC is independent as defined in section 49(8) of the Companies Act. 2019 will be Mr. RJ Jacobs' first year as designated auditor
  of the Company. The re-appointment of PwC as the recommended external auditor will be formally proposed to the shareholders at the AGM
- Confirmed that PwC and the designated auditor are accredited by the JSE
- Confirmed and approved the internal audit charter and annual risk based internal audit year plan
- Reviewed the internal audit risk reports and tip-offs anonymous reports
- Reviewed and approved the risk management policy and plan

- Reviewed business continuity capability, disaster management plans and insurance cover
- Provided oversight over the combined assurance arrangements, including the external and internal auditors' and satisfied itself of the
  effectiveness of the combined assurance model implemented by the Group
- Reviewed the effectiveness of the internal audit function and the head of internal audit

The committee is satisfied that sufficient time was dedicated to risk governance and that it discharged its responsibilities as set out in the charter and work plan for the period under review.

The committee is satisfied with the assurance of the internal and external auditors, with the effectiveness of the design and implementation of internal financial controls. There were no significant weaknesses noted which resulted in material financial loss, fraud, corruption or error.

#### **INTERNAL AUDIT**

The internal audit function is a key element of the combined assurance structure. The Group outsourced its internal audit function to Deloitte & Touche. The committee was satisfied that the internal auditor fulfilled its roles and responsibilities, as outlined in the charter and the assessment of the internal control environment.

#### **CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION**

The committee considered and satisfied itself in terms of paragraph 3.84(g)(i) of the JSE Listings Requirements with the appropriateness of the expertise and experience of Mr. AH Muller as chief financial officer.

In addition, the committee considered and has satisfied itself with the appropriateness of the expertise and adequacy of resources of the financial function and experience of senior members of management responsible for the financial function.

#### **GOING CONCERN**

The committee has considered and reviewed a documented assessment, including key assumptions, as prepared by management of the going concern status of the Group and has made recommendations to the Board accordingly. The Board's statement regarding the going concern status of the Group, as supported by the committee, is included in the directors' responsibility report on page 1.

#### SIGNIFICANT AUDIT MATTERS AND QUALITY OF EXTERNAL AUDIT

The committee considered and resolved that the key audit matters reported on by the external auditors are the only significant matters required for consideration of the annual financial statements. The committee is satisfied with the appropriateness of the key audit matters reported on by the external auditors. The committee was satisfied with the quality of the external audit.



PE Burton

Chairman: Audit and risk committee Wellington

28 November 2018

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## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Quantum Foods Holdings Ltd

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Quantum Foods Holdings Ltd (the Company) and its subsidiaries (together the Group) as at 30 September 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

#### What we have audited

Quantum Foods Holdings Ltd's consolidated and separate financial statements set out on pages 10 to 68 comprise:

- the consolidated and company statements of financial position as at 30 September 2018;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows for the year then ended; and
- · the notes to the financial statements, which include a summary of significant accounting policies.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for *Professional Accountants* (Parts A and B).

## Our audit approach

## Overview



### Overall group materiality

R12 243 000, which represents 5% of four-year average consolidated profit before tax.

### Group audit scope

The consolidated financial statements are a consolidation of the ultimate parent company, its subsidiaries and an equity accounted associate. Full scope audits were performed on Quantum Foods (Pty) Ltd due to it's financial significance, and the ultimate parent company (Quantum Foods Holdings Ltd) and two subsidiaries of the Group Lohmann Breeding South Africa (Pty) Ltd and Philadelphia Chick Breeders (Pty) Ltd due to statutory audit requirements. Analytical review procedures were performed over the remaining insignificant components.

### Key audit matters

- Valuation of biological assets
- Impairment consideration

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R12 243 000
How we determined it	5% of four-year average consolidated profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We used a four-year average profit before tax figure to take into account the cyclical nature of Group profits. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The consolidated financial statements are a consolidation of the ultimate parent company, its subsidiaries and an equity accounted associate (together "the components"). Quantum Foods (Pty) Ltd, the subsidiary in which most of the Group's trading operations take place, is the only financially significant component in the Group. All other components are considered financially insignificant.

In order to ensure sufficient work was performed over material line items in the consolidated financial statements, a full scope audit was performed on Quantum Foods (Pty) Ltd due to it's financial significance. We also performed full scope audits on the ultimate parent company (Quantum Foods Holdings Ltd) and two subsidiaries of the Group (Lohmann Breeding South Africa (Pty) Ltd and Philadelphia Chick Breeders (Pty) Ltd) due to statutory audit requirements. Analytical review procedures were performed over the remaining insignificant components.

These additional procedures performed at the Group level, provided us with sufficient evidence to express an opinion on the Group as a whole.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key audit matters

## Valuation of biological assets

Biological assets of the Group consist of livestock. Livestock comprises of poultry which includes broiler and layer stock. Broiler stock includes breeding stock, broilers and hatching eggs. Layer stock includes breeding stock, point-of-lay hens, day-old-chicks and hatching eggs. These assets are measured at fair value less cost to sell. At year end the carrying value of the Group's biological assets was R332 million (Refer to Note 7 to the Consolidated Financial Statements).

Biological assets are measured at the end of each reporting period at fair value less cost to sell (Refer to Note 7 of the Accounting Policies). Fair values of livestock held for breeding, lay-hens, broilers and hatching eggs are determined with reference to market prices of livestock of similar age, breed and genetic material. In determining the fair value, management used unobservable inputs as disclosed in note 35.3 to the financial statements.

The valuation of the biological assets was considered to be a matter of most significance to the current year audit due to the magnitude of the biological asset balance in relation to the financial statements as a whole and the degree of estimation applied by management in determining the fair value of the biological assets.

The key audit matter relates to the consolidated financial statements.

## How our audit addressed the key audit matters

We obtained an understanding of management's valuation approach, including the identification of unobservable inputs used and estimates applied. We found management's approach to the valuation and estimates applied, to be consistent with those of the prior year.

A breakdown, by quantity and value, of all biological asset classes was obtained from management and we reconciled this to the amounts recorded in the general ledger, identifying no reconciling differences.

We tested the unobservable inputs used by management as follows:

- The market prices of day-old chicks, point-of-lay hens, culls, hatching eggs
  and broiler live birds used in management's calculations were agreed to a
  sample of sales invoices of day-old chicks, point-of-lay hens, culls, hatching
  eggs and broiler live birds in the market close to year-end; and
- The age of biological assets, at the different stages in the lifecycle, at yearend used in management's calculations to determine fair value were agreed to a sample of internal transfer documents.

We found the unobservable inputs used by management to be in line with our expectations set.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### Key audit matters

#### Impairment consideration

As at 30 September 2018, the net asset value of the Group exceeded its market capitalisation. This is an indicator of possible impairment. In terms of the applicable accounting standards, management was required to perform impairment tests for the underlying assets of the cash-generating units (CGUs) of the Group, as well as the corresponding carrying value of investment in subsidiary at a Company level.

In their impairment tests, management identified 3 CGUs within the Group for which impairment assessments were performed, namely the Feeds business, the Layers business and the Broiler business.

In determining the recoverable amount of the CGUs, management used value in use calculations for two of the CGUs and fair value less cost to sell for the other CGU.

To determine the value in use, management used the budget as approved by the board to determine future cash flows for the CGUs. These cash flows were then discounted using the Group's weighted average cost of capital determined using the capital asset pricing model.

The fair value less cost to sell used by management is based on valuation reports by an independent external valuation expert.

Management's impairment tests performed indicate that the recoverable amounts of these CGUs are higher than the carrying values, resulting in no impairment.

We considered impairment tests to be a matter of most significance to our current year audit due to the judgement involved in management's impairment tests.

The disclosure of impairment tests is included in note 2 and 4 of the consolidated financial statements.

The key audit matter relates to the consolidated and separate financial statements.

## How our audit addressed the key audit matters

#### Value in use calculations:

We tested the accuracy of the calculation for the model used for each CGU and we tested key assumptions in the calculations prepared by management. These were all done with reference to the board approved budget and market data, which consisted of data external to the Group.

We utilised our valuation expertise when we considered the appropriateness of the discount rate used by management. We independently calculated a discount rate and compared that to the discount rate calculated by management and found management's rate to be within an acceptable range.

In addition to the testing of inputs described above, we assessed management's future cash flows by considering the historical accuracy with which management set the budgets. The actual results for the current year was compared to the budget as approved by the board for that period. No significant variances were noted.

We performed independent sensitivity calculations on the impairment tests prepared by management, to determine the degree by which the key assumptions needed to change in order to trigger an impairment. We discussed the results of our calculations with management and based on the evidence obtained we accepted management's conclusion that the key assumptions applied in the model were reasonable.

#### Fair value less cost to sell calculation:

For the CGU where the fair value less cost to sell method was used, we assessed the professional competence, objectivity, independence, capabilities and adequacy of the work performed by management's expert. The assessment was performed with reference to the Curriculum Vitae of the management's expert and discussions held, specifically assessing the expert's qualifications, registration with various valuation institutes and extensive work experience. Based on the assessment performed, the engagement team concluded that the expert has sufficient skills and competence to perform these valuations.

We agreed to the fixed asset register, for the group, a sample of the land, buildings and equipment included in the valuation. No exceptions were found.

Management, using the assistance of their expert, performed a detailed valuation at the end of the 2018 financial year for a number of properties. The prior year valuations for the remainder of the properties were also assessed and updated by management for changes in assumptions in the current year. In considering the appropriateness of the valuation and its updates we have considered the methodology used by management's expert in preparing the valuation and its updates. We discussed the approach that was followed by the expert in calculating the update to the value as at the end of 2018 financial year, as presented in the report.

We discussed with management's expert the assumptions used in the update report relating to inflation percentages and depreciation rates. We determined that these assumptions were reasonable when compared to our expectation. The assumptions that were used in the 2018 report have been assessed by us for appropriateness and is leveraged from methodology established by the expert in prior years based on various market indicators. The information appears consistent with our understanding and expectations.

We obtained and inspected the updated valuation report prepared by management's expert and noted the fair value contained therein. We performed independent sensitivity calculations on the valuation performed by management's expert. Based on these calculations we identified that there was sufficient headroom available between the recoverable amount and the net asset value of the CGU.

## Company level:

We also compared the carrying value of the investment in subsidiary to the recoverable amount of the underlying subsidiary that was tested by us in the impairment assessment of the CGUs. We noted that the recoverable amount exceeds the carrying value of the investment and therefore no impairment was identified.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual financial statements for the year ended 30 September 2018 which includes the Directors' report, the Audit and risk committee report and the Company secretary certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the Integrated report 2018, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and
  whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair
  presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Quantum Foods Holdings Limited for 5 years. The business of Quantum Foods Holdings Limited was previously transacted through Pioneer Food Group Limited after the merger of Sasko Proprietary Limited and Bokomo Proprietary Limited in 1997, of which, based on available statutory records, PricewaterhouseCoopers Inc. and its predecessor firms was the auditor for 51 years.

Pricanadellase Coapers Ic.

PricewaterhouseCoopers Inc. Director: DG Malan Registered Auditor Stellenbosch

28 November 2018

## **DIRECTORS' REPORT**

for the year ended 30 September 2018

### 1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Quantum Foods Holdings Ltd (incorporated in South Africa) and its subsidiaries is a diversified feeds and poultry business providing quality animal protein to selected South African and African markets.

Registered office - 11 Main Road, Wellington, 7655

### 2. FINANCIAL RESULTS

The annual financial statements on pages 10 to 68 set out fully the financial position, financial performance and the cash flows for the year ended 30 September 2018.

#### 3. SHARE CAPITAL

The authorised share capital consists of 400 000 000 (2017: 400 000 000) ordinary no par value shares. At year-end 210 529 716 (2017: 222 314 657) ordinary shares were in issue.

During the reporting period 11 784 941 (2017: 9 488 659) ordinary shares were repurchased by the Company and cancelled.

During the reporting period a subsidiary acquired treasury shares. This subsidiary held 334 419 (2017: nil) ordinary shares at year-end.

#### 4. DIVIDENDS

A final gross dividend of 70 cents (2017: 34 cents) per ordinary share was declared. This is in addition to the interim gross dividend of 20 cents (2017: nil cents) per ordinary share.

#### 5. DIRECTORS

The directors of the Company are responsible for the activities and reports related to the Group.

- Wouter André Hanekom chairman
- Norman Celliers
- Hendrik Albertus Lourens
- André Hugo Muller
- Prof. Abdus Salam Mohammad Karaan
- Patrick Ernest Burton
- Geoffrey George Fortuin

## 6. SPECIAL RESOLUTIONS PASSED - ANNUAL GENERAL MEETING OF SHAREHOLDERS ("AGM")

At the AGM held at Le Bac Estates, R45 Noorderpaarl, Paarl on Friday, 23 February 2018 at 10:00 the following special resolutions were passed by the Company:

Special resolution one, for approval of the remuneration payable by the Company to its non-executive directors for their services as directors for the period 1 April 2018 until the date of the next AGM, was passed.

Special resolution two, for approval of the general authority of the Board and the Company's subsidiaries, to repurchase any of the shares issued by the Company on the basis reflected in the special resolution, was passed.

Special resolution three, for approval of the general authority of the Board to grant direct and indirect financial assistance to any company forming part of the Company's group, including in the form of loans or the guaranteeing of their debts, was passed.

Special resolution four, for the approval of the general authority of the Board to provide financial assistance to any person, by way of a loan, guarantee, the provision of security or otherwise, for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company, was passed.

## 7. LITIGATION STATEMENT

Refer to note 31 (contingent liabilities) of the annual financial statements for detail on the status of a customer claim, allegations of anticompetitive trade practices in Zambia and dispute with egg contract producer. No other litigation matters with potential material consequences exist at the reporting date.

## 8. EVENTS AFTER THE REPORTING PERIOD

Other than the matters raised in note 38 to the annual financial statements, no other events occurred after the reporting date that may have a material effect on the Group.

### 9. AUDITORS

 $\mbox{PwC}$  will continue in office in accordance with section 90(6) of the Companies Act.

## **ACCOUNTING POLICIES**

for the year ended 30 September 2018

### 1. BASIS OF PREPARATION

The principle accounting policies applied in the preparation of these consolidated annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated annual financial statements of the Group have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee interpretations issued and effective at the time of preparing these financial statements, the Listings Requirements of the JSE Ltd and the requirements of the Companies Act. These financial statements comply with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council. The consolidated annual financial statements are prepared on the historic cost convention, as modified by the revaluation of biological assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2 to the consolidated annual financial statements.

#### 1.1 Amended accounting standards effective in 2018

The following amendments have been adopted by the Group and became effective for the current reporting period beginning on 1 October 2017, which did not have a material impact on reported results:

- Amendment to IAS 12 Income taxes issued to clarify the requirements for recognising deferred tax assets on unrealised losses (effective 1 January 2017)
- Amendments to IAS 7 Cash flow statements introducing an additional disclosure to evaluate changes in liabilities arising from financing activities (effective 1 January 2017)

## 1.2 New and amended accounting standards and interpretations that are not yet effective and have not been early adopted by

The following standards, amendments and interpretations are not yet effective and have not been early adopted by the Group (the effective dates stated below refer to financial reporting periods beginning on or after the stated dates):

- Amendments to IFRS 2 Share-based Payments clarification of share-based payment transactions (effective 1 January 2018)
- Annual Improvements 2014 2016 cycle (effective 1 January 2018)
- Amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in Associates and Joint Ventures determining gain or loss on sale or contribution of assets (effective date postponed)
- IFRIC 22 Foreign currency transactions and advance considerations (effective 1 January 2018)
- IFRIC 23 Uncertainty over income tax treatments (effective 1 January 2019)
- Annual Improvements 2015 2017 cycle (effective 1 January 2018)
- IFRS 9 Financial Instruments (effective 1 January 2018)

This standard addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Although IFRS 9 changes the classification of certain financial instruments, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets. Trade and other receivables are all held to collect principal debt and interest only and will continue to be measured at amortised cost in future. Similarly, trade payables and borrowings will continue to be measured at amortised cost. Derivatives will remain at fair value through profit or loss.

The new impairment model requires the recognition of impairment provisions based on the expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. The ECL model will apply to the Group's trade and other receivables and cash and cash equivalents. 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 (refer to note 8 to the consolidated financial statements). Based on the ECL assessments undertaken to date, the financial impact of the new model is not expected to be material on the trade and other receivables or cash and cash equivalent impairment provisions.

The new hedging accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices, as the standard introduces a more principle-based approach to hedge accounting. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments, particularly in the year of the adoption of the new standard.

• IFRS 15 - Revenue from Contracts with Customers (effective 1 January 2018)

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 customer's premises. Management performed a detailed analysis of all of its revenue contracts and concluded that the implementation of the new standard will have no significant impact on the timing and measurement of the Group's revenue.

• IFRS 16 – Leases (effective 1 January 2019)

The standard replaces IAS 17 - Leases and has a significant impact on the accounting treatment of leases for lessees.

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 the reporting date, the Group has non-cancellable operating lease commitments of R52 million (refer to note 32 to the financial statements). Management has performed an initial analysis of all lease contracts and as at the reporting date 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).

## Impact of the above amendments on the Group's financial statements

The Group has considered all standards, interpretations and amendments that are in issue but not yet effective. Management has concluded that these standards do not, with the exception of amendments to IFRS 16 – Leases, have a significant impact on the Group's financial statements.

## 2. BASIS OF CONSOLIDATION

## Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 – Financial Instruments: Recognition and Measurement either in profit or loss or as a charge to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intergroup transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the stand-alone financial statements of the holding Company, the investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments.

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### 2. BASIS OF CONSOLIDATION (CONTINUED)

Interest-free loans to subsidiaries, with no specific terms of repayment and with a definite intent not to demand repayment, are considered to be capital distributions to the subsidiary and are included in the carrying amount of the investment.

#### **Associates**

Associates are all entities over which the Group has significant influence, but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced, but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount as part of the 'share of profit of associate company' in profit or loss.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising in investments in associates are recognised in profit or loss. Accounting policies of associates have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

#### Common control reserve

IFRS 3 excludes from its scope business combinations between entities under common control. The Group has made the policy choice to apply predecessor accounting.

The principles of predecessor accounting are that no assets or liabilities are restated to their fair values. The Group incorporates predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity.

No new goodwill arises. The transaction is not seen as an equal exchange of values and a change of control from the date of the business combination. No goodwill beyond that recorded by the controlling party in relation to the acquiree can therefore arise. Differences on consolidation are included in the common control reserve in equity.

### 3. PROPERTY, PLANT AND EQUIPMENT

Land and buildings mainly comprises factories, farms, poultry houses, offices and silos. All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which it is incurred.

Land is not depreciated. Depreciation on buildings, poultry houses, machinery, vehicles, furniture and equipment is calculated on a straight-line basis at rates deemed appropriate to write off the cost of the assets to their residual values over their expected useful lives.

The expected useful lives are as follows:

Buildings 20 – 25 years
 Poultry houses 25 years
 Plant, machinery and equipment 3 – 30 years
 Vehicles 3 – 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with the carrying amounts. These are included within other gains/(losses) – net in profit or loss.

## 4. INTANGIBLE ASSETS

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of the acquisition. Goodwill arising from a business combination is included in intangible assets.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

#### **Trademarks**

Trademarks are shown at historical cost. Subsequently, these intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Trademarks have finite useful lives.

Trademarks with finite useful lives are amortised over their useful lives of between five and 25 years and assessed for impairment when there is an indication that the assets may be impaired.

#### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of between two and five years.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Development costs that are directly attributable to the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use it.
- There is an ability to use the software product.
- · It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditure that does not meet the criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### 5. IMPAIRMENT OF NON-FINANCIAL ASSETS

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets, other than goodwill, that have suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

### 6. FINANCIAL ASSETS

## 6.1 Classification

The Group classifies its financial assets in the following categories:

- At fair value through profit or loss
- Loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

## Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. The Group's financial instruments at fair value through profit or loss comprise derivative financial instruments not earmarked for hedging. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

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## 6. FINANCIAL ASSETS (CONTINUED)

#### 6.1 Classification (continued)

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

#### 6.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are included within other gains/ (losses) – net in profit or loss in the period in which they arise.

The fair values of quoted investments are based on current bid prices. The Group establishes fair value by using valuation techniques if the market for a financial asset is not active. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### 6.3 Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

### Loans and receivables

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing on trade receivables is described in note 9 of the accounting policies.

### 7. BIOLOGICAL ASSETS

Biological assets consist of livestock. The presentation of biological assets as current or non-current assets depends on the nature of the biological assets. Livestock is a consumable asset and is presented as current assets. Biological assets of the Group include biological assets held at contract growers, as the Group retains ownership of these assets. Biological assets are measured on initial recognition and at the end of each reporting period at fair value less cost to sell. Changes in the measurement of fair value less cost to sell are included within other gains/(losses) – net in profit or loss for the period in which they arise.

All costs incurred in maintaining the assets are included within cost of sales in profit or loss for the period in which they arise. Fair values of livestock held for breeding, laying hens, broilers and hatching eggs are determined with reference to market prices of livestock of similar age, breed and genetic material.

Agricultural produce is the harvested product of the entity's biological assets and is measured at its fair value less cost to sell at the point of harvest. Such measurement is the cost at that date when transferring the harvested produce to inventory. Agricultural produce of the Group includes eggs from laying hens.

## 8. INVENTORIES

Inventories are valued at the lower of cost or net realisable value. Cost in each category is determined as follows:

- Raw material at actual cost on a weighted average cost basis
- Own manufactured products at direct raw material and labour cost plus an appropriate portion of production overheads, on a weighted average cost basis

- Consumable and trading stock at actual cost on a weighted average cost basis
- Eggs purchased are valued at actual cost on a weighted average cost basis

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw materials.

### 9. TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 to 45 days and, therefore, are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the original effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the provision for impairment of trade receivables is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss within other operating expenses. The carrying amount of the asset is reduced through the use of an allowance account. When trade receivables are uncollectible, they are written off as other operating expenses in profit or loss. Subsequent recoveries of amounts previously written off are credited against other operating expenses in profit or loss.

Other receivables consist mainly of prepayments, value-added tax receivable and other debtors. Other debtors' amounts generally arise from transactions outside the usual operating activities of the Group. Collateral is not normally obtained.

### 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments.

Deposits held at call with banks and other short-term highly liquid investments are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These deposits are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

### 11. SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of income tax, from the proceeds.

When any Group company purchases the Group's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the parent. The Group values treasury shares on the weighted average cost basis.

## 12. BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the year-end reporting date.

## 13. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance costs in profit or loss.

## 14. TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

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### 15. CURRENT AND DEFERRED INCOME TAX

The income tax expense or credit for the period comprises current and deferred income tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting profit or loss, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the unused losses can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### **16. REVENUE RECOGNITION**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after elimination of sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Income is recognised as follows:

• Sale of goods comprising the sale of animal feed, livestock and agricultural produce.

Revenue from sales is based on the price specified in the sales contracts, net of the estimated rebates, volume discounts, settlement discounts and returns at the time of sale. Contract terms and experience are used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. Sale of goods is recognised when a Group entity has delivered products to the customer, the customer has accepted the products and the collectibility of the related receivables is reasonably assured. No element of financing is deemed present as sales are made within credit terms which are consistent with market practice. The sale of goods is the only income included in revenue in profit or loss.

### Sale of services

Sale of services is recognised in the accounting period in which the services are rendered, by reference to the completion of services provided as a proportion of the total services to be provided. The sale of services is included in other income in profit or loss. Sale of services includes rental income received.

### Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method. When loans or receivables are impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate. Interest income is included in investment income in profit or loss.

## 17. FOREIGN CURRENCY TRANSLATION

### **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates ("the functional currency"). The consolidated financial statements are presented in South African rand, which is the Group's functional and presentation currency.

#### Transactions and balances

Transactions in foreign currency are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

All other foreign exchange gains and losses are presented in profit or loss within other gains and losses - net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Translation differences resulting from changes in amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss.

#### **Group entities**

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of South African rand are translated into South African rand as follows:

- Assets and liabilities for each statement of financial position presented (including comparatives) are translated at the closing rate at the reporting date.
- Income and expenditure included in profit or loss for each statement of comprehensive income are translated at average exchange rates
  (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which
  case income and expenditure are translated at the exchange rates prevailing at the dates of the transactions).
- All resulting exchange differences are recognised as a separate component of other comprehensive income.

Exchange differences arising from the translation of the net investment in foreign entities, and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 18. ACCOUNTING FOR LEASES: GROUP COMPANY IS THE LESSEE

## Finance leases

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charges.

The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the lease term or the useful lives of the assets

### Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

The Group ensures that the following two requirements are met in order for an arrangement transacted by the Group to be classified as

- Fulfilment of the arrangement is dependent on the use of an asset or assets, and this fact is not necessarily explicitly stated by the contract, but rather implied.
- The arrangement in substance conveys a right to use the asset.

The Group's assessment of whether an arrangement contains a lease is made at the inception of the arrangement, with reassessment occurring in the event of limited changes in circumstances.

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### 18. ACCOUNTING FOR LEASES: GROUP COMPANY IS THE LESSEE (CONTINUED)

Where the Group concludes that it is impracticable to separate payments for the lease from other payments required by the arrangement:

- In the case of a finance lease, the Group recognises an asset and a liability at an amount equal to the fair value of the underlying asset.
   Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate of interest.
- In the case of an operating lease, all payments under the arrangement are treated as lease payments.

## 19. ACCOUNTING FOR LEASES: GROUP COMPANY IS THE LESSOR

#### Operating leases

Operating lease assets are included in property, plant and equipment in the statement of financial position. These assets are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment. Rental income is recognised on a straight-line basis over the period of the lease and included in other income in profit or loss.

#### 20. EMPLOYEE BENEFITS

#### Retirement scheme arrangements

The policy of the Group is to provide retirement benefits for all its South African employees in the form of a defined contribution plan. A defined contribution plan is a retirement scheme under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the retirement benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered retirement schemes on a mandatory, contractual or voluntary basis. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### Other long-term employee benefits

The Group provides for long-service awards that accrue to employees. Independent actuaries calculate the liability recognised in the statement of financial position in respect of long-service awards. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised within other operating expenses in profit or loss.

### **Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Benefits falling due more than 12 months after the year-end reporting date are discounted to present value using the effective interest rate method.

### Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Group's shareholders, as well as other non-financial performance measures, after certain adjustments. The Group recognises a provision when contractually obliged or when there is a past practice that has created a constructive obligation.

### Leave pay

Annual leave entitlement is provided for over the period that the leave accrues. In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken to a cap of 36 days. Any leave days vesting in excess of the cap are forfeited in the vesting month.

Leave may not be converted to cash except at termination of employment.

### 21. SHARE-BASED PAYMENTS

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of share appreciation rights is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share appreciation rights granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of share appreciation rights that are expected to become exercisable. At each reporting date, the Group revises its estimates of the number of share appreciation rights that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to other comprehensive income. Benefits falling due more than 12 months after the year-end reporting date are discounted to present value using the effective interest rate method.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital when the share appreciation rights are exercised.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either cash flow or fair value hedges.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes and detail on movements in the hedging reserve are disclosed in note 9 to the consolidated annual financial statements. The fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months after the reporting date and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months from this date. Trading derivatives are classified as current assets or liabilities.

#### Cash flow hedges

Cash flow hedges cover the exposure to variability in cash flows that are attributable to a particular risk associated with:

- · a recognised asset or liability; or
- a highly probable forecast transaction; or
- the foreign currency risk in an unrecognised firm commitment.

Cash flow hedging instruments are mainly used to manage operational exposure to foreign exchange and commodity price risks. Financial instruments designated as cash flow hedges include commodity futures and foreign exchange contracts.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately within other gains or losses – net in profit or loss.

Amounts accumulated in other comprehensive income are recycled to profit or loss in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged, results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in cost of goods sold in profit or loss in the case of inventory or in depreciation in profit or loss in the case of property, plant and equipment.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity and is recognised in profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred immediately to other gains or losses – net in profit or loss.

## Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss within other gains or losses – net.

### 23. DIVIDEND DISTRIBUTION

Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the board of directors.

### 24. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities which may earn revenues and incur expenses and whose operating results are regularly reviewed by the Group's chief operating decision-maker ("CODM"), this being the chief executive officer and financial director of the Group, in order to allocate resources and assess performance and for which distinct financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The operating segments were identified and grouped together based mainly on the nature of their activities and the products offered by them.

## 25. AMORTISED COSTS

Finance costs and investment income are recognised on a time-proportion basis using the effective interest rate method. When determining the amortised cost amount of financial assets and liabilities, the Group reduces the carrying amount to the amount recoverable or payable, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as accretions of discount. These accretions or unwinding of discount on financial assets and liabilities carried at amortised cost are included in "finance costs" or "investment income" in profit or loss.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2018

	Notes	2018 R'000	2017 R'000
ASSETS			
Non-current assets		1 091 867	1 076 838
Property, plant and equipment	3	1 071 869	1 051 259
Intangible assets	4	10 637	13 304
Investment in associate	5	8 789	8 083
Deferred income tax	15	572	4 192
Current assets		1 422 816	1 177 817
Inventories	6	240 396	201 789
Biological assets	7	332 058	299 345
Trade and other receivables	8	425 424	411 395
Derivative financial instruments	9	-	1 876
Current income tax	28	2 477	1 943
Cash and cash equivalents	10	422 461	261 469
Total assets		2 514 683	2 254 655
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent		1 854 391	1 691 645
Share capital	11	1 500 248	1 552 670
Treasury shares	11	(1 541)	_
Other reserves	13	(226 402)	(200 991)
Retained earnings		582 086	339 966
Total equity		1 854 391	1 691 645
Non-current liabilities		234 405	237 034
Interest-bearing liability	14	6 128	6 227
Deferred income tax	15	220 559	223 199
Provisions for other liabilities and charges	16	7 718	7 608
Current liabilities		425 887	325 976
Trade and other payables	17	424 661	321 549
Derivative financial instruments	9	1 127	_
Current income tax	28	_	4 336
Interest-bearing liability	14	99	91
Total liabilities		660 292	563 010
Total equity and liabilities		2 514 683	2 254 655

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2018

	Notes	2018 R'000	2017 R'000
Revenue Cost of sales		4 121 901 (3 187 855)	4 051 890 (3 257 803)
Gross profit Other income Other gains/(losses) – net Sales and distribution costs Marketing costs Administrative expenses Other operating expenses Operating profit Investment income Finance costs	18 19 20 21 22	934 046 33 148 420 072 (232 391) (15 205) (118 196) (548 195) 473 279 24 919 (1 116)	794 087 19 775 199 910 (215 953) (12 056) (108 643) (507 005) 170 115 8 066 (1 665)
Share of profit of associate company  Profit before income tax  Income tax expense	23	706 497 788 (135 561)	1 095 177 611 (49 994)
Other comprehensive income for the year  Items that may subsequently be reclassified to profit or loss:  Fair value adjustments to cash flow hedging reserve		4 982	4 039
For the year  Deferred income tax effect Current income tax effect Realised to profit or loss Deferred income tax effect Current income tax effect		23 627 (18) (6 598) (16 707) 568 4 110	(12 096) (568) 3 955 17 706 (47) (4 911)
Movement on foreign currency translation reserve	·		
Currency translation differences		(36 299)	2 340
Total comprehensive income for the year		330 910	133 996
Profit for the year attributable to owners of the parent		362 227	127 617
Total comprehensive income for the year attributable to owners of the parent		330 910	133 996
Earnings per ordinary share (cents) Diluted earnings per ordinary share (cents)	24 24	164 163	56 56

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2018

	Share capital R'000	Treasury shares R'000	Common control reserve R'000	Hedging reserve R'000	Foreign currency translation reserve R'000	Share- based payment reserve R'000	Other reserves: Total R'000	Retained earnings R'000	Total R'000
Balance as at 1 October 2017	1 552 670	_	(167 877)	2 790	(43 602)	7 698	(200 991)	339 966	1 691 645
Shares repurchased and cancelled Comprehensive income:	(52 422)	-	-	-	-	-	-	-	(52 422)
Profit for the year	_	_	_	_	_	_	_	362 227	362 227
Other comprehensive income/									
(loss) for the year	-	-	-	4 982	(36 299)	-	(31 317)	-	(31 317)
Movement on foreign currency translation reserve Cash flow hedging	-	-	-	-	(36 299)	-	(36 299)	-	(36 299)
Fair value adjustments to cash flow hedging reserve									
For the year	-	-	-	23 627	-	-	23 627	-	23 627
Deferred income tax effect	-	-	-	(18)	-	-	(18)	-	(18)
Current income tax effect	-	-	-	(6 598)	-	-	(6 598)	-	(6 598)
Realised to profit or loss	-	-	-	(16 707)	-	-	(16 707)	-	(16 707)
Deferred income tax effect	-	-	-	568	-	-	568	-	568
Current income tax effect	-	-	_	4 110	_	_	4 110	_	4 110
Recognition of share-based payments	_	-	-	_	-	5 182	5 182	-	5 182
Deferred income tax on share-based payments						1 451	1 451		1 451
Dividends paid – final and	_	_	_	_	_	1451	1401	_	1401
interim net of treasury shares	_	_	_	_	_	_	_	(119 855)	(119 855)
Ordinary shares acquired by subsidiary	_	(2 520)	_	_	_	_	_	_	(2 520)
Ordinary shares transferred – share appreciation rights	_	979	-	-	-	(727)	(727)	(252)	-
Balance as at 30 September 2018	1 500 248	(1 541)	(167 877)	7 772	(79 901)	13 604	(226 402)	582 086	1 854 391
Notes	11	11					13		

	Share capital R'000	Treasury shares R'000	Common control reserve R'000	Hedging reserve R'000	Foreign currency translation reserve R'000	Share- based payment reserve R'000	Other reserves: Total R'000	Retained earnings R'000	Total R'000
Balance as at									
1 October 2016	1 581 402	-	(167 877)	(1 249)	(45 942)	3 636	(211 432)	226 178	1 596 148
Shares repurchased	(00.700)								(00 700)
and cancelled	(28 732)	-	_	_	-	_	_	_	(28 732)
Comprehensive income:								107.017	107.017
Profit for the year	_	_	_	_	_	_	_	127 617	127 617
Other comprehensive income for the year				4 039	2 340	_	6 379		6 379
income for the year	_	1	1	4 000	2 040	_ 	0019	_	1
Movement on foreign									
currency translation reserve	-	-	-	-	2 340	-	2 340	_	2 340
Cash flow hedging									
Fair value adjustments to									
cash flow hedging reserve				(10,000)			(10,006)		(10,000)
For the year	_	-	-	(12 096)	-	-	(12 096)	_	(12 096)
Deferred income tax effect	_	-	-	(568)	-	-	(568)	-	(568)
Current income tax effect	_	-	-	3 955	_	-	3 955	_	3 955
Realised to profit or loss	_	-	-	17 706	_	-	17 706	_	17 706
Deferred income tax effect	_	-	-	(47)	-	-	(47)	_	(47)
Current income tax effect	_	_	_	(4 911)	_	_	(4 911)	_	(4 911)
Recognition of share-based payments	_	_	_	-	_	3 173	3 173	_	3 173
Deferred income tax on									
share-based payments	_	-	-	_	-	889	889	_	889
Dividends paid		_			_			(13 829)	(13 829)
Balance as at 30 September 2017	1 552 670	_	(167 877)	2 790	(43 602)	7 698	(200 991)	339 966	1 691 645
Notes		11					13		

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2018

	Notes	2018 R'000	2017 R'000
CASH FLOW FROM OPERATING ACTIVITIES		431 555	257 688
Cash profit from operating activities Working capital changes Cash effect of hedging activities	25 26	547 802 12 889 8 884	200 373 115 232 3 413
Cash generated from operations Income tax paid	28	569 575 (138 020)	319 018 (61 330)
CASH FLOW FROM INVESTING ACTIVITIES		(87 355)	(32 745)
Additions to property, plant and equipment Additions to intangible assets Proceeds on disposal of property, plant and equipment Interest received	3 4 29 21	(115 749) (283) 3 758 24 919	(72 227) (812) 32 228 8 066
Cash surplus		344 200	224 943
CASH FLOW FROM FINANCING ACTIVITIES		(175 320)	(43 709)
Repayment of interest-bearing liability Shares repurchased Treasury shares acquired by subsidiary Interest paid Dividends paid to ordinary shareholders	11 27	(91) (52 422) (2 520) (554) (119 733)	(84) (28 732) - (1 073) (13 820)
Increase in cash and cash equivalents Effects of exchange rate changes Cash and cash equivalents at beginning of year		168 880 (7 888) 261 469	181 234 724 79 511
Cash and cash equivalents at end of year	10	422 461	261 469

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2018

#### 1. ACCOUNTING POLICIES

The principal accounting policies incorporated in the preparation of these historical financial information are set out on pages 10 to 19.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

### Property, plant and equipment

These items are depreciated over their useful lives, taking into account the residual value at the end of the item's useful life. Residual values and useful lives are based on industry knowledge and past experience with similar assets.

The Group continuously considers the existence of impairment indicators. An impairment loss is only recognised if the asset or CGU carrying amount exceeds its respective recoverable amount. The recoverable amount of an asset or CGU is the higher of its value-in-use or fair value less costs to sell. These calculations require the use of estimates.

To determine the value-in-use, management uses the budget as approved by the Board to determine future cash flows for the CGUs. These cash flows are then discounted using the Group's weighted average cost of capital.

The fair value less cost to sell is based on valuations performed by an independent external valuation expert.

#### Fair value measurement of biological assets

In measuring fair value of biological assets, management estimates and judgements are required for determination of fair value. Refer to note 35 for key assumptions used.

### Assessment of control over contract growers

The Group utilises contract growers for the growing of broilers in exchange for a fee. Goods delivered to contract growers are not recognised as revenue as the Group retains ownership of the goods. These goods are recognised as biological assets and inventories held at third parties.

The Group assesses whether it exercises control over contract growers based on an analysis of the activities of these entities, the Group's decision-making powers, its ability to obtain benefits from these entities and the residual risks regarding these entities that are retained by the Group. Based on this analysis the Group concluded that it does not control the activities of any contract grower, as it does not have any decision-making powers and that these businesses are managed independently. Furthermore, these businesses retain the residual risk associated with production.

		2018 R'000	2017 R'000
3.	PROPERTY, PLANT AND EQUIPMENT		
	Land and buildings	301 854	307 235
	Plant, machinery and equipment	744 653	719 098
	Vehicles	25 362	24 926
	Net book value	1 071 869	1 051 259

for the year ended 30 September 2018

		Land and buildings R'000	Plant, machinery and equipment R'000	Vehicles R'000	Total R'000
3.	PROPERTY, PLANT AND EQUIPMENT (CONTINUED) 30 September 2018 Cost				
	At 1 October 2017	411 134	1 189 517	48 355	1 649 006
	Additions	17 639	88 838	9 272	115 749
	Transfers	(6 685)	6 590	95	-
	Foreign exchange adjustment	(11 353)	(17 166)	(2 204)	(30 723)
	Disposals	(228)	(3 078)	(4 170)	(7 476)
	At 30 September 2018	410 507	1 264 701	51 348	1 726 556
	Accumulated depreciation and impairment				
	At 1 October 2017	(103 899)	(470 419)	(23 429)	(597 747)
	Depreciation charge	(7 405)	(54 978)	(5 554)	(67 937)
	Foreign exchange adjustment	2 523	2 771	1 056	6 350
	Depreciation on disposals	128	2 578	1 941	4 647
	At 30 September 2018	(108 653)	(520 048)	(25 986)	(654 687)
	Net book value at 30 September 2018	301 854	744 653	25 362	1 071 869
	30 September 2017				
	Cost				
	At 1 October 2016	426 985	1 173 324	43 662	1 643 971
	Additions	10 488	54 786	6 953	72 227
	Transfers	(27)	(69)	216	120
	Foreign exchange adjustment	(934)	1 099	350	515
	Disposals	(25 378)	(39 623)	(2 826)	(67 827)
	At 30 September 2017	411 134	1 189 517	48 355	1 649 006
	Accumulated depreciation and impairment				
	At 1 October 2016	(117 397)	(457 381)	(20 913)	(595 691)
	Depreciation charge	(8 360)	(46 425)	(4 279)	(59 064)
	Transfers	(823)	640	63	(120)
	Foreign exchange adjustment	149	678	26	853
	Depreciation on disposals	22 532	32 069	1 674	56 275
	At 30 September 2017	(103 899)	(470 419)	(23 429)	(597 747)
	Net book value at 30 September 2017	307 235	719 098	24 926	1 051 259
	Net book value at 30 September 2017	307 235	719 098	24 926	1 051

				2018 R'000	2017 R'000
3.	PROPERTY, PLANT AND EQUIPMENT (CONTINUED)				
	The property, plant and equipment balance includes assets in the cour	rse of construction ar	mounting to:	65 009	9 806
	At the date of approval of the financial statements the land and buildi the process of being transferred from Pioneer Food Group Ltd as par registered in the name of the Group.				
	A register with full details of assets is available at the Group's register				
	Plant, machinery and equipment includes the following amounts whe a finance lease (refer to note 14 for further details):	ere the Group is a les	see under		
	Leased equipment				
	Cost			6 448	6 448
	Accumulated depreciation			(666)	(408)
	Net book value at 30 September 2018	5 782	6 040		
4.	INTANGIBLE ASSETS				
	Computer software			4 720	7 078
	Goodwill Trademarks			5 428 489	5 428 798
	Net book value			10 637	
	Net book value			10 637	13 304
		Computer			
		software R'000	Goodwill R'000	Trademarks R'000	Total R'000
	30 September 2017				
	Cost				
	At 1 October 2016	14 165	5 428	24 544	44 137
	Additions	283	-	-	283
	Disposals	(20)			(20)
	At 30 September 2017	14 428	5 428	24 544	44 400
	Accumulated amortisation and impairment				
	At 1 October 2017	(7 087)	_	(23 746)	(30 833)
	Amortisation for the year  Depreciation on disposals	(2 641) 20	_	(309)	(2 950)
	At 30 September 2018	(9 708)	_	(24 055)	(33 763)
	Net book value at 30 September 2018	4 720	5 428	489	10 637
	30 September 2017				
	Cost		= 100		
	At 1 October 2016 Additions	14 160 812	5 428	24 544	44 132 812
	Disposals	(807)	_	_	(807)
	At 30 September 2017	14 165	5 428	24 544	44 137
	•		3 420		44 107
	Accumulated amortisation and impairment At 1 October 2016	(5 136)	_	(23 437)	(28 573)
	Amortisation for the year	(2 701)	_	(309)	(3 010)
	Depreciation on disposals	750	-	-	750
	At 30 September 2017	(7 087)		(23 746)	(30 833)
	Net book value at 30 September 2017	7 078	5 428	798	13 304
	·				

for the year ended 30 September 2018

		2018 R'000	2017 R'000
4.	INTANGIBLE ASSETS (CONTINUED)		
	The carrying value of the trademark above is included in the following CGUs:		
	Eggs		
	Safe Eggs	489	798
	The trademark has a remaining useful life of 1 year and 7 months.		
	Impairment test for goodwill		
	Goodwill arising from a business combination is allocated, at acquisition, to the Group's CGUs that are expected to benefit from the business combination.		
	Animal feeds		
	- Olifantskop feed mill	5 428	5 428
	The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on budgets approved by the Board. Cash flows beyond the budget period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the agricultural industry in which the CGU operates.		
		%	%
	Key assumptions used for value-in-use calculation:		
	Growth rate	5.5	5.5
	Discount rate	24.2	25.3
	These assumptions have been used for the analysis of this CGU. The budgeted gross margin is based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports.  The pre-tax discount rates as disclosed above reflect specific risk relating to the relevant CGU.		
	No impairment was recognised at the end of the reporting period presented.		
		R'000	R'000
5.	INVESTMENT IN ASSOCIATE		
	Unlisted shares at cost	1 700	1 700
	Interest in retained earnings and reserves	7 089	6 383
	Balance beginning of year	6 383	5 288
	Share of profit of associated company	706	1 095
		8 789	8 083
	Cost of shares		
	Bergsig Breeders (Pty) Ltd	1 700	1 700
	Effective interest 29.9% (2017: 28%)	1 700	1 700

		2018 R'000	2017 R'000
5.	INVESTMENT IN ASSOCIATE (CONTINUED)		
	The following is the summarised statement of financial position of the above mentioned associated company:		
	Non-current assets	17 679	17 345
	Current assets	17 765	19 398
	Total assets	35 444	36 743
	Non-current liabilities	4 194	6 374
	Current liabilities	3 947	3 331
	Total liabilities	8 141	9 705
	Capital and reserves	27 303	27 038
	Total equity and liabilities	35 444	36 743
	The following is the summarised statement of comprehensive income of the associate company for the year:		
	Revenue	58 461	58 664
	Operating profit	3 626	6 598
	Net profit after income tax	2 364	3 912
	Parasia Prooders (Ptv) Ltd is a private company and there is no queted market price available for its si	haraa Tha aamnani	, in anarational

Bergsig Breeders (Pty) Ltd is a private company and there is no quoted market price available for its shares. The company is operational in the poultry industry in South Africa and supplies the Group with broiler hatching eggs. The effective interest increased during the year when the associate company repurchased the shares of one of the shareholders.

		2018 R'000	2017 R'000
6.	INVENTORIES		
	Raw material	158 945	128 695
	Manufactured products	45 137	36 078
	Packing materials and consumables	36 314	37 016
		240 396	201 789
	Inventory carried at net realisable value	197	151
	Cost of inventories included in cost of sales	2 763 625	3 073 196

The cost of inventories above excludes inventory written off and biological assets fair value adjustments.

for the year ended 30 September 2018

Number of point-of-lay hens

		2018 R'000	2017 R'000
7.	BIOLOGICAL ASSETS Livestock – poultry	332 058	299 345

Poultry includes broiler and layer stock. Broiler stock include breeding stock, day-old chicks, broilers and hatching eggs. Layer stock include breeding stock, point-of-lay hens, day-old chicks and hatching eggs.

Fair values of livestock held for breeding, lay-hens, broilers and hatching eggs are determined with reference to market prices of livestock of similar age, breed and genetic material.

	Broiler stock R'000	Layer stock R'000	Total R'000
Fair value at 1 October 2017 Increase due to established cost Decrease due to harvest/sales Fair value adjustment recorded in profit and loss Foreign exchange adjustment	95 145 811 722 (784 960) 304 (580)	204 200 837 944 (827 861) (1 079) (2 777)	299 345 1 649 666 (1 612 821) (775) (3 357)
Fair value at 30 September 2018	121 631	210 427	332 058
Fair value at 1 October 2016 Increase due to established cost Decrease due to harvest/sales Fair value adjustment recorded in profit and loss Foreign exchange adjustment	98 300 882 754 (882 717) (2 960) (232)	225 650 1 038 609 (1 081 049) 20 385 605	323 950 1 921 363 (1 963 766) 17 425 373
Fair value at 30 September 2017	95 145	204 200	299 345
		2018 R'000	2017 R'000
Biological assets at fair value less cost to sell consist of the following: Chickens – grandparents and other breeding stock Chickens – laying Chickens – broilers Hatching eggs Game		48 887 207 179 48 673 26 180 1 139	41 615 195 011 39 135 22 605 979
		332 058	299 345
		2018 Quantity	2017 Quantity
At 30 September, the Group held the following biological assets:  Chickens – grandparents  Hatching eggs  Chickens – broilers  Chickens – layers 39 weeks and younger  Chickens – layers older than 39 weeks  Game		39 191 8 707 831 3 976 005 3 464 098 2 127 996 531	28 923 6 784 385 3 915 231 3 688 641 1 610 562 412
The Group produced the following agricultural produce for the year ended 30 Septem Eggs (dozens) Live birds (kg) Number of day-old chicks	nber:	78 950 679 75 558 816 71 724 612	84 747 373 76 459 211 68 060 754

The Group is a fully integrated poultry operation. The agricultural produce indicates quantities produced by the Group and includes quantities transferred from one phase in the integrated value chain to another.

		2018 R'000	2017 R'000
8.	TRADE AND OTHER RECEIVABLES		
	Trade receivables	425 450	408 683
	Allowance for outstanding credit notes	(2 668)	(2 853)
	Trade receivables	422 782	405 830
	Provision for impairment	(21 873)	(24 653)
	Trade receivables – net	400 909	381 177
	Prepayments	11 022	5 715
	Receivables from related parties (refer to note 33)	1 916	2 039
	Other debtors	1 153	8 674
	Receiver of revenue – VAT	10 424	13 790
		425 424	411 395
	The carrying value of trade and other receivables approximates their fair value at the reporting date.		
	An allowance for outstanding credit notes is accounted for based on past experience.		
	Financial assets that are neither past due nor impaired are considered to be fully performing.  The carrying amount of fully performing financial assets included in trade and other receivables at year-end equals:		
	National customers	174 953	160 310
	Other customers	199 336	199 948
		374 289	360 258
	The credit quality of fully performing financial assets included in trade and other receivables is supported by the large portion of the carrying value that can be ascribed to national customers and for other customers the credit risk is mitigated by insurance. National customers for this purpose are customers with a limited risk profile and with a national geographical representation. The credit quality of the customer base is considered to be good based on historical default rates. Other customers include local and international customers.		
	Financial assets included in trade and other receivables that are outside their normal payment terms are considered to be past due. The following represents an analysis of the past due number of days of financial assets that are past due but not impaired:		
	National customers		
	Within 30 days*	2 769	1 344
	Between 30 and 60 days*	1 139	198
	Between 60 and 90 days*	305	433
	Between 90 and 120 days*	102	_
	More than 120 days*	235	669
		4 550	2 644

<sup>\*</sup> Represents the days exceeding credit terms

30

5 186 428

6 604 631 3 422 736

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8. TRADE AND OTHER RECEIVABLES (CONTINUED)		
Other customers		
Within 30 days*	2 714	1 251
Between 30 and 60 days*	841	1 050
Between 60 and 90 days*	2 206	617
Between 90 and 120 days*	26	906
More than 120 days*	19 352	25 164
	25 139	28 988
Total	29 689	31 632
* Represents the days exceeding credit terms		
The past due but not impaired balances more than 120 days overdue (R19.4 million) include debtors insured with Credit Guarantee Insurance of R18.9 million.		
Individually impaired receivables where indicators of impairment are present comprise of a number of customers. The following trade receivables were impaired at year-end:		
National customers	-	_
Other customers	21 873	24 653
Total customers	21 873	24 653
Movements on the Group's provision for impairment of trade receivables are as follows:		
At 1 October	24 653	22 576
Provision for receivables impaired	3 865	5 397
Receivables written off during the year as uncollectible	(6 135)	(2 939)
Unused amounts reversed	(151)	(378)
Foreign exchange translation adjustment	(359)	(3)
At 30 September	21 873	24 653
A summary of the Group's trade receivable covered by insurance or secured by collateral is as follows:		
Debtors covered by Credit Guarantee Insurance (trade receivables – net)	212 685	205 151
Mortgage bonds – registered value	11 700	12 300
Notarial bonds – registered value	5 000	8 400
Cessions – book value	8 820	6 800
Bank guarantees – actual value	6 500	8 000
Fair value of collateral held on past due and/or impaired trade receivables:	25 221	32 141
The carrying amount of the Group's trade receivables are denominated in the following currencies, which are the functional currencies of the relevant subsidiaries:		
Zambian kwacha	4 189	11 935
Ugandan shilling	2 011	1 848
Mozambican metical	5 778	4 610
South African rand	413 472	390 290
Total	425 450	408 683

Other receivables are largely denominated in the Group's functional currency and no significant risk concentrations exist outside South Africa.

		2018 R'000	2017 R'000
9.	DERIVATIVE FINANCIAL INSTRUMENTS		
	Foreign exchange contracts – not earmarked for hedge accounting	(72)	74
	Foreign exchange contracts – cash flow hedges	(68)	1 802
	Futures – not earmarked for hedge accounting	(987)	_
		(1 127)	1 876

Trading derivatives are classified as a current asset or liability. The carrying values of derivative financial instruments are measured at their fair values at the reporting date.

The purchase of foreign exchange contracts are for the import of raw materials used for production, or capital expenses.

The futures not earmarked for hedging related to purchased maize contracts on the Chicago board of trade, to hedge the raw material input price. Instruments revalued to fair value at year end.

		Foreign amount '000	Rand amount R'000	Fair value R'000
9.1	Derivative instruments earmarked for hedging (cash flow hedges) Currency forward contracts 30 September 2018			
	Purchases of foreign exchange contracts		_	(68)
	US dollar Euro	2 183 628	30 935 10 301	391 (459)
	30 September 2017  Purchases of foreign exchange contracts US dollar  Cash flow hedges are expected to realise in profit or loss in the next financial year.	3 709	50 090	1 802
).2	Other derivative instruments 30 September 2018 Purchases of foreign exchange contracts			(72)
	British Pound	(84)	(1 549)	(72)
	30 September 2017 Purchases of foreign exchange contracts		_	74
	US dollar	45	613	21
	Euro	18	292	5
	British Pound	82	1 474	48

for the year ended 30 September 2018

		2018 R'000	2017 R'000
10.	CASH AND CASH EQUIVALENTS		
	Cash at bank and on hand	422 461	261 469
	For the purposes of the statement of cash flows, the year-end cash and cash equivalents consist of cash at bank, on hand and restricted balances.		
	The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:		
	SA rand	371 877	218 949
	US dollar	14 504	13 275
	Zambian kwacha (functional currency of a subsidiary)	24 672	22 788
	Ugandan shilling (functional currency of a subsidiary)	6 504	4 761
	Mozambican metical (functional currency of a subsidiary)	4 904	1 696
	Total	422 461	261 469
	The carrying amounts of cash and cash equivalents approximate their fair values at the reporting date.		
	Restricted balances		
	Cash and cash equivalents include restricted balances of R7.6 million (2017: R17.9 million). Restricted cash balances consist of initial margin balances with the JSE which serve as collateral for derivative positions held at year-end. This cash will only be accessible by the Group when the related derivative positions are closed.		
11.	SHARE CAPITAL		
	Authorised – ordinary shares		
	400 000 000 (2017: 400 000 000) ordinary no par value shares		
	Issued and fully paid – ordinary shares		
	210 529 716 (2017: 222 314 657) ordinary no par value shares	1 500 248	1 552 670
	Reconciliation of movement in issued shares		
	Opening balance	1 552 670	1 581 402
	Shares repurchased	(52 422)	(28 732)
		1 500 248	1 552 670
	During the reporting period 11 784 941 (2017: 9 488 659) ordinary shares were repurchased by the Company and cancelled. The shares were repurchased at an average price of R4.45 (2017: R3.03) per share.		
	Treasury shares held by subsidiary		
	At the beginning of the year	_	_
	546 815 (2017: nil) ordinary shares acquired during the year	2 520	-
	Issued to management in terms of share appreciation rights scheme: 212 396 (2017: nil)		
	ordinary shares	(979)	_
		1 541	-

2018

## 12. SHARE-BASED PAYMENTS

## Management share appreciation rights scheme (equity-settled)

The Group operates a share appreciation rights scheme for qualifying management.

The exercise of vested share appreciation rights entitles the employee to ordinary shares in the Company. This number of ordinary shares is calculated by dividing the amount by which the share price, relating to the exercised share appreciation rights, appreciated from grant date to exercise date, by the share price at the exercise date.

	2018 Number '000	2017 Number '000
SHARE-BASED PAYMENTS (CONTINUED)		
Number of share appreciation rights made available		
Number at beginning of year	17 049	9 813
New allocation at R3.91 per share	6 460	-
New allocation at R3.09 per share	-	7 561
Redeemed	(643)	_
Expired/forfeited	-	(325)
Number at end of year	22 866	17 049
Number of share appreciation rights		
At R3.15 per share, exercisable up to 27 February 2021	4 959	5 602
At R2.66 per share, exercisable up to 18 February 2022	3 886	3 886
At R3.09 per share, exercisable up to 23 February 2023	7 561	7 561
At R3.91 per share, exercisable up to 22 February 2024	6 460	_
	22 866	17 049

Share appreciation rights were granted on 22 February 2018 at a strike price of R3.91. Vesting takes place over a five-year period with the first 33.3% vesting after three years on 22 February 2021 subject to certain time and performance-based criteria.

In 2017, share appreciation rights were granted on 23 February 2017 at a strike price of R3.09. Vesting takes place over a five-year period with the first 33.3% vesting after three years on 23 February 2020 subject to certain time and performance-based criteria.

In 2016, share appreciation rights were granted on 18 February 2016 at a strike price of R2.66. Vesting takes place over a five-year period with the first 33.3% vesting after three years on 18 February 2019 subject to certain time and performance-based criteria.

In 2015, share appreciation rights were granted on 27 February 2015 at a strike price of R3.15. Vesting takes place over a five-year period with the first 33.3% vesting after three years on 27 February 2018 subject to certain time and performance-based criteria.

The net estimated weighted average fair value at grant date per share appreciation right for share appreciation rights outstanding at 30 September 2018 is R0.90. The fair value per share appreciation right was used to calculate the total cost of the scheme in terms of IFRS 2 – Share-based payment. The cost accounted for in the current year amounts to R5 182 200 (2017: R3 173 200). The scheme rules were changed in 2018 to extend the lapse period for all grants from six months after the vesting date to 12 months after the vesting date.

	2018	2017
These fair values were calculated using the actuarial binomial option pricing model.		
The principal assumptions were as follows:		
Weighted average share price at grant date (cents per share)	337	325
Expected volatility	20.9% to 32.9%	20.9% to 31.9%
Expected dividend yield	3.0%	3.0%
Risk-free rate	6.5% to 8.6%	6.5% to 8.6%
Expected life (years)	3 to 5	3 to 5

Expected volatility was determined by calculating the volatility of the share price of a similar JSE-listed entity in the agricultural industry.

The shareholders initially approved a maximum number of 14 500 000 ordinary shares that may be issued in terms of the management share appreciation rights scheme. At 30 September 2018, 14 287 604 ordinary shares (2017: 14 500 000) were still available for issue.

34 35

12.

for the year ended 30 September 2018

		2018 R'000	2017 R'000
13.	OTHER RESERVES		
	Common control reserve	(167 877)	(167 877)
	Share-based payment reserve	13 604	7 698
	Foreign currency translation reserve	(79 901)	(43 602)
	Hedging reserve	7 772	2 790
		(226 402)	(200 991)

The fair value of share appreciation rights issued to qualifying management are accounted for in the share-based payment reserve over the respective vesting periods. The reserve is adjusted at each reporting date when the entity revises its estimates of the number of share appreciation rights that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to this reserve in equity for the equity-settled plan. Refer to note 12 for further detail.

The foreign currency translation reserve relates to exchange differences arising from translation of foreign subsidiaries' statements of comprehensive income at average exchange rates for the year and their statements of financial position at the ruling exchange rates at the reporting date if the functional currency differs.

The hedging reserve relates to the change in fair value of derivative financial instruments. These derivative financial instruments include futures as well as foreign exchange contracts – cash flow hedges.

		2018 R'000	2017 R'000
14.	INTEREST-BEARING LIABILITY		
	Non-current		
	Finance lease liability	6 128	6 227
		6 128	6 227
	Current		
	Finance lease liability	99	91
		99	91
		6 227	6 318

The finance lease liability bears interest at a rate of 8.35%. The finance lease liability is effectively secured as the rights to the leased assets revert to the lessor in the event of default. The carrying amount of the finance lease liability approximates its fair value. The Group entered an arrangement to purchase electricity generated by solar panels at one of its units. The 25-year agreement constitutes a finance lease for accounting purposes.

		2018 R'000	R'000
15.	DEFERRED INCOME TAX		
	Balance at beginning of year	219 007	227 976
	Charge in profit or loss	4 899	(8 679)
	Foreign exchange translation adjustment	(1 918)	(16)
	Deferred income tax on hedging reserve charged to equity	(550)	615
	Deferred income tax on share-based payments	(1 451)	(889)
		219 987	219 007

		2018 R'000	2017 R'000
5.	DEFERRED INCOME TAX (CONTINUED)		
	Due to the following temporary differences:		
	Capital allowances, including trademarks	171 922	173 615
	Inventories	7 713	8 697
	Biological assets	70 794	65 225
	Assessed loss utilised	(3 398)	(9 649)
	Prepaid expenses	2 277	1 177
	Provision for long-service awards	(2 161)	(2 130)
	Leave accrual	(5 290)	(4 825)
	Bonus accrual	(6 822)	(2 747)
	Provision for impairment of trade receivables	(4 498)	(4 659)
	Rebates, growth incentives and settlement discount accruals	(3 701)	(2 120)
	Allowance for credit notes	(747)	(799)
	Deferred income	(633)	(1 091)
	Derivative financial instruments	(440)	731
	Share-based payments	(4 448)	(1 018)
	Accruals personnel costs	(818)	(1 062)
	Other	237	(338)
		219 987	219 007
	For the purposes of the statement of financial position, deferred income tax is presented as follows:		
	Non-current assets	(572)	(4 192)
	Non-current liabilities	220 559	223 199
		219 987	219 007

During the year, deferred income tax assets of R571 726 (2017: R4 192 046) have been recognised of which the utilisation thereof depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

These deferred tax assets relate to assessed losses of Group entities that suffered losses in the current and/or preceding years. The losses suffered in the current and/or previous period arose from identifiable causes that are unlikely to recur. These entities have a strong earnings potential and future profitability is expected against which unrecognised tax losses can be utilised.

for the year ended 30 September 2018

		2018 R'000	2017 R'000
16.	PROVISIONS FOR OTHER LIABILITIES AND CHARGES		
10.	Long-service awards	7 718	7 608
46.4	Language augusta		
16.1	Long-service awards  Balance at beginning of year	7 608	7 176
	Interest	562	592
	Actuarial loss	(347)	125
	Current service costs	1 020	935
	Payments	(1 125)	(1 220)
	. cymone	7 718	7 608
		7710	7 000
	The amount recognised in the statement of financial position was determined as follows:	7.740	7.000
	Present value of unfunded obligations	7 718	7 608
	Unrecognised actuarial loss		
		7 718	7 608
	Existing provisions are based on the following important assumptions:		
	Discount rate	8.9% p.a.	8% p.a.
	Salary increases	6.5% p.a.	6.5% p.a.
	Normal retirement age	60 years	60 years
		30 September	30 September
	The date of the most recent actuarial valuation is:	2018	2017
17.	TRADE AND OTHER PAYABLES		
	Trade payables	336 004	259 148
	Accrued expenses	24 446	14 782
	Related parties (refer to note 33)	4 776	4 964
	Accrued leave-pay	20 058	17 331
	Accrued 13th cheque	11 053	9 668
	Accrued short-term incentive bonus	19 616	9 551
	Value-added tax	373	308
	Dividends payable	189	67
	Other payables	8 146	5 730
		424 661	321 549
	The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.		
	The carrying amount of the Group's trade payables are denominated in the following currencies:		
	Covered by means of foreign exchange contracts:	-	1 225
	US dollar	-	1 225
	Uncovered:	336 004	257 923
	Euro	371	_
	US dollar	1 794	3 008
	Zambian kwacha (functional currency of a subsidiary)	3 066	2 316
	Ugandan shilling (functional currency of a subsidiary)	1 694	1 262
	Mozambican metical (functional currency of a subsidiary)	2 207	1 885
	South African rand	326 872	249 452
	Total	336 004	259 148

Other payables are mostly denominated in the Group's functional currency and no significant risk concentrations exist outside South Africa.

		2018	2017
		R'000	R'000
18.	OTHER INCOME		
10.	Rental income	7 142	8 233
	Sundry income	3 843	6 937
	Insurance claims	22 163	4 605
		33 148	19 775
19.	OTHER GAINS/(LOSSES) – NET		
	Biological assets fair value adjustment	74 063	40 810
	Unrealised – reflected in carrying amount of biological assets	(775)	17 425
	Realised – reflected in cost of goods sold	74 838	23 385
	Agricultural produce fair value adjustment	344 783	143 754
	Unrealised – reflected in carrying amount of inventory	1 142	2 325
	Realised – reflected in cost of goods sold	343 641	141 429
	Foreign exchange differences	4 413	1 891
	Financial instruments fair value adjustments	(1 243)	(3 563)
	Foreign exchange contract cash flow hedging ineffective loss	(2 873)	(3 601)
	Profit on disposal of property, plant and equipment	929	20 619
		420 072	199 910

## Biological assets fair value adjustment

The adjustment of biological assets from cost to fair value includes a realised and unrealised component. The unrealised portion is reflected in the carrying amount of biological assets in the statement of financial position and the realised portion is reflected in cost of goods sold in profit and loss.

for the year ended 30 September 2018

		2018 R'000	2017 R'000
20.	EXPENSE BY NATURE  Cost of raw materials  Fair value adjustment on biological assets and agricultural produce Inventory written off  Research and laboratory costs  Staff costs	2 551 826 418 479 5 751 19 022 403 393	2 874 479 164 814 19 793 13 880 374 039
	Wages and salaries Other personnel costs Pension costs Share-based payments expense (refer to note 12)	349 789 26 604 21 818 5 182	324 577 25 482 20 807 3 173
	Non-executive directors' remuneration Technical services from non-employees Auditors' remuneration	1 596 6 598 3 838	1 419 6 937 3 208
	Audit – current year Tax-related services Other consulting services	3 758 80 -	3 015 56 137
	Internal audit fees Rental of premises, machinery and vehicles Travel and entertainment Energy costs Maintenance Depreciation and amortisation	1 324 28 590 8 775 103 472 91 239 70 887	1 202 37 817 8 184 95 557 85 748 62 074
	Insurance Cleaning Office expenses Marketing costs Security	16 003 32 318 55 360 11 504 25 066	12 792 28 725 49 099 10 395 21 467
	Change in provision for trade receivables Change in allowance for credit notes Bad debts – net Transport and distribution costs B-BBEE socio-economic and enterprise development	(2 421) (185) 5 973 239 699 3 735	2 079 (581) 2 915 223 442 1 976
	Total cost of sales, sales and distribution costs, marketing, administrative and other operating expenses	4 101 842	4 101 460
21.	INVESTMENT INCOME Interest income on financial assets: loans and receivables  - Call accounts and other	24 919 24 919	8 066 8 066
22.	FINANCE COSTS Interest expense on financial liabilities measured at amortised cost  - Call loans  - Finance lease	- 524	138 531
	<ul><li>Provision for unwinding of discount</li><li>Other</li></ul>	562 30 1 116	592 404 1 665

		2018 R'000	2017 R'000
23.	INCOME TAX EXPENSE		
	Current income tax	130 662	58 673
	Current year	130 715	58 673
	Overprovision previous years	(53)	-
	Deferred taxation	4 899	(8 679)
	Current year	4 899	(8 679)
		135 561	49 994
	The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory rate as follows:		
		%	%
	Standard rate for companies*	28.00	28.00
	Increase/(decrease) in rate:		
	Exempt income	(0.07)	(0.17)
	Non-deductible expenditure	0.79	1.65
	Underprovision previous years	(0.01)	(0.05)
	Effect of capital gains tax  Effect of different tax rates*	(0.02)	(0.25)
	Other differences	(0.99) (0.47)	(0.76) (0.32)
	Effective rate	27.23	28.15
	* The standard tax rate for foreign subsidiaries differ from the income tax rate of 28%. Quantum Foods Zambia Ltd's agricultural profits are taxed at 10% and other income is taxed at 35%. Quantum Foods Uganda Ltd's profits are taxed at 30%. Quantum Foods Mozambique S.A.'s profits are taxed at 16% (lower rate for first five years after initial investment).		
		R'000	R'000
	Gross calculated tax losses of certain subsidiaries at the end of the reporting period available for		
	utilisation against future taxable income of those companies	13 284	45 996
	Less: Utilised in reduction of deferred tax	(9 711)	(29 364)
		3 573	16 632
	A current and deferred income tax charge of R1 937 673 is debited (2017: R1 570 996 debited) directly through other comprehensive income/(loss).		
	directly through other comprehensive incomer(loss).		
24.	EARNINGS PER ORDINARY SHARE		
	Basic  The coloulation of basic covarings pay shave in based on covarings attributeble to current of the payont.		
	The calculation of basic earnings per share is based on earnings attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the year:		
	Profit for the year	362 227	127 617
	Weighted average number of ordinary shares in issue ('000)	220 468	229 124
	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 year:		
	Profit for the year	362 227	127 617
	Diluted weighted average number of ordinary shares in issue ('000)	222 821	229 124

for the year ended 30 September 2018

		2018 R'000	2017 R'000
24.	EARNINGS PER ORDINARY SHARE (CONTINUED)		
	Headline earnings is calculated based on Circular 4/2018 issued by the South African Institute of Chartered Accountants.		
	Reconciliation between profit attributable to owners of the parent and headline earnings		
	Profit for the year	362 227	127 617
	Remeasurement of items of a capital nature		
	Profit on disposal of property, plant and equipment	(782)	(15 314)
	Gross	(929)	(20 619)
	Tax effect	147	5 305
	Headline earnings for the year	361 445	112 303
	Earnings per share (cents)	164	56
	Diluted earnings per share (cents)	163	56
	Headline earnings per share (cents)	164	49
	Diluted headline earnings per share (cents)	162	49
5.	CASH PROFIT FROM OPERATING ACTIVITIES		
	Reconciliation of profit before tax and cash profit from operating activities:		
	Profit before income tax	497 788	177 611
	Adjustment for:		
	Depreciation and amortisation	70 887	62 074
	Biological assets fair value adjustment	775	(17 425)
	Agricultural produce fair value adjustment	(1 142)	(2 325)
	Net profit on sale of property, plant and equipment	(929)	(20 619)
	Adjustment on fixed rate leases	(119)	22
	Unrealised (profits)/losses on FEC, foreign exchange and future contracts	(4 171)	(115)
	Change in provision for impairment of trade receivables	(2 421)	2 079
	Change in provision for credit notes based on history	(185)	(581)
	Bad debts	5 973	2 915
	Share-based payments expense	5 182	3 173
	Changes in provisions for long-service awards	673	1 060
	Interest received	(24 919)	(8 066)
	Interest paid	1 116	1 665
	Share of profit of associate company	(706)	(1 095)
		547 802	200 373

		2018 R'000	2017 R'000
26.	WORKING CAPITAL CHANGES		
	(Increase)/decrease in inventory	(38 607)	105 635
	(Increase)/decrease in trade and other receivables	(17 396)	65 672
	Increase/(decrease) in trade and other payables	97 153	(95 422)
	(Increase)/decrease in current biological assets	(32 346)	44 355
	Changes to derivative financial instruments	5 210	(3 788)
	Decrease in provisions	(1 125)	(1 220)
		12 889	115 232
27.	DIVIDENDS PAID		
	Amounts unpaid at beginning of the year	(67)	(58)
	As disclosed in statement of changes in equity	(119 855)	(13 829)
	Dividends declared during the year	(119 909)	(13 829)
	Dividends on treasury shares received by subsidiary	54	-
	Amounts unpaid at end of the year	189	67
		(119 733)	(13 820)
28.	INCOME TAX PAID		
	Amounts unpaid at beginning of the year	(2 393)	(4 094)
	Current tax charge in profit and loss	(130 662)	(58 673)
	Hedging reserve – income tax current year	(2 488)	(956)
	Amounts (prepaid)/unpaid at end of the year	(2 477)	2 393
		(138 020)	(61 330)
	For the purposes of the statement of financial position, current income tax (receivable)/payable are presented as follows:		
	Current assets	(2 477)	(1 943)
	Current liabilities	-	4 336
		(2 477)	2 393
29.	PROCEEDS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		
	AND INTANGIBLE ASSETS	2 829	11 609
	Book value of property, plant and equipment and intangible assets  Profit on disposal of property, plant and equipment	2 829 929	20 619
	Tolit of disposal of property, plant and equipment		
		3 758	32 228

for the year ended 30 September 2018

		2018 R'000	2017 R'000
30.	NET DEBT RECONCILIATION  This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.		
	Net debt		
	Cash and cash equivalents	422 461	261 469
	Borrowings – repayable after one year (fixed interest rates)	(6 227)	(6 318)
		416 234	255 151
		Cash R'000	Borrowings due after 1 year R'000
	Net debt as at 1 October 2016	79 511	6 402
	Cash flows	181 234	(84)
	Foreign exchange adjustments	724	
	Net debt as at 30 September 2017	261 469	6 318
	Cash flows	168 880	(91)
	Foreign exchange adjustments	(7 888)	_
	Net debt as at 30 September 2018	422 461	6 227
		2018	2017
		R'000	R'000
31.	CONTINGENT LIABILITIES		
	Guarantees in terms of loans by third parties to contracted service providers	29 550	24 355

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### 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 matter will be defended in the High Court.

Management is of the view, based on legal advice regarding the merits of the claim against the Group, that the Group will not incur any material liability in this respect.

## Allegations of anti-competitive trade practices - Zambia

The Group received a notice of investigation in the 2016 reporting period from the Zambian Competition and Consumer Protection Commission regarding alleged violation of the Competition and Consumer Protection Act ("the Act"). The investigation was finalised in March 2018, and Quantum Foods Zambia Ltd was found to be in contravention with certain provisions of the Act. An appeal has been lodged at the Competition and Consumer Protection Tribunal for Zambia. This previously disclosed contingent liability now meets the provision recognition criteria as per IAS 37. In accordance with IAS 37, a provision of R5.6 million was raised in this reporting period.

## Dispute with egg contract producer

The Group has an outstanding trade receivable from a previous egg contract producer. The producer has filed a counterclaim against the Group for alleged breach of the terms of the terminated agreement. The claim of the Group and the counterclaim have been referred to arbitration.

Management is of the view that the Group will not incur any material liability in this respect.

		2018 R'000	2017 R'000
32.	COMMITMENTS		
32.1	Operating lease commitments		
	Future minimum lease payments		
	The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
	No later than one year	27 502	27 479
	Later than one year, and no later than five years	24 464	39 095
		51 966	65 574
	The 2017 operating lease commitments have been restated with operating lease commitments for distribution agreements not previously disclosed under this note.		
32.2	Operating lease receivables		
	The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
	No later than one year	4 468	4 431
	Later than one year, and no later than five years	4 311	_
		8 779	4 431
32.3	Capital commitments		
	Contractually committed	49 954	23 949
	Approved by the Board, but not yet contractually committed –		
	for the next financial year	95 318	42 453
		145 272	66 402
	Allocated as follows:		
	Property, plant and equipment	145 272	66 402
		145 272	66 402

The expenditure will be financed from operating income, cash reserves and borrowed funds, in accordance with a budget approved by the board of directors.

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## 33. RELATED-PARTY TRANSACTIONS

Quantum Foods Holdings Ltd is the ultimate holding company of the Quantum Foods group of companies. The Group consists of:

- Quantum Foods (Pty) Ltd
- Lohmann Breeding SA (Pty) Ltd all assets and liabilities transferred to Quantum Foods (Pty) Ltd following an internal restructuring on 30 September 2018.
- Philadelphia Chick Breeders (Pty) Ltd
- Quantum Foods Uganda Ltd (incorporated in Uganda)
- Quantum Foods Zambia Ltd (incorporated in Zambia)
- Quantum Foods Mozambique, S.A. (incorporated in Mozambique)
- Bergsig Breeders (Pty) Ltd associate company

The Group holds a 100% (2017: 100%) interest in Quantum Foods (Pty) Ltd, and this entity holds a 100% (2017: 100%) interest in all the other subsidiaries listed above. The subsidiaries are incorporated in South Africa unless indicated otherwise.

During the reporting period the Company and its subsidiaries conducted the following transactions with its associate company and key management personnel:

		R'000	R'000
33.1	Sale of goods		
	Bergsig Breeders (Pty) Ltd	40 950	43 860
33.2	Purchase of goods		
	Bergsig Breeders (Pty) Ltd	51 775	57 236
33.3	Key management personnel compensation		
	Salaries and other short-term employee	16 312	14 887
	Post-employment benefits	1 743	1 584
	Bonuses and incentives	13 160	6 525
	Other long-term benefits	-	162
	Share-based payments	4 009	2 295
		35 224	25 453
	Key management personnel include the executive directors of the Board and members of the Group's executive committee.		
33.4	Year-end balances arising from sales/purchases of goods		
	Receivables from related parties		
	Bergsig Breeders (Pty) Ltd	1 916	2 039
		1 916	2 039
	Payables to related parties		
	Bergsig Breeders (Pty) Ltd	(4 776)	(4 964)
		(4 776)	(4 964)

Receivables from related parties are unsecured and bear no interest.

	Loans and receivables R'000	Assets at fair value through profit and loss R'000	Tota R'00
FINANCIAL INSTRUMENTS BY CATEGORY			
30 September 2018			
Assets as per statement of financial position	400.000		400.01
Trade and other receivables*  Cash and cash equivalents	403 978 422 461		403 9 422 4
Total	826 439	_	826 4
30 September 2017			
Assets as per statement of financial position			
Derivative financial instruments	-	1 876	18
Trade and other receivables*  Cash and cash equivalents	391 890 261 469	_	449 0 79 5
Total	653 359	1 876	530 3
	Liabilities at fair value through profit and loss	Other financial liabilities	To
	R'000	R'000	R'0
30 September 2018			R'0
Liabilities as per statement of financial position		R'000	
Liabilities as per statement of financial position Interest-bearing liability	R'000		6 2
Liabilities as per statement of financial position Interest-bearing liability Derivative financial instruments		R'000 6 227 –	6 2 1 1
Liabilities as per statement of financial position Interest-bearing liability Derivative financial instruments Trade and other payables^	R'000 - 1 127 -	6 227 - 368 671	6 2 1 1 368 6
Liabilities as per statement of financial position Interest-bearing liability Derivative financial instruments Trade and other payables  Total	R'000	R'000 6 227 –	6 2 1 1
Liabilities as per statement of financial position Interest-bearing liability Derivative financial instruments Trade and other payables^  Total  30 September 2017	R'000 - 1 127 -	6 227 - 368 671	6 2 1 1 368 6
Liabilities as per statement of financial position Interest-bearing liability Derivative financial instruments Trade and other payables^  Total  30 September 2017 Liabilities as per statement of financial position	R'000 - 1 127 -	6 227 - 368 671 374 898	6 2 1 1 368 6 376 0
Liabilities as per statement of financial position Interest-bearing liability Derivative financial instruments Trade and other payables^  Total  30 September 2017	R'000 - 1 127 -	6 227 - 368 671	6 2 1 1 368 6

<sup>\*</sup> Financial assets do not include prepaid expenses and VAT amounts receivable.

<sup>^</sup> Financial liabilities do not include accruals for 13th cheque, leave, short-term incentive bonus and VAT amounts payable.

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## 35. FINANCIAL RISK MANAGEMENT

#### 35.1 Financial risk factors

This note explains the Group's exposure to financial risks and how these risk could affect the Group's future financial performance. Current year profit and loss information is included where relevant to add further context.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions Recognised assets and liabilities denominated in foreign currency	Cash flow forecasting Sensitivity analysis	Forward foreign exchange contracts for future commercial transactions
Market risk – price risk	Fluctuations in prices of feed raw materials, mainly maize and soya bean meal	Sensitivity analysis	Futures contracts  Contracting at fixed delivery prices
Market risk – interest rate	Deposits at variable rates	Sensitivity analysis	Treasury function based on a rolling cash flow forecast
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments	Ageing analysis Credit ratings Sensitivity analysis	Deposits placed at banks with high credit rating  Credit limits, credit control, letters of credit and insurance for trade receivables
Liquidity risk	Unused credit facilities. Minimal borrowings existed at reporting date	Rolling cash flow forecasts	Committed working capital facility

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Board approved a broad decision-making framework in terms of which financial risks are evaluated, managed and hedged by executive management.

## (a) Market risk

## (i) Cash flow interest rate risk

The Group's interest rate risk arises from both financial assets and financial liabilities.

Financial liabilities exposed to interest rate risk include interest-bearing short and long-term borrowings. At year-end, the Group had minimal borrowings.

Financial assets exposed to cash flow interest rate risk include cash and short-term bank deposits.

Changes in the prime interest rate will result in a minimal impact on profit after tax.

## (ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, British pound, US dollar, Zambia kwacha, Uganda shilling and Mozambique metical. Foreign exchange risk arises from future commercial transactions denominated in foreign currencies, recognised assets and liabilities denominated in foreign currencies and derivative financial instruments. Apart from the Group's exposure to trade receivables and payables and cash denominated in foreign currencies, no other financial assets or liabilities expose the Group to significant foreign exchange risk.

## Instruments used by Group

The Group manages short-term foreign exchange exposure relating to raw material imports (primarily US dollar based), in terms of formal hedging policies. Foreign exchange risk arising from capital imports is hedged in total. The Group uses a foreign exchange forward contract to hedge its exposure to foreign currency risk. Only the spot component of forward contracts is designated as a hedging instrument. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is the forward element, which is recognised in profit or loss.

Refer to note 9 for material forward foreign exchange contracts. Refer to notes on trade and other receivables, trade payables for financial exposure to foreign currency risk.

Refer to note 19 - other gains/(losses) - net for foreign exchange-related amounts recognised in profit or loss for the year.

## 35. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Price risk

The Group is exposed to commodity price risk. The risk arises from the Group's need to buy specific quantities and qualities of raw materials to meet its feed business's requirements. These raw materials include maize and soya bean meal.

The Group uses exchange-for-physical contracts to hedge itself against the price risk of the maize commodity acquired in South Africa. These contracts hedge the future purchase price of raw materials. Settlement of the physical contracts and local futures are effected by physical delivery. The commodity price risk arising from maize and soya bean meal imports are hedged by contracting at a fixed delivered price.

### (iv) Sensitivity analysis

The table below summarises the impact on post-tax profit and equity of changes in market risks relating to the Group's financial instruments exposed to foreign exchange risk.

	2018 R'000	2017 R'000
Change in foreign currency Derivative financial instruments affected by changes in exchange rates include foreign exchange contracts. The summary below reflects the results of an expected change in US dollar of 3% (2017: 3%), British pound of 3% (2017: 3%), Euro of 3% (2017: 3%), Zambian kwacha of 3% (2017: 3%), Ugandan shilling of 3% (2017: 3%) and Mozambican metical 3% (2017: 3%), with all other variables held constant.		
Rand depreciates against foreign currencies  - Increase/(decrease) in profit after income tax		
Trade receivables	259	474
Cash and cash equivalents	1 351	1 147
Trade payables	(141)	(225)
Derivative financial instruments not earmarked for hedging	35	51
<ul> <li>Increase/(decrease) in equity after income tax</li> </ul>		
Derivative financial instruments earmarked for hedging	898	1 088
	2 402	2 535
Change in commodity prices  Derivative financial instruments affected by changes in the commodity prices relate to futures.  The summary below reflects the results of an expected change in the maize price of 2% (2017: 2%), with all other variables held constant.		
Commodity price increase  - Increase in equity after income tax		
Derivative financial instruments earmarked for hedging	1 194	2 833
	1 194	2 833

If these prices would decrease it will result in a decrease in reserves of the same amount.

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## 35. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 35.1 Financial risk factors (continued)

### (b) Credit risk

Financial assets that potentially subject the Group to a concentration of credit risk consist principally of cash and cash equivalents and derivative financial instruments, as well as credit exposure to trade receivables, including outstanding receivables and committed transactions

The Group's credit risk exposure relating to derivative financial instruments is managed on a Group level and are placed with a limited group of creditable financial institutions, all of which have Moody's P-3 short-term credit ratings. A short-term rating of P-3 indicates that the issuer has a strong ability to re-pay short-term debt obligations.

The Group's credit risk exposure relating to trade receivables is managed on a centralised basis. Trade receivables are subject to credit limits, credit control and credit approval procedures. The credit quality of customers is assessed, taking into account its financial position, past experience with the customer and other factors when approving new customers and determining or revising individual credit limits. The utilisation of credit limits is regularly monitored.

The Group insures its South African debtors with Credit Guarantee Insurance. In 2018, 53% (2017: 54%) of the Group's total unimpaired trade debtors have been covered by credit insurance. National customers have a limited risk profile and a national geographical representation. The credit quality of the national customers is considered to be good based on historical default rates. These customers include large national customers in the formal retail sector. The large retail customers as well as other listed companies are assessed as being a low risk of default, and are thus not insured. These customers amounted to approximately 45% (2017: 43%) of trade receivables – net in the reporting period. Of the remaining other customers, 96% (2017: 94%) of the Group's trade receivables – net were insured.

Credit insurance premiums are paid on a monthly basis based on net invoiced sales. The credit policy requires each new customer to be analysed individually for credit worthiness before delivery and payment terms are offered. The Group's risk is limited to 10% of the net invoiced sales to insured debtors. The Group's review includes external ratings where available and, in some cases, bank references. Limits are established for each customer, which represents the maximum trading amount without requiring further approval. These limits are reviewed on an ongoing basis.

Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a cash basis. Customers that default on payments are closely monitored and put on "stop supply" if required.

Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas.

Other receivables consist mainly of prepayments, value-added tax receivable and other debtors. The risk of default is assessed as low.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The credit quality of trade debtors that are neither past due nor impaired, is as follows:

	2018 R'000	2017 R'000
External customer (history of more than six months) – not previously impaired	367 190	353 686
External customer (history of more than six months) - previously impaired - debt repaid	1 126	322
New customers (history less than six months)	5 973	6 250
Total	374 289	360 258
The Group deposits cash surpluses with financial institutions of high quality and standing. The table below shows the cash and cash equivalents allocated in terms of bank rating. These ratings are based on Moody's bank ratings.		
P-3 short-term credit rating	421 784	261 136
Not rated	228	144
Cash on hand	450	189
	422 461	261 469

### 35. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 35.1 Financial risk factors (continued)

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The Group manages its liquidity risk by using reasonable and retrospectively assessed assumptions to forecast the future cash-generating capabilities and working capital requirements of the businesses it operates and by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate. The Group's policy has been to maintain substantial unutilised banking facilities and reserve borrowing capacity.

Surplus cash held by Group treasury over and above the balance required for working capital management is invested in interest-bearing money market deposits with sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At the reporting date, the Group held no short-term bank deposits.

At year-end the Group has a borrowing facility in the form of a debtors, finance facility at one of the major South African banks. Sufficient collateral in the form of trade receivables is provided as security for the debt.

	2018 R'000	2017 R'000
The Group's unutilised borrowing facilities are as follows:		
Total borrowing facilities	242 286	243 957

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed are the contractual undiscounted cash flows.

Maturity analysis of financial liabilities	Not later than 1 year R'000	Between 1 and 2 years R'000	More than 2 years R'000
30 September 2018			
Capital and interest – total			
Borrowings excluding bank overdrafts and call loans	(615)	(615)	(12 561)
Trade and other payables	(368 003)	-	_
Other derivative financial instruments	(1 127)	-	(1 127)
	(369 745)	(615)	(13 688)
30 September 2017			
Capital and interest – total			
Borrowings excluding bank overdrafts and call loans	(615)	(615)	(13 176)
Trade and other payables	(283 184)	_	-
	(283 799)	(615)	(13 176)

Note: Financial liabilities do not include provisions, accrual for 13th cheque, deferred revenue, accrual for leave and VAT amounts payable.

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## 35. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 35.2 Capital risk management

The Board's policy is to maintain a strong capital base to ensure the Group continues as a going concern in order to provide returns for shareholders and benefits for other stakeholders. When allocating capital the Group's target is to achieve a return on invested capital in excess of its weighted average cost of capital.

	2018 R'000	2017 R'000
Net debt* Total equity (as shown in the statement of financial position)	6 227 1 854 391	6 318 1 691 645
	0.34%	0.37%

<sup>\*</sup> Cash and cash equivalents exceed borrowings. Cash and cash equivalents are not deducted for ratio calculation.

#### 35.3 Fair value measurement

All financial instruments measured at fair value are classified using a three-tiered fair value hierarchy that reflects the significance of the inputs used in determining the measurement. The hierarchy is as follows:

#### Level 1

Fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities at the end of the reporting period. No financial assets have been classified as level 1.

### Level 2

Fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

### Level 3

Fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value at:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
30 September 2018				
Assets measured at fair value				
Biological assets				
- Livestock	-	-	332 058	332 058
Total	-	-	332 058	332 058
Liabilities measured at fair value				
Derivative financial instruments				
- Foreign exchange contracts	-	1 127	-	1 127
Total	-	1 127	-	1 127
30 September 2017				
Assets measured at fair value				
Derivative financial instruments				
- Foreign exchange contracts	_	1 876	_	1 876
Biological assets				
- Livestock	_	-	299 345	299 345
Total	_	1 876	299 345	301 221

There were no transfers between any levels during the year, nor were there any significant changes to the valuation techniques and inputs used to determine fair values.

## 35. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 35.3 Fair value measurement (continued)

### Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The Group uses a variety of methods that makes assumptions that are based on market conditions existing at the reporting date. Quoted market prices or dealer quotes for similar instruments are used for derivative financial instruments. The fair value of foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

## Financial instruments in level 3: Biological assets

The layer and broiler livestock and agricultural produce are measured at fair value which is determined by using unobservable inputs and is categorised as level 3. Fair values of livestock held for breeding, layer-hens, broilers and hatching eggs are determined with reference to market prices of livestock of similar age, breed and genetic material.

The fair value of the layer birds, which include rearing and layer livestock, are determined by the market prices of day-old chicks, point of lay hens and culls. These are the only selling points during the life cycle of the bird. The fair value of the layer birds are determined by their age at the different stages in the life cycle.

The fair value of broiler livestock is determined by the market prices of day-old chicks and live birds at slaughter age. These are the only selling points during the life cycle of the bird. The fair value of the broiler livestock are determined by their age at the different stages in the lifecycle.

The market prices used in the valuation is based on actual selling prices realised by the Group.

Changes in the fair value are included in profit or loss, with a profit of R774 698 (2017: profit of R17 425 724) being recognised as the unrealised fair value adjustment in profit or loss in the current period to adjust the biological asset livestock to fair value.

In measuring the fair value of biological assets, the following significant unobservable inputs were used:

## Range of unobservable inputs

Unobservable input	2018	2017
Layer livestock		
Market price of day-old chicks	R8.16 to R8.36	R7.95 to R8.15
Market price of point-of-lay hens	R63.38 to R65.95	R56.61 to R58.74
Market price of culls	R24.00 to R34.40	R27.10 to R35.80
Broiler livestock		
Market price of day-old chicks	R4.58 to R4.78	R4.30 to R4.50
Market price of live birds	R22.84 to R23.24	R20.98 to R21.66

### Sensitivity analysis

A sensitivity analysis of a 2% change in the market price, is shown for the significant unobservable inputs below:

Input	Sensitivity
Day-old chick market prices	A change in market price would result in a R0.6 million (2017: R0.6 million) change in the fair value of poultry livestock.
Point-of-lay hens market price	A change in the market price would result in a R2.3 million (2017: R2.4 million) change in the fair value of laying hens.
Cull market prices	A change in the market price would result in a R0.8 million (2017: R0.6 million) change in the fair value of laying hens.
Live bird market prices	A change in the market price would result in a R1.0 million (2017: R0.7 million) change in the fair value of broiler livestock.

The effect of an increase in market prices will result in an increase in the fair value of the livestock.

The carrying amounts of cash and cash equivalents, trade and other receivables less provision for impairment, trade and other payables and short-term borrowings are assumed to approximate their fair values due to the short-term maturity of these assets and liabilities.

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### 36. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed on a regular basis by the CODM in order to make strategic decisions.

Reportable segments are divided into the following:

- Eggs
- Farming
- Animal feeds
- Other African countries
- Head office costs

Quantum Foods comprises eggs, broiler and layer farming and animal feeds in South Africa and the businesses of Quantum Foods Zambia Ltd, Quantum Foods Uganda Ltd and Quantum Foods Mozambique, S.A.

The nature of the Quantum Foods Zambia, Quantum Foods Uganda and Quantum Foods Mozambique businesses operations are predominantly the production of animal feeds and the production and sale of commercial eggs and day-old chicks. These three entities are aggregated for segmental reporting as these entities are similar in nature.

The eggs business is the commercial egg business, which consist of the sale of ungraded eggs and the processing of eggs in the pack stations and distribution thereof, to the market.

The layer farming business includes the layer livestock and commercial layer farms. The Broiler farming business includes the broiler livestock and commercial broiler farms.

The broiler farming and layer farming operating segments are aggregated for segment reporting. Both operations have similar risk profiles, being the production risk inherent to live bird farming. The exposure of these operations to market risk is very low.

The segment results disclosed per segment below are the CODM's measure of each segment's operational performance. The measure represents operating profit as per the statement of comprehensive income.

External revenue and all other items of income, expenses, profits and losses reported in the segment report are measured in a manner consistent with that in the statement of comprehensive income.

Segment assets consist of property, plant and equipment, intangible assets, inventories, biological assets, trade and other receivables and derivative financial instrument assets and exclude cash and cash equivalents, investment in associates and deferred and current income tax assets.

Segment liabilities consist of trade and other payables, provisions for other liabilities and charges, and derivative financial instrument liabilities, and exclude current and deferred income tax liabilities.

Segment capital expenditure consists of additions and replacements of property, plant, equipment and intangible assets.

		2018 R'000	2017 R'000
36.	SEGMENT INFORMATION (CONTINUED)		
	Segment revenue	4 121 901	4 051 890
	Eggs	1 206 489	1 051 375
	Farming	1 232 798	1 310 907
	Animal feeds	1 460 387	1 485 255
	Other African countries	222 227	204 353
	Segment results	473 279	170 115
	Eggs	288 612	45 003
	Farming	97 960	65 707
	Animal feeds	68 903	81 227
	Other African countries	31 036	(9 442)
	Head office costs	(13 232)	(12 380)
	A reconciliation of the segment results to operating profit before income tax is provided below:		
	Segment results	473 279	170 115
	Adjusted for:		
	Investment income	24 919	8 066
	Finance costs	(1 116)	(1 665)
	Share of profit of associate company	706	1 095
	Profit before income tax per statement of comprehensive income	497 788	177 611
	Segment assets	2 080 384	1 978 968
	Eggs	236 383	223 079
	Farming	1 050 215	998 376
	Animal feeds	466 655	423 045
	Other African countries	297 413	306 654
	Head office costs	29 718	27 814
	A reconciliation of the segments' assets to the Group's assets is provided below:		
	Segment assets per segment report	2 080 384	1 978 968
	Adjusted for:		
	Investment in associate	8 789	8 083
	Current and deferred income tax assets	3 049 422 461	6 135
	Cash and cash equivalents	422 401	261 469
	Total assets per statement of financial position	2 514 683	2 254 655
	Total segment liabilities	439 733	335 475
	Eggs	71 328	48 255
	Farming	83 708	78 493
	Animal feeds	216 116	150 669
	Other African countries	24 429	17 273
	Head office costs	44 152	40 785
	A reconciliation of the segments' liabilities to the Group's liabilities is provided below:		
	Segment liabilities per segment report	439 733	335 475
	Adjusted for:  Current and deferred income tax liabilities	220 559	227 535
	Total liabilities per statement of financial position	660 292	563 010

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		2018 R'000	2017 R'000
<del>3</del> 6.	SEGMENT INFORMATION (CONTINUED)		
	Total segment capital expenditure (excluding business combinations)	116 032	73 039
	Eggs	9 158	20 432
	Farming	46 194	19 997
	Animal feeds	20 451	14 292
	Other African countries	39 797	16 840
	Head office costs	432	1 478
	Total segment depreciation and amortisation	70 887	62 074
	Eggs	9 315	7 977
	Farming	30 552	28 802
	Animal feeds	14 537	12 109
	Other African countries	16 483	13 186
	Items of a capital nature per segment included in other gains/(losses) - net		
	Profit/(loss) on disposal of property, plant and equipment and intangible assets before income tax	929	20,619
	Eggs	1 943	(1 457)
	Farming	(504)	18 422
	Animal feeds	(510)	3 441
	Other African countries	-	213
	Geographical information  The Group mainly operates in South Africa. Other operations are located in other Africa countries.  Due to the immaterial extent of operations in individual foreign countries in relation to South Africa, these foreign countries were grouped together as a single geographical segment.  Revenue derived by Group companies domiciled in South Africa is classified as revenue from South Africa. Revenue derived by Group companies domiciled in other countries is disclosed as foreign		
	revenue. The same principles apply to segment assets and capital expenditure.	4 121 901	4.051.000
	Segment revenue		4 051 890
	South Africa	3 899 674	3 847 537
	Other African countries	222 227	204 353
	Total segment non-current assets	1 091 867	1 076 838
	South Africa	859 660	839 953
	Other African countries	232 207	236 885
	Total segment capital expenditure (excluding business combinations)	116 032	73 039
	South Africa	76 235	56 199
	Other African countries	39 797	16 840
	Information regarding major customers		
	During the period under review, revenue from certain customers exceeded 10% of Group revenue:		
	Customer A	613 538	673 091
	Customer B	502 792	387 967

Revenue from these customers are reported within all operating segments except other African countries.

### 37. RETIREMENT BENEFITS

The Group contributes to retirement and provident funds for all its South African employees which are administered by several service providers. These retirement and provident funds are defined contribution plans which are arranged and governed by the Pension Fund Act of 1956, and no actuarial valuation is required.

## 38. EVENTS AFTER THE REPORTING PERIOD

#### Dividend

A final dividend of 70 cents (2017: 34 cents) per ordinary share has been approved and declared by the Board for the year ended 30 September 2018, on 28 November 2018. This will only be reflected in the statement of changes in equity in the next reporting period.

An interim dividend of 20 cents per ordinary shares was declared and paid during the year.

Additional information disclosed:

These dividends are declared from income reserves and qualify as a dividend as defined in the Income Tax Act, Act 58 of 1962.

Dividends will be paid net of dividends tax of 20%, to be withheld and paid to the South African Revenue Service by the Company. 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 entitled to a reduced rate as a result of the double taxation agreement between South Africa and the country of domicile of such owner.

The net dividend amounts to 56 cents per ordinary share for shareholders liable to pay dividends tax. The dividend amounts to 70 cents per ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares is 210 529 716 as at the date of this declaration.

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

## 39. GOING CONCERN STATEMENT

The Board has a reasonable expectation that the Group and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and continue adopting the going concern basis in preparing the financial statements.

for the year ended 30 September 2018

## 40. REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS

	Basic salary R'000	Travel allowances R'000	Bonuses and incentives R'000	Retirement fund contributions R'000	Long-term incentives R'000	Directors' fees R'000	Total R'000
30 September 2018							
Executive directors							
HA Lourens	2 995	62	3 121	327	375	_	6 880
AH Muller	1 862	88	1 491	207	254	-	3 902
Total executive directors	4 857	150	4 612	534	629	-	10 782
Non-executive directors							
WA Hanekom	_	_	_	_	_	402	402
N Celliers	_	_	_	_	_	266	266
Prof. ASM Karaan	_	_	_	_	_	318	318
PE Burton	_	_	_	_	_	344	344
GG Fortuin	-	-	-	-	-	266	266
Total non-executive directors	-	-	-	-	-	1 596	1 596
Total directors	4 857	150	4 612	534	629	1 596	12 378
Prescribed officers HE Pether	1 092	78	922	185	_	-	2 277
30 September 2017 Executive directors							
HA Lourens	2 698	62	1 516	294	_	_	4 570
AH Muller	1 635	88	707	183	_	-	2 613
Total executive directors	4 333	150	2 223	477	-	-	7 183
Non-executive directors							
WA Hanekom	_	_	_	_	_	338	338
N Celliers	_	_	_	_	_	247	247
Prof. ASM Karaan	_	_	_	_	_	293	293
PE Burton	_	_	_	_	_	294	294
GG Fortuin	_	-	-	-	-	247	247
Total non-executive directors	_	_	-	_	_	1 419	1 419
Total directors	4 333	150	2 223	477	_	1 419	8 602
Prescribed officers HE Pether	1 013	78	475	173	_	_	1 739

## 40. REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS (CONTINUED)

Directors' share appreciation rights ("SARs")

Executive directors		Number of SARs initially allocated	Date awarded	Exercisable up to date	Strike price Cents	Fair value per SAR at grant date* Cents	Fair value of total SARs granted during the year R'000	Number of SARs redeemed in current year	Share price at date of redemption Cents	Value increase from strike price to price at redemption Cents	Number of SARs not redeemed
Executive directors HA Lourens HA Lourens FA 2015/02/27 2016/02/18 206 258 126 460 375 516 250 634 240 2016/02/18 206 634 240 2280 786 2017/02/23 2023/02/23 309 2280 786 2017/02/23 2023/02/23 309 159 284 474 254 318 570 187 902 2016/02/18 206 159 284 474 254 318 570 656 978 2016/02/18 2022/02/18 266 187 902 510 736 2017/02/23 2023/02/23 309 187 902 510 736 2017/02/23 2023/02/23 309 510 736 656 978 2016/02/18 2022/02/18 266 510 736 656 978 2016/02/12 2024/02/22 391 102 670 656 978 Prescribed officers HE Pether 224 410 2015/02/27 2021/02/27 315 656 978 Prescribed officers HA Lourens 402 570 2016/02/18 2022/02/18 266 402 570 345 174 2018/02/22 2024/02/22 391 102 352 402 570 345 174 2018/02/23 2023/02/23 309 402 570 345 174 2018/02/23 2023/02/23 309 402 570 345 174 2018/02/22 2024/02/22 391 102 352 402 570 345 174 2018/02/23 2023/02/23 309 402 570 345 174 2018/02/23 2023/02/23 309 634 240 2016/02/18 2022/02/18 266 634 240 2016/02/18 2022/02/18 266 634 240 2016/02/18 2022/02/18 266 634 240 2016/02/18 2022/02/18 266 634 240 2016/02/18 2022/02/18 266 634 240 2016/02/18 2022/02/18 266 187 902 2016/02/18 2023/02/23 309 91 2076 187 902 2016/02/18 2023/02/23 309 91 465 187 902 2016/02/18 2023/02/23 309 91 465 187 902 2016/02/18 2023/02/23 309 91 465 187 902 2016/02/18 2023/02/23 309 91 465 187 902 2016/02/18 2023/02/23 309 91 465 187 902 2016/02/18 2023/02/23 309 91 465 187 902 2016/02/18 2023/02/23 309 91 465	30 September										
634 240 2016/02/18 2022/02/18 266	Executive directors										
2 280 786 2017/02/23 2023/02/23 309	HA Lourens	774 376	2015/02/27	2021/02/27	315	_	-	258 126	460	375	516 250
AH Muller  AT7 854 2015/02/27 2021/02/27 315 159 284 474 254 318 570  187 902 2016/02/18 2022/02/18 266 187 902  510 736 2017/02/23 2023/02/23 309 510 736  656 978 2018/02/22 2024/02/22 391 102 670 656 978  Prescribed officers  HE Pether  AU2 410 2015/02/27 2021/02/27 315 224 410  122 190 2016/02/18 2022/02/18 266 122 190  402 570 2017/02/23 2023/02/23 309 122 190  402 570 2017/02/23 2023/02/23 309 122 190  402 570 2017/02/23 2023/02/23 309 402 570  345 174 2018/02/22 2024/02/22 391 102 352 345 174  30 September  2017  Executive directors  HA Lourens  774 376 2015/02/27 2021/02/27 315 634 240  2 280 786 2017/02/23 2023/02/23 309 91 2 076 634 240  2 280 786 2017/02/23 2023/02/23 309 91 2 076 2 280 786  AH Muller  477 854 2015/02/27 2021/02/27 315 634 240  2 280 786 2017/02/23 2023/02/23 309 91 2 076 187 902  510 736 2016/02/18 2022/02/18 266 187 902  510 736 2016/02/18 2022/02/18 266 187 902  510 736 2016/02/18 2022/02/18 266 187 902  510 736 2017/02/23 2023/02/23 309 91 465 510 736  Prescribed orificers  HE Pether  BEPether  AU2 410 2015/02/27 2021/02/27 315 510 736		634 240	2016/02/18	2022/02/18	266	-	-	-	-	-	634 240
AH Muller  477 854 2015/02/27 2021/02/27 315 159 284 474 254 318 570 187 902 2016/02/18 2022/02/18 266 187 902 510 736 2017/02/23 2023/02/23 309 510 736 656 978 2018/02/22 2024/02/22 391 102 670 510 736 officers  HE Pether  224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 122 190 402 570 2017/02/23 2023/02/23 309 402 570 345 174 2018/02/22 2024/02/22 391 102 352 345 174  30 September 2017  Executive directors  HA Lourens  774 376 2015/02/27 2021/02/27 315 634 240 2280 786 2017/02/23 2023/02/23 309 91 2076 2280 786 AH Muller  477 854 2015/02/27 2021/02/27 315 634 240 2280 786 2017/02/23 2023/02/23 309 91 2076 2280 786 AH Muller  477 854 2015/02/27 2021/02/27 315 187 902 2016/02/18 2022/02/18 266 187 902 2016/02/18 2022/02/18 266 187 902 2016/02/18 2022/02/18 266 187 902 2016/02/18 2022/02/18 266 510 736 2017/02/23 2023/02/23 309 91 465 510 736 2017/02/23 2023/02/23 309 91 465 224 410 2015/02/27 2021/02/27 315 510 736 2017/02/23 2023/02/23 309 91 465 510 736 2017/02/23 2023/02/23 309 91 465 510 736 2017/02/23 2023/02/23 309 91 465 510 736 2017/02/23 2023/02/23 309 91 465 224 410 2015/02/27 2015/02/27 315 510 736 2017/02/23 2023/02/23 309 91 465 510 736 2017/02/23 2023/02/23 309 91 465 510 736 2017/02/23 2023/02/23 309 91 465		2 280 786	2017/02/23	2023/02/23	309	-	-	-	-	-	2 280 786
187 902 2016/02/18 2022/02/18 266		2 267 972	2018/02/22	2024/02/22	391	102	2 313	-	-	-	2 267 972
Frescribed officers HE Pether    224 410   2015/02/27   2021/02/27   315	AH Muller	477 854	2015/02/27	2021/02/27	315	_	_	159 284	474	254	318 570
Prescribed officers HE Pether 224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 122 190 402 570 2017/02/23 2023/02/23 309 402 570 345 174 2018/02/22 2024/02/22 391 102 352 345 174  30 September 2017  Executive directors HA Lourens 774 376 2015/02/27 2021/02/27 315 634 240 2 280 786 2017/02/23 2023/02/23 309 91 2076 634 240 2 280 786 2017/02/23 2023/02/23 309 91 2076 2280 786  AH Muller 477 854 2015/02/27 2021/02/27 315 477 854 187 902 2016/02/18 2022/02/18 266 187 902 510 736 2017/02/23 2023/02/23 309 91 465 187 902 510 736 2017/02/23 2023/02/23 309 91 465 510 736  Prescribed officers HE Pether 224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 510 736		187 902	2016/02/18	2022/02/18	266	_	_	_	_	_	187 902
Prescribed officers  HE Pether  ### Pether		510 736	2017/02/23	2023/02/23	309	-	-	-	-	-	510 736
Officers HE Pether HE Peth		656 978	2018/02/22	2024/02/22	391	102	670	-	-	-	656 978
122 190	Prescribed officers										
402 570 2017/02/23 2023/02/23 309	HE Pether	224 410	2015/02/27	2021/02/27	315	-	-	-	-	-	224 410
30 September 2017  Executive directors  HA Lourens 774 376 2015/02/27 2021/02/27 315		122 190	2016/02/18	2022/02/18	266	-	-	-	-	-	122 190
30 September 2017  Executive directors  HA Lourens 774 376 2015/02/27 2021/02/27 315 774 376 634 240 2016/02/18 2022/02/18 266 634 240 2 280 786 2017/02/23 2023/02/23 309 91 2 076 2 280 786  AH Muller 477 854 2015/02/27 2021/02/27 315 477 854 187 902 2016/02/18 2022/02/18 266 187 902 510 736 2017/02/23 2023/02/23 309 91 465 510 736  Prescribed officers  HE Pether 224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 224 410		402 570	2017/02/23	2023/02/23	309	-	-	-	-	-	402 570
2017  Executive directors  HA Lourens 774 376 2015/02/27 2021/02/27 315 774 376 634 240 2016/02/18 2022/02/18 266 634 240 2 280 786 2017/02/23 2023/02/23 309 91 2 076 2 2 280 786  AH Muller 477 854 2015/02/27 2021/02/27 315 477 854 187 902 2016/02/18 2022/02/18 266 187 902 510 736 2017/02/23 2023/02/23 309 91 465 510 736  Prescribed officers  HE Pether 224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 224 410		345 174	2018/02/22	2024/02/22	391	102	352	-	-	-	345 174
directors  HA Lourens 774 376 2015/02/27 2021/02/27 315 774 376 634 240 2016/02/18 2022/02/18 266 634 240 2 280 786 2017/02/23 2023/02/23 309 91 2 076 2 2 80 786  AH Muller 477 854 2015/02/27 2021/02/27 315 477 854 187 902 2016/02/18 2022/02/18 266 187 902 510 736 2017/02/23 2023/02/23 309 91 465 510 736  Prescribed officers  HE Pether 224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 122 190	30 September 2017										
634 240 2016/02/18 2022/02/18 266 634 240 2 280 786 2017/02/23 2023/02/23 309 91 2 076 2 2 80 786  AH Muller	Executive directors										
2 280 786 2017/02/23 2023/02/23 309 91 2 076 2 280 786  AH Muller  477 854 2015/02/27 2021/02/27 315 477 854  187 902 2016/02/18 2022/02/18 266 187 902  510 736 2017/02/23 2023/02/23 309 91 465 510 736   Prescribed officers  HE Pether  224 410 2015/02/27 2021/02/27 315 224 410  122 190 2016/02/18 2022/02/18 266 122 190	HA Lourens	774 376	2015/02/27	2021/02/27	315	-	-	-	-	-	774 376
AH Muller		634 240	2016/02/18	2022/02/18	266	_	-	_	-	_	634 240
187 902 2016/02/18 2022/02/18 266 187 902 510 736 2017/02/23 2023/02/23 309 91 465 510 736  Prescribed officers  HE Pether 224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 122 190		2 280 786	2017/02/23	2023/02/23	309	91	2 076	-	-	-	2 280 786
510 736 2017/02/23 2023/02/23 309 91 465 510 736  Prescribed officers  HE Pether 224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 122 190	AH Muller	477 854	2015/02/27	2021/02/27	315	-	-	-	-	-	477 854
Prescribed officers       HE Pether     224 410     2015/02/27     2021/02/27     315     -     -     -     -     -     -     -     224 410       122 190     2016/02/18     2022/02/18     266     -     -     -     -     -     -     -     122 190		187 902	2016/02/18	2022/02/18	266	-	-	-	_	-	187 902
officers       HE Pether     224 410     2015/02/27     2021/02/27     315     -     -     -     -     -     -     -     224 410       122 190     2016/02/18     2022/02/18     266     -     -     -     -     -     -     -     122 190		510 736	2017/02/23	2023/02/23	309	91	465	-	-	-	510 736
HE Pether 224 410 2015/02/27 2021/02/27 315 224 410 122 190 2016/02/18 2022/02/18 266 122 190	Prescribed officers										
	HE Pether	224 410	2015/02/27	2021/02/27	315	_	_	_	_	_	224 410
402 570 2017/02/23 2023/02/23 309 91 366 402 570		122 190	2016/02/18	2022/02/18	266	_	_	_	_	_	122 190
		402 570	2017/02/23	2023/02/23	309	91	366	_	_	-	402 570

<sup>\*</sup> These fair values were calculated using the actuarial binomial option pricing model.

for the year ended 30 September 2018

## 41. DIRECTORS' INTEREST IN SHARES

The direct and indirect interest of the directors in the issued share capital of the Company are reflected in the table below:

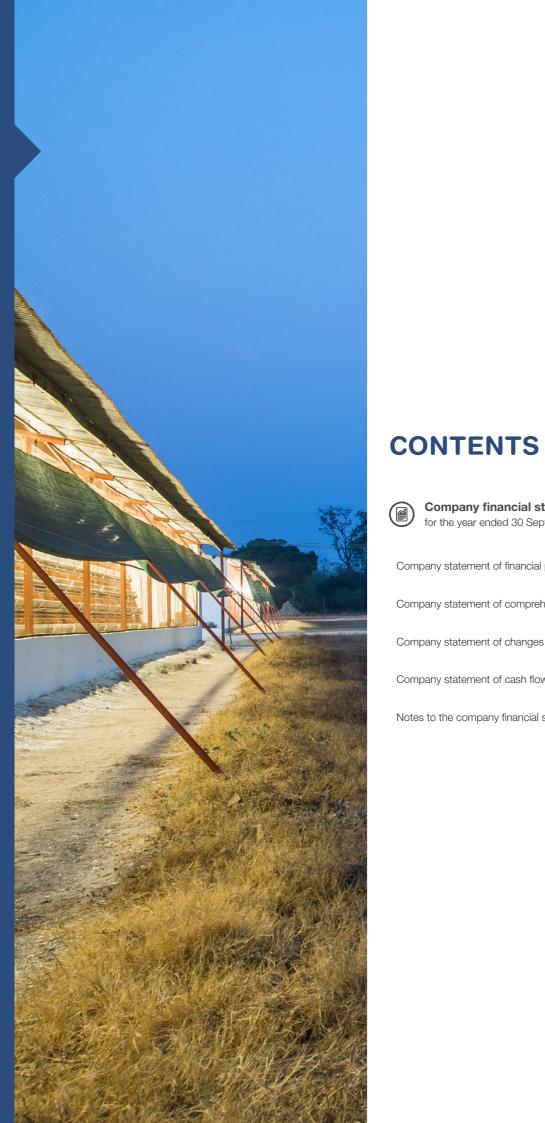
	Number of shares#			% of issued
	Direct	Indirect	Total	ordinary share capital
30 September 2018				
HA Lourens	648 113	-	648 113	0.308
AH Muller	228 364	-	228 364	0.108
WA Hanekom	_	7 524 758	7 524 758	3.574
N Celliers	-	-	-	-
Prof. ASM Karaan	-	86 147	86 147	0.041
PE Burton	-	3 000	3 000	0.001
GG Fortuin	-	-	-	-
	876 477	7 613 905	8 490 382	4.033
30 September 2017				
HA Lourens	580 005	_	580 005	0.261
AH Muller	171 079	_	171 079	0.077
WA Hanekom	-	7 250 048	7 250 048	3.261
N Celliers	-	_	_	_
Prof. ASM Karaan	-	86 147	86 147	0.039
PE Burton	_	3 000	3 000	0.001
GG Fortuin	_	-	-	_
	751 084	7 339 195	8 090 279	3.639

<sup>#</sup> There has been no change in the directors' interest in shares from the end of the financial year to the date of the approval of the annual financial statements.

## 42. SHAREHOLDER INFORMATION

## Shareholder spread

Category	Number of ordinary shareholders	% of shareholders	Number of ordinary shares	% of total ordinary shares
Ordinary shares				
Individuals	2 821	80.4	30 363 152	14.4
Nominees and trusts	326	9.3	9 568 001	4.6
Investment companies and corporate bodies	361	10.3	170 598 563	81.0
	3 508	100.0	210 529 716	100.0
Non-public/public shareholders				
Pursuant to the JSE Listings Requirements and to the best knowledge of the directors, after reasonable enquiry, the spread of shareholders at 30 September 2018, is as follows: Analysis of shareholding – ordinary shares				
Public shareholding				
Major shareholding				
Allan Gray (on behalf of clients)	1	0.0	30 800 857	14.6
Other shareholders	3 500	99.9	109 283 974	51.9
Non-public shareholding				
Major shareholding				
Zeder Investments Ltd	1	0.0	61 620 084	29.3
Other shareholders				
Directors	5	0.1	8 490 382	4.0
Quantum Foods (Pty) Ltd	1	0.0	334 419	0.2
	3 508	100.0	210 529 716	100.0
Distribution of ordinary shareholders				
Number of shares				
1 – 1 000 shares	1 469	41.9	517 107	0.2
1 001 - 10 000 shares	1 171	33.3	4 721 661	2.2
10 001 - 100 000 shares	697	19.9	23 119 697	11.0
100 001 - 1 000 000 shares	136	3.9	34 222 265	16.3
1 000 001 shares and over	35	1.0	147 948 986	70.3
	3 508	100.0	210 529 716	100.0





## **COMPANY STATEMENT OF FINANCIAL POSITION**

as at 30 September 2018

	Notes	2018 R'000	2017 R'000
ASSETS Non-current assets		1 585 386	1 585 386
Investment in subsidiary	3	1 585 386	1 585 386
Current assets		302	94
Cash and cash equivalents		302	94
Total assets		1 585 688	1 585 480
EQUITY AND LIABILITIES Capital and reserves attributable to owners of the parent		1 578 866	1 581 510
Share capital Retained earnings	4	1 500 248 78 618	1 552 670 28 840
Total equity		1 578 866	1 581 510
Current liabilities		6 822	3 970
Dividends payable Trade and other payables Borrowings from related party	5	189 356 6 277	67 135 3 768
Total liabilities		6 822	3 970
Total equity and liabilities		1 585 688	1 585 480

## COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2018

Notes	2018 R'000	2017 R'000
Revenue 6	172 633	42 908
Other income 7	1 276	1 134
Administrative expenses	(2 615)	(1 531)
Other operating expenses	(1 672)	(1 432)
Operating profit	169 622	41 079
Investment income 9	65	144
Profit before income tax	169 687	41 223
Income tax expense 10	-	_
Profit for the year	169 687	41 223
Other comprehensive income for the year	-	_
Total comprehensive income for the year	169 687	41 223
Profit for the year attributable to owners of the parent	169 687	41 223
Total comprehensive income for the year attributable to owners of the parent	169 687	41 223

## COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2018

	Share capital R'000	Retained earnings R'000	Total R'000
Balance as at 1 October 2016	1 581 402	1 446	1 582 848
Shares repurchased and cancelled	(28 732)	_	(28 732)
Comprehensive income:			
Profit for the year	_	41 223	41 223
Dividends paid – net	-	(13 829)	(13 829)
Balance as at 30 September 2017	1 552 670	28 840	1 581 510
Balance as at 1 October 2017	1 552 670	28 840	1 581 510
Shares repurchased and cancelled	(52 422)	-	(52 422)
Comprehensive income:			
Profit for the year	-	169 687	169 687
Interim dividend for 2018	-	(44 322)	(44 322)
Final dividend for 2017	-	(75 587)	(75 587)
Balance as at 30 September 2018	1 500 248	78 618	1 578 866
All i			

## COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 September 2018

	Notes	2018 R'000	2017 R'000
CASH FLOW FROM OPERATING ACTIVITIES		(2 790)	(1 694)
Cash loss from operating activities Working capital changes	12 13	(3 011) 221	(1 829) 135
CASH FLOW FROM INVESTING ACTIVITIES		172 698	43 052
Interest received Dividends received	9	65 172 633	144 42 908
Cash surplus		169 908	41 358
CASH FLOW FROM FINANCING ACTIVITIES		(169 700)	(41 341)
Loan received from related party Loan repaid to related party Shares repurchased Dividends paid to ordinary shareholders	5 5 4 14	3 970 (1 461) (52 422) (119 787)	2 587 (1 376) (28 732) (13 820)
Increase in cash and cash equivalents  Cash and cash equivalents at beginning of year		208 94	17 77
Cash and cash equivalents at end of year		302	94

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 September 2018

		2018 R'000	2017 R'000
1.	ACCOUNTING POLICIES  The Company applies the same principal accounting policies as the Group in the preparation of these financial statements. Refer to note 1 of the Group financial statements.		
2.	CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS  The Company applies the same accounting estimates and judgements as the Group. Refer to note 2 of the Group financial statements.		
3.	INTEREST IN SUBSIDIARIES		
	Cost of shares Quantum Foods (Pty) Ltd	1 585 386	1 585 386
		1 585 386	1 585 386
	The Company holds a 100% interest in the subsidiary listed above.  The subsidiary is incorporated in South Africa.		
4.	SHARE CAPITAL Authorised – ordinary shares 400 000 000 (2017: 400 000 000) ordinary no par value shares Issued and fully paid – ordinary shares 210 529 716 (2017: 222 314 657) ordinary no par value shares	1 500 248	1 552 670
	During the reporting period 11 784 941 (2017: 9 488 659) ordinary shares were repurchased by the Company and cancelled. The shares were repurchased at an average price of R4.45 (2017: R3.03) per share.		
5.	BORROWINGS FROM RELATED PARTY  Loan from Quantum Foods (Pty) Ltd  Beginning of year  Loans advanced during the year  Loans repaid during the year	3 768 3 970 (1 461) 6 277	2 557 2 587 (1 376) 3 768
	End of year  Unsecured interest-free loan with no fixed terms of repayment.	0211	3700
6.	REVENUE Dividends received from Quantum Foods (Pty) Ltd	172 633	42 908
7.	OTHER INCOME Administration fees received from Quantum Foods (Pty) Ltd	1 276	1 134
8.	OPERATING PROFIT  The operating profit is calculated after taking into account other income (refer to note 7), as well as the following:	45	40
	Auditors' remuneration Listing fees and shareholder communication	15 2 566	12 1 119
	Directors' remuneration	1 596	1 427
9.	INVESTMENT INCOME		
	Interest income on call accounts and other	65	144
		65	144

# NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 September 2018

		2018 R'000	2017 R'000
10.	INCOME TAX EXPENSE		
	Current income tax		
	Current year		
		%	%
	Standard rate for companies	28.0	28.0
	Exempt income	(28.5)	(29.1)
	Non-deductible expenditure	0.5	1.1
		-	_
11.	DIVIDEND PER ORDINARY SHARE		
	Interim 20.0 cents (2017: Nil cents) per ordinary share	44 322	-
	Final 70.0 cents (2017: 34.0 cents) per ordinary share	147 371	75 587
		191 693	75 587
	Dividends payable are not accounted for until they have been declared by the board of directors. The statement of changes in equity does not reflect the final dividend payable. The final dividend will be accounted for as an appropriation of retained earnings in the following year. Withholding tax on dividends ("DWT") became effective from 1 April 2012 at a rate of 15%, which rate was increased to 20% from 22 February 2017.		
	The total rand value of the final dividend for the year is an approximate amount. The exact amount is dependent on the number of shares in issue at the record date.		
12.	CASH LOSS FROM OPERATING ACTIVITIES  Reconciliation of profit before tax and cash loss from operating activities:		
	Profit before income tax  Adjusted for:	169 687	41 223
	Dividends received	(172 633)	(42 908)
	Interest received	(65)	(144)
		(3 011)	(1 829)
13.	WORKING CAPITAL CHANGES		
	Increase in trade and other payables	221	135
14.	DIVIDENDS PAID		
	Amounts unpaid at beginning of year	(67)	(58)
	As disclosed in statement of changes in equity	(119 909)	(13 829)
	Amounts unpaid at end of year	189	67
		(119 787)	(13 820)