www.quantumfoods.co.za

Quantum Foods Integrated report 2019

INTEGRATED REPORT 2019

Quantum Foods
is the largest producer of eggs
in South Africa.

Shareholders' diary

Financial year-end	30 September 2020
Annual general meeting	21 February 2020

REPORTS

Interim report for the half-year ending 31 March 2020	May 2020
Announcement of results for the year ending 30 September 2020	November 2020
Integrated report for the year ending 30 September 2020	December 2020

DIVIDENDS

Interim	Announcement	May 2020
	Payment	June 2020
Final	Announcement	November 2020
	Payment	January 2021

GREYMATTER & FINCH # 13350

Contents

Our brands

QUANTUM FOODS

Bellevue Chix

Safe Foods

Nulaid

Quantum Nest Eggs

NOVA FEEDS · VOERE

MEGA

TYDSTROOM POULTRY

BERGVLEI CHICK

GALOVOS

Investment case

BALANCED AND OPTIMISED PORTFOLIO

- Quantum Foods reduced its exposure to the cyclical nature of the poultry industry by exiting the broiler meat market in 2016.
- The Group is 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 seventh consecutive year.
- A strong market position with growth potential in animal feeds, livestock and eggs.

AFRICA GROWTH TRACTION AND PROSPECTS

- Proven track record of success in Africa – operating in Zambia and Uganda for over 20 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 7% to
R4 418 million
Increased revenue from feeds, farming and other African operations offset lower revenue from eggs

Headline earnings decreased from R361 million to
R189 million
The egg business benefited from the effects of an outbreak of Avian Influenza ("AI") in 2017 to achieve exceptional earnings in 2018. Earnings from eggs decreased substantially in 2019

Earnings per share decreased from 164.3 cents to
92.6 cents
Shares in issue decreased following a further share repurchase in 2019, which benefited earnings per share

Headline earnings per share decreased from 163.9 cents to
92.3 cents
Shares in issue decreased following a further share repurchase in 2019, which benefited headline earnings per share

An interim dividend of **8 cents** per share was declared in May 2019 from 20 cents in 2018

The total dividend per share decreased to **33 cents** from 90 cents in 2018

Nulaid received the **2019/2020** Ask Africa Icon Brand Surveyor egg category award

Number of employees increased from 2 295 in 2018 to **2 457** in 2019

10 505 000 shares were repurchased and cancelled during 2019

8 083 426 shares were purchased as treasury shares during 2019

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

About 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.

This report was compiled using the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV")* and the International Integrated Reporting Council's ("IIRC's") Integrated Reporting <IR> Framework. It provides financial and non-financial performance data on the Group's business activities in all its operating geographies. This includes South Africa, Mozambique, Uganda and Zambia as well as all of the Group's subsidiaries.

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 Group adjusted its broiler farming business model in May 2019. The change impacts the Group's operations in Gauteng and the North West, where grown broilers were previously reared and supplied to Sovereign Foods in terms of a long-term supply agreement. Going forward, the Group will supply day-old chicks and broiler feed to Sovereign Foods, which then takes over the rearing process. This reduces the Group's farming risk and creates improved supply chain optimisation opportunities for Sovereign Foods.

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").

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.

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 enriched 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 2019 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 2018 to 30 September 2019.

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.

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer

NAVIGATIONAL ICONS

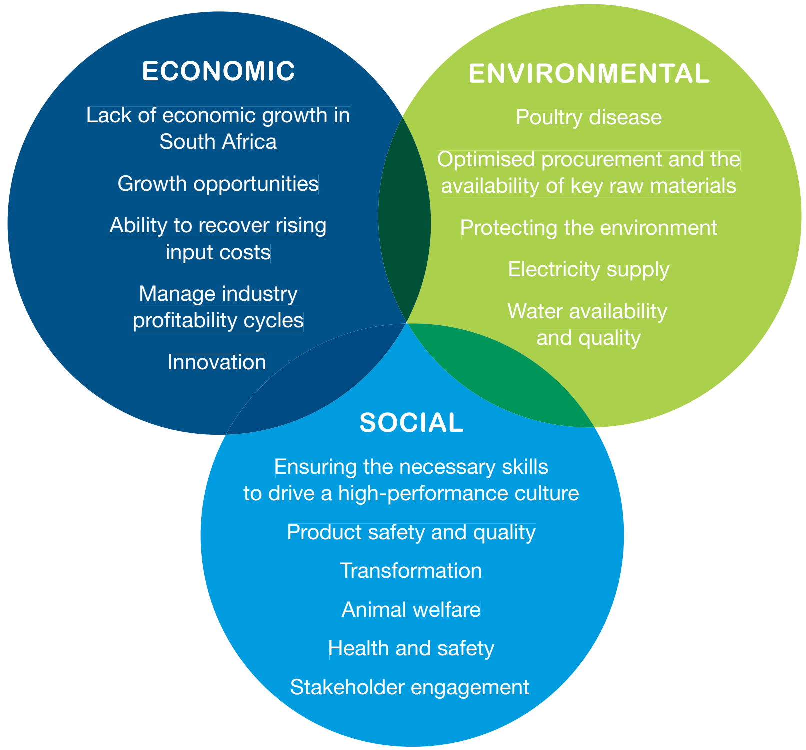
This icon refers to where additional information can be found in this report.

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

Material matters

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 are integral to the execution of the Group's strategy.

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 and are linked to our strategic themes and the risks faced by the Group.



More information is available throughout this report, as referenced. Insight into our strategic themes and risks is available from page 30.

Material matter	Context	Business response and opportunities
ECONOMIC		
Lack of economic growth in South Africa	Poor economic growth in South Africa negatively impacts consumer demand and limits the Group's ability to grow.	Eggs and chicken remain the most affordable animal protein products for human consumption. While this presents growth opportunities for the Group, expansion of its South African production capacity must be balanced against the economic growth projections for the country.
Growth opportunities	The Group's experience, expertise and footprint in Africa enable it to identify and realise growth opportunities in the table eggs, livestock and feed value chains across the continent. *Read more on page 27.*	Higher raw material prices can impact overall profitability. However, profitability is less cyclical in the Group's feed and livestock businesses as selling prices are more easily adjusted in line with changes in production costs. 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. Egg markets in other African countries are less concentrated and further investments were made in Zambia and Uganda during 2019 to expand the production capacity supplying these markets. *Read more on page 27.*
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. 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, the cost of production (of which feed is the main contributor). These dynamics result in cyclical profitability due to varying margins and the risk of being unable to recover fluctuating raw material costs in final product prices. *Read more on page 24.*	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, which reduces the cost of production and improves profitability.

Material matter	Context	Business response and opportunities
ECONOMIC		
Manage industry profitability cycles	Poultry companies are significantly exposed to changes in the cost of feed raw materials, which are impacted by: • crop growing conditions; • the value of the currency; and • product pricing in a market where supply and demand dynamics rather than production costs impact the prices that can be achieved. The Group's main exposure is in the egg business.	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. During the year, 75% of Group revenue (2018: 71%) was generated by the feeds, farming and other African operations. 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 – underpinned by operational excellence and cost management.
Innovation	For the Group to diversify, grow and sustain its margins, it should develop products that cater for customers and markets. Innovation and providing optimal feed solutions to customers are important to mitigate the risk of increased competition.	Feed formulation for optimal animal nutrition is a particularly technical field with many opportunities to innovate. In the Group's broiler and egg businesses, innovation is focused on enhancing farming practices to optimise livestock health and production efficiencies. These activities support the strategic themes of customer and product focus and operational excellence. The Group entered into an agreement with Nutreco that provides access to world-class research and will assist in ensuring optimal feed formulation.
ENVIRONMENTAL		
Poultry disease	Outbreaks of poultry disease can significantly impact the productivity, efficiency and financial performance of the Group's farming operations. The outbreak of highly pathogenic 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 and none in 2019, the risk remains high. *Read more on page 24.*	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. The Group has also invested in improved biosecurity at farms to specifically reduce AI risk. This supports the strategic theme of operational excellence.
Optimised procurement and the availability of key raw materials	The cost and availability of key raw materials required for animal feeds production are an ongoing concern. In particular, 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. *Read more on page 24.*	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.

Material matter	Context	Business response and opportunities
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. 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. *Read more on page 46.*	The Group has implemented various initiatives to reduce wastage of water and reduce electricity consumption generated from non-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 47.*
Electricity supply	The Group depends on an adequate and stable supply of electricity throughout its operations. An interrupted electricity supply mostly impacts the Group's feed mills, which are not equipped with standby generators and therefore cannot manufacture feed during periods of interruption. It further affects the efficiency and operating costs of facilities equipped with standby generators during periods of load shedding.	To supplement electricity supplied by Eskom, the Group invested in several solar electricity projects at its egg packing stations – thereby reducing its demand on the national grid. The Group will consider equipping feed mills with backup generators in the 2020 financial year to maintain critical manufacturing capability and ensure a continued supply of feed to animals during periods of interruption.
Water availability and quality	To sustain a healthy agricultural business, the Group is dependent on continuous access to high-quality water across its operations, particularly in its poultry operations. 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 2019. *Read more on page 47.*	Water supply and quality are key to achieving optimal production efficiencies, without which operational excellence will not be possible. The Group therefore 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	The business requires rare skill sets. This is particularly relevant in the farming operations and egg business, where succession and the external appointment of suitably skilled candidates can be challenging. Attracting and retaining talented employees who can drive an optimal performance culture is therefore a priority for the Group. *Read more on page 50.*	The Group strengthened its management teams through further key appointments made in 2019. This will ensure the Group is able to deliver on its strategic theme to have optimal people capacity and culture. The Group continued its internship programme during the year. *Read more on page 50.*

Material matter	Context	Business response and opportunities
SOCIAL		
Product safety and quality	The Group produces products for human and animal consumption. Quantum Foods must therefore adhere to strict food safety protocols to retain its licence to operate. *Read more on page 46.*	The Group has stringent quality control processes in place and a dedicated consumer feedback channel is actively monitored to ensure any issues that arise are attended to swiftly and professionally. Producing products according to required standards and any additional specifications from customers supports the Group's strategic theme to ensure it retains its customer and product focus.
Transformation	Quantum Foods recognises its obligation to contribute towards improving the socio-economic status of historically disadvantaged South Africans ("HDSAs"). The Group also appreciates the benefit to stakeholders of introducing increased levels of diversity throughout its management structures. *Read more on page 48.*	While the agricultural industry faces many transformation and skills challenges, the Group is committed to identifying and developing new managers and leaders, especially at farm level. The focus remains on transformation with priority pillars that include ownership, management control, skills development, supplier and enterprise development and preferential procurement. On 10 December 2018, an additional female Board member, Tanya Golden, was appointed to enhance race and gender diversity at Board level. A strong focus on transformation was maintained to support our strategic theme to have optimal people capacity and culture.
Animal welfare	Livestock husbandry is critical to the 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 impact on mortality and livestock production. *Read more on page 52.*	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. Optimal livestock husbandry practices and facilities create an environment for improved farming production efficiencies. This supports the Group's strategic theme of operational excellence.
Health and safety	Quantum Foods is committed to ensuring that its operations are conducted in an environment that supports the health and safety of employees and the animals with which they work. *Read more on page 50.*	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 remain a priority. 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.
Stakeholder engagement	Quantum Foods recognises that thorough stakeholder engagement is a key requirement to ensure the sustainability of the business.	The Group considers the reasonable expectations of material stakeholders when conducting its business activities. *Read more on page 64.*

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.

5.4%
of Group revenue from other African operations
(2018: 5.4%)

693 000 tons
of feed supplied
(2018: 656 000 tons)

1 030 million
eggs and egg products sold
(2018: 974 million)

75 million
day-old chicks supplied
(2018: 70 million)

EXTERNAL REVENUE CONTRIBUTION (R'M)

Animal feed	Layer and broiler farming	Eggs	Related businesses on the African continent
1 759	1 325	1 095	239
2018: 1 460	2018: 1 233	2018: 1 206	2018: 222

REVENUE CONTRIBUTION PER BUSINESS

Animal feed	Layer and broiler farming	Eggs	Related businesses on the African continent
40%	30%	25%	5%
2018: 36%	2018: 30%	2018: 29%	2018: 5%

GROUP STRUCTURE

Quantum Foods Holdings Ltd
100%

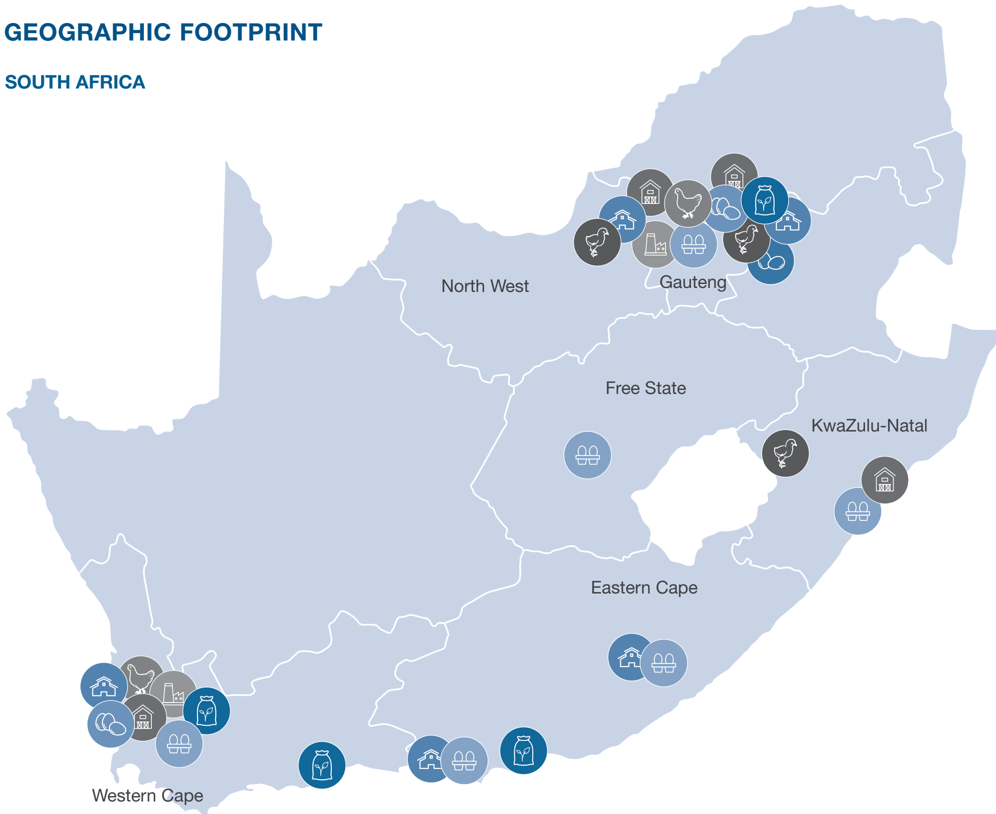
Quantum Foods (Pty) Ltd
100%

Interest is 100% unless otherwise indicated

- Philadelphia Chick Breeders (Pty) Ltd
- Quantum Foods Zambia Ltd
- Quantum Foods Uganda Ltd
- Quantum Foods Mozambique S.A.
- Bergsig Breeders (Pty) Ltd (29.9%)

GEOGRAPHIC FOOTPRINT

SOUTH AFRICA



Animal feeds

Quantum Foods' feed mills are located in the Western Cape (Malmesbury and George), Eastern Cape (Paterson) and Gauteng (Pretoria). The majority of feed volumes produced are sold externally, with the balance being consumed internally by the Group's integrated layer and broiler poultry operations. The majority of external feed sales are to the dairy and poultry markets.

Table eggs

Table eggs are distributed from egg packing stations (located in the Western Cape, Eastern Cape, KwaZulu-Natal, Free State and Gauteng) or sold in ungraded form from egg farms. The majority of table eggs sales are to the retail sector. *Nulaid* also sells liquid egg products to the industrial market.

Layer livestock

Layer livestock constitutes day-old chicks and point-of-lay hens of the Lohmann breed.

Broiler livestock

Day-old broiler chicks of the Cobb500 breed are sold under the *Bellevue Chicks* brand from hatcheries located in the Western Cape and the North West. These chicks are either sold as day-old broiler chicks or as live broilers to third-party abattoirs under the *Tydstroom* brand. Live broilers are produced on a combination of Company-owned and contracted broiler farms.

ZAMBIA

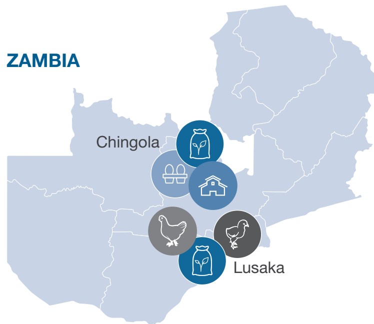


Table eggs

Quantum Foods operates a broiler and layer breeder business (selling day-old chicks) and a table egg business. Both of these facilities sell feed to the external market.

In Lusaka, there is a parent breeding facility, a hatchery and a feed mill. The breeding facility produces day-old pullets and day-old broiler chicks. Day-old pullets are supplied to the Chingola layer rearing farm as well as to the external market, while day-old broiler chicks are all sold. The feed mill supplies the breeding facility and the external market.

UGANDA

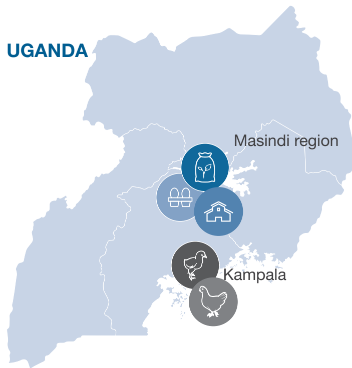


Table eggs

These operations comprise a broiler and layer breeder business, a feed business and a table egg business. The Kampala sites comprise parent breeding facilities and a hatchery. It produces day-old pullets and day-old broiler chicks. The day-old pullets are either transferred to the Masindi layer rearing farm or sold to external customers, while day-old broiler chicks are all sold.

MOZAMBIQUE

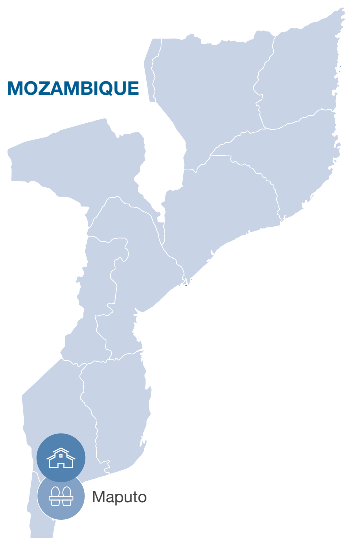


Table eggs

These operations comprise a table egg business that supplies both the retail and informal markets.

Financial performance information

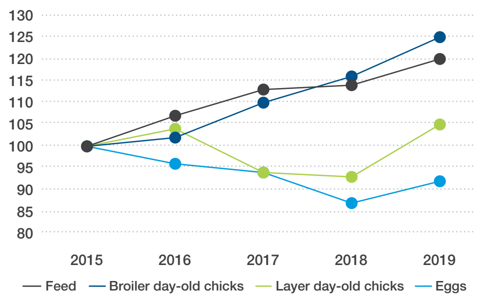
		2015	2016	2017	2018	2019
Earnings						
Revenue	R million	3 468	3 913	4 052	4 122	**4 418**
Operating profit (excluding items of a capital nature)	R million	162	89	149	472	**245**
Operating profit margin (excluding items of a capital nature)	%	4.7%	2.3%	3.7%	11.5%	**5.5%**
Earnings	R million	127	91	128	362	**189**
Headline earnings	R million	126	66	112	361	**189**
Segment operating profit (excluding items of a capital nature)						
Eggs	R million	32	(27)	46	287	**38**
Farming	R million	47	61	47	99	**112**
Animal feeds	R million	66	73	78	69	**89**
Other African countries	R million	25	0	(10)	31	**14**
Head office costs	R million	(7)	(17)	(12)	(13)	**(9)**
Financial position						
Total assets	R million	2 082	2 266	2 255	2 515	**2 514**
Total liabilities	R million	(568)	(670)	(563)	(660)	**(677)**
Total equity	R million	1 514	1 596	1 692	1 855	**1 837**
Net assets*	R million	1 541	1 755	1 658	1 656	**1 859**
Returns						
Return on net assets	%	11%	5%	9%	29%	**14%**
Shareholder returns						
Earnings per share	cents	54.0	39.2	55.7	164.3	**92.6**
Headline earnings per share	cents	54.0	28.2	49.0	163.9	**92.3**
Dividend per share	cents	10.0	6.0	12.0	41.0	**23.0**
Special dividend per share	cents	–	–	22.0	49.0	**10.0**
Dividend cover	cents	5.4	4.7	4.1	4.0	**4.0**
Total dividends declared for the year	R million	23	14	76	192	**79**
Share repurchases	R million	0	4	29	55	**63**
Dividends plus share repurchases as a percentage of headline earnings	%	19%	27%	93%	68%	**75%**
Share statistics (JSE)						
Market value per share at year-end	cents	360	261	300	425	**365**
Closing earnings yield – (headline earnings)	%	15%	11%	16%	39%	**25%**
Closing dividend yield	%	3%	2%	11%	21%	**9%**
Closings price/earnings ratio	times	6.7	9.3	6.1	2.6	**4.0**
Number of shares in issue	'000	233 249	231 803	222 315	210 530	**200 025**
Number of shares issued excluding treasury shares held	'000	233 249	231 803	222 315	210 195	**192 917**
Number of shares traded	'000	107 979	40 357	31 357	24 209	**55 253**
Number of shares traded as a percentage of shares in issue	%	46%	17%	14%	11%	**28%**

Definitions

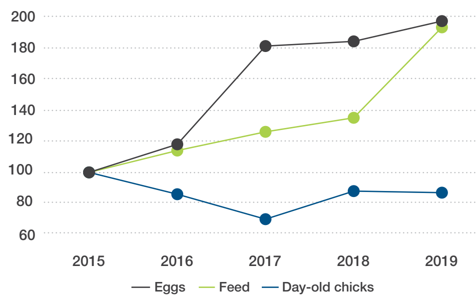
Net assets	Total assets less total liabilities excluding cash and cash equivalents, borrowings, normal and deferred tax.
Return on net assets	Operating profit as a percentage of average net assets
Earnings per share	Net profit for the year divided by the weighted average number of shares in issue during the year (excluding treasury shares)
Headline earnings per share	Headline earnings divided by the weighted average number of shares in issue during the year (excluding treasury shares)
Dividend cover	Headline earnings per share divided by the dividend per share
Closing dividend yield	Dividends per share as a percentage of market value per share at year-end
Closing earnings yield	Headline earnings per share as a percentage of market value per share at year-end
Closing price earnings ratio	Market value per share divided by headline earnings per share at year-end

Non-financial performance information

South African volumes



Other African countries volumes



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;
- day-old chicks or point-of-lay hens to livestock farmers;
- live broilers for processing by customers; and
- feed for animal consumption.

Products are competitively priced and sold under 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	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.
Manufactured	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.
Intellectual	Leading brands, access to world-class poultry genetics and animal feed research, 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.
Human	The skills, expertise and experience of Quantum Foods' employees are critical in creating value.
Social and relationship	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.
Natural	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:

Procurement of raw materials → **Feed**

Feed mills

Feed mills service the Group's internal livestock requirements, as well as the external livestock market.

Animal feeds

Grandparent stock → **Farming**

Poultry farming

Integrated poultry farming for layer livestock, eggs and broiler livestock.

See opposite diagram for detailed value chain.

Commercial egg farming → **Eggs**

Egg packing stations and depots

Eggs are sold in ungraded form from depots, or moved to egg packing stations, where they are graded as table eggs or converted to liquid.

Eggs and liquid

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

Sales to market.

Grandparent stock → **Farming**

Grandparent breeding

Day-old grandparents (Lohmann and Cobb500) are imported. These chicks are reared and bred on the grandparent farms.

Parent stock

Parent breeding

The progeny of grandparents (day-old parents) are moved to the parent farms, where the rearing and breeding process is repeated.

Fertile eggs

Commercial hatchery

Fertilised eggs produced by parent stock are moved to commercial hatcheries where day-old commercial chicks (layer pullet and broiler type) are hatched.

Day-old pullets

Layer-type day-old pullets are reared to point-of-lay hens.

Commercial layer rearing farms

Point-of-lay hens

Point-of-lay hens produce commercial eggs.

Commercial egg farming

Eggs

Day-old chicks

Broiler-type day-old chicks are reared.

Broiler farms (owned and contracted)

Live broilers

Business overview

INDUSTRY FEATURES

Companies operating in the feed and poultry industries in South Africa, Mozambique, Uganda and Zambia experienced challenging trading conditions during the reporting period.

Higher production costs and selling price pressure

Eggs selling prices decreased substantially in South Africa and Mozambique. This can be attributed to increased egg production in South Africa, with the national flock reaching levels well above its size prior to the 2017 AI outbreak. These factors significantly reduced margins achieved by the egg industry.

Feed raw material costs were higher following the lower price levels of the previous year, which was assisted by strong crop yields. Global stock of key raw materials remained sufficient, and lower demand from China due to the mass culling of pigs infected with swine flu further supported relatively low international prices during the year.

Deteriorating electricity supply and poorly maintained municipal infrastructure, which particularly impacted the Group's South African operations, further increased production costs.

Certain industry issues continued

These include, for example, volatile currencies, muted consumer demand due to low levels of economic growth and continued pressure on the South African broiler industry due to dumping by international broiler exporters.

Rand vs US dollar exchange rate

Safex yellow maize Rand per ton

The risk of AI persists

While the devastating effects of AI did not repeat in the reporting period, the risk of outbreak 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 used in other parts of the world but not yet approved by the government for use in South Africa.

Pressure on broiler producers continues

To enable South Africa to remain a beneficiary of the African Growth and Opportunity Act ("AGOA"), the government entered into an agreement with the United States in 2016 that allows for chicken meat to be imported at lower duties. 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 customers that are supplied by the Group could impact Quantum Foods.

Industry trends in the Group's other African operations

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 were impacted by a slow-down in economic growth related to the international commodity cycle, as well as increased raw material costs.

The trading environment in Zambia was further challenged by several factors in 2019. This includes lower levels of political and fiscal stability that led to a substantial weakening of the Kwacha and import inflation. A new employment code was also introduced. While this code increased legislated benefits for employees it resulted in higher employment costs for companies operating in that jurisdiction. The Zambian broiler market remains highly competitive following the expansion of mostly South African broiler producers into the country.

Poultry remains a critical source of human nutrition

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 under strain, together with the expected increase in global demand for animal protein, poultry will remain a critical source of human nutrition.

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 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. During 2019, *Nova Feeds* entered into a technology agreement with Nutreco, ensuring access to world-class research and feed formulation benchmarking.

Projects to increase production capacity at the Olifantskop feed mill in Paterson and Pretoria feed mill were completed in 2019. These projects increased the Group's total production capacity by approximately 16%.

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 and distribute next-generation parent stock exclusively in South Africa and non-exclusively to some southern African countries.

Day-old grandparent chicks are imported and placed on the Group's grandparent farm in the North West. Next generation parent day-old chicks are produced at this facility.

Day-old parent chicks are reared and placed on the Group's parent layer farm near Bronkhorstspruit, Gauteng, as well as on a rented facility in KwaZulu-Natal. Fertile hatching eggs are incubated at the Group's commercial hatchery in Bronkhorstspruit. This hatchery has capacity to produce 10.3 million day-old pullets per annum following the completion of an expansion project in 2019 that increased production capacity by approximately 24%. Female day-old chicks are either sold or placed on the Group's six commercial rearing farms.

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

The Group owns 12 commercial layer farms. A rental farm agreement in the Free State was terminated during 2019. The Group now rents one commercial layer farm and an average of 5.8 million dozen eggs were produced per month on these 13 farms in 2019 (2018: 5.6 million). Production increased in 2019 due to the restocking of farms previously affected by AI as well as improved production efficiencies. The farms are located in the Western Cape, Eastern Cape, 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 (2018: 0.4 million). This equates to a total of 900 million eggs per year (2018: 857 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 grandparent chicks are imported and placed on the Group's grandparent farm in the North West. Next-generation parent day-old chicks are produced at this facility.

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 in the Western Cape and North West, with annual capacity of approximately 65 million day-old chicks. 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 785 000 live broilers per week (2018: 834 000), with the majority supplied to Astral and Sovereign Foods in terms of long-term supply agreements. The agreement with Sovereign Foods was changed in May 2019 to an agreement for the supply of day-old broiler chicks and broiler feed. This resulted in increased volumes of day-old chick sales and lower volumes of live broilers supplied per week.

The Group sells broiler hatching eggs and broiler day-old 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, while live broilers are sold under the *Tydstroom* brand.

Eggs

Eggs are processed at six grading and packing facilities located in the Western Cape, Eastern Cape (two), 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 retailer-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

Zambia

Quantum Foods Zambia commenced operations in 1997. Facility expansion was completed in 2019 and increased production capacity by 15%. *Mega* produced 89 million eggs in 2019 (2018: 84 million) and produces feed for consumption on the farm and for sale to external customers.

The distribution capacity of the Zambia business is enhanced by a network of over 30 small retail shops that sell eggs, day-old chicks and feed. The majority of eggs are sold through these shops which ensures easy access for the consumer.

Uganda

Quantum Foods Uganda commenced operations in 2000. The facility produced 17.5 million eggs in 2019 (2018: 17 million) Eggs are either sold directly from the Masindi farm or through a network of small retail shops.

Expansion of the Masindi egg farm from 60 000 to 100 000 layers was completed in 2019. However, due to recurring disease at the Kampala breeding facility, and to ensure sufficient eradication, the additional poultry houses at Masindi were used to temporarily relocate the Ugandan breeder operation in 2019. Expected benefits of increased egg production capacity at Masindi were therefore postponed to the 2020 financial year.

Previously, broiler and layer parent stock were housed on the Kampala breeding facility. To reduce biosecurity risk going forward, land was acquired in 2019 to build a new layer breeder farm that will separate production from the broiler breeders.

Mozambique

Quantum Foods Mozambique acquired a layer farm in Maputo in September 2016. The farm produced 29 million eggs in the past year (2018: 25.7 million). The increase was due to improved production on the farm following increased management focus on farming practices and an increase in capacity utilisation. Feed is procured from a third party, and the farm is stocked with point-of-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 2019

Business focus area	Management focus area	Key actions undertaken during the year	Achieved
Animal feeds	Successfully complete expansion projects at Olifantskop and Pretoria feed mills.	Both projects were completed successfully and commissioned in the last quarter of 2019.	✓
	Increase contribution from external sales.	External sales volumes increased by 7% from 2018. About half of this increase is due to the change in the Group's broiler farming business model. *Read more on page 26.*	✓
Farming	Improve layer farm productivity and contain non-feed cost per unit.	Layer farm productivity improved and non-feed cost per unit was lower than the previous year.	✓
	Ensure world-class broiler farm results at breeder and commercial broiler level.	Commercial broiler performance remained world class, especially in the Western Cape. However, performance at breeder level remained depressed. This was despite changes made to husbandry practices. Looking ahead, the Group does not foresee a return to targeted productivity levels in the short term.	Partial
	Increase broiler livestock volumes.	Volumes of day-old broiler chicks produced increased by 7.2% from 2018. Lower volumes are sold as live broilers following the change in the Group's broiler farming business model. *Read more on page 26.*	✓
Eggs	Remain the leading fully integrated egg business in South Africa.	*Nulaid* was again awarded the status as the best egg brand in South Africa.	✓
	Maintain the operational efficiencies achieved in 2018.	Operational efficiencies achieved in the egg packing stations improved from 2018 and were at world class levels in 2019.	✓
	Improve profitability through industry cycles.	Improved operational efficiencies and sales strategies resulted in more resilient earnings from eggs.	✓
Africa	Pursue organic growth in all product categories.	Volumes in Zambia and Mozambique increased in all product categories. In Uganda, egg and feed sales increased. However, due to a temporary relocation of the Kampala Breeder farm that impacted productivity, day-old chick sales were lower than in 2018.	Partial
	Investigate additional territories to expand into through acquisitive growth opportunities	Additional territories are being investigated but not yet implemented.	In process
B-BBEE	Achieve B-BBEE compliance with the amended AgriBEE Sector Code	New supplier and enterprise development initiatives have been implemented. The Group places a continued focus on the transformation outcomes of its procurement and recruitment activities. *Read more on page 51.*	Achieved

2020 MANAGEMENT FOCUS AREAS

Business focus area	Management focus area
Animal feeds	• Achieve targeted earnings from the expansion projects completed in 2019 at Olifantskop and Paterson. • Increase contribution from external sales.
Farming	• Improve broiler farm results at breeder level. • Maintain commercial broiler farm production results in the Western Cape. • Increase day-old broiler chick volumes. • Achieve targeted earnings from the expansion of the day-old pullet hatchery at Bronkhorstspruit. • Improve commercial layer farm production results.
Eggs	• Remain the leading fully integrated egg business in South Africa. • Maintain the operational efficiencies achieved in 2019.
Africa	• Improve operating margin.
Other	• Improve B-BBEE compliance with the amended AgriBEE Sector Code. • Maintain operating cost increases in South Africa below consumer price index ("CPI") on a per unit basis.

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.

Quantum Foods has proved to be sustainable, with well-established business focus areas. The following strategic themes were developed in 2018 and will guide Quantum Foods' performance for a period of three to five years:

- Profitable growth through industry cycles
- Customer and product focus
- Operational excellence
- Optimal people capacity and culture

The strategic themes were reviewed in 2019. The fourth theme, which was previously 'enhance and maintain a performance culture', was subsequently amended to ensure a wider focus on the contribution of human capital to achieve business objectives. The remaining three themes were unchanged.

Performance initiatives and targets are set per strategic theme. These initiatives and targets were approved at the annual Board strategy meeting. Actual performance against the targets set in the previous year was evaluated at this strategy meeting. These performance initiatives and targets cascade 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 outlines the Group's strategic themes, which guided Quantum Foods' performance initiatives in 2019:

Performance initiative	Achieved in 2019	Going forward
Strategic theme: Profitable growth through industry cycles		
Achieve targeted additional profit from feed mill capacity expansion	Feed mill expansion projects commissioned in the last quarter of 2019.	Achieve targeted earnings from the capacity expansion to improve profitability from the less cyclical feeds business.
Achieve targeted additional profit from day-old pullet hatchery expansion (new)	Expansion project completed.	This performance initiative was added to ensure management focus on achieving targeted earnings from the capacity expansion to improve profitability from the less cyclical layer livestock business.
Maintain broiler livestock volumes supplied to customer abattoirs	In the Western Cape, broiler livestock volumes supplied to customer abattoirs increased by 3.0%. Broiler livestock volumes supplied in Gauteng and North West declined due to a change in the long-term supply agreement with Sovereign Foods.	Maintain profitability from the less cyclical broiler farming business conducted in the Western Cape.
Increase day-old broiler chick volumes (new)	Volumes increased by 7.2% from 2018.	This performance initiative was added following the change in the business model for Broilers North, whereby only day-old chicks are produced rather than day-old chicks and broilers. This will help improve profitability from the less cyclical broiler livestock business.
Judicious feed raw material procurement	Targeted feed raw material costs achieved.	Maintain cost competitiveness of key input costs – this includes the cost of maize and soybean meal, which are the largest contributors to total feed costs.
Achieve targeted operating margin in other African countries	Operating margin was below the target set for 2019. Performance was impacted by weaker trading conditions in Mozambique, Uganda and Zambia. Additional costs incurred and revenue lost in Uganda due to the temporary relocation of the breeder farm operations to the Masindi egg farm further impacted performance. *Read more on page 27.*	Improve Group operating margin by achieving targeted profitability from businesses outside South Africa, which traditionally achieve margins higher than in South Africa.

Performance initiative	Achieved in 2019	Going forward
Strategic theme: Customer and product focus		
Supply products within specification	Achieved throughout the year.	Maintain optimal product performance and ensure satisfied customers and consumers.
Contract additional customers with livestock and feed (removed for 2020)	Additional customers secured with a product offering that included livestock and feed.	This performance initiative was removed for 2020 as it is embedded within the business.
Implement customer days for layer livestock (removed for 2020)	Customers days were successfully implemented.	This performance initiative was removed for 2020 as it is embedded within the business.
Consider geographic distribution of egg sales (new)		This performance initiative was added for 2020 due to the anticipated increase in eggs available for sale. This will help the Group achieve optimal profitability from egg sales.
Strategic theme: Operational excellence		
Manage operational costs per unit below inflation	Achieved.	Ensure increases in operating costs are contained.
Improve layer farm production efficiency	Production efficiencies improved but not yet on target.	Pursue lower feed conversion costs and achieve more eggs available for sale.
Improve broiler breeder production efficiency	Not achieved, with number of eggs per hen housed and hatchability below target.	Increase the number of day-old chicks per parent hen to boost sales volumes and lower cost.
Maintain commercial broiler farm production efficiency	Achieved.	Maintain conversion costs and profitability.
Maintain operational efficiencies in egg packing stations	Targeted operational efficiencies achieved.	Control waste levels and ensure an optimal sales mix is achieved.
Strategic theme: Optimal people capacity and culture		
Continue to strengthen the Group's management team	Achieved, with all key vacancies filled.	Evaluate and improve the senior management succession plan.
Further roll out training to farming employees	Achieved, with e-learning successfully rolled out to farming employees.	Increase skills by improving farming employees' access to additional training materials. Evaluate and implement training requirements for non-farming employees.
Enhance Company values through recognition	Achieved, with an awards programme embedded in 2019.	Improve management's ability to effectively execute the Group's strategy.

Strategic risks

Proactive risk management is essential for the effective implementation of the Group's strategy and to ensure Quantum Foods remains 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 is conducted by Quantum Foods' internal auditors and senior management team to identify and evaluate risks. To prioritise management focus and mitigating actions, identified risks are assessed for the likelihood of occurrence and potential financial impact. The scale used for assessment is outlined below. The product of the likelihood and impact assessment determines the risk score.

Likelihood		Impact	
1	Rare	1	Minor
2	Unlikely	2	Significant
3	Moderate	3	Serious
4	Likely	4	Critical
5	Common	5	Catastrophic

This workshop occurs at least every second year (last held in 2018 and scheduled for 2020). 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.

In 2019, an internal review of risks impacting the Group was conducted and minor updates were made and presented to the ARC for approval.

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 62.

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.

QUANTUM FOODS' TOP 10 RESIDUAL RISKS

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	Residual risk score (likelihood times impact)
Poultry diseases impacting the productivity of poultry	• The Group runs a comprehensive vaccination and flock health monitoring programme. The Group enforces strict biosecurity management. • Specific additional monitoring and biosecurity measures were implemented due to the increased threat of AI. • The geographical spread and number of Quantum Foods' farming operations provide the Group with some protection from the impact of poultry disease	20
Inability to cope commercially with raw material price increases – particularly maize and soya meal	• 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. • Regular monitoring of the Group's raw material cost position informs margin management. • The centralised raw material procurement department observes market trends daily.	15
Declining consumer spend impacting sales	• 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). • The Group ensures a continuous focus on efficiencies and cost management.	10
Supply and demand imbalances – oversupply resulting in pricing challenges (eggs)	• The egg production plan is adjusted based on the monitoring of industry trends and available statistics to forecast potential egg supply and demand imbalances. • 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.	9

Risk description	Mitigation to create opportunities	Residual risk score (likelihood times impact)
New market entrants increasing competition	• The Group maintains an awareness of new competitors entering the market through its market research initiatives. • A relentless focus on production efficiencies and cost management enables the Group to remain competitive.	9
Key management exposure (leadership team)	• The Group maintains a formal succession plan, which includes a biannual talent planning review. • A long-term and short-term incentive system is in place to retain senior management.	9
Suboptimal corporate culture negatively impacting strategy execution	• 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.	9
Non-compliance with animal welfare regulations and requirements	• Formal training programmes are in place, assisted by third-party veterinary consultants. • Internal and external audits are conducted regularly to monitor compliance. • Formal meetings are held with the NSPCA to discuss relevant matters.	9
Inability to recruit suitably skilled candidates for specialised positions	• The Group builds relationships with universities and offers bursary programmes. • Formalised development plans for internally identified talent are monitored. • The annual intake of interns for animal production training helps build necessary skills. • Partnerships with recruitment agencies are in place to facilitate and improve access to potential candidates.	9
Cyber security breach resulting in loss of information	• Information technology ("IT") security is outsourced to the Business Connexion Group, a third-party supplier that houses the Group's IT information in highly secure data warehouses. • A formal cyber security risk management program is in place, which includes the continuous review of vulnerabilities, initiatives to increase employee awareness and action to maintain cyber risk insurance cover.	9

HA Lourens

Chief Executive Officer

WA Hanekom

Chairman

Joint report of the chairman and CEO

Quantum Foods' financial results were satisfactory considering the sluggish economy and challenging industry conditions. Limited economic growth put pressure on consumers and negatively impacted their ability to purchase eggs and chicken meat. Continuing electricity challenges further weighed heavily on the Group's ability to provide affordable protein to consumers. In particular, load shedding impacted the production capacity of Quantum Foods' feed mills. This made it necessary for the Group to buy feed from other suppliers during the year, which impacted cost recovery and the cost of feed.

OPERATING ENVIRONMENT

No further outbreaks of Avian Influenza ("AI") were reported during fiscal 2019, positively impacting the South African layer population. According to the South African Poultry Association, the layer flock peaked at 24.4 million pre-AI and declined to 21 million following the outbreaks in 2017 and 2018. The latest expectation is that the South African layer flock will reach 28.6 million in December 2019. Egg prices followed an inverse trend and decreased to below pre-AI levels towards the end of 2019.

Raw material costs increased during the year. Maize production declined by c.10.5% (approximately 1.3 million tons) due to dry conditions in maize growing regions. Accordingly, the price of yellow maize on SAFEX increased by 25.5% compared to 2018. The price of other key feed raw material inputs, such as bran and hominy chop, followed maize prices. Bran and hominy chop prices increased by 19% and 31% respectively. The price of soybean meal increased marginally by 2% due to a decline in international prices. However, the full benefit of this was offset by a 10% weakening of the Rand against the US dollar.

SEGMENTAL OVERVIEW

Nova Feeds again performed well. Internal feed volumes lost due to the outbreak of AI were recovered in the second half of the year. External volumes grew by 3.8% on a comparative basis. Margins, however, remained under pressure and declined due to a less favourable product mix and the competitive environment. Costs were well managed and increases in cost per unit were maintained below inflation. The capital investment in the Pretoria and Paterson plants was well executed and the benefits from these two projects should commence in 2020.

The performance of the commercial broiler farms remained excellent. Efficiency challenges at breeder level are being addressed. However, given the nature of the biological and genetic selection process, it will take up to two years for real progress to be seen. In the interim, management changed certain farming practices to enhance performance. This resulted in a steady improvement in hatchability during the year. The broiler farming business continues to grow, supported by a 7.2% increase in broiler chicks produced in 2019. This increase was mainly driven by the expansion of the Hartbeespoort hatchery that was completed in 2018.

The layer farming business performed well, strengthening its profitability and improving commercial layer productivity by more than 6%. Layer breeders exceeded the Lohmann standard again. The sale of day-old layer chicks declined by 2.0% due to additional rearing placements on own farms. However, this resulted in point-of-lay sales increasing by 5.3%.

The eggs business delivered a strong operational and satisfactory financial performance, with volumes increasing by 5.5%. Supply in the egg market increased and egg prices declined by 14.3% due to South Africa's layer stock being replenished. Most importantly, the business continued to improve its operational efficiency. Costs were well managed and increases on a nominal and per unit basis were maintained below inflation.

Quantum Foods' other African businesses performed satisfactorily. Raw material prices increased in all jurisdictions. The maize harvest in Zambia was poor and prices reached record highs amid fears that maize might need to be imported for the first time since 2004. These high prices resulted in small farmers being unable to afford layer and broiler day-old chicks. The current capex cycle for Zambia was concluded following the completion of the Mega Eggs expansion.

Feed raw material prices in Uganda were higher than the previous year, and closer to the long-term average. The breeder farm was depopulated for maintenance and cleaning, with breeders housed at the Masindi farm. Against this backdrop, local management did well to maintain profitability and operational efficiency.

Mozambique delivered a satisfactory operational and financial performance. The dynamics of the South African egg market influenced the Mozambican market. Despite these challenges, the business remains cash positive.

FINANCIAL OVERVIEW

Group revenue increased by 7% to R4 418 million, with a 7.2% increase of R279 million in the South African operations and a 7.4% increase of R16 million in the other African operations. Revenue from the other African operations contributed 5.4% to Group revenue for 2019 (2018: 5.4%).

Revenue from the South African operations:

- Increased by R298 million for the feeds segment: This is a result of adjusted selling prices in response to higher average raw material costs and a 7.3% increase in volumes sold.
- Increased by R92 million for the farming segment: Similar to the feeds segment, broiler selling prices increased as a result of higher average feed costs being used to determine selling prices. Volumes increased in the layer and broiler farming businesses.
- Decreased by R111 million for the eggs segment, with an average price decrease of 14.3% and a volume increase of 5.5% achieved.

Cost of sales increased by 6.5% to R3 395 million. Cost of sales includes the fair value adjustments of biological assets (livestock) and agricultural produce (eggs) that were realised and included in other gains and losses in the statement of comprehensive income.

These fair value adjustments for the year ended 30 September 2019 amounted to R147 million (2018: R418 million). The decrease was mostly reflective of the decreased margins in the egg business. Excluding these fair value adjustments, gross profit decreased by R183 million to R1 170 million at a margin of 26.5% (2018: 32.8%).

Cash operating expenses were well managed and increased by 2.5% in 2019.

Operating profit, before items of a capital nature, decreased by 48% to R245 million for the year under review.

The Group's South African operations recorded a 47% decrease of R215 million to achieve a profit of R240 million at a margin of 5.7% (2018: 11.7%). The feeds and farming segments improved by R20 million and R14 million respectively, and the eggs segment weakened by R248 million. Feeds, profit benefited from higher volumes. This included external sales volumes and volumes required by the internal layer farming business. Farming profit benefited from higher volumes and there was no reoccurrence of the AI incidents that affected the Western Cape layer farm operations in 2018. Eggs profit was supported by an increase in sales volumes. However, the supply of eggs to the market increased, resulting in a decline in selling prices that negatively affected profit. The Group's other African operations recorded a decrease in profits of R17 million, which resulted in a profit of R14 million. Profit decreased in all three countries due to higher raw material costs than the previous year and more challenging operating conditions.

Headline earnings per share ("HEPS") decreased to 92.3 cents from 163.9 cents per share in 2018.

Cash inflow from operations amounted to R163 million for the reporting period. This includes an increased investment of R109 million in working capital.

Capital expenditure for the period amounted to R153 million. In addition to maintenance capital, other key items included:

- a project to increase capacity at the *Mega* layer farm in Zambia;
- expansion of the Masindi layer farm and Kampala hatchery in Uganda;
- expansion of the feed mills in Pretoria and Paterson;
- expansion of the layer hatchery in Bronkhorstspruit; and
- the upgrade of an egg grader at the Pinetown packing station.

Cash and cash equivalents decreased from R422 million at 30 September 2018 to R220 million at 30 September 2019. The decrease includes R163 million in dividends paid, R35 million in shares repurchased and cancelled and R27 million in treasury shares that were acquired.

The Group had minimal borrowings at 30 September 2019. This comprised an arrangement to purchase electricity generated from solar panels, which was 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 declaring a total gross final dividend of 25 cents per share, the Board further considered the cash generated by Quantum Foods and the healthy cash position of the Group at 30 September 2019.

Full year dividend at a HEPS cover of four times	**23 cents**
Special dividend due to 2019 cash generation (2018: 49 cents per share)	**10 cents**
Total dividend (2018: 90 cents per share)	**33 cents**
Less interim dividend declared	**(8 cents)**
Total final dividend	**25 cents**

At a rate of 20%, dividends tax will amount to 5 cents per share. Consequently, shareholders who are not exempt from dividends tax will receive a net dividend amount of 20 cents per share. Such tax will be withheld unless beneficial owners of the dividend provide the necessary documentation to the relevant regulated intermediary to indicate that they are exempt therefrom or entitled to a reduced rate as a result of the double tax agreement between South Africa and their country of domicile.

During the year under review, Quantum Foods bought back and cancelled 10 505 000 shares at a cost of R35.2 million, equating to an average price per share of R3.35. In addition, a subsidiary of Quantum Foods purchased 8 083 426 shares at a cost of R27.4 million, equating to an average price per share of R3.39. These shares are held as treasury shares. The issued share capital at 30 September 2019 is 200 024 716 shares. The Board intends to continue with the repurchase of shares.

The applicable dates are as follows:

Last date of trading *cum* dividend	**Tuesday, 14 January 2020**
Trading *ex* dividend commences	**Wednesday, 15 January 2020**
Record date	**Friday, 17 January 2020**
Dividend payable	**Monday, 20 January 2020**

Share certificates may not be dematerialised or materialised between Wednesday, 15 January 2020 and Friday, 17 January 2020, both days inclusive.

OUTLOOK

While the decline in egg prices was slower than anticipated, by the end of the financial year prices dropped to below the pre-AI levels of June 2017.
We therefore expect severe pressure on the egg business for the next 24 to 36 months. The farming and feed businesses should continue to perform well, and both are less exposed to raw material price dynamics. Trading conditions for the other African businesses will be challenging in the upcoming period. Should raw material prices soften in the second half of 2020, these businesses are well positioned to benefit and deliver a solid performance.

We anticipate that South Africa's summer rainfall regions will receive normal levels of rainfall. This should result in sufficient maize to meet domestic demand. Globally, stock levels of maize and soybean remain sufficient. The Rand to US dollar exchange rate remains unpredictable and will influence all raw material prices. In particular, a weak Rand will lead to an increase in all major feed raw material prices.

The next period is expected to be more challenging than the past two financial years. However, Quantum Foods' investments made to increase production capacities in the less cyclical feeds, farming and other African businesses, as well as the investments made to improve efficiencies in the eggs business, have equipped the Group to navigate through the anticipated headwinds successfully.

APPRECIATION

In the past year, Quantum Foods delivered its second-best financial performance since 1997. Many people contributed to this success. We would like to extend our gratitude to the Board, the executive team and all employees as well as our customers and suppliers for their constructive contribution to the business.

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer

Board of directors and executive committee

1. Lesego Amos Selaledi | 2. Roelof Viljoen | 3. James Joseph Murray | 4. Norman Celliers | 5. André Hugo Muller | 6. Wouter André Hanekom | 7. Prof. Abdus Salam Mohammad Karaan | 8. Marthinus Petrus van Lill | 9. Geoffrey George Fortuin | 10. Tanya Golden | 11. Patrick Ernest Burton

12. Heather Elizabeth Pether | 13. Marisha Octavia Gibbons | 14. Hendrik Albertus Lourens | 15. Jan Hendrik van Rhyn | 16. Adel Deidré van der Merwe

Board of directors

WOUTER ANDRÉ HANEKOM (60)

Chairman

André was appointed to the Board on 1 October 2014 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 and 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 (66)

Lead independent non-executive director

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); and remuneration and human capital (chairman)

Patrick is an experienced businessman with experience as a director, which includes non-executive positions in fishing, food, insurance, financial services and investment holding companies. Patrick is a board member of various listed and unlisted companies.

GEOFFREY GEORGE FORTUIN (52)

Independent non-executive director

Geoff was appointed to the Board on 28 April 2015.

Qualifications

CA(SA)

Quantum Foods Board and committee membership

Non-executive director; audit and risk

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

PROF. ABDUS SALAM MOHAMMAD KARAAN (51)

Independent non-executive 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 joined the Development Bank of Southern Africa in Johannesburg as an economist and later returned to Stellenbosch to join the Rural Foundation as head of research. In 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.

TANYA GOLDEN (47)

Independent non-executive director

Tanya was appointed to the Board on 10 December 2018.

Qualifications

LLB, LLM (UCT), LLM (AU, USA)

Quantum Foods Board and committee membership

Non-executive director

Tanya is a senior counsel and has been a member of the Cape Bar for the past 20 years. She has served as Chairperson of the Cape Bar Council and is presently the Chairperson of the Cape Bar Transformation Committee and the National Transformation Chairperson for the General Council of the Bar. Tanya served as a member of the Financial Services Board Enforcement Tribunal. She was previously appointed by the MEC of Health to serve on one of the Department's Hospital Board's and as chairperson for three years.

NORMAN CELLIERS (46)

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; 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 (56)

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 21 years.

ANDRÉ HUGO MULLER (49)

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 a 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.

MARISHA OCTAVIA GIBBONS (28)

Company secretary and legal advisor

Marisha was appointed on 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 five years' experience in the legal and compliance environment.

Executive committee

HENDRIK ALBERTUS LOURENS (56)

Chief executive officer

Hennie has been with Quantum Foods since 2007.

Qualifications

BCom (Hons), MCom, BProc

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 21 years.

ANDRÉ HUGO MULLER (49)

Chief financial officer

André has been with Quantum Foods since 2003.

Qualifications

CA(SA)

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 for *Tydstroom* before being appointed as head of finance for Quantum Foods in 2012.

ROELOF VILJOEN (53)

Executive: Supply chain

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 18 years' experience in the food industry, of which 10 years were spent in the poultry industry. Roelof was appointed in his current role in 2016.

MARTHINUS PETRUS VAN LILL (49)

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 22 years' experience in the animal feeds and poultry industry

ADEL DEIDRÉ VAN DER MERWE (48)

Executive: Eggs

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 and 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 nine years' experience in the animal feeds and food industry

JAMES JOSEPH MURRAY (62)

Executive: Broiler farming

Jimmy has been with Quantum Foods since 2013.

Qualifications

National Diploma in Agricultural Extension and Soil Conservation

Jimmy has 38 years' experience in the poultry industry. Most of his early experience was gained at Rainbow Chicken Ltd in various senior farming production roles. After Rainbow Chicken Ltd, he spent five years as managing director of Hy-Line SA (importer of Hy-Line grandparent layers), followed by five years as chief executive officer of Grendon (an integrated poultry operation in KwaZulu-Natal).

HEATHER ELIZABETH PETHER (51)

Executive: Human resources

Heather has been with Quantum Foods since 2005.

Qualifications

National Diploma in Human Resources

Heather has 23 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 for human resources at Quantum Foods in 2012.

JAN HENDRIK VAN RHYN (54)

Executive: Africa

Jannie has been with Quantum Foods since 2014.

Qualifications

BEng, MSc, BCom (Hons)

Jannie spent nine years with Naspers Ltd, during which time he was involved in many startup internet and internet-related 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 (42)

Executive: Layer farming

Amos has been with Quantum Foods since 1999.

Qualifications

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

Amos joined Quantum Foods in 1999, while it was still a division of 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 for layer farming in January 2017. He has 20 years' experience in the poultry industry

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.

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;
- attract and retain a diverse pool of talent; and
- provide shareholders with positive returns on their investment.

Read more about the Group's approach to stakeholder engagement on page 64.

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 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. Certain audits are conducted by internationally accredited certification bodies. This includes a complete re-certification audit done every three years. An internal audit programme 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 annually 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 and enhance customer satisfaction.

Farming business

The Group's farming operations and the health of poultry flocks are important in the production of safe food. Stringent biosecurity measures are in place at all farms and are audited regularly by internal employees and 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 regular external audits, which 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 annual internal health and safety audit is conducted at all grading facilities.

As complaints in the egg business are generally more generic than those received in the feeds business the Group uses an external company to monitor complaints. A toll-free number is available to 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 develop 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, with limited opportunities for reduction beyond ensuring that water is not wasted. The aim is to critically analyse waste production and ensure that all relevant aspects are managed responsibly.

The Group is acutely aware of the impact of its operations on the environment, particularly in terms of its carbon emissions. During 2019, a baseline assessment was done to evaluate the Group's carbon emissions. Going forward, performance will be reported to the social and ethics committee ("SEC") and will be a key consideration when evaluating new capital projects.

The table below outlines the Group's overall performance for 2019 and in comparison with the previous year. This enables stakeholders to monitor performance, and helps the Group identify improvement opportunities.

Environmental performance indicators

Consumption	2019	(Decrease)/ increase from 2018	Commentary to explain shifts in environmental performance indicators
Water (kℓ)	**1 413 077**	6%	Water consumption increased due to higher production on Western Cape layer farms that were empty in 2018 due to AI.
Electricity (kWh'000)	**44 450**	5%	Electricity consumption increased due to higher feed volumes produced and higher production on Western Cape layer farms that were empty in 2018 due to AI.
Coal (tons)	**2 520**	(16%)	This decreased due to the timing of broiler production cycles compared to the previous year (heating is only used at the start of the cycle).
Gas (kg)	**1 427 225**	2%	There was a higher production of point-of-lay birds in the layer farming business, with the Western Cape farm empty in 2018 due to AI.
Diesel/petrol/paraffin (ℓ)	**1 022 507**	11%	There was an increased use of generators during load shedding and higher production volumes in the feed and layer farming businesses.
Heavy fuel oil ("HFO") (ℓ)	**1 042 513**	2%	Feed volumes increased.
Packaging (tons)	**12 390**	(6%)	Large volumes of eggs were transported to the Western Cape in 2018 to supplement the production deficit caused by AI. This resulted in additional packaging material required in 2018.
Waste			
Litter/manure produced (tons)	**144 078**	6%	Higher production on Western Cape layer farms that were empty in 2018 due to AI.
Mortalities to landfill/waste pit (tons)	**743**	4%	
Effluent water (kℓ)	**204 993**	5%[1]	

[1] *2018 figure restated – accuracy improved with the installation of additional water consumption meters.*

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.

During 2019, a solar panel system was installed at the Brackenfell egg packing station. Three of the Group's egg packing stations are now equipped with these systems, which reduce Quantum Foods' dependency on electricity generated from non-renewable sources. The further implementation of energy-efficient lighting continued during the year. The performance of all initiatives is measured monthly and meets expectations. Further initiatives will be undertaken in future, with an emphasis on improving efficiencies at an optimal cost-benefit ratio.

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:

1 830
employees were permanently employed by the South African operations of the Group at 30 September 2019
(2018: 1 699)

Permanent employees HDSA
92.2%
(2018: 91.9%)

Management HDSA grade 12+ (employees)
38.6%
(2018: 34.2%)

Permanent employees who are women
40.2%
(2018: 42.3%)

South African employees on fixed-term contracts
2.9%
(2018: 3.2%)

Employment equity statistics as at 30 September 2019

	African		Coloured		Indian		White		Foreigners		
Occupational levels	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**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	2	19	7	10	1	1	8	44	0	0	92
Skilled technical and qualified employees, junior management, supervisors, foremen and superintendents	32	112	46	52	4	4	28	33	0	0	311
Semi-skilled and discretional decision-making employees	149	241	78	114	2	2	3	1	0	0	590
Unskilled and defined decision-making employees	329	408	38	25	0	0	0	0	0	2	802
Total permanent employees	513	784	173	201	7	7	42	101	0	2	1 830
Non-permanent employees	10	15	8	8	1	0	3	8	0	1	54
Total	523	799	181	209	8	7	45	109	0	3	1 884

Total number of employees as at 30 September 2019

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

	2019	2018
Salaried	504	480
Salaried contractors	40	38
Waged	1 326	1 219
Waged contractors	14	19
Total	1 884	1 756

During the year, the Group's South African employee complement increased by 7.3% as the business continued its efforts to shift from temporary to permanent labour. The increase can also be attributed to increased production at the Group's Western Cape layer farms and a previously dormant Western Cape broiler farm being utilised. Employees at a rented broiler farm in the North West were also permanently employed.

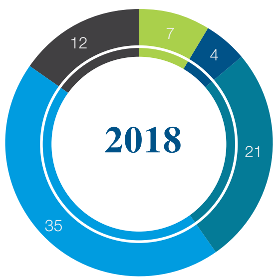
The Group employs 389 (2018: 371) individuals in Zambia, 112 (2018: 98) individuals in Uganda and 72 (2018: 70) individuals in Mozambique.

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.

Training

The Group invests in the development of its employees' skills, knowledge and capabilities. Several life skills development workshops were held for employees during the year. This will continue in the new year. Legislative training was completed and several workshops and seminars were attended by employees during the year. The number of participants in the Group's learnerships and skills development programmes increased substantially year-on-year. This is in line with Quantum Foods' focus on strengthening the capabilities of its junior management.

The below indicates the number of participants in the different training initiatives:



Internships ● Apprenticeships ● Learnerships ● Bursaries ● Adult basic education and training ("ABET")

The below indicates the training spend for 2019:

Training spend	2019	2018
Total number of employees trained	**701**[1, 2]	318[1]
Employee training spend	**R5.04m**	R3.20m
Employee training spend as a percentage of payroll	**1.4%**	1.0%

[1] *Excludes the Group's value sessions, which formed part of the roll out of its employee engagement model.*
[2] *A large numbers of the Group's employees in the eggs business were involved in a life skills training programme.*

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.

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.

	2019	2018
Number of fatalities	**0**	0
Total number of recordable injuries	**103**	84
Number of lost days	**551**	658

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.

Employee turnover

	2019	2018
Total turnover	**12.1%**	19.2%
Management turnover (South African operations)	**2.1%**	2.9%
Not in management turnover (South African operations)	**9.9%**	16.3%

Quantum Foods supports it employees' rights to collective bargaining.

Employees are represented by nine trade unions.

Labour union management

	2019	2018
Percentage of employees who belong to a trade union	**37.2%**	48.9%

The Food and Allied Workers' Union ("FAWU") has the highest overall representation among Quantum Foods' employees. At 30 September 2019, 26% of the Group's wage employees in its South African operations belonged to FAWU (2018: 34%). The reduction in union membership is due to resignations from FAWU at two of the Group's Western Cape farms and lower enrollment from newly appointed employees. Wage negotiations were concluded between March and September 2019. The next round of negotiations will commence in January 2020 for implementation in March 2020.

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 ownership, skills development and enterprise and supplier development (including preferential procurement), which, if not achieved, immediately results in a lower B-BBEE score.

In addition to this, the cost to train HDSAs and achieve compliance has increased significantly.

This resulted in the level 8 achieved on the overall score for 2018 being 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 and maintaining a B-BBEE compliant status remains a key management focus area. During 2019, 18 091 661 shares were purchased from B-BBEE shareholders following the end of a lock-in period.

More details are available on page 57.

This resulted in a reduction in the score achieved for the ownership component of the 2019 AgriBEE scorecard. The 2019 audit was carried out by AQRate.

The 2019 scorecard is available at www.quantumfoods.co.za/company-documents.

The Group continues to contribute to enterprise and supplier development. Current initiatives include:

- the provision of an interest-free loan to a HDSA to expand his Western Cape egg farm;
- supplying HDSA farmers with discounted point-of-lay hens;
- feed and farm management assistance to HDSA farmers for improved egg production;
- the rental of a broiler farm in Bronkhorstspruit from a HDSA; and
- egg procurement from a HDSA egg producer in the Western Cape.

Benefits of R12.5 million (2018: R7.5 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 considers B-BBEE when any external appointments are made, especially at the senior level to improve its management control and employment equity scores. On 10 December 2018, a black female was appointed as a non-executive Board member. In addition to achieving improved gender and race diversity, this appointment also benefited the Group's scorecard.

COMMUNITY PROJECTS

The Group's involvement in its "adopted" primary school, which is situated close to its head office in Wellington, continues. In 2019, Quantum Foods provided funding of R1.1 million to the school compared with R1.2 million in 2018. Through its Social Club, Quantum Foods' employees were specifically involved in the Santa Shoe box project at the school.

In 2019, employees also contributed towards gifts and made sandwiches for children at Soetendal Primary School in Wellington in support of Mandela Day.

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 R450 000 to FoodForward SA in 2019. Quantum Foods remains involved with 2nd Harvest, a non-profit organisation dedicated to providing meals to the hungry and skills development to youth across South Africa. In 2019, 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 improving their ability to concentrate and learn while at school.

Corporate social investment spend	2019	2018
Total corporate social investment spend	**R3 018 871**	R3 304 745
Spend on feeding programmes	**R950 000**	R1 300 000
Product donations	**R495 751**	R304 745
Spend on education	**R1 573 120**	R1 700 000

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 farms to ensure adherence to set internal standards. Quantum Foods regularly engages with and is audited by inspectors from the NSPCA to ensure compliance. Strict biosecurity measures are in place at all farms to protect chickens against diseases and illness. Ongoing animal welfare and biosecurity training is provided to farming employees.

FOOD FORWARD SA
Securing quality food. Nourishing lives.

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 culture	The Board considers it a business imperative that all actions taken on behalf of Quantum 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. No tip-offs were reported during the year. In 2018, eight tip-offs were investigated and resolved appropriately. 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 and directors during open and closed periods. In this regard, all executives and Board members must request permission to trade in shares from the duly 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 as well as the Criminal Procedure Act, Act 51 of 1977 for other criminal activities. 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 • 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.
Effective control	The Board ensures that it oversees and monitors the performance of the Company by: • 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 annually; • 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 • holding at least four meetings per financial year. *Attendance at meetings is detailed on page 60 of this report.* 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.
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;

Outcome	How the Group's governance structures help achieve the outcome
Legitimacy (continued)	• ensuring succession planning in its work plan – this includes a focus on diversity at Board level; • 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; • providing an opportunity for the external and internal auditors to have a discussion without management present at each meeting of the ARC; and • formally evaluating the performance of the governing body and its committees by means of a survey at least every second year.

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
Specific repurchase of shares	In 2014, pursuant to the unbundling of the Company from Pioneer Foods, Quantum Foods inherited 11 black economic empowerment ("BEE") parties from Pioneer Foods. This was the result of a B-BBEE ownership structure implemented by Pioneer Foods in 2012 whereby the BEE parties received shares in the Company by virtue of holding shares in Pioneer Foods. These shares were subject to a lock in period that expired in 2019. Quantum Foods offered to repurchase the shares held by these BEE parties in terms of a specific repurchase offer. 10 505 000 shares were repurchased by the Company and subsequently cancelled. An additional 7 586 661 shares were purchased by Quantum Foods (Pty) Ltd as treasury shares for corporate purposes. The specific repurchase offer was guided by the Board's view that a liquidity event should be provided to the shareholders who wished to sell their shares. It would also provide an effective method of returning surplus cash to these shareholders, while the repurchase would be enhancing to shareholders who did not participate. The specific repurchase was successfully executed on 27 May 2019 with 18 091 661 shares being purchased at a total consideration of R60.6 million.
Group Strategy	The Board reviewed and approved the Group strategy presented by management on 4 September 2019. This is a three-stage process: 1. The executive committee holds a working session with external facilitators who guide the team in the development of the Group strategy. 2. The executive committee and senior management team identify and determine appropriate operational targets that support strategy implementation. 3. The executive committee 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 this process, the Group resolved to retain its strategic themes and only revise the performance initiatives and operational targets per theme for 2020. *More detail about this process is provided on page 30.*
Declaration dividend and special dividend	The Board considered and declared an interim dividend of 8 cents per share in 2019 and a final dividend of 25 cents per share, consisting of a normal dividend of 15 cents per share and a special dividend of 10 cents per share. The Board was guided by the targeted dividend cover of four times announced in 2017 as well as the financial performance and cash position in 2019 in declaring a special dividend.

Topic	Progress and actions arising
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. Projects approved during 2019 included a further expansion of the breeder business in Uganda and a project to upgrade the fire risk protection at the Malmesbury Feed mill.
Zambia Competition Commission settlement	The Zambia Competition and Consumer Protection Commission found the Group to be in contravention of certain provisions of the Act. During 2018, a provision of R5.6 million was raised for the potential fine and an appeal was lodged with the Tribunal. The Board oversaw the process implemented by management to settle this matter, which was successfully concluded during 2019, and resulted in a reversal of the majority of the provision raised.
Change to Sovereign Foods supply agreement	The Board oversaw the change to the supply agreement whereby the previous agreement to supply live broilers was changed to an agreement to supply day-old chicks and feed from 10 May 2019. With this change, Sovereign Foods assumed responsibility for the broiler farming operations, which are mostly conducted by contract growers. Quantum Foods retained the chick and feed volumes required to produce live broilers.
Induction of Tanya Golden	The Board oversaw the induction of Tanya Golden, who was appointed as a non-executive director in December 2018.

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 2020 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 decision-making.

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 annually. 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. WA Hanekom, Mr. HA Lourens and Mr. AH Muller, in their respective capacities as chairman, chief executive officer and chief financial officer, are permanent invitees to the meetings. 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.

More information about the functions and responsibilities of the ARC during the year is provided in the ARC report on page 85.

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 68.

Remuneration and human capital committee ("RHCC")

Members:

Mr. PE Burton (chairman)

Mr. N Celliers

Mr. WA Hanekom

The RHCC comprises three non-executive directors, the majority of which are independent. 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 70.

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 66.

Executive management

Subsidiary boards

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 annually. 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 2020 strategy was approved. The SEC and RHCC had two scheduled meetings during the year while the ARC had three scheduled meetings. 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	2/2	3/3^	2/2	1/1
PE Burton	Lead independent non-executive director	0/1	4/5	2/2	3/3	n/a	0/1
N Celliers	Non-executive director	1/1	5/5	2/2	n/a	n/a	1/1
Prof. ASM Karaan	Independent non-executive director	0/1	5/5	n/a	3/3	2/2	1/1
GG Fortuin	Independent non-executive director	0/1	4/5	n/a	2/3	n/a	1/1
T Golden	Independent non-executive director	1/1	4/5*	n/a	n/a	n/a	1/1
HA Lourens	Chief executive officer	1/1	5/5	2/2^	3/3^	2/2^	1/1
AH Muller	Chief financial officer	1/1	4/5	2/2^	3/3^	2/2^	1/1

* *T Golden was appointed to the Board as an independent non-executive director on 10 December 2018.*
^ *WA Hanekom attended the ARC meetings as an invitee and HA Lourens and AH Muller attended the RHCC, ARC and SEC meetings as invitees.*

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

Composition and functions of the Board

The Board consists of eight directors, six of whom are non-executive directors. Five 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 gender, race, business acumen and tenure. This diversity provides for challenging and robust discussion and views, leveraging an appropriate mix of knowledge, skills, experience, diversity and independence. The Board recognises that a gender gap exists, with only one female Board member currently appointed. The Board has therefore 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 increased race and gender diversity at a Board level. Targets for race and gender diversity at Board level were considered in 2018, resulting in the decision to appoint a black female non-executive director to the Board. This was concluded in the 2019 financial year. 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 race and gender diversity at Board level.

There were no other changes to the Board during the 2019 financial year. 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. The Board annually considers using an external provider to facilitate the appraisal process of the Board and its committees. This was deemed unnecessary in 2019.

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.

No regulatory penalties, sanctions or fines for contraventions or non-compliance with statutory obligations were imposed on the Company or any of its directors or officers during the 2019 financial year.

Read more about the settlement reached with the Zambia Competition and Consumer Protection Commission during the year on page 58.

In 2020, 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 2019 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 85.

Group internal audit

The Group's internal audit services for 2019 were provided by Deloitte & Touche. The internal audit service contract is valid for a further two 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 85 to 86.
Read more about the Group's strategic risks on 33.

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. The table below provides details on the methods of engagement and key considerations per stakeholder category as well as the Group's response:

Stakeholder category	Method of engagement	Stakeholder consideration	Business response
Shareholders and investors	• Website • SENS • Trading updates • Results presentations every six months • Face-to-face meetings • Site visits	• Return on investment • Capital allocation • Business sustainability • Ethical management	• Headline earnings per share is a key performance measurement for management • New capital projects are evaluated against a Board-approved weighted average cost of capital • The Group takes a zero tolerance approach to unethical conduct
Employees	• Internal communication • Management and union meetings • Roadshows • Confidential tip-offs hotline • Training programmes	• Feedback on performance • Job security • Personal development (including training) • Health and safety	• The Group conducts regular formal and informal performance discussions • Formal health and safety audits are conducted annually at all sites (at a minimum) and training programmes are in place • Various training initiatives are available to the Group's employees *Read more on page 50.*
Customers and consumers	• Regular meetings • Consumer hotline • Customer satisfaction surveys	• Products within specification • Competitive pricing • Reliable supply	• Ensure that products adhere to standards • Supply products that are safe • Ensure that stock is available

Stakeholder category	Method of engagement	Stakeholder consideration	Business response
Suppliers and contractors	• A centralised procurement team manages communication for larger expenditure items • The Group's decentralised procurement managers meet with suppliers and contractors	• Security of supply • Commitment to B-BBEE • Reasonable terms	• Policies and practices ensuring ethical procurement conduct are in place, with a focus on B-BBEE • Quality management is in place for key procurement categories
Communities	• Requests for assistance in the communities where we operate	• Basic human requirements (food, safety and education) • Drought relief	• The Group implements various corporate social investment initiatives. *Read more on page 52.*
Government and regulatory bodies	• Independent audits • Adherence to regulatory requirements • Staff training on regulatory requirements	• Employees assume responsibility for compliance • Independent assurance to measure compliance	• The Group trains staff responsible for compliance and takes immediate action in the event of adverse findings • The Group participates in industry bodies • The corporate office supports regional management
Industry bodies	• Industry body meeting participation	• Active participation in industry body management • Keeping abreast of new developments	• Executive committee members are involved at senior level in industry bodies such as the South African Poultry Association and Animal Feeds Manufacturers Association

In 2019, 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. This is critical to the success of the business.
Engagement with shareholders	Following the release of the interim and final 2019 financial results, shareholders were invited to a presentation where the results were discussed. The presentation is available as a broadcast for those shareholders unable to attend. Shareholders were invited to attend the AGM in February 2019 and the General Meeting in May 2019. Engagement with a shareholder in July 2019 resulted in a review of the Company's Remuneration Policy to incorporate the principles of malus and clawback. These changes will be presented to shareholders for approval at the February 2020 AGM.
The Group-wide roll-out of the values programme	A formal programme to entrench Company values was made available to employees in all of the Group's operating geographies during the year, including South Africa, Mozambique, Uganda and Zambia. The programme encouraged employees to portray and live out the Group's values.
Corporate social investment initiatives, and enterprise and supplier development assistance	*Read more on pages 51 and 52.*

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. The Company publishes information relevant to the application of King IV 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.

The main focus areas during 2019 included:

- An ongoing process to improve cyber risk resilience, which included an update of IT policies, continued training of staff to increase awareness, the further relocation of IT data to the more secure Microsoft Cloud environment and regular vulnerability tests conducted by external consultants.
- An ongoing upgrade to the Group's network landscape to improve connectivity and replace fixed-line telephony with Voice over IP phones.
- Training of employees on key IT business processes.
- Enhancement of the business continuity programme.
- Employee training and awareness on the implementation of the Protection of Personal Information Act as well as the establishment of a document retention policy in line with the Act.

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
Improved cyber risk resilience	Cyber risk resilience will remain a focus area for 2020, mostly through continuous staff training to maintain awareness as well as ongoing vulnerability assessments performed by external consultants.
Evaluation of SAP Enterprise Resource Planning ("ERP") system and determination of the migration to SAP release S4/Hana	A process to evaluate different available ERP systems will be conducted in 2020. The SAP EC6 version currently utilised by Quantum Foods' South African operations will terminate in 2025. The IT team will therefore proactively decide on a roadmap to replace the current system with either SAP release S4/Hana or an alternative system.

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 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;
- broad-based black economic empowerment ("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 investment.

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 SEC monitored the strategy and targets of the Company to improve on the non-compliance score achieved in 2018. A key focus remains on improving the ownership score, which reduced in 2019 following the repurchase of shares previously held by black economic empowerment parties inherited from Pioneer Foods. *More detail is available on page 51.* The SEC specifically monitored the Group's enterprise and supplier development initiatives, with a focus on creating additional employment opportunities. *Read more about the Group's B-BBEE strategy on page 51 of this report.*
Sponsorships and charitable donations	The SEC monitored the various product donations and continues to monitor the Group's social responsibility initiatives. *These are detailed on page 52.*
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 47.*
Occupational compliance	The SEC noted progress in obtaining occupational certificates for various business premises. This is an ongoing process and R22.3 million (2018: R3 million) of capital was allocated to ensure progress on compliance.
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. *See pages 48 and 50.*
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. Local tip-offs anonymous lines are available to stakeholders in each of Quantum Foods' operating jurisdictions (South Africa, Mozambique, Uganda and Zambia). The values programme continued 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 54.*

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 2020. 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 improve compliance with the AgriBEE Sector Code The Group will continue to invest in strengthening its existing business activities that support transformation and empowerment. This includes, for example, enterprise and supplier development.

Prof. ASM Karaan
Chairman

Wellington
16 November 2019

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 2020. It highlights the activities of Quantum Foods' RHCC and addresses the outcomes of the implementation of the 2019 remuneration policy.

Group profitability achieved in 2019 was the second highest recorded in Quantum Foods' history despite profitability decreasing substantially from the record profit achieved in 2018. This was supported by improved profitability from the feed and farming businesses, which partially offset the significant decrease in profitability from the eggs business. The Group's feed business benefited from increased volumes, while profitability of the farming business increased as a result of higher volumes and improved efficiencies. Stakeholders are reminded that during 2018, the egg business benefited from significantly higher egg selling prices. This was triggered by reduced supply following the 2017 outbreak of AI in South Africa that resulted in an exceptional profit.

Headline earnings per share achieved for 2018 resulted in a 100% vesting of the second tranche of Share Appreciation Rights ("SARs") allocated in 2015 and the first tranche of SARs allocated in 2016. In addition, the Group profit achieved in 2019 resulted in full vesting of the economic profit component of the Short Term Incentive ("STI") and 88.6% vesting of the Headline Earnings Before Tax per Share ("HEBTPS") component of the STI for 2019.

Quantum Foods' financial performance is discussed in the joint report of the chairman and CEO on pages 36 to 39.

The RHCC made various key decisions in 2019. 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 some employees, where relevant, to ensure that these are aligned with legislation. Employees at one of the Group's operating locations disputed the inclusion of certain cash-based employee benefits in the calculation of their hourly pay rate. The Commission for Conciliation, Mediation and Arbitration (CCMA) ruled in favour of the employees. The Company subsequently decided to take the ruling to the Labour Court for review. The RHCC will oversee this process during 2020.
Short-term and long-term incentives and non-executive director fees	The RHCC reviewed the 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 2020 financial year. The Company's LTI is the Equity-Settled SAR Plan. *Read more about this on page 76 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. This will remain an area of focus for the RHCC to ensure employees are remunerated fairly and any differentiation is justified.
Job evaluation and benchmarking	The RHCC oversaw a job evaluation and benchmarking exercise, which was conducted with the assistance of PwC in the last quarter of 2019. This evaluation will conclude in 2020 and will guide the RHCC to ensure that job profiles within the Group are correctly graded.
Remuneration policy regarding malus and clawback	In 2019, the RHCC was engaged by a shareholder who suggested the inclusion of malus and clawback provisions in the remuneration policy and SAR Plan rules. The RHCC and the Board reviewed and approved changes to the remuneration policy and SAR Plan. The changes detail the circumstances under which the benefit accruing to a participant of the STI or LTI can be forfeited or clawed back (if already transferred to participants). These changes will be presented to shareholders for approval at the February 2020 annual general meeting ("AGM").

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 15 February 2019, 99.43% of shareholders voted in favour of the Group's remuneration policy versus 0.57% against (2018: 92.05% for and 7.95% against). In addition, 99.99% of shareholders voted in favour of the Group's remuneration implementation report and 0.01% against (2018: 97.22% for and 2.78% against). Furthermore, 99.99% of shareholders voted in favour of the changes to the SAR Plan Rules that were proposed to shareholders at this meeting.

The RHCC is of the view that the remuneration policy achieved its objectives in 2019. In addition to its standard activities listed on page 70, during 2020 the RHCC will focus on the further rollout of the job evaluation and benchmarking exercise embarked on in 2019. We look forward to receiving your support on the remuneration policy at the 2019 AGM, to be held on 21 February 2020.

PE Burton
Chairman

Wellington
13 November 2019

FY2020 REMUNERATION POLICY

Introduction

Part 2 of this report sets out the forward-looking remuneration policy, which will apply in 2020. Therefore, any changes to the policy which were made by the RHCC in 2019 are reflected in the relevant sections below. To the extent that some parts of the policy were not changed during 2019, these sections will remain the same.

The remuneration policy applied in 2019 is set out in the 2018 remuneration report, which is available at www.quantumfoods.co.za/company-documents.

The implementation of this remuneration policy in 2019 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 non-executive directors ("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 SEC
- Determining the remuneration packages of directors and the executive committee
- Determining the performance targets for the STI
- Determining the number of awards to be made to participants under the SAR Plan
- Ensuring that all remuneration packages are fair, market-related and responsible
- Ensuring that the Group is able to attract, engage, reward 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

A detailed list of the RHCC's duties and responsibilities is 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/company-documents.

At a minimum, the RHCC meets twice 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 60.

Remuneration philosophy incorporating 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	Policy and link to business strategy
TGP (fixed; applicable to all employees) **Social – ensuring the necessary skills for optimal people capacity and culture.**	Aimed at attracting and retaining talent and ensuring competitiveness. Quantum Foods participates in a reputable South African salary survey 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 survey and benchmark used is PwC's REMChannel® Survey. The RHCC is satisfied that this survey and benchmark is 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 benefits 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	Policy and link to business strategy
STIs (variable) **Economic – drives sound operational efficiency that assist the Group's ability to recover rising input costs and improved returns on the asset base. This enables the creation of shareholder value.**	The short-term incentive ("STI") constitutes a performance bonus. This bonus is designed to motivate and reward senior management for its contribution to the achievement of targets related to main business drivers, ultimately increasing shareholder value. **Performance conditions:** • Headline earnings before tax per share ("HEBTPS") target – the 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. • Operational efficiency – the efficiency calculation is based on targets set for the percentage of second-grade eggs sold at egg packing stations, day-old chicks produced per broiler-type breeder hen placed at the start of the laying cycle, and the feed conversion ratio and egg production efficiency for layer-type hens. Each of the three operational efficiency measures contribute one third to the STI. The operational efficiency targets have been amended for the 2020 financial year as follows: o they will include a target for increases in operating costs per unit produced; and o the measurement target for layer farming efficiency has been amended. Details are set out in the STI section below and are also available in annexure 5 of the Notice to the February 2020 AGM. • Separate targets for HEBTPS and operational efficiency are set for STI participants employed in the Group's other African operations to align the earnings achieved in each region. Growth in EP is also measured by country. Executive management determine the HEBTPS, EP and operational efficiency targets for the operations in Mozambique, Zambia and Uganda. The table below provides more detail on the measurement of STI achievements for the Group:

	HEBTPS	EP	Operational efficiency
CEO, CFO and executives	Group target	Group target	RSA target
Other RSA participants	Group target	Group target	RSA target
African country manager	Group target	Group target	Country target
Other African participants	Country target	Country target	Country target

Component	Policy and link to business strategy
LTIs (variable) **Economic – drives share price growth and by extension, the creation of shareholder value.**	The long-term incentives ("LTI") consists of a Share Appreciation Rights ("SAR") Plan designed to attract and retain talent over the long term, as well as align the interests of employees with that of shareholders. Participation in the LTI is restricted to the CEO, CFO, executive committee and a small percentage of the Group's senior management. 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 over a three to five-year period from the grant date. **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 TGP.

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 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. 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.

Earning 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 76. Linear vesting from 0% applies for partial achievement of performance measures.*

Senior management with significant responsibility have an STI earning potential of 35% of TGP. Selected other senior management have an STI earning potential of 15% of TGP.

The aggregate 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 the maximum earning potential depending on the participant's level.

2020 STI performance measures

The RHCC has changed the measurement for the achievement of financial and operational targets for the STI for 2020.

The STI 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	110.0* cents per share	123.3* 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 day-old broiler chick production, as well as targets for the percentage of second-grade eggs sold at the egg packing stations, layer-type hen production efficiency and operating cost management. See further details in section below.	

* *Targets for 2020. At performance of HEBTPS of 110.0 cents per share or lower, the bonus will be 0%. The measurement of HEBTPS is impacted by the actual weighted average number of shares (excluding treasury shares held) in issue. During 2019 the Group repurchased and cancelled 10 505 000 and purchased 8 083 426 shares as treasury 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.

HEBTPS targets

In determining the HEBTPS target for 2020, the RHCC considered the expected pressure on earnings from the eggs business, where egg selling prices are expected to be under increased pressure due to the projected imbalance in the supply and demand of eggs during the next financial year. Based on the historical performance of the Group, the RHCC considers the HEBTPS target set for 2020 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 RHCC to establish minimum and maximum potential bonus pay-outs.

Operational targets

The 2019 targets were for farming production and egg packing station efficiency only, with targets set for feed conversion ratios and egg production efficiency for layer-type chickens, breeder performance of broiler-type hens and egg packing station efficiencies. None of these targets incorporated the importance of managing operating cost increases to ensure margin optimisation.

To determine operational targets for 2020, the RHCC considered a new methodology to calculate the production efficiency of layer-type hens as well as the importance of managing operating costs across the Group's operations. Measurements for the breeding efficiency of broiler-type hens and egg packing station efficiency were retained. However, the weighting was reduced to one quarter each from one third each in 2019.

The measurement for the egg production efficiency of layer-type hens was aligned with the internationally recognised performance efficiency factor ("PEF") calculation used to measure the production efficiency of broiler-type birds. The measurement for 2020 will incorporate the actual number of eggs produced per hen housed at the start of the laying cycle ("Eggs/HH"), the feed conversion ratio ("FCR") achieved during the laying cycle and the livability ("LIVE") achieved during the laying cycle. These three factors will be included in a calculation and expressed as a target for the Layer Productivity Index ("LPI").

The target for operating cost increases per unit is based on a weighted average increase per unit produced by the Group's different South African operations.

Targets are commercially sensitive and therefore not disclosed. The RHCC considers the targets to be sufficiently stretching to ensure that, if achieved, they would optimise Group profitability.

The 2020 weighting of the operational targets will be:

Target	Weighting %
LPI	25
Egg packing station efficiency	25
Broiler breeder hen efficiency	25
Operating cost management	25

The RHCC considers these measurements as the most important in each of the businesses to increase earnings and realise the Company's business strategy.

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.

Malus and clawback

STI payments will either be forfeited or the after-tax benefit clawed back should STI payments have been made for a period of twenty-four months after a trigger event.

A trigger event, at the absolute discretion of the RHCC, means any event to which the participant contributed and that resulted in:

- a willful material misstatement of the financial results of the Company and/or any subsidiary;
- a material failure in the risk management of the Company and/or any subsidiary; and/or
- fraudulent or dishonest conduct.

LTIs

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

SAR

Shareholders approved the rules of 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 from the strike price at the award date to the share price at the exercise date. Special dividends declared between the award date and vesting date are added to the share price at the exercise date to determine the quantum of an award. 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.

Rule changes approved at the 2019 AGM

In 2019, shareholders approved amendments to the rules of the SAR Plan that:

- Changed the calculation of the monetary value of share appreciation rights to include special dividends declared between the date of allocation and the date of vesting in the exercise price;
- Changed the definition of market value of a QFH share from a daily closing price to a volume weighted average price over a period of 3 days;
- Changed the maximum share threshold that may be allocated to a participant from 1 million to 4.5 million shares; and
- Introduced specific rules for early retirement that clarified the application of rules relating to retirement and early retirement.

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 face value to the multiple. In determining annual top-up allocations, only unvested past allocations and their face value when allocated are considered. Top-up awards are made annually.

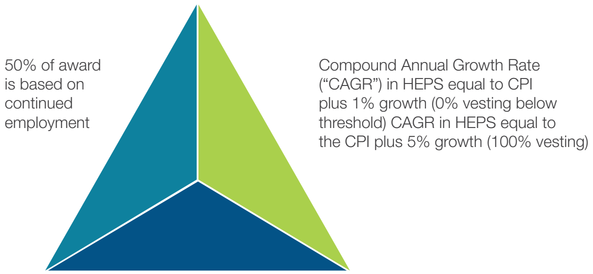
Settlement

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.

Performance conditions for vesting

The performance conditions for the 2020 grant of SARs are illustrated below:

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.



- SARs vest in 3 equal tranches on 3rd, 4th and 5th anniversary of award date.
- Twelve-month excercise period.
- No resetting of performance conditions is allowed and the relevant tranche will lapse if the applicable performance conditions are not met.

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 7.25% of Quantum Foods' issued share capital at 30 September 2019. The individual employee limit is 4.5 million shares, which amounts to 2.25% 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, 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.

Amendment to the SAR Plan Rules

A rule change incorporating malus and clawback into the SAR Plan will be proposed to shareholders at the 2020 AGM. After approval, a summary of the malus and clawback provisions will be included in our future remuneration reports.

Executive directors' service agreements

Executive directors' service agreements are prepared with input from the RHCC. These service agreements are similar to employment agreements for most other employees, apart from having 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. This approval will only be given in limited instances that will not impact the execution of executive responsibilities.

The survey and benchmark that is used in determining executive directors' remuneration is PwC's executive directors' remuneration practices and trends report which they publish on their website during June/July of each year. The RHCC is satisfied that the use of this report is appropriate in the context of Quantum Foods and its business.

Non-executive directors' 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 PwC's NEDs' fees practices and trends report which they publish on their website during January of each year. 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 the King IV Report on Corporate Governance™ for South Africa, 2016 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 2019

TGP

The RHCC approved a salary increase mandate of 6% (2018: 6.5%) of total cost to company for non-sectoral employees and executives, and a 6% (2018: 6.5%) basic pay increase for sectoral employees.

STI outcomes

R19.9 million of the R24.2 million bonus pool cap accrued to participants of the STI in 2019.

The R19.9 million comprised an amount of R19.5 million for participants measured against the Group's and South Africa's operational performance as well as an amount of R0.4 million for participants measured against the Group's Other African businesses' performance.

The table below sets out the STI performance outcomes for 2019:

	Weighting %	Target performance	Stretch performance	Actual performance	Actual achievement (% of measure)	STI outcome (% of STI)
Group and SA operations HEBTPS	50	118.7 cents	133.0 cents	131.4 cents	88.6	44.3
EP	25	Three year rolling average improvement is R42.4 million			100	25.0
Operational efficiency	25	See below			61.7	15.4
Total	100					84.7

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

Performance measure	Weighting	Actual achievement %
Chicks per hen housed – broiler breeders	1/3	0
Eggs per hen housed and feed conversion rate – layer hens	1/3	85.0
Egg packing station efficiencies	1/3	100.0
Weighted average achievement	100%	61.7

Different targets are set for each Other African business and the table below provides a summary of the STI outcome of 2019.

Performance measure	Weighting %	Actual achievement %	STI outcome %
HEBTPS	50	0	0
EP	25	56.7	14.2
Operational efficiency	25	50.3	12.6
Total	100		26.8

The table below sets out the STIs of executive directors and prescribed officers in 2019, based on the achievement of performance targets:

Participant	STI earning potential (as a % of TGP)*	Achievement of performance conditions %	Actual STI (as % of TGP)	2019 STI amount included in single figure table R'000
HA Lourens	100	84.7	84.7	3 143
AH Muller	75	84.7	63.5	1 502
HE Pether	75	84.7	63.5	928

LTI outcomes

The first tranche of SARs granted in 2016 and the second tranche of SARs granted in 2015 vested in 2019. The tables below set out the achievement of the performance conditions for the SAR awards that vested during 2019.

2016 grant	Threshold	Stretch	Actual
Performance measure = Compound annual growth in adjusted HEPS	CPI plus 1% growth	CPI plus 5% growth	CPI plus 39.4% growth
2016 SAR allocation*	65.0 cents	72.6 cents	163.9 cents**
Vesting (%)	0	100	100
Vesting date			18 February 2019
Performance period			1 October 2015 – 30 September 2018
Employment period			18 February 2016 – 18 February 2019

* 2016 adjusted HEPS was 54.0 cents per share.
** 2018 HEPS

2015 grant	Threshold	Stretch	Actual
Performance measure = Compound annual growth in adjusted HEPS	CPI plus 1% growth	CPI plus 5% growth	CPI plus 50.2% growth
2015 SAR allocation*	35.7 cents	41.4 cents	163.9 cents**
Vesting (%)	0	100	100
Vesting date			27 February 2019
Performance period			1 October 2014 – 30 September 2018
Employment period			27 February 2015 – 27 February 2019

* 2015 adjusted HEPS was 28.1 cents per share.
** 2018 HEPS

LTIs granted during 2019

During the year under review, 6 049 032 SARs, at a strike price of R4.25 per share, were granted. The baseline HEPS of 163.90 cents per share for the 2019 allocation is the actual HEPS recorded for 2018. The Board did not increase the baseline HEPS for the 2019 allocation. Therefore, the total 100% vesting for the performance component of the 2019 allocation will be realisable at CAGR in HEPS of CPI plus 5% from the baseline of 163.90 cents per share.

Unvested LTIs

The table below discloses the number of each executive director and prescribed officer's LTIs at 30 September 2019, whether allocated, settled, or forfeited, as well as the value of SARs exercised during the year and an 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. Special dividends of 22 cents per share for 2017 and special dividends of 49 cents per share for 2018 are included in the indicative value calculated.

Date awarded		Opening number	Granted during the year	Grant/ strike price Cents	Forfeited during the year	Vested during the year	Number exercised during the year	Exercise price	Cash value of instruments on exercise R'000	Closing number	Indicative value R'000
HA Lourens											
2015/02/27	Note 1	516 250	–	315	–	258 126	258 126	436	313	258 124	312
2016/02/18	Note 2	634 240	–	266	–	211 412	211 412	421	327	422 828	719
2017/02/23	Note 3	2 280 786	–	309	–	–	–	–	–	2 280 786	2 897
2018/02/22	Note 4	2 267 972	–	391	–	–	–	–	–	2 267 972	522
2019/02/11	Note 5	–	1 912 728	425	–	–	–	–	–	1 912 728	Nil
AH Muller											
2015/02/27	Note 1	318 570	–	315	–	159 284	159 284	436	193	159 286	193
2016/02/18	Note 2	187 902	–	266	–	62 634	62 634	423	98	125 268	213
2017/02/23	Note 3	510 736	–	309	–	–	–	–	–	510 736	649
2018/02/22	Note 4	656 978		391	–	–	–	–	–	656 978	151
2019/02/11	Note 5	–	497 266	425	–	–	–	–	–	497 266	Nil
HE Pether											
2015/02/27	Note 1	224 410	–	315	–	74 804	149 608	441	188	74 802	91
2016/02/18	Note 2	122 190	–	266	–	40 730	40 730	423	64	81 460	138
2017/02/23	Note 3	402 570	–	309	–	–	–	–	–	402 570	511
2018/02/22	Note 4	345 174	–	391	–	–	–	–	–	345 174	79
2019/02/11	Note 5	–	315 264	425	–	–	–	–	–	315 264	Nil

Note 1: Vesting in three equal tranches on 27/02/2018, 27/02/2019 and 27/02/2020. Awards must be exercised within 12 months of vesting.
Note 2: Vesting in three equal tranches on 18/02/2019, 18/02/2020 and 18/02/2021. Awards must be exercised within 12 months of vesting.
Note 3: Vesting in three equal tranches on 23/02/2020, 23/02/2021 and 23/02/2022. Awards must be exercised within 12 months of vesting.
Note 4: Vesting in three equal tranches on 22/02/2021, 22/02/2022 and 22/02/2023. Awards must be exercised within 12 months of vesting.
Note 5: Vesting in three equal tranches on 11/02/2022, 11/02/2023 and 11/02/2024 Awards must be exercised within 12 months of vesting.

The table below discloses the number of each executive director and prescribed officer's LTIs at 30 September 2018, whether allocated, settled or forfeited, as well as the value of SARs exercised during the year and an 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		Opening number	Granted during the year	Grant/ strike price Cents	Forfeited during the year	Vested during the year	Number exercised during the year	Exer-cise price	Cash value of instru-ments on exer-cise R'000	Closing number	Indica-tive value R'000
HA Lourens											
2015/02/27	Note 1	**774 376**	**–**	**315**	**–**	**258 126**	**258 126**	**460**	**375**	**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**	**159 284**	**474**	**254**	**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. Awards must be exercised within 12 months of vesting.
Note 2: Vesting in three equal tranches on 18/02/2019, 18/02/2020 and 18/02/2021. Awards must be exercised within 12 months of vesting.
Note 3: Vesting in three equal tranches on 23/02/2020, 23/02/2021 and 23/02/2022. Awards must be exercised within 12 months of vesting.
Note 4: Vesting in three equal tranches on 22/02/2021, 22/02/2022 and 22/02/2023. Awards must be exercised within 12 months of vesting.

Reconciliation of LTI

The table below details the number of shares transferred to participants to settle the LTI and the remaining number of shares available for transfer to participants:

Total number of shares that may be transferred to settle the LTI	**14 500 000**
Number of shares transferred in 2018	(212 396)
Number of shares transferred in 2019	(1 309 899)
Remaining number of shares that may be transferred to settle the LTI	12 977 705

Remuneration outcomes for 2019

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 2019 and 2018, respectively:

30 September 2019	Basic salary R'000	Benefits R'000	STI R'000	LTI R'000	Directors' fees R'000	Total R'000
HA Lourens	**3 234**	**413**	**3 143**	**640**	**–**	**7 430**
AH Muller	**2 019**	**311**	**1 502**	**292**	**–**	**4 125**
HE Pether	**1 149**	**289**	**928**	**252**	**–**	**2 618**
Total	**6 402**	**1 013**	**5 573**	**1 184**	**–**	**14 173**

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

NED fees

The table below sets out the fees paid to NEDs.

Name	2019 R'000	2018 R'000
WA Hanekom	**428**	402
N Celliers	**282**	266
Prof. ASM Karaan	**338**	318
PE Burton	**390**	344
GG Fortuin	**282**	266
T Golden	**175**	–

APPROVAL

The RHCC is satisfied that there were no material deviations from the remuneration policy during 2019.

This remuneration report was approved by the RHCC on 13 November 2019.

Directors' responsibility

In accordance with the requirements of the 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 2019, 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 27 November 2019 and are signed on its behalf by:

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer

27 November 2019

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 2019. 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 2019, 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

27 November 2019

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")*.

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 2019, 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 sixth 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 chairman, 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 60 of this 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 International Financial Reporting Standards ("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 this 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 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. 2020 will be Mr. RJ Jacobs' second year as designated auditor of the Company. The re-appointment of PwC as the recommended

Audit and risk committee report

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.

The committee has ensured that the Company has established appropriate financial reporting procedures and that those procedures are satisfactory.

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 84.

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
27 November 2019

Independent auditor's report on the summary consolidated financial statements

To the Shareholders of Quantum Foods Holdings Limited

OPINION

The summary consolidated financial statements of Quantum Foods Holdings Limited, set out on pages 88 to 98 of this integrated report, which comprise the summary consolidated statement of financial position as at 30 September 2019, 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 Limited for the year ended 30 September 2019.

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 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 27 November 2019. 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.

DIRECTOR'S 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.

PricewaterhouseCoopers Inc.
Director: R Jacobs
Registered Auditor

Stellenbosch
27 November 2019

Summary consolidated statement of financial position

as at 30 September 2019

	2019 R'000	2018 R'000
ASSETS		
Non-current assets	1 181 521	1 091 867
Property, plant and equipment	1 160 768	1 071 869
Intangible assets	7 722	10 637
Investment in associate	8 998	8 789
Trade and other receivables	3 356	–
Deferred income tax	677	572
Current assets	1 332 808	1 422 816
Inventories	288 029	240 396
Biological assets	379 596	332 058
Trade and other receivables	433 280	425 424
Derivative financial instruments	4 658	–
Current income tax	7 651	2 477
Cash and cash equivalents	219 594	422 461
Total assets	2 514 329	2 514 683
EQUITY AND LIABILITIES		
Capital and reserves attributable to owners of the parent	1 837 412	1 854 391
Share capital	1 465 069	1 500 248
Treasury shares	(23 947)	(1 541)
Other reserves	(210 432)	(226 402)
Retained earnings	606 722	582 086
Total equity	1 837 412	1 854 391
Non-current liabilities	256 790	234 405
Interest-bearing liability	6 021	6 128
Deferred income tax	242 843	220 559
Provisions for other liabilities and charges	7 926	7 718
Current liabilities	420 127	425 887
Trade and other payables	420 019	424 661
Derivative financial instruments	–	1 127
Interest-bearing liability	108	99
Total liabilities	676 917	660 292
Total equity and liabilities	2 514 329	2 514 683

Summary consolidated statement of comprehensive income

for the year ended 30 September 2019

	Notes	2019 R'000	2018 R'000
Revenue	3	4 417 674	4 121 901
Cost of sales		(3 395 377)	(3 187 855)
Gross profit		1 022 297	934 046
Other income		9 915	33 148
Other gains/(losses) – net	4	149 517	420 072
Sales and distribution costs		(251 995)	(232 391)
Marketing costs		(13 278)	(15 205)
Administrative expenses		(126 517)	(118 196)
Other operating expenses		(544 706)	(548 195)
Operating profit		245 233	473 279
Investment income		15 102	24 919
Finance costs		(3 959)	(1 116)
Share of profit of associate company		209	706
Profit before income tax		256 585	497 788
Income tax expense		(67 390)	(135 561)
Profit for the year		189 195	362 227
Other comprehensive income for the year			
Items that may subsequently be reclassified to profit or loss:			
Fair value adjustments to cash flow hedging reserve		(1 227)	4 982
For the year		26 178	23 627
Deferred income tax effect		(1 426)	(18)
Current income tax effect		(5 903)	(6 598)
Realised to profit or loss		(27 883)	(16 707)
Deferred income tax effect		18	568
Current income tax effect		7 789	4 110
Movement on foreign currency translation reserve			
Currency translation differences		13 080	(36 299)
Total comprehensive income for the year		201 048	330 910
Profit for the year attributable to owners of the parent		189 195	362 227
Total comprehensive income for the year attributable to owners of the parent		201 048	330 910
Earnings per ordinary share (cents)	5	93	164
Diluted earnings per ordinary share (cents)	5	91	163

Summary consolidated statement of changes in equity

for the year ended 30 September 2019

	2019 R'000	2018 R'000
Share capital and treasury shares	**1 441 122**	1 498 707
Opening balance	**1 498 707**	1 552 670
Shares repurchased and cancelled	**(35 179)**	(52 422)
Ordinary shares acquired by subsidiary	**(27 368)**	(2 520)
Ordinary shares transferred – share appreciation rights	**4 962**	979
Other reserves	**(210 432)**	(226 402)
Opening balance	**(226 402)**	(200 991)
Other comprehensive income for the year	**11 853**	(31 317)
Recognition of share-based payments	**8 090**	6 633
Ordinary shares transferred – share appreciation rights	**(3 973)**	(727)
Retained earnings	**606 722**	582 086
Opening balance	**582 086**	339 966
Adjustment to opening retained earnings*	**(795)**	–
Profit for the year	**189 195**	362 227
Dividends paid	**(162 775)**	(119 855)
Ordinary shares transferred – share appreciation rights	**(989)**	(252)
Total equity	**1 837 412**	1 854 391

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

Summary consolidated statement of cash flows

for the year ended 30 September 2019

	2019 R'000	2018 R'000
CASH FLOW FROM OPERATING ACTIVITIES	**162 706**	431 555
Cash profit from operating activities	**329 847**	547 802
Working capital changes	**(109 244)**	12 889
Cash effect of hedging activities	**(6 736)**	8 884
Cash generated from operations	**213 867**	569 575
Income tax paid	**(51 161)**	(138 020)
CASH FLOW FROM INVESTING ACTIVITIES	**(140 946)**	(87 355)
Additions to property, plant and equipment	**(152 587)**	(115 749)
Additions to intangible assets	**(4)**	(283)
Proceeds on disposal of property, plant and equipment	**3 271**	3 758
Advance of non-interest-bearing loan	**(6 728)**	–
Interest received	**15 102**	24 919
Cash surplus	**21 760**	344 200
CASH FLOW FROM FINANCING ACTIVITIES	**(225 941)**	(175 320)
Repayment of interest-bearing liability	**(98)**	(91)
Shares repurchased	**(35 179)**	(52 422)
Treasury shares acquired by subsidiary	**(27 368)**	(2 520)
Interest paid	**(724)**	(554)
Dividends paid to ordinary shareholders	**(162 572)**	(119 733)
(Decrease)/increase in cash and cash equivalents	**(204 181)**	168 880
Effects of exchange rate changes	**1 314**	(7 888)
Cash and cash equivalents at beginning of year	**422 461**	261 469
Cash and cash equivalents at end of year	**219 594**	422 461

Notes to the summary consolidated financial statements

for the year ended 30 September 2019

	2019 R'000	2018 R'000
SEGMENT INFORMATION		
Segment revenue	**4 417 674**	4 121 901
Eggs	**1 095 195**	1 206 489
Farming	**1 325 152**	1 232 798
Animal feeds	**1 758 627**	1 460 387
Other African countries	**238 700**	222 227
Segment results – excluding items of a capital nature	**244 611**	472 350
Eggs	**38 341**	286 669
Farming	**112 087**	98 464
Animal feeds	**89 100**	69 413
Other African countries	**14 226**	31 036
Head office costs	**(9 143)**	(13 232)
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	**622**	929
Eggs	**(96)**	1 943
Farming	**1 053**	(504)
Animal feeds	**(426)**	(510)
Other African countries	**91**	–
Segment results	**245 233**	473 279
Eggs	**38 245**	288 612
Farming	**113 140**	97 960
Animal feeds	**88 674**	68 903
Other African countries	**14 317**	31 036
Head office costs	**(9 143)**	(13 232)
A reconciliation of the segment results to operating profit before income tax is provided below:		
Segment results	**245 233**	473 279
Adjusted for:		
Investment income	**15 102**	24 919
Finance costs	**(3 959)**	(1 116)
Share of profit of associate company	**209**	706
Profit before income tax per statement of comprehensive income	**256 585**	497 788

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, apart from the adoption of the new and amended standards, as set out below.

1.1 New and amended standards adopted by the Group

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

- IFRS 9 – Financial Instruments; and
- IFRS 15 – Revenue from Contracts with Customers.

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

1.2 Impact of standards issued but not yet effective

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

The standard will affect primarily the Group's operating leases. The Group leases various poultry houses, warehouses, machinery, equipment and vehicles under operating lease agreements. As at the reporting date, the Group has non-cancellable operating lease commitments of R52.5 million.

The Group expects to recognise right-of-use assets of approximately R62.5 million on 1 October 2019, and lease liabilities of R77.0 million.

The Group expects that net profit after tax will increase by approximately R0.5 million for 2020 as a result of adopting the new rules. Earnings before interest, taxation, depreciation and amortisation (EBITDA) is expected to increase by approximately R27.6 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Notes to the summary consolidated financial statements (continued)

for the year ended 30 September 2019

1. BASIS OF PREPARATION (continued)

1.2 Impact of standards issued but not yet effective (continued)

The difference between the non-cancellable operating lease commitments and lease liability on 1 October mainly relates to leases which have extension clauses where management has determined it highly probable that extensions will be done.

The Group intends to apply the modified retrospective transition approach and will not restate comparative information.

2. CHANGES IN ACCOUNTING POLICIES

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

(a) Impact on the financial statements

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

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

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

There was no impact on the statement of comprehensive income.

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

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

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

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

(i) Derivatives and hedging activities

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

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

(ii) Impairment of financial assets

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

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

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

The Group applies the IFRS 9 simplified approach to measuring ECL, which uses a lifetime expected loss allowance for all trade receivables. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to such trade receivable and the economic environment. Forward-looking information includes expected economic growth and employment rates and the potential impact thereof on our customers. Trade receivables have been grouped together based on shared characteristics and the days past due. Shared characteristics refer to type of product sold to the customer. The calculation of the ECL takes into account the insurance cover in place.

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

Notes to the summary consolidated financial statements (continued)

for the year ended 30 September 2019

2. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

	2019 R'000	2018 R'000
3. REVENUE		
Disaggregation of revenue from contracts with customers:		
Revenue		
Eggs	**1 095 195**	1 206 489
Layer farming*	**197 058**	183 901
Broiler farming**	**1 128 094**	1 048 897
Animal feeds	**1 758 627**	1 460 387
Zambia***	**144 538**	128 522
Uganda***	**48 966**	49 263
Mozambique****	**45 196**	44 442
	4 417 674	4 121 901

* *Layer farming sales include the sale of day-old pullets and point-of-lay hens.*
** *Broiler farming sales include the sales of day-old broilers and live birds.*
*** *Includes the sale of animal feeds, commercial eggs and day-old chicks.*
**** *Includes the sale of commercial eggs.*

	2019 R'000	2018 R'000
4. OTHER GAINS/(LOSSES) – NET		
Biological assets fair value adjustment	**105 091**	74 063
Unrealised – reflected in carrying amount of biological assets	**790**	(775)
Realised – reflected in cost of goods sold	**104 301**	74 838
Agricultural produce fair value adjustment	**40 015**	344 783
Unrealised – reflected in carrying amount of inventory	**(2 891)**	1 142
Realised – reflected in cost of goods sold	**42 906**	343 641
Foreign exchange differences	**339**	4 413
Financial instruments fair value adjustments	**3 003**	(1 243)
Foreign exchange contract cash flow hedging ineffective losses	**447**	(2 873)
Profit on disposal of property, plant and equipment	**622**	929
	149 517	420 072
5. EARNINGS PER ORDINARY SHARE		
Basic		
The calculation of basic earnings per share is based on profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares (net of treasury shares) in issue during the year:		
Profit for the year	**189 195**	362 227
Weighted average number of ordinary shares in issue ('000)	**204 298**	220 468
Diluted		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive contingent ordinary shares. Share appreciation rights issued in terms of the share incentive scheme have a potential dilutive effect on earnings per ordinary share.		
The calculation of diluted earnings per share is based on profit for the period attributable to owners of the parent divided by the diluted weighted average number of ordinary shares (net of treasury shares) in issue during the period:		
Profit for the year	**189 195**	362 227
Diluted weighted average number of ordinary shares in issue ('000)	**207 185**	222 821
Headline earnings is calculated in accordance with Circular 4/2018 issued by the South African Institute of Chartered Accountants.		

Notes to the summary consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 R'000	2018 R'000
5. EARNINGS PER ORDINARY SHARE (continued)		
Reconciliation between profit for the period attributable to owners of the parent and headline earnings		
Profit for the year	**189 195**	362 227
Remeasurement of items of a capital nature		
Profit on disposal of property, plant and equipment	**(554)**	(782)
Gross	**(622)**	(929)
Tax effect	**68**	147
Headline earnings for the year	**188 641**	361 445
Earnings per share (cents)	**93**	164
Diluted earnings per share (cents)	**91**	163
Headline earnings per share (cents)	**92**	164
Diluted headline earnings per share (cents)	**91**	162
6. CONTINGENT LIABILITIES		
Guarantees in terms of loans by third parties to contracted service providers	**23 861**	29 550

Litigation

Customer claim

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

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 ("ZCCPC") regarding alleged violation of the Competition and Consumer Protection Act ("CCPA"). The investigation was finalised in March 2018, and Quantum Foods Zambia Ltd was found to be in contravention with certain provisions of the CCPA. An appeal was lodged at the Competition and Consumer Protection Tribunal for Zambia. The matter was settled with the ZCCPC within the reporting period and the provision previously recognised was reversed. The settlement had no adverse financial impact on the Group.

Dispute with egg contract producer

The Group has an outstanding trade receivable from a previous egg contract producer. The producer had filed a counterclaim against the Group for alleged breach of the terms of the terminated agreement. The claim was withdrawn as part of a settlement agreement. The settlement had no adverse financial impact on the Group.

7. FUTURE CAPITAL COMMITMENTS

Capital expenditure approved by the Board and contracted for amounts to R14.6 million (2018: R50.0 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R86.0 million (2018: R95.3 million).

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

8. EVENTS AFTER THE REPORTING PERIOD

Dividend

A final dividend of 25 cents per ordinary share has been approved and declared by the Board for the year ended 30 September 2019, on 28 November 2019. 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 20 cents per ordinary share for shareholders liable to pay dividends tax. The dividend amounts to 25 cents per ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares is 200 024 716 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.

9. PREPARATION OF FINANCIAL STATEMENTS

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

10. AUDIT

The consolidated annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditors' 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)*

* *Executive.*

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 Building
35 Kerk Street
Stellenbosch 7600
PO Box 7403
Stellenbosch 7599
Tel: 021 887 9602
Fax: 021 887 9624

and

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

AUDITOR

PricewaterhouseCoopers Inc.

WEBSITE ADDRESS

www.quantumfoods.co.za

QUANTUM FOODS

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2019

www.quantumfoods.co.za

Consolidated financial statements
for the year ended 30 September 2019

Contents

Quantum Foods

is the largest producer of eggs
in South Africa.

GREYMATTER & FINCH # 13561

Directors' responsibility

In accordance with the requirements of the Companies Act, Act 71 of 2008, as amended ("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 10 to 78 were approved by the Board on 27 November 2019 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

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 2019, 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[1] ("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 2019, 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 sixth 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 60 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 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. 2020 will be Mr. RJ Jacobs' second 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.

[1] *Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.*

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.

The committee has ensured that the Company has established appropriate financial reporting procedures and that those procedures are satisfactory.

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
27 November 2019

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 2019, 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 12 to 78 comprise:

- the consolidated and company statements of financial position as at 30 September 2019;
- 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;
- the accounting policies for the year then ended; and
- the notes to the consolidated and company financial statements.

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.

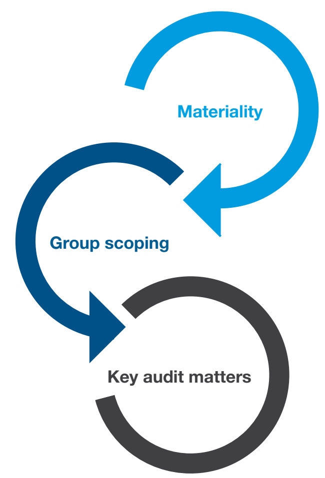
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview



Overall Group materiality

R12 294 000, which represents 5% of five-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 its financial significance, and the ultimate parent company (Quantum Foods Holdings Ltd) and a subsidiary of the Group, 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 considerations

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 294 000
How we determined it	5% of five-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 five 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 its financial significance. We also performed full scope audits on the ultimate parent company (Quantum Foods Holdings Ltd) and a subsidiary of the Group (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.

Independent auditor's report (continued)

To the shareholders of Quantum Foods Holdings Ltd

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	How our audit addressed the 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, day-old-chicks, 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 R380 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 36.3 to the financial statements. The valuation of 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. This key audit matter relates to the consolidated financial statements. **Impairment consideration** As at 30 September 2019, 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 three 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 CGUs. 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.	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. We obtained management's valuation of livestock which included the quantities and values of all livestock and tested the mathematical accuracy of the valuation, noting no material exceptions. We performed the following procedures over the quantities used in the valuation: • We obtained an understanding and tested controls relating to the safeguarding of livestock; • On a sample basis we physically inspected livestock to ensure the accuracy of the quantities used in the valuation and noted no exceptions; and • For livestock in the custody of third parties, we obtained confirmations of the quantities held directly from third parties, noting no exceptions. In addition, we tested the unobservable inputs used by management in determining the value of livestock 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 year-end 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. **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.

Key audit matters	How our audit addressed the key audit matters
Impairment consideration (continued) 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.	**Value in use calculations:** (continued) 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, and capabilities of management's expert and the adequacy of the work performed. 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. We performed the following procedures in relation to management's fair value assessment: • We discussed with management's expert the assumptions used in determining the adjusted fair value for the current year. 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 are consistent with those used by the expert in prior years based on various market indicators. 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 we concur with management's conclusion that no impairment was identified.

Independent auditor's report (continued)

To the shareholders of Quantum Foods Holdings Ltd

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "*Quantum Foods Holdings Ltd Annual financial statements for the year ended 30 September 2019*" 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 document titled "*Quantum Foods Integrated report 2019*", which is expected to be made available to us after that date. The 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.

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 Ltd for 6 years. The business of Quantum Foods Holdings Ltd was previously transacted through Pioneer Food Group Ltd after the merger of Sasko (Pty) Ltd and Bokomo (Pty) Ltd in 1997, of which, based on available statutory records, PricewaterhouseCoopers Inc. and its predecessor firms was the auditor for 51 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: R Jacobs
Registered Auditor

Stellenbosch
27 November 2019

Directors' report

for the year ended 30 September 2019

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 12 to 78 set out fully the Group's financial position, financial performance and the cash flows for the year ended 30 September 2019.

3. SHARE CAPITAL

The authorised share capital consists of 400 000 000 (2018: 400 000 000) ordinary no par value shares. At year-end 200 024 716 (2018: 210 529 716) ordinary shares were in issue.

During the reporting period 10 505 000 (2018: 11 784 941) ordinary shares were repurchased by the Company and cancelled.

During the reporting period a subsidiary acquired treasury shares. This subsidiary held 7 107 946 (2018: 334 419) ordinary shares at year-end.

4. DIVIDENDS

A final gross dividend of 25 cents (2018: 70 cents) per ordinary share was declared. This is in addition to the interim gross dividend of 8 cents (2018: 20 cents) per ordinary share.

5. DIRECTORS

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

- Wouter André Hanekom – chairman
- Norman Celliers
- Hendrik Albertus Lourens
- André Hugo Muller
- Prof. Abdus Salam Mohammad Karaan
- Patrick Ernest Burton
- Geoffrey George Fortuin
- Tanya Golden (appointed 10 December 2018)

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

At the AGM held at Rhebokskloof Estate, Agter Paarl, Windmeul on Friday, 15 February 2019 at 13:30 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 2019 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 32 (contingent liabilities) of the annual financial statements for detail on the status of a customer claim, allegations of anti-competitive trade practices in Zambia and dispute with an egg contract producer. No litigation matters with potential material consequences exist at the reporting date.

8. EVENTS AFTER THE REPORTING PERIOD

Other than the matters raised in note 39 to the annual financial statements, no other events occurred after the reporting date that may have a material effect on the Group.

9. AUDITORS

PwC will continue in office in accordance with section 90(6) of the Companies Act.

Accounting policies

for the year ended 30 September 2019

1. BASIS OF PREPARATION

The principal 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 ("Listings Requirements") 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 New and amended accounting standards adopted by the Group

The following standards and amendments have been adopted by the Group and became effective for the current reporting period beginning on 1 October 2018:

- *IFRS 9 – Financial Instruments*
- *IFRS 15 – Revenue from Contracts with Customers*
- *Amendments to IFRS 2 – Share-based Payment – clarification of share-based payment transactions*
- *Annual Improvements 2014 – 2016 cycle*
- *IFRIC 22 – Foreign Currency Transactions and Advance Considerations*
- *Annual Improvements 2015 – 2017 cycle*

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. This is disclosed in note 26 of the accounting policies. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

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):

- *IFRIC 23 – Uncertainty over Income Tax Treatments (effective 1 January 2019)*
- *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 R52.5 million (refer to note 33 to the financial statements).

The Group expects to recognise right-of-use assets of approximately R62.5 million on 1 October 2019, and lease liabilities of R77.0 million.

The Group expects that net profit after tax will increase by approximately R0.5 million for 2020 as a result of adopting the new rules. Earnings before interest, taxation, depreciation and amortisation ("EBITDA") is expected to increase by approximately R27.6 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

The difference between the non-cancellable operating lease commitments and lease liability on 1 October mainly relate to leases which has extension clauses which management has determined to be highly probable that extensions will be done.

The Group intends to apply the modified retrospective transition approach and will not restate comparative information.

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, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary.

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.

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 those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

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 in profit or loss.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised 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 the direct attributable costs of investments.

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.

Accounting policies (continued)

for the year ended 30 September 2019

2. BASIS OF CONSOLIDATION (CONTINUED)

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 they are 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 5 and 25 years and assessed for impairment when there is an indication that the assets may be impaired.

4. INTANGIBLE ASSETS (CONTINUED)

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

From 1 October 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded in profit or loss. The Group reclassifies financial assets when, and only when, its business model for managing those assets changes.

6.2 Recognition and derecognition

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 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.

6.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its financial assets:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost are measured at FVPL. A gain or loss on a financial asset that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Accounting policies (continued)

for the year ended 30 September 2019

6. FINANCIAL ASSETS (CONTINUED)

6.4 Impairment

From 1 October 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

6.5 Accounting policies applied until 30 September 2018

The Group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 30 September 2018, the Group classified its financial assets in the following categories:

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

The classification depended on the purpose for which the financial assets were acquired. Management determined 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.

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.

Measurement

The measurement at initial recognition did not change on adoption of IFRS 9 (see description above).

Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest rate method.

Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value of financial assets at FVPL were recognised within other gains/(losses) – net, in profit or loss.

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.

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Loans and receivables

For the loans and receivables category, the amount of the loss was 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 was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

6. FINANCIAL ASSETS (CONTINUED)

6.5 Accounting policies applied until 30 September 2018 (continued)

Loans and receivables (continued)

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was 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. 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 the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 8.

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.

Accounting policies (continued)

for the year ended 30 September 2019

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.

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.

Income is recognised as follows:

Sale of goods

Sales of goods comprise the sale of animal feed, livestock and agricultural produce (eggs). Contracts with the Group's customers contain a single performance obligation to deliver the goods ordered by the customer. The sale of goods is the only income included in revenue in profit or loss.

Sale of goods are recognised when control of the products have transferred, being when a Group entity has delivered products to the customer, the customer has accepted the inventory risk related to the products and there is no unfulfilled obligation that could affect the customer's acceptance on the products.

Revenue from sales is based on the price specified in the sales contracts, net of value-added tax, estimated rebates and discounts and an adjustment for expected returns at the time of sale. Contract terms and accumulated experience are used to estimate and provide for the discounts and rebates, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as sales are made with credit terms (0 – 45 days) which are consistent with market practice.

The Group currently accepts returns from customers for damaged goods as well as returns for sell by date goods from certain customers. Contract terms and accumulated experience are used to estimate and provide for the returns at the time of sale. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting period. The refund liability is recorded within trade and other receivables unless a separate obligation to settle the customer exist, in which case the liability is recorded within trade and other payables.

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.

Accounting policies applied until 30 September 2018

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

Sales of goods comprise the sale of animal feed, livestock and agricultural produce.

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.

Accounting policies (continued)

for the year ended 30 September 2019

17. FOREIGN CURRENCY TRANSLATION (CONTINUED)

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 was 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 FVPL, 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 a lease:

- 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.

18. ACCOUNTING FOR LEASES: GROUP COMPANY IS THE LESSEE (CONTINUED)

Operating leases (continued)

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.

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.

Accounting policies (continued)

for the year ended 30 September 2019

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.

At the inception of the hedge relationship, the Group documents the economic relationship between the hedging instruments and hedged items including whether changes in cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

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 that qualify for hedge accounting

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 the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately within other gains or losses – net in profit or loss.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ("aligned forward element") is recognised within other gains or losses – net in profit or loss.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss. Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), the deferred hedging gains and losses, are included within the initial cost of the asset. 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, as the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. 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.

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 chief financial officer 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.

26. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers on the Group's financial statements.

(a) Impact on the financial statements

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

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EXTRACT)

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

There was no impact on the statement of comprehensive income.

Accounting policies (continued)

for the year ended 30 September 2019

26. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

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

The adoption of IFRS 9 Financial Instruments from 1 October 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 6 and 22. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings as at 1 October 2018 is as follows:

	Retained earnings R'000
Closed retained earnings 30 September 2018 – IAS 39	582 086
Increase in provision for trade receivables	(1 009)
Increase/decrease in deferred tax	214
Opening retained earnings 1 October 2018 – IFRS 9	581 291

(i) Classification and measurement

There has been no significant change to the classification and measurement of financial assets and financials liabilities of the Group, except for the impact of the new impairment requirements.

From 1 October 2018 the Group classifies financial assets in each of the IFRS 9 measurement categories based on the Group's business model for managing the financial assets and the cash flow characteristics of the financial asset.

	Measurement category		Carrying amount	
	Original (IAS 39)	New (IFRS 9)	30 September 2018 R'000	1 October 2018 R'000
Current financial assets				
Trade receivables*	Loans and receivables	Amortised cost	400 909	399 900
Other receivables**	Loans and receivables	Amortised cost	13 493	13 493
Cash and cash equivalents	Loans and receivables	Amortised cost	422 461	422 461
Current financial liabilities				
Derivatives	FVPL	FVPL	1 127	1 127

* *The differences noted in the carrying amount is the result of applying the new expected credit loss ("ECL") model. The reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements.*

** *The balance of other receivables include amount for value-added tax receivable of R10.4 million.*

(ii) Derivatives and hedging activities

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

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

26. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(iii) Impairment of financial assets

The Group has the following types of financial assets that are subject to IFRS 9's new ECL model:

- trade receivables for sales of inventory
- other receivables, and
- cash and cash equivalents

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

The Group applies the IFRS 9 simplified approach to measuring ECL, which uses a lifetime expected loss allowance for all trade receivables. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to such trade receivable and the economic environment. Forward-looking information includes expected economic growth and employment rates and the potential impact thereof on our customers. Trade receivables have been grouped together based on shared characteristics and the days past due. Shared characteristics refer to type of product sold to the customer. The calculation of the ECL takes into account the insurance cover in place. Refer to note 8 for further detail regarding the Group's evaluation.

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.

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

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

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

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

The Group has adopted IFRS 15 – Revenue from Contracts with Customers from 1 October 2018. The Group's revenue consists mostly of the sale of animal feeds, livestock and eggs, delivered to customers at the customers' premises.

The adoption of IFRS 15 did not impact the Group's timing of revenue recognition since the point in time at which the control of goods are transferred (IFRS 15) agrees with the point in time which the relevant risks and rewards were transferred to the customer in terms of IAS 18 previously.

The adoption of IFRS 15 did not impact the Group's measurement of revenue as the Group already accounted for estimated returns, rebates and discounts previously.

There are no material changes to the revenue recognition for revenue from sale of goods under IFRS 15.

Consolidated statement of financial position

as at 30 September 2019

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-current assets		1 181 521	1 091 867
Property, plant and equipment	3	1 160 768	1 071 869
Intangible assets	4	7 722	10 637
Investment in associate	5	8 998	8 789
Trade and other receivables	8	3 356	–
Deferred income tax	15	677	572
Current assets		1 332 808	1 422 816
Inventories	6	288 029	240 396
Biological assets	7	379 596	332 058
Trade and other receivables	8	433 280	425 424
Derivative financial instruments	9	4 658	–
Current income tax	29	7 651	2 477
Cash and cash equivalents	10	219 594	422 461
Total assets		2 514 329	2 514 683
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent		1 837 412	1 854 391
Share capital	11	1 465 069	1 500 248
Treasury shares	11	(23 947)	(1 541)
Other reserves	13	(210 432)	(226 402)
Retained earnings		606 722	582 086
Total equity		1 837 412	1 854 391
Non-current liabilities		256 790	234 405
Interest-bearing liability	14	6 021	6 128
Deferred income tax	15	242 843	220 559
Provisions for other liabilities and charges	16	7 926	7 718
Current liabilities		420 127	425 887
Trade and other payables	17	420 019	424 661
Derivative financial instruments	9	–	1 127
Interest-bearing liability	14	108	99
Total liabilities		676 917	660 292
Total equity and liabilities		2 514 329	2 514 683

Consolidated statement of comprehensive income

for the year ended 30 September 2019

	Notes	2019 R'000	2018 R'000
Revenue	18	4 417 674	4 121 901
Cost of sales		(3 395 377)	(3 187 855)
Gross profit		1 022 297	934 046
Other income	19	9 915	33 148
Other gains/(losses) – net	20	149 517	420 072
Sales and distribution costs		(251 995)	(232 391)
Marketing costs		(13 278)	(15 205)
Administrative expenses		(126 517)	(118 196)
Other operating expenses		(544 706)	(548 195)
Operating profit	21	245 233	473 279
Investment income	22	15 102	24 919
Finance costs	23	(3 959)	(1 116)
Share of profit of associate company	5	209	706
Profit before income tax		256 585	497 788
Income tax expense	24	(67 390)	(135 561)
Profit for the year		189 195	362 227
Other comprehensive income for the year			
Items that may subsequently be reclassified to profit or loss:			
Fair value adjustments to cash flow hedging reserve		(1 227)	4 982
For the year		26 178	23 627
Deferred income tax effect		(1 426)	(18)
Current income tax effect		(5 903)	(6 598)
Realised to profit or loss		(27 883)	(16 707)
Deferred income tax effect		18	568
Current income tax effect		7 789	4 110
Movement in foreign currency translation reserve			
Currency translation differences		13 080	(36 299)
Total comprehensive income for the year		201 048	330 910
Profit for the year attributable to owners of the parent		189 195	362 227
Total comprehensive income for the year attributable to owners of the parent		201 048	330 910
Earnings per ordinary share (cents)	25	93	164
Diluted earnings per ordinary share (cents)	25	91	163

Consolidated statement of changes in equity

for the year ended 30 September 2019

	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 2018	**1 500 248**	**(1 541)**	**(167 877)**	**7 772**	**(79 901)**	**13 604**	**(226 402)**	**582 086**	**1 854 391**
Change in accounting policy*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(795)**	**(795)**
Shares repurchased and cancelled	**(35 179)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(35 179)**
Comprehensive income:									
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**189 195**	**189 195**
Other comprehensive income for the year	**–**	**–**	**–**	**(1 227)**	**13 080**	**–**	**11 853**	**–**	**11 853**
Movement in foreign currency translation reserve	**–**	**–**	**–**	**–**	**13 080**	**–**	**13 080**	**–**	**13 080**
Cash flow hedging									
Fair value adjustments to cash flow hedging reserve									
For the year	**–**	**–**	**–**	**26 178**	**–**	**–**	**26 178**	**–**	**26 178**
Deferred income tax effect	**–**	**–**	**–**	**(1 426)**	**–**	**–**	**(1 426)**	**–**	**(1 426)**
Current income tax effect	**–**	**–**	**–**	**(5 903)**	**–**	**–**	**(5 903)**	**–**	**(5 903)**
Realised to profit or loss	**–**	**–**	**–**	**(27 883)**	**–**	**–**	**(27 883)**	**–**	**(27 883)**
Deferred income tax effect	**–**	**–**	**–**	**18**	**–**	**–**	**18**	**–**	**18**
Current income tax effect	**–**	**–**	**–**	**7 789**	**–**	**–**	**7 789**	**–**	**7 789**
Recognition of share-based payments	**–**	**–**	**–**	**–**	**–**	**9 525**	**9 525**	**–**	**9 525**
Deferred income tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**(1 435)**	**(1 435)**	**–**	**(1 435)**
Dividends paid – final and interim net of treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(162 775)**	**(162 775)**
Ordinary shares acquired by subsidiary	**–**	**(27 368)**	**–**	**–**	**–**	**–**	**–**	**–**	**(27 368)**
Ordinary shares transferred – share appreciation rights	**–**	**4 962**	**–**	**–**	**–**	**(3 973)**	**(3 973)**	**(989)**	**–**
Balance as at 30 September 2019	**1 465 069**	**(23 947)**	**(167 877)**	**6 545**	**(66 821)**	**17 721**	**(210 432)**	**606 722**	**1 837 412**
Notes	11	11					13		

* *Refer to note 26 of the accounting policies for details regarding the restatement of the opening balance of retained earnings on 1 October 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	(52 422)	–	–	–	–	–	–	–	(52 422)
Comprehensive income:									
Profit for the year	–	–	–	–	–	–	–	362 227	362 227
Other comprehensive income for the year	–	–	–	4 982	(36 299)	–	(31 317)	–	(31 317)
Movement in foreign currency translation reserve	–	–	–	–	(36 299)	–	(36 299)	–	(36 299)
Cash flow hedging									
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 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		

Consolidated statement of cash flows

for the year ended 30 September 2019

	Notes	2019 R'000	2018 R'000
CASH FLOW FROM OPERATING ACTIVITIES		**162 706**	431 555
Cash profit from operating activities	26	**329 847**	547 802
Working capital changes	27	**(109 244)**	12 889
Cash effect of hedging activities		**(6 736)**	8 884
Cash generated from operations		**213 867**	569 575
Income tax paid	29	**(51 161)**	(138 020)
CASH FLOW FROM INVESTING ACTIVITIES		**(140 946)**	(87 355)
Additions to property, plant and equipment	3	**(152 587)**	(115 749)
Additions to intangible assets	4	**(4)**	(283)
Proceeds on disposal of property, plant and equipment	30	**3 271**	3 758
Additional interest in existing subsidiaries disposed/(acquired)			
Advance of non-interest-bearing loan	8	**(6 728)**	–
Interest received	22	**15 102**	24 919
Cash surplus		**21 760**	344 200
CASH FLOW FROM FINANCING ACTIVITIES		**(225 941)**	(175 320)
Repayment of interest-bearing liability		**(98)**	(91)
Shares repurchased	11	**(35 179)**	(52 422)
Treasury shares acquired by subsidiary	11	**(27 368)**	(2 520)
Interest paid		**(724)**	(554)
Dividends paid to ordinary shareholders	28	**(162 572)**	(119 733)
(Decrease)/increase in cash and cash equivalents		**(204 181)**	168 880
Effects of exchange rate changes		**1 314**	(7 888)
Cash and cash equivalents at beginning of year		**422 461**	261 469
Cash and cash equivalents at end of year	10	**219 594**	422 461

Notes to the consolidated financial statements

for the year ended 30 September 2019

1. ACCOUNTING POLICIES

The principal accounting policies incorporated in the preparation of these historical financial information are set out on pages 12 to 25.

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. Refer to note 3.

At year-end, the Group's net asset value exceeded its market capitalisation. Significant headroom exists for all CGUs assessed by management. Consequently, management has not identified any impairment losses to be included in the Group's consolidated financial statements.

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 36 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.

Impairment of financial assets

The Group follows the guidance of IFRS 9 to determine when a financial asset is impaired. This determination requires significant judgement. In making this judgement the Group evaluates, among other factors, the expected loss rates based on historical information and adjusted to reflect current and forward-looking information and macro-economic factors. Refer to note 8.

	2019 R'000	2018 R'000
3. PROPERTY, PLANT AND EQUIPMENT		
Land and buildings	**325 889**	301 854
Plant, machinery and equipment	**806 904**	744 653
Vehicles	**27 975**	25 362
Net book value	**1 160 768**	1 071 869

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings R'000	Plant, machinery and equipment R'000	Vehicles R'000	Total R'000
30 September 2019				
Cost				
At 1 October 2018	**410 507**	**1 264 701**	**51 348**	**1 726 556**
Additions	**29 953**	**111 773**	**10 861**	**152 587**
Foreign exchange adjustment	**2 369**	**9 838**	**404**	**12 611**
Disposals	**(354)**	**(13 031)**	**(3 408)**	**(16 793)**
At 30 September 2019	**442 475**	**1 373 281**	**59 205**	**1 874 961**
Accumulated depreciation and impairment				
At 1 October 2018	**(108 653)**	**(520 048)**	**(25 986)**	**(654 687)**
Depreciation charge	**(7 846)**	**(55 769)**	**(6 946)**	**(70 561)**
Foreign exchange adjustment	**(327)**	**(2 512)**	**(250)**	**(3 089)**
Depreciation on disposals	**240**	**11 952**	**1 952**	**14 144**
At 30 September 2019	**(116 586)**	**(566 377)**	**(31 230)**	**(714 193)**
Net book value at 30 September 2019	**325 889**	**806 904**	**27 975**	**1 160 768**
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

	2019 R'000	2018 R'000
3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)		
The property, plant and equipment balance includes assets in the course of construction amounting to:	**10 746**	65 009
A register with full details of assets is available at the Group's registered office.		
Refer to note 33.3 for capital commitments for property, plant and equipment.		
Plant, machinery and equipment includes the following amounts where the Group is a lessee under a finance lease (refer to note 14 for further details):		
Leased equipment		
Cost	**6 448**	6 448
Accumulated depreciation	**(924)**	(666)
Net book value at 30 September 2019	**5 524**	5 782
4. INTANGIBLE ASSETS		
Computer software	**2 114**	4 720
Goodwill	**5 428**	5 428
Trademarks	**180**	489
Net book value	**7 722**	10 637

	Computer Software R'000	Goodwill R'000	Trademarks R'000	Total R'000
30 September 2019				
Cost				
At 1 October 2018	**14 428**	**5 428**	**24 544**	**44 400**
Additions	**4**	**–**	**–**	**4**
At 30 September 2019	**14 432**	**5 428**	**24 544**	**44 404**
Accumulated amortisation and impairment				
At 1 October 2018	**(9 708)**	**–**	**(24 055)**	**(33 763)**
Amortisation for the year	**(2 610)**	**–**	**(309)**	**(2 919)**
At 30 September 2019	**(12 318)**	**–**	**(24 364)**	**(36 682)**
Net book value at 30 September 2019	**2 114**	**5 428**	**180**	**7 722**
30 September 2018				
Cost				
At 1 October 2017	14 165	5 428	24 544	44 137
Additions	283	–	–	283
Disposals	(20)	–	–	(20)
At 30 September 2018	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	(2 641)	–	(309)	(2 950)
Depreciation on disposals	20	–	–	20
At 30 September 2018	(9 708)	–	(24 055)	(33 763)
Net book value at 30 September 2018	4 720	5 428	489	10 637

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

		2019 R'000	2018 R'000
4.	**INTANGIBLE ASSETS (CONTINUED)**		
	The carrying value of the trademark above is included in the following CGUs:		
	Eggs		
	Safe Eggs	180	489
	The trademark has a remaining useful life of seven 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	22.3%	24.2%

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.

		2019 R'000	2018 R'000
5.	**INVESTMENT IN ASSOCIATE**		
	Unlisted shares at cost	1 700	1 700
	Interest in retained earnings and reserves	7 298	7 089
	Balance beginning of year	7 089	6 383
	Share of profit of associated company	209	706
		8 998	8 789
	Cost of shares		
	Bergsig Breeders (Pty) Ltd	1 700	1 700
		1 700	1 700
	Effective interest 29.9% (2018: 29.9%)		
	The following is the summarised statement of financial position of the abovementioned associate company:		
	Non-current assets	17 188	17 679
	Current assets	18 275	17 765
	Total assets	35 463	35 444
	Non-current liabilities	2 247	4 194
	Current liabilities	5 215	3 947
	Total liabilities	7 462	8 141
	Capital and reserves	28 001	27 303
	Total equity and liabilities	35 463	35 444

		2019 R'000	2018 R'000
5.	**INVESTMENT IN ASSOCIATE**		
	The following is the summarised statement of comprehensive income of the associated company for the year:		
	Revenue	56 699	58 461
	Operating profit	1 610	3 626
	Net profit after income tax	698	2 364
	Bergsig Breeders (Pty) Ltd is a private company and there is no quoted market price available for its shares. The company operates in the poultry industry in South Africa and supplies the Group with broiler hatching eggs.		
6.	**INVENTORIES**		
	Raw material	196 510	158 945
	Manufactured products	45 708	45 137
	Packing materials and consumables	45 811	36 314
		288 029	240 396
	Inventory carried at net realisable value	2 889	197
	Cost of inventories included in cost of sales	3 237 937	2 763 625
	The cost of inventories above excludes inventory written off and biological assets fair value adjustments.		
7.	**BIOLOGICAL ASSETS**		
	Livestock – poultry	379 596	332 058

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 2018	121 631	210 427	332 058
Increase due to establishment cost	861 782	946 070	1 807 852
Decrease due to harvest/sales	(870 989)	(891 384)	(1 762 373)
Fair value adjustment recorded in profit and loss	(1 125)	1 915	790
Foreign exchange adjustment	334	935	1 269
Fair value at 30 September 2019	111 633	267 963	379 596
Fair value at 1 October 2017	95 145	204 200	299 345
Increase due to establishment cost	811 722	837 944	1 649 666
Decrease due to harvest/sales	(784 960)	(827 861)	(1 612 821)
Fair value adjustment recorded in profit and loss	304	(1 079)	(775)
Foreign exchange adjustment	(580)	(2 777)	(3 357)
Fair value at 30 September 2018	121 631	210 427	332 058

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 R'000	2018 R'000
7. BIOLOGICAL ASSETS (CONTINUED)		
Biological assets at fair value less cost to sell consist of the following:		
Chickens – grandparents and other breeding stock	**50 793**	48 887
Chickens – laying	**262 586**	207 179
Chickens – broilers	**38 015**	48 673
Hatching eggs	**26 996**	26 180
Game	**1 206**	1 139
	379 596	332 058
	Quantity	Quantity
At 30 September, the Group held the following biological assets:		
Chickens – grandparents	**36 617**	39 191
Hatching eggs	**8 273 338**	8 707 831
Chickens – broilers	**3 672 772**	3 976 005
Chickens – layers 39 weeks and younger	**4 211 252**	3 464 098
Chickens – layers older than 39 weeks	**2 259 632**	2 127 996
Game	**581**	531
The Group produced the following agricultural produce for the year ended 30 September:		
Eggs (dozens)	**83 857 187**	78 950 679
Live birds (kg)	**70 683 994**	75 558 816
Number of day-old chicks	**77 392 412**	71 724 612
Number of point-of-lay hens	**5 738 401**	5 186 428
Number of culls	**2 952 453**	2 532 942

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.

	2019 R'000	2018 R'000
8. TRADE AND OTHER RECEIVABLES		
Trade receivables	**424 965**	425 450
Allowance for outstanding credit notes	**(2 162)**	(2 668)
Loss allowance	**(21 634)**	(21 873)
Trade receivables – net	**401 169**	400 909
Prepayments	**11 880**	11 022
Receivables from related parties (refer to note 34)	**7 185**	1 916
Other debtors	**4 490**	1 153
Receiver of revenue – VAT	**11 912**	10 424
	436 636	425 424
For the purposes of the statement of financial position trade and other receivables are presented as follows:		
Non-current assets	**3 356**	–
Current assets	**433 280**	425 424
	436 636	425 424

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

The Group applies the IFRS 9 simplified approach to measuring ECLs, which uses a lifetime expected loss allowance for all trade receivables.

To measure the ECL, trade receivables have been grouped on shared characteristics and the days past due. Shared characteristics refer to type of product sold to the customer (similar to disaggregation of revenue note for these product lines)

The expected loss rates applied are based on the payment profiles of sales over a period of 48 months and the corresponding historical credit losses experienced within this period. The historical credit loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. Forward-looking information includes expected economic growth and employment rates and the potential impact thereof on our customers.

	2019 R'000	2018 R'000
Trade receivables	**424 965**	425 450
Excluding:		
– Balances of national customers*	**(149 275)**	(179 503)
– Receivables specifically provided for	**(20 767)**	(21 873)
– Receivables with balances covered by insurance^	**(188 017)**	(170 807)
Remaining trade receivables balance subject to loss allowance based on matrix approach	**66 906**	53 267

* *Balances of national customers (customers with a limited risk profile and with a national geographical representation) with no history of default and long history of trading with the Group. These customers have no long outstanding amounts, nor has there been any indication that these debtors will default. The Group calculates the ECL on national customer with reference to the probability of default model using external credit ratings in determining the default risk of counterparties. The expected credit rating used range between BB and BB+ (for emerging markets). In addition, the Group used a loss given default rate of 45%. Forward looking assessment for national customers includes specific economic growth and employment rates and an additional 10% was included in the calculation. The calculated ECL on these balances was not considered to be material.*

^ *Balances covered by the Group's credit insurance with Credit Guarantee Insurance after deducting the co-payment as per insurance policy. The risk of default on these debtors is considered part of the risk of default of the insurer, which risk was assessed as low due to past claims payment history. The ECL of balances insured was calculated as for national customers. The calculated expected credit loss on these balances was not considered to be material.*

The ECL allowance was determined as follows for trade receivables:

	Current R'000	30 days R'000	60 days R'000	More than 90 days R'000	Total R'000
30 September 2019					
Expected loss rate	**0.976%**	**0.325%**	**1.519%**	**10.163%**	
Gross carrying amount	**48 244**	**14 153**	**1 251**	**3 258**	**66 906**
Loss allowance	**471**	**46**	**19**	**331**	**867**
Specific provision for losses					**20 767**
Loss allowance					**21 634**
1 October 2018					
Expected loss rate	1.708%	0.812%	2.046%	16.254%	
Gross carrying amount	35 665	14 031	2 737	1 415	53 848
Loss allowance	609	114	56	230	1 009

The expected loss rates decreased compared to previous period as the bad debt history improved in 2019. Management also used 48 month history compared to 36 months analysis for the calculation.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 R'000	2018 R'000
8. TRADE AND OTHER RECEIVABLES (CONTINUED)		
Movements on the Group's loss allowance are as follows:		
At 1 October	**21 873**	24 653
Amounts restated through opening retained earnings	**1 009**	–
Decrease in general loss allowance recognised in profit or loss during the year	**(142)**	–
Increase in specific loss allowance recognised in profit or loss during the year	**922**	3 865
Receivables written off during the year as uncollectible	**(1 302)**	(6 135)
Unused amounts reversed	**(813)**	(151)
Foreign exchange translation adjustment	**87**	(359)
At 30 September	**21 634**	21 873
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	**148 988**	174 953
Other customers	**238 456**	199 336
	387 444	374 289

Credit risk disclosure for comparative figures under IAS 39

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:

	2019 R'000	2018 R'000
National customers		
Within 30 days*		2 769
Between 30 and 60 days*		1 139
Between 60 and 90 days*		305
Between 90 and 120 days*		102
More than 120 days*		235
		4 550
Other customers		
Within 30 days*		2 714
Between 30 and 60 days*		841
Between 60 and 90 days*		2 206
Between 90 and 120 days*		26
More than 120 days*		19 352
		25 139
Total		29 689

* *Represents the days exceeding credit terms*

	2019 R'000	2018 R'000
8. TRADE AND OTHER RECEIVABLES (CONTINUED)		
The past due but not impaired balances more than 120 days overdue for 2018 (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	**20 767**	21 873
Total customers	**20 767**	21 873
A summary of the Group's trade receivable covered by insurance or secured by collateral is as follows:		
Trade receivable balances covered by Credit Guarantee Insurance (excluding specifically provided debtors balances)	**219 292**	212 685
Mortage bonds – registered value	**8 300**	11 700
Notorial bonds – registered value	**8 400**	5 000
Cessions – book value	**11 520**	8 820
Bank guarantees – actual value	**6 500**	6 500
Fair value of collateral held on past due and/or impaired trade receivables:	**26 450**	25 221
The carrying amount of the Group's trade receivables are denominated in the following currencies which, except for the Euro balance, are the functional currencies of the relevant subsidiaries:		
Euro	**865**	–
Zambian kwacha	**5 492**	4 189
Ugandan shilling	**2 016**	2 011
Mozambican metical	**5 100**	5 778
South African rand	**411 492**	413 472
Total	**424 965**	425 450
Other receivables are largely denominated in the Group's functional currency and no significant risk concentrations exist outside South Africa.		
Loan to Chamomile Farming Enterprises (Pty) Ltd ("Chamomile")		
The Group granted a long-term loan to Chamomile during the reporting period. Chamomile is a black-owned egg supplier of the Group. The loan was provided to increase Chamomile's layer hen capacity. The loan is unsecured, interest free and repayable in monthly instalments over 10 years.		
Loans advanced during the year	**6 728**	
Less discounting of loan	**(2 495)**	
Loans at the end of year – included in other debtors' balance	**4 233**	
Current portion of loan	**(878)**	
Non-current portion of loan	**3 355**	

No amount of the loan is currently past due, nor has there been any indication that Chamomile will default. No ECL was recognised on the loan receivable from Chamomile based on the assessment performed.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

		2019 R'000	2018 R'000
9.	**DERIVATIVE FINANCIAL INSTRUMENTS**		
	Foreign exchange contracts – not earmarked for hedge accounting	32	(72)
	Foreign exchange contracts – cash flow hedges	4 626	(68)
	Futures – not earmarked for hedge accounting	–	(987)
		4 658	(1 127)

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.

Refer to note 36 for the Group's exposure to financial risks and how these risks are managed.

		Foreign amount '000	Rand amount R'000	Fair value R'000
9.1	Derivative instruments earmarked for hedging (cash flow hedges)			
	Commodity instruments			
	30 September 2019			
	Futures*			7 007
	30 September 2018			
	Futures*			7 596
	Currency forward contracts			
	30 September 2019			
	Purchases of foreign exchange contracts			4 626
	US dollar	6 526	98 883	4 626
	30 September 2018			
	Purchases of foreign exchange contracts			(68)
	US dollar	2 183	30 935	391
	Euro	628	10 301	(459)

Cash flow hedges are expected to realise in profit or loss in the next financial year.

		Foreign amount '000	Rand amount R'000	Fair value R'000
9.2	Other derivative instruments			
	Currency forward contracts			
	30 September 2019			
	Purchases of foreign exchange contracts			32
	British pound	(88)	(1 653)	32
	30 September 2018			
	Purchases of foreign exchange contracts			(72)
	British pound	(84)	(1 549)	(72)

* *Disclosed within cash and cash equivalents (restricted cash). Consists of 387 yellow maize (2018: 394) futures bought.*

		2019 R'000	2018 R'000
10.	**CASH AND CASH EQUIVALENTS**		
	Cash at bank and on hand	219 594	422 461

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.

	2019 R'000	2018 R'000
The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:		
SA rand	187 122	371 877
US dollar	10 941	14 504
Zambian kwacha (functional currency of a subsidiary)	5 478	24 672
Ugandan shilling (functional currency of a subsidiary)	9 979	6 504
Mozambican metical (functional currency of a subsidiary)	6 074	4 904
Total	219 594	422 461

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 R7.0 million (2018: R7.6 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.

		2019 R'000	2018 R'000
11.	**SHARE CAPITAL**		
	Authorised – ordinary shares 400 000 000 (2018: 400 000 000) ordinary no par value shares		
	Issued and fully paid – ordinary shares 200 024 716 (2018: 210 529 716) ordinary no par value shares	1 465 069	1 500 248
	Reconciliation of movement in issued shares		
	Opening balance	1 500 248	1 552 670
	Shares repurchased	(35 179)	(52 422)
		1 465 069	1 500 248

During the reporting period 10 505 000 (2018: 11 784 941) ordinary shares were repurchased by the Company and cancelled. The shares were repurchased at an average price of R3.35 (2018: R4.45) per share.

	2019 R'000	2018 R'000
Treasury shares held by subsidiary		
At the beginning of the year (334 419 ordinary shares)	1 541	–
8 083 426 (2018: 546 815) ordinary shares acquired during the year	27 368	2 520
Issued to management in terms of share appreciation rights scheme: 1 309 899 (2018: 212 396) ordinary shares	(4 962)	(979)
	23 947	1 541

During the reporting period the subsidiary repurchased 8 083 426 (2018: 546 815) shares at an average price of R3.39 (2018: R4.61) per share.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 Number '000	2018 Number '000
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 exercise price, relating to the exercised share appreciation rights, appreciated from grant date to exercise date, by the phantom share right price at the exercise date. Phantom share right price is an amount equal to the volume weighted average price per share for the preceding three trading days.

Number of share appreciation rights made available	2019 Number '000	2018 Number '000
Number at beginning of year	**22 866**	17 049
New allocation at R4.25 per share	**6 049**	–
New allocation at R3.91 per share	**–**	6 460
Redeemed	**(3 752)**	(643)
Expired/forfeited	**–**	–
Number at end of year	**25 163**	22 866

Number of share appreciation rights	2019 Number '000	2018 Number '000
At R3.15 per share, exercisable up to 27 February 2021	**2 065**	4 959
At R2.66 per share, exercisable up to 18 February 2022	**3 028**	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**	6 460
At R4.25 per share, exercisable up to 11 February 2025	**6 049**	–
	25 163	22 866

Share appreciation rights were granted on 11 February 2019 at a strike price of R4.25. Vesting takes place over a five-year period with the first 33.3% vesting after three years on 11 February 2022 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 2019 is R1.14. 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 R9 524 400 (2018: R5 182 200). The scheme rules were changed in 2019 to include the aggregate of any special dividends declared during the period between the grant date and the vesting date, in the exercise price of the share appreciation rights.

These fair values were calculated using the actuarial binomial option pricing model.

The principal assumptions were as follows:

	2019	2018
Weighted average share price at grant date (cents per share)	**344**	337
Expected volatility	**20.9% – 31.9%**	20.9% – 32.9%
Expected dividend yield	**3.0%**	3.0%
Risk-free rate	**6.5% – 8.6%**	6.5% – 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 2019, 12 977 705 ordinary shares (2018: 14 287 604) were still available for issue.

	2019 R'000	2018 R'000
13. OTHER RESERVES		
Common control reserve	**(167 877)**	(167 877)
Share-based payment reserve	**17 721**	13 604
Foreign currency translation reserve	**(66 821)**	(79 901)
Hedging reserve	**6 545**	7 772
	(210 432)	(226 402)

The Group acquired its businesses from Pioneer Foods Group Ltd during the 2014 reporting period as part of the restructuring from Pioneer Foods Group Ltd. The acquisition was an acquisition of businesses under common control. The acquisition was accounted for using predecessor accounting at the carrying value of the asses/liabilities at the acquisition date. The difference between the consideration given and the book values of net assets acquired was recorded in the common control reserve in equity.

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.

	2019 R'000	2018 R'000
14. INTEREST-BEARING LIABILITY		
Non-current		
Finance lease liability	**6 021**	6 128
	6 021	6 128
Current		
Finance lease liability	**108**	99
	108	99
	6 129	6 227

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.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

		2019 R'000	2018 R'000
15.	**DEFERRED INCOME TAX**		
	Balance at beginning of year	**219 987**	219 007
	Change in accounting policy – IFRS 9*	**(214)**	–
	Charge in profit or loss	**19 517**	4 899
	Foreign exchange translation adjustment	**33**	(1 918)
	Deferred income tax on hedging reserve charged to equity	**1 408**	(550)
	Deferred income tax on share-based payment reserve	**1 435**	(1 451)
		242 166	219 987
	Due to the following temporary differences:		
	Capital allowances, including trademarks	**183 618**	171 922
	Inventories	**9 131**	7 713
	Biological assets	**83 175**	70 794
	Assessed loss utilised	**(5 543)**	(3 398)
	Prepaid expenses	**1 514**	2 277
	Provision for long-service awards	**(2 219)**	(2 161)
	Leave accrual	**(5 742)**	(5 290)
	Bonus accrual	**(5 743)**	(6 822)
	Provision for impairment of trade receivables	**(4 203)**	(4 498)
	Rebates, growth incentives and settlement discount accruals	**(2 480)**	(3 701)
	Allowance for credit notes	**(605)**	(747)
	Deferred income	**(771)**	(633)
	Derivative financial instruments	**1 318**	(440)
	Share-based payments	**(5 802)**	(4 448)
	Accruals personnel costs	**(2 662)**	(818)
	Other	**(820)**	237
		242 166	219 987
	For the purposes of the statement of financial position, deferred income tax is presented as follows:		
	Non-current assets	**(677)**	(572)
	Non-current liabilities	**242 843**	220 559
		242 166	219 987

During the year, deferred income tax assets of R677 493 (2018: R571 726) 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.

* *Deferred tax on amounts restated through opening retained earnings due to the implementation of IFRS 9. Refer note 26 of the accounting policies for further details.*

		2019 R'000	2018 R'000
16.	**PROVISIONS FOR OTHER LIABILITIES AND CHARGES**		
	Long-service awards	**7 926**	7 718
16.1	Long-service awards		
	Balance at beginning of year	**7 718**	7 608
	Interest	**625**	562
	Actuarial loss/(profit)	**426**	(347)
	Current service costs	**1 030**	1 020
	Payments	**(1 873)**	(1 125)
		7 926	7 718
	The amount recognised in the statement of financial position was determined as follows:		
	Present value of unfunded obligations	**7 926**	7 718
	Unrecognised actuarial loss	**–**	–
		7 926	7 718
	Existing provisions are based on the following important assumptions:		
	Discount rate	**8% p.a.**	8.9% p.a.
	Salary increases	**6% p.a.**	6.5% p.a.
	Normal retirement age	**60 years**	60 years
	The date of the most recent actuarial valuation is:	**30 September 2019**	30 September 2018
17.	**TRADE AND OTHER PAYABLES**		
	Trade payables	**337 673**	336 004
	Accrued expenses	**21 944**	24 446
	Related parties (refer to note 34)	**3 087**	4 776
	Accrued leave pay	**21 305**	20 058
	Accrued 13th cheque	**9 094**	11 053
	Accrued short-term incentive bonus	**19 988**	19 616
	Value-added tax	**48**	373
	Dividends payable	**392**	189
	Other payables	**6 488**	8 146
		420 019	424 661
	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:		
	Uncovered:	**337 673**	336 004
	Euro	**243**	371
	UK pound	**81**	–
	US dollar	**1 274**	1 794
	Zambian kwacha (functional currency of a subsidiary)	**3 400**	3 066
	Ugandan shilling (functional currency of a subsidiary)	**1 674**	1 694
	Mozambican metical (functional currency of a subsidiary)	**2 909**	2 207
	South African rand	**328 092**	326 872
	Total	**337 673**	336 004

Other payables are mostly denominated in the Group's functional currency and no significant risk concentrations exist outside South Africa.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 R'000	2018 R'000
18. REVENUE FROM CONTRACTS WITH CUSTOMERS		
Disaggregation of revenue from contracts with customers	**4 417 674**	4 121 901
The Group derives revenue from the transfer of goods at a point in time.		
Revenue		
Eggs	**1 095 195**	1 206 489
Layer farming*	**197 058**	183 901
Broiler farming**	**1 128 094**	1 048 897
Animal feeds	**1 758 627**	1 460 387
Zambia***	**144 538**	128 522
Uganda***	**48 966**	49 263
Mozambique****	**45 196**	44 442
	4 417 674	4 121 901

* Layer farming sales include the sale of day-old pullets and point-of-lay hens.
** Broiler farming sales include the sales of day-old broilers and live birds.
*** Includes the sale of animal feeds, commercial eggs and day-old chicks.
**** Includes the sale of commercial eggs.

	2019 R'000	2018 R'000
Information regarding major customers		
During the period under review, revenue from the Group's top three customers is as follows:		
Customer A	**679 457**	613 538
Customer B	**464 862**	502 792
Customer C	**337 744**	270 082
Revenue from these customers is reported within all operating segments except other African countries.		
19. OTHER INCOME		
Rental income	**6 186**	7 142
Sundry income	**2 783**	3 843
Insurance claims	**946**	22 163
	9 915	33 148
20. OTHER GAINS/(LOSSES) – NET		
Biological assets fair value adjustment	**105 091**	74 063
Unrealised – reflected in carrying amount of biological assets	**790**	(775)
Realised – reflected in cost of goods sold	**104 301**	74 838
Agricultural produce fair value adjustment	**40 015**	344 783
Unrealised – reflected in carrying amount of inventory	**(2 891)**	1 142
Realised – reflected in cost of goods sold	**42 906**	343 641
Foreign exchange differences	**339**	4 413
Financial instruments fair value adjustments	**3 003**	(1 243)
Foreign exchange contract cash flow hedging ineffective gain/(loss)	**447**	(2 873)
Profit on disposal of property, plant and equipment	**622**	929
	149 517	420 072

20. OTHER GAINS/(LOSSES) – NET (CONTINUED)

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.

	2019 R'000	2018 R'000
21. EXPENSE BY NATURE		
Cost of raw materials	**2 997 185**	2 551 826
Fair value adjustment on biological assets and agricultural produce	**147 207**	418 479
Inventory written off	**10 233**	5 751
Research and laboratory costs	**15 610**	19 022
Staff costs	**440 253**	403 393
Wages and salaries	**373 232**	349 789
Other personnel costs	**33 400**	26 604
Pension costs	**24 097**	21 818
Share-based payments expense (refer to note 12)	**9 524**	5 182
Non-executive directors' remuneration	**1 895**	1 596
Technical services from non-employees	**7 159**	6 598
Auditors' remuneration	**4 001**	3 838
Audit – current year	**4 001**	3 758
Tax-related services	**–**	80
Internal audit fees	**1 891**	1 324
Rental of premises, machinery and vehicles	**28 366**	28 590
Travel and entertainment	**10 448**	8 775
Energy costs	**112 950**	103 472
Maintenance	**88 348**	91 239
Depreciation and amortisation	**73 480**	70 887
Insurance	**18 599**	16 003
Cleaning	**31 709**	32 318
Office expenses	**48 760**	55 360
Marketing costs	**10 742**	11 504
Security	**26 164**	25 066
Change in loss allowance for trade receivables	**(1 335)**	(2 421)
Change in allowance for credit notes	**(506)**	(185)
Bad debts – net	**933**	5 973
Transport and distribution costs	**254 767**	239 699
B-BBEE socio-economic and enterprise development	**3 014**	3 735
Total cost of sales, sales and distribution costs, marketing, administrative and other operating expenses	**4 331 873**	4 101 842
22. INVESTMENT INCOME		
Interest income on financial assets: loans and receivables		
– Call accounts and other	**15 102**	24 919
	15 102	24 919

Interest income is recognised on a time-proportion basis using the effective interest rate method. For credit impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as investment income in profit or loss where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 R'000	2018 R'000
23. FINANCE COSTS		
Interest expense on financial liabilities measured at amortised cost		
– Finance lease	**516**	524
– Provision for unwinding of discount	**3 235**	562
– Other	**208**	30
	3 959	1 116
24. INCOME TAX EXPENSE		
Current income tax	**47 873**	130 662
Current year	**47 871**	130 715
Under/(overprovision) previous years	**2**	(53)
Deferred taxation	**19 517**	4 899
Current year	**19 517**	4 899
	67 390	135 561

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	**(0.14)**	(0.07)
Non-deductible expenditure	**1.01**	0.79
Under/(over) provision previous years	**–**	(0.01)
Effect of capital gains tax	**(0.05)**	(0.02)
Effect of different tax rates*	**(1.38)**	(0.99)
Other differences	**(1.18)**	(0.47)
Effective rate	**26.26**	27.23

* *The standard tax rate for foreign subsidiaries differs 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 SA's profits are taxed at 16% (lower rate for first five years after initial investment).*

Non-deductable expenditure consists mainly of depreciation on assets which are not deductable for tax (e.g. poultry houses bought). These create a permanent tax difference. Other differences include the unwinding of deferred tax balances recognised as part of business combinations – 0.62% (2018: 0.31%)

	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	**20 689**	13 284
Less: Utilised in reduction of deferred tax	**(16 455)**	(9 711)
	4 234	3 573

A current and deferred income tax charge of R477 549 is credited (2018: R1 937 673 debited) directly through other comprehensive income/(loss).

	2019 R'000	2018 R'000
25. EARNINGS PER ORDINARY SHARE		
Basic		
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 (net of treasury shares) in issue during the year:		
Profit for the year	**189 195**	362 227
Weighted average number of ordinary shares in issue ('000)	**204 298**	220 468
Diluted		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive contingent ordinary shares. Share appreciation rights issued in terms of the share incentive scheme have a potential dilutive effect on earnings per ordinary share.		
The calculation of diluted earnings per share is based on profit for the period attributable to owners of the parent divided by the diluted weighted average number of ordinary shares (net of treasury shares) in issue during the period:		
Profit for the year	**189 195**	362 227
Diluted weighted average number of ordinary shares in issue ('000)	**207 185**	222 821
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	**189 195**	362 227
Remeasurement of items of a capital nature		
Profit on disposal of property, plant and equipment	**(554)**	(782)
Gross	**(622)**	(929)
Tax effect	**68**	147
Headline earnings for the year	**188 641**	361 445
Earnings per share (cents)	**93**	164
Diluted earnings per share (cents)	**91**	163
Headline earnings per share (cents)	**92**	164
Diluted headline earnings per share (cents)	**91**	162

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 R'000	2018 R'000
26. CASH PROFIT FROM OPERATING ACTIVITIES		
Reconciliation of profit before tax and cash profit from operating activities:		
Profit before income tax	256 585	497 788
Adjustment for:		
Depreciation and amortisation	73 480	70 887
Biological assets fair value adjustment	(790)	775
Agricultural produce fair value adjustment	2 891	(1 142)
Net profit on sale of property, plant and equipment	(622)	(929)
Adjustment on fixed rate leases	(326)	(119)
Unrealised (profits)/losses on FECs, foreign exchange and future contracts	(91)	(4 171)
Change in loss allowance for trade receivables	(1 335)	(2 421)
Change in provision for credit notes based on history	(506)	(185)
Bad debts	933	5 973
Share-based payments expense	9 524	5 182
Changes in provisions for long-service awards	1 456	673
Interest received	(15 102)	(24 919)
Interest paid	3 959	1 116
Share of profit of associate company	(209)	(706)
	329 847	547 802

	2019 R'000	2018 R'000
27. WORKING CAPITAL CHANGES		
Increase in inventory	(47 633)	(38 607)
Increase in trade and other receivables	(7 080)	(17 396)
(Decrease)/increase in trade and other payables	(2 241)	97 153
Increase in current biological assets	(49 639)	(32 346)
Changes to derivative financial instruments	(663)	5 210
Decrease in provisions	(1 988)	(1 125)
	(109 244)	12 889

	2019 R'000	2018 R'000
28. DIVIDENDS PAID		
Amounts unpaid at beginning of the year	(189)	(67)
As disclosed in statement of changes in equity	(162 775)	(119 855)
Dividends declared during the year	(163 373)	(119 909)
Dividends on treasury shares received by subsidiary	598	54
Amounts unpaid at end of year	392	189
	(162 572)	(119 733)

	2019 R'000	2018 R'000
29. INCOME TAX PAID		
Amounts unpaid at beginning of the year	2 477	(2 393)
Current tax charge in profit and loss	(47 873)	(130 662)
Hedging reserve – income tax current year	1 886	(2 488)
Amounts prepaid at end of the year	(7 651)	(2 477)
	(51 161)	(138 020)
For the purposes of the statement of financial position, current income tax receivable is presented as follows:		
Current assets	(7 651)	(2 477)
	(7 651)	(2 477)

	2019 R'000	2018 R'000
30. PROCEEDS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS		
Book value of property, plant and equipment and intangible assets disposed	2 649	2 829
Profit on disposal of property, plant and equipment	622	929
	3 271	3 758

31. 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	2019 R'000	2018 R'000
Cash and cash equivalents	219 594	422 461
Borrowings – repayable after one year (fixed interest rates)	(6 129)	(6 227)
	213 465	416 234

	Cash R'000	Borrowings due after 1 year R'000
Net debt as at 1 October 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
Cash flows	(204 181)	(98)
Foreign exchange adjustments	1 314	–
Net debt as at 30 September 2019	219 594	6 129

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

		2019 R'000	2018 R'000
32.	**CONTINGENT LIABILITIES**		
	Guarantees in terms of loans by third parties to contracted service providers	**23 861**	29 550

Litigation

Customer claim

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

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 ("ZCCPC") regarding alleged violation of the Competition and Consumer Protection Act ("CCPA"). The investigation was finalised in March 2018, and Quantum Foods Zambia Ltd was found to be in contravention with certain provisions of the CCPA. An appeal was lodged at the Competition and Consumer Protection Tribunal for Zambia. The matter was settled with the ZCCPC within the reporting period and the majority of the provision previously recognised was reversed. The settlement had no adverse financial impact on the Group.

Dispute with egg contract producer

The Group has an outstanding trade receivable from a previous egg contract producer. The producer had filed a counterclaim against the Group for alleged breach of the terms of the terminated agreement. The claim was withdrawn as part of a settlement agreement. The settlement had no adverse financial impact on the Group.

		2019 R'000	2018 R'000
33.	**COMMITMENTS**		
33.1	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	**26 450**	27 502
	Later than one year, and no later than five years	**26 079**	24 464
		52 529	51 966
33.2	Operating lease receivables		
	The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
	No later than one year	**4 658**	4 468
	Later than one year, and no later than five years	**–**	4 311
		4 658	8 779
33.3	Capital commitments		
	Contractually committed	**14 622**	49 954
	Approved by the Board, but not yet contractually committed – for the next financial year	**85 984**	95 318
		100 606	145 272
	Allocated as follows:		
	Property, plant and equipment	**100 606**	145 272
		100 606	145 272

The expenditure will be financed from operating income, cash reserves and borrowed funds, in accordance with a budget approved by the Board.

		2019 R'000	2018 R'000
34.	**RELATED-PARTY TRANSACTIONS**		

Quantum Foods Holdings Ltd is the ultimate holding company of the Quantum Foods group of companies. The Group consist of:

- Quantum Foods (Pty) Ltd
- Philidelphia 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% (2018: 100%) interest in Quantum Foods (Pty) Ltd, and this entity holds a 100% (2018: 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:

		2019 R'000	2018 R'000
34.1	Sale of goods		
	Bergsig Breeders (Pty) Ltd	**55 295**	40 950
34.2	Purchase of goods		
	Bergsig Breeders (Pty) Ltd	**54 477**	51 775
34.3	Key management personnel compensation		
	Salaries and other short-term employee benefits	**17 540**	16 312
	Post-employment benefits	**1 940**	1 743
	Bonuses and incentives	**13 386**	13 160
	Other long-term benefits	**133**	–
	Share-based payments	**7 478**	4 009
		40 477	35 224

Key management personnel include the executive directors of the Board and members of the Group's executive committee.

		2019 R'000	2018 R'000
34.4	Year-end balances arising from sales/purchases of goods		
	Receivables from related parties		
	Bergsig Breeders (Pty) Ltd	**7 185**	1 916
		7 185	1 916
	Payables to related parties		
	Bergsig Breeders (Pty) Ltd	**(3 087)**	(4 776)
		(3 087)	(4 776)

Receivables from related parties are unsecured and bear no interest.

Notes to the consolidated financial statements (continued)

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35. FINANCIAL INSTRUMENTS BY CATEGORY

	Amortised cost R'000	Assets at fair value through profit and loss R'000	Total R'000
30 September 2019			
Assets as per statement of financial position			
Derivative financial instruments	–	4 658	4 658
Trade and other receivables*	412 844	–	412 844
Cash and cash equivalents	219 594	–	219 594
Total	632 438	4 658	637 096

	Loans and receivables R'000	Assets at fair value through profit and loss R'000	Total R'000
30 September 2018			
Assets as per statement of financial position			
Trade and other receivables*	403 978	–	403 978
Cash and cash equivalents	422 461	–	422 461
Total	826 439	–	826 439

	Liabilities at fair value through profit and loss R'000	Other financial liabilities R'000	Total R'000
30 September 2019			
Liabilities as per statement of financial position			
Interest-bearing liability	–	6 129	6 129
Trade and other payables^	–	369 584	369 584
Total	–	375 713	375 713
30 September 2018			
Liabilities as per statement of financial position			
Interest-bearing liability	–	6 227	6 227
Derivative financial instruments	1 127	–	1 127
Trade and other payables^	–	373 561	373 561
Total	1 127	379 788	380 915

* *Financial assets do not include prepaid expenses and VAT amounts receivable.*
^ *Financial liabilities do not include accruals for 13th cheque, leave, short-term incentive bonus and VAT amounts payable.*

36. FINANCIAL RISK MANAGEMENT

36.1 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 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, Zambian kwacha, Ugandan shilling and Mozambican 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.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

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 20 – other gains/(losses) – net for foreign exchange-related amounts recognised in profit or loss for the year.

(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 feeds business' 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.

	2019 R'000	2018 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% (2018: 3%), British pound of 3% (2018: 3%), Euro of 3% (2018: 3%), Zambian kwacha of 3% (2018: 3%), Ugandan shilling of 3% (2018: 3%) and Mozambique metical 3% (2018: 3%), with all other variables held constant.		
Rand depreciates against foreign currencies		
– Increase/(decrease) in profit after income tax		
Trade receivables	**286**	259
Cash and cash equivalents	**828**	1 351
Trade payables	**(154)**	(141)
Derivative financial instruments not earmarked for hedging	**35**	35
– Increase/(decrease) in equity after income tax		
Derivative financial instruments earmarked for hedging	**2 147**	898
	3 142	2 402
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% (2018: 2%), with all other variables held constant.		
Commodity price increase		
– Increase in equity after income tax		
Derivative financial instruments earmarked for hedging	**1 534**	1 194
	1 534	1 194

If these prices were to decrease it would result in a decrease in reserves of the same amount.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 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 number 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 repay 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 their 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 2019, 55% (2018: 53%) 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 national customers and other listed companies are assessed as being a low risk of default, and are thus not insured. These customers amounted to approximately 37% (2018: 45%) of trade receivables – net in the reporting period. Of the remaining other customers, 87% (2018: 96%) 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 20% (2018: 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.

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. The risk of default is assessed as low.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Financial risk factors (continued)

(b) Credit risk (continued)

The credit quality of trade debtors that are neither past due nor impaired, is as follows:

	2019 R'000	2018 R'000
External customer (history of more than six months) – not previously impaired	382 589	367 190
External customer (history of more than six months) – previously impaired – debt repaid	–	1 126
New customers (history less than six months)	4 855	5 973
Total	387 444	374 289

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.

	2019 R'000	2018 R'000
P-3 short-term credit rating	218 417	421 784
Not rated	687	228
Cash on hand	490	449
	219 594	422 461

(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 headroom as determined by the abovementioned forecasts. At the reporting date, the Group held no short-term bank deposits.

At year-end the Group had 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.

The Group's unutilised borrowing facilities are as follows:

	2019 R'000	2018 R'000
Total borrowing facilities	242 512	242 286

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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 2019			
Capital and interest – total			
Borrowings excluding bank overdrafts and call loans	(615)	(615)	(11 946)
Trade and other payables	(368 886)	–	–
	(369 501)	(615)	(11 946)
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)	–	–
	(369 745)	(615)	(12 561)

Note: Financial liabilities do not include provisions, accrual for 13th cheque, deferred revenue, accrual for leave and VAT amounts payable.

36.2 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.

	2019 R'000	2018 R'000
Net debt *	6 129	6 227
Total equity (as shown in the statement of financial position)	1 837 412	1 854 391
	0.33%	0.34%

* *Cash and cash equivalents exceed borrowings. Cash and cash equivalents are not deducted for ratio calculation.*

The main focus of the Group's capital management is to ensure liquidity, in the form of short-term borrowing facilities, in order to have sufficient available funding for the Group's working capital requirements. The Group had minimal borrowings at the end of the reporting period.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 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 2019				
Assets measured at fair value				
Derivative financial instruments				
– Foreign exchange contracts	**–**	**4 658**	**–**	**4 658**
Biological assets				
– Livestock	**–**	**–**	**379 596**	**379 596**
Total	**–**	**4 658**	**379 596**	**384 254**
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

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.

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.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Fair value measurement (continued)

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 lifecycle.

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 lifecycle 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 R790 003 (2018: loss of R774 698) 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 2019	2018
Unobservable input		
Layer livestock		
Market price of day-old chicks	**R8.61 to R8.81**	R8.16 to R8.36
Market price of point-of-lay hens	**R65.82 to R69.54**	R63.38 to R65.95
Market price of culls	**R24.91 to R38.93**	R24.00 to R34.40
Broiler livestock		
Market price of day-old chicks	**R4.76 to R4.96**	R4.58 to R4.78
Market price of live birds	**R23.08 to R23.48**	R22.84 to R23.24

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Fair value measurement (continued)

Financial instruments in level 3: Biological assets (continued)

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 (2018: R0.6 million) change in the fair value of poultry livestock.
Point-of-lay hens market prices	A change in the market price would result in a R3.3 million (2018: R2.3 million) change in the fair value of laying hens.
Cull market prices	A change in the market price would result in a R0.7 million (2018: R0.8 million) change in the fair value of laying hens.
Live bird market prices	A change in the market price would result in a R0.7 million (2018: R1.0 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.

37. 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 and sale of animal feeds, 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 alongside 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.

37. SEGMENT INFORMATION (CONTINUED)

	2019 R'000	2018 R'000
Segment revenue	**4 417 674**	4 121 901
Eggs	**1 095 195**	1 206 489
Farming	**1 325 152**	1 232 798
Animal feeds	**1 758 627**	1 460 387
Other African countries	**238 700**	222 227
Segment results	**245 233**	473 279
Eggs	**38 245**	288 612
Farming	**113 140**	97 960
Animal feeds	**88 674**	68 903
Other African countries	**14 317**	31 036
Head office costs	**(9 143)**	(13 232)
A reconciliation of the segment results to operating profit before income tax is provided below:		
Segment results	**245 233**	473 279
Adjusted for:		
Investment income	**15 102**	24 919
Finance costs	**(3 959)**	(1 116)
Share of profit of associate company	**209**	706
Profit before income tax per statement of comprehensive income	**256 585**	497 788
Segment assets	**2 277 409**	2 080 384
Eggs	**235 700**	236 383
Farming	**1 061 887**	1 050 215
Animal feeds	**580 680**	466 655
Other African countries	**379 619**	297 413
Head office costs	**19 523**	29 718
A reconciliation of the segments' assets to the Group's assets is provided below:		
Segment assets per segment report	**2 277 409**	2 080 384
Adjusted for:		
Investment in associate	**8 998**	8 789
Current and deferred income tax assets	**8 328**	3 049
Cash and cash equivalents	**219 594**	422 461
Total assets per statement of financial position	**2 514 329**	2 514 683
Segment liabilities	**434 074**	439 733
Eggs	**65 022**	71 328
Farming	**70 015**	83 708
Animal feeds	**238 203**	216 116
Other African countries	**18 949**	24 429
Head office costs	**41 885**	44 152
A reconciliation of the segments' liabilities to the Group's liabilities is provided below:		
Segment liabilities per segment report	**434 074**	439 733
Adjusted for:		
Current and deferred income tax liabilities	**242 843**	220 559
Total liabilities per statement of financial position	**676 917**	660 292

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 R'000	2018 R'000
37. SEGMENT INFORMATION (CONTINUED)		
Total segment capital expenditure (excluding business combinations)	**152 591**	116 032
Eggs	**25 959**	9 158
Farming	**27 303**	46 194
Animal feeds	**41 550**	20 451
Other African countries	**57 206**	39 797
Head office costs	**573**	432
Total segment depreciation and amortisation	**73 480**	70 887
Eggs	**8 387**	9 315
Farming	**31 912**	30 552
Animal feeds	**13 785**	14 537
Other African countries	**19 396**	16 483
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	**622**	929
Eggs	**(96)**	1 943
Farming	**1 053**	(504)
Animal feeds	**(426)**	(510)
Other African countries	**91**	–

Geographical information

The Group mainly operates in South Africa. Other operations are located in other African 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.

	2019 R'000	2018 R'000
Segment revenue	**4 417 674**	4 121 901
South Africa	**4 178 974**	3 899 674
Other African countries	**238 700**	222 227
Total segment non-current assets	**1 181 521**	1 091 867
South Africa	**901 802**	859 660
Other African countries	**279 719**	232 207
Total segment capital expenditure (excluding business combinations)	**152 591**	116 032
South Africa	**95 385**	76 235
Other African countries	**57 206**	39 797

38. 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.

39. EVENTS AFTER THE REPORTING PERIOD

Dividend

A final dividend of 25 cents (2018: 70 cents) per ordinary share has been approved and declared by the Board for the year ended 30 September 2019, on 27 November 2019. This will only be reflected in the statement of changes in equity in the next reporting period.

An interim dividend of 8 cents (2018: 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 20 cents per ordinary share for shareholders liable to pay dividends tax. The dividend amounts to 25 cents per ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares is 200 024 716 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.

40. 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.

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

	Basic salary R'000	Travel allowances R'000	Bonuses and incentives R'000	Retirement fund contri-butions R'000	Long-term incentives R'000	Directors' fees R'000	Total R'000
41. REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS							
30 September 2019							
Executive directors							
HA Lourens	**3 234**	**62**	**3 143**	**351**	**640**	**–**	**7 430**
AH Muller	**2 019**	**88**	**1 502**	**224**	**292**	**–**	**4 125**
Total executive directors	**5 253**	**150**	**4 645**	**575**	**932**	**–**	**11 555**
Non-executive directors							
WA Hanekom	**–**	**–**	**–**	**–**	**–**	**428**	**428**
N Celliers	**–**	**–**	**–**	**–**	**–**	**282**	**282**
Prof. ASM Karaan	**–**	**–**	**–**	**–**	**–**	**338**	**338**
PE Burton	**–**	**–**	**–**	**–**	**–**	**390**	**390**
GG Fortuin	**–**	**–**	**–**	**–**	**–**	**282**	**282**
T Golden	**–**	**–**	**–**	**–**	**–**	**175**	**175**
Total non-executive directors	**–**	**–**	**–**	**–**	**–**	**1 895**	**1 895**
Total directors	**5 253**	**150**	**4 645**	**575**	**932**	**1 895**	**13 450**
Prescribed officer							
HE Pether	**1 149**	**78**	**928**	**211**	**252**	**–**	**2 618**
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 officer							
HE Pether	1 092	78	922	185	–	–	2 277

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

41. REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS (CONTINUED)

Directors' share appreciation rights ("SARs")

	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 cumulative	Number of SARs redeemed in current year	Exercise price at date of redemption Cents	Value increase from strike price to price at redemption R'000	Number of SARs not redeemed
30 September 2019											
Executive directors											
HA Lourens	**774 376**	**2015/02/27**	**2021/02/27**	**315**	**–**	**–**	**516 252**	**258 126**	**436**	**313**	**258 124**
	634 240	**2016/02/18**	**2022/02/18**	**266**	**–**	**–**	**211 412**	**211 412**	**421**	**327**	**422 828**
	2 280 786	**2017/02/23**	**2023/02/23**	**309**	**–**	**–**	**–**	**–**	**–**	**–**	**2 280 786**
	2 267 972	**2018/02/22**	**2024/02/22**	**391**	**–**	**–**	**–**	**–**	**–**	**–**	**2 267 972**
	1 912 728	**2019/02/11**	**2025/02/11**	**425**	**96**	**1 836**	**–**	**–**	**–**	**–**	**1 912 728**
AH Muller	**477 854**	**2015/02/27**	**2021/02/27**	**315**	**–**	**–**	**318 568**	**159 284**	**436**	**193**	**159 286**
	187 902	**2016/02/18**	**2022/02/18**	**266**	**–**	**–**	**62 634**	**62 634**	**423**	**98**	**125 268**
	510 736	**2017/02/23**	**2023/02/23**	**309**	**–**	**–**	**–**	**–**	**–**	**–**	**510 736**
	656 978	**2018/02/22**	**2024/02/22**	**391**	**–**	**–**	**–**	**–**	**–**	**–**	**656 978**
	497 266	**2019/02/11**	**2025/02/11**	**425**	**96**	**477**	**–**	**–**	**–**	**–**	**497 266**
Prescribed officer											
HE Pether	**224 410**	**2015/02/27**	**2021/02/27**	**315**	**–**	**–**	**149 608**	**149 608**	**441**	**188**	**74 802**
	122 190	**2016/02/18**	**2022/02/18**	**266**	**–**	**–**	**40 730**	**40 730**	**423**	**64**	**81 460**
	402 570	**2017/02/23**	**2023/02/23**	**309**	**–**	**–**	**–**	**–**	**–**	**–**	**402 570**
	345 174	**2018/02/22**	**2024/02/22**	**391**	**–**	**–**	**–**	**–**	**–**	**–**	**345 174**
	315 264	**2019/02/11**	**2025/02/11**	**425**	**96**	**303**	**–**	**–**	**–**	**–**	**315 264**
30 September 2018											
Executive directors											
HA Lourens	774 376	2015/02/27	2021/02/27	315	–	–	258 126	258 126	460	375	516 250
	634 240	2016/02/18	2022/02/18	266	–	–	–	–	–	–	634 240
	2 280 786	2017/02/23	2023/02/23	309	–	–	–	–	–	–	2 280 786
	2 267 972	2018/02/22	2024/02/22	391	102	2 313	–	–	–	–	2 267 972
AH Muller	477 854	2015/02/27	2021/02/27	315	–	–	159 284	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 officer											
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

* *These fair values were calculated using the actuarial binomial option pricing model.*

Notes to the consolidated financial statements (continued)

for the year ended 30 September 2019

42. 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#			
	Direct	Indirect	Total	% of issued ordinary share capital
30 September 2019				
HA Lourens	**744 297**	**–**	**744 297**	**0.372**
AH Muller	**271 506**	**–**	**271 506**	**0.136**
WA Hanekom	**–**	**7 524 758**	**7 524 758**	**3.762**
N Celliers	**–**	**–**	**–**	**–**
Prof. ASM Karaan	**–**	**–**	**–**	**–**
PE Burton	**–**	**9 648**	**9 648**	**0.005**
GG Fortuin	**–**	**–**	**–**	**–**
T Golden*	**–**	**–**	**–**	**–**
	1 015 803	**7 534 406**	**8 550 209**	**4.275**
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

* *Appointed during the year.*
\# *There has been no change in the directors' interest in shares from the end of the financial year to date of the approval of the annual financial statements.*

43. SHAREHOLDER INFORMATION

	Number of ordinary share-holders	% of share-holders	Number of ordinary shares	% of total ordinary shares
Shareholder spread				
Category				
Ordinary shares				
Individuals	**2 843**	**83.1**	**29 079 834**	**14.5**
Nominees and trusts	**294**	**8.6**	**8 156 838**	**4.1**
Investment companies and corporate bodies	**285**	**8.3**	**162 788 044**	**81.4**
	3 422	**100.0**	**200 024 716**	**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 2019, is as follows:				
Analysis of shareholding – ordinary shares				
Public shareholding				
Major shareholding				
Allan Gray (on behalf of clients)	**1**	**0.0**	**30 711 985**	**15.4**
Old Mutual (on behalf of clients)	**1**	**0.0**	**15 252 602**	**7.6**
Other shareholders	**3 414**	**99.9**	**76 781 890**	**38.4**
Non-public shareholding				
Major shareholding				
Zeder Investments Ltd	**1**	**0.0**	**61 620 084**	**30.8**
Other shareholders				
Directors	**4**	**0.1**	**8 550 209**	**4.3**
Quantum Foods (Pty) Ltd	**1**	**0.0**	**7 107 946**	**3.5**
	3 422	**100.0**	**200 024 716**	**100.0**
Distribution of ordinary shareholders				
Number of shares				
1 – 1 000 shares	**1 509**	**44.1**	**514 300**	**0.3**
1 001 – 10 000 shares	**1 132**	**33.0**	**4 559 993**	**2.3**
10 001 – 100 000 shares	**632**	**18.5**	**20 539 487**	**10.3**
100 001 – 1 000 000 shares	**125**	**3.7**	**33 071 003**	**16.5**
1 000 001 shares and over	**24**	**0.7**	**141 339 933**	**70.6**
	3 422	**100.0**	**200 024 716**	**100.0**

Company financial statements
for the year ended 30 September 2019

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Company statement of financial position

as at 30 September 2019

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-current assets		**1 585 386**	1 585 386
Investment in subsidiary	3	**1 585 386**	1 585 386
Current assets		**585**	302
Cash and cash equivalents		**585**	302
Total assets		**1 585 971**	1 585 688
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent		**1 576 390**	1 578 866
Share capital	4	**1 465 069**	1 500 248
Retained earnings		**111 321**	78 618
Total equity		**1 576 390**	1 578 866
Current liabilities		**9 581**	6 822
Dividends payable		**392**	189
Trade and other payables		**147**	356
Borrowings from related party	5	**9 042**	6 277
Total liabilities		**9 581**	6 822
Total equity and liabilities		**1 585 971**	1 585 688

Company statement of comprehensive income

for the year ended 30 September 2019

	Notes	2019 R'000	2018 R'000
Revenue	6	**198 156**	172 633
Other income	7	**1 515**	1 276
Administrative expenses		**(1 759)**	(2 615)
Other operating expenses		**(1 956)**	(1 672)
Operating profit	8	**195 956**	169 622
Investment income	9	**120**	65
Profit before income tax		**196 076**	169 687
Income tax expense	10	**–**	–
Profit for the year		**196 076**	169 687
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**196 076**	169 687
Profit for the year attributable to owners of the parent		**196 076**	169 687
Total comprehensive income for the year attributable to owners of the parent		**196 076**	169 687

Company statement of changes in equity

for the year ended 30 September 2019

	Share capital R'000	Retained earnings R'000	Total R'000
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
Balance as at 1 October 2018	**1 500 248**	**78 618**	**1 578 866**
Shares repurchased and cancelled	**(35 179)**	**–**	**(35 179)**
Comprehensive income:			
Profit for the year	**–**	**196 076**	**196 076**
Interim dividend for 2019	**–**	**(16 002)**	**(16 002)**
Final dividend for 2018	**–**	**(147 371)**	**(147 371)**
Balance as at 30 September 2019	**1 465 069**	**111 321**	**1 576 390**
Note	4		

Company statement of cash flows

for the year ended 30 September 2019

	Notes	2019 R'000	2018 R'000
CASH FLOW FROM OPERATING ACTIVITIES		**(2 409)**	(2 790)
Cash loss from operating activities	12	**(2 200)**	(3 011)
Working capital changes	13	**(209)**	221
CASH FLOW FROM INVESTING ACTIVITIES		**198 276**	172 698
Interest received	9	**120**	65
Dividends received	6	**198 156**	172 633
Cash surplus		**195 867**	169 908
CASH FLOW FROM FINANCING ACTIVITIES		**(195 584)**	(169 700)
Loan received from related party	5	**4 508**	3 970
Loan repaid to related party	5	**(1 743)**	(1 461)
Shares repurchased	4	**(35 179)**	(52 422)
Dividends paid to ordinary shareholders	14	**(163 170)**	(119 787)
Increase in cash and cash equivalents		**283**	208
Cash and cash equivalents at beginning of year		**302**	94
Cash and cash equivalents at end of year		**585**	302

Notes to the Company financial statements

for the year ended 30 September 2019

		2019 R'000	2018 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 the accounting policies on page 12.		
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 (2018: 400 000 000) ordinary no par value shares		
	Issued and fully paid – ordinary shares 200 024 716 (2018: 210 529 716) ordinary no par value shares	**1 465 069**	1 500 248
	During the reporting period 10 505 000 (2018: 11 784 941) ordinary shares were repurchased by the Company and cancelled. The shares were repurchased at an average price of R3.35 (2018: R4.45) per share.		
5.	**BORROWINGS FROM RELATED PARTY**		
	Loan from Quantum Foods (Pty) Ltd		
	Beginning of year	**6 277**	3 768
	Loans advanced during the year	**4 508**	3 970
	Loans repaid during the year	**(1 743)**	(1 461)
	End of year	**9 042**	6 277
	Unsecured interest-free loan with no fixed terms of repayment.		
6.	**REVENUE**		
	Dividends received from Quantum Foods (Pty) Ltd	**198 156**	172 633
7.	**OTHER INCOME**		
	Administration fees received from Quantum Foods (Pty) Ltd	**1 515**	1 276
8.	**OPERATING PROFIT**		
	The operating profit is calculated after taking into account other income (refer to note 7), as well as the following:		
	Auditors' remuneration	**14**	15
	Listing fees and shareholder communication	**1 738**	2 566
	Directors' remuneration	**1 895**	1 596

Notes to the Company financial statements

(continued)

for the year ended 30 September 2019

		2019 R'000	2018 R'000
9.	**INVESTMENT INCOME**		
	Interest income on call accounts and other	**120**	65
		120	65
10.	**INCOME TAX EXPENSE**		
	Current income tax		
	Current year	**–**	–
		%	%
	Standard rate for companies	**28.0**	28.0
	Exempt income	**(28.3)**	(28.5)
	Non-deductible expenditure	**0.3**	0.5
		–	–
11.	**DIVIDEND PER ORDINARY SHARE**		
	Interim 8.0 cents (2018: 20.0 cents) per ordinary share	**16 002**	44 322
	Final 25.0 cents (2018: 70.0 cents) per ordinary share	**50 006**	147 371
		66 008	191 693

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 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.

		2019 R'000	2018 R'000
12.	**CASH LOSS FROM OPERATING ACTIVITIES**		
	Reconciliation of profit before tax and cash loss from operating activities:		
	Profit before income tax	**196 076**	169 687
	Adjusted for:		
	Dividends received	**(198 156)**	(172 633)
	Interest received	**(120)**	(65)
		(2 200)	(3 011)
13.	**WORKING CAPITAL CHANGES**		
	(Decrease)/increase in trade and other payables	**(209)**	221
14.	**DIVIDENDS PAID**		
	Amounts unpaid at beginning of year	**(189)**	(67)
	As disclosed in statement of changes in equity	**(163 373)**	(119 909)
	Amounts unpaid at end of year	**392**	189
		(163 170)	(119 787)