

Summary audited consolidated financial statements

For the year ended 30 September 2020

Salient features

	2020	2019	% change
Revenue	R5 095 million	R4 418 million	15
Operating profit (before items of a capital nature)*	R220 million	R245 million	(10)
Operating profit	R218 million	R245 million	(11)
Headline earnings	R156 million	R189 million	(17)
Earnings per share	80.1 cents	92.6 cents	(13)
Headline earnings per share	80.5 cents	92.3 cents	(13)
Total dividend per share	16.0 cents	33.0 cents	(52)

* Income or expenditure of a capital nature in the statement of comprehensive income, i.e. all profit or loss items that are excluded in the calculation of headline earnings per share. The principal items excluded under this measurement are profits or losses on disposal of property, plant and equipment.

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Commentary

Quantum Foods' 2020 performance was satisfactory against the backdrop of an economy that suffered the COVID-19 crisis as well as volatile industry conditions. Quantum Foods was privileged to continue operations at full capacity, even during level 5 lockdown restrictions. We are therefore grateful that we did not suffer the financial pressures that many participants in the South African economy endured.

During the year, Quantum Foods' largest shareholder, Zeder Financial Services Ltd, sold its shares to a competitor, Country Bird Holdings Proprietary Limited ("CBH"). Subsequently, a private equity group based in Luxembourg, Aristotle Africa S.à r.l, purchased a significant number of Quantum Foods' shares. They then became the largest shareholder in Quantum Foods, with CBH the second largest. The business remained resilient and the conservative management approach aimed at protecting shareholder value continues.

Operating environment

The South African layer flock continued to increase. According to the South African Poultry Association, the layer flock increased from a previous record high of 28.1 million layers in September 2019 to a record high of 29.5 million layers in April 2020. By September 2020, the layer flock slowly declined to 28.6 million.

Following the increase in the layer flock in the first half of 2020, egg prices declined rapidly during the first six months of the year. However, this trend reversed in the second half of 2020 when the demand for eggs improved during the lock down period due to, *inter alia*, increased home baking. Overall, the average egg price for 2020 was lower than that of 2019.

Raw material costs continued to increase despite enjoying the second highest maize harvest in South Africa's history. The maize harvest for the 2019/2020 season was c. 15.4 million tons compared to the 11.3 million tons of the 2018/2019 season. The significant weakening of the Rand against major currencies was the main driver for cost increases in the current reporting period. Although average costs did not increase materially compared to 2019, commodity prices globally started to increase sharply towards the end of the 2020 financial year. Reasons for these increases include weather concerns in key planting areas of both South and North America and an increase in demand from China. The costs of all key raw materials, including maize, bran, hominy chop, and soybean meal increased.

Segmental overview

The *Nova Feeds* business continued its excellent performance. External volumes grew by 13% on a comparative basis. This increase excludes the effect of a change in the broiler farming business model in May 2019. For the past five years *Nova Feeds'* external sales volumes have increased by an average of 5.9% per year. This is compared to a 0.3% increase per year in South Africa's feed volumes, as reported by the Animal Feed Manufacturers Association.

Margins per ton improved mainly due to changes in product mix, with higher margin feed products sold. Operating costs were well managed, and the per unit cost declined compared to 2019. Load shedding remains a challenge, and additional costs were incurred to buy feed during periods of interruption. Particularly pleasing was the fact that the capital investment made in the Pretoria and Patterson plants in 2019 achieved the anticipated financial benefits.

The broiler farming business delivered an improved financial performance. This was possible due to increases in national day-old chick production and live bird production in the Western Cape. Operating costs were well managed throughout the broiler value chain and per unit costs declined. The broiler farming operational efficiency performance continued to improve from an already high level.

The challenges at broiler breeder level were not resolved and the marginal improvement in 2019 was not sustained. The number of day-old chicks produced per parent breeder hen declined in 2020. This part of the business will receive increased management focus going forward to ensure it stabilises in the short term and improves in the medium term.

The layer breeder business again performed well with further efficiency improvements in the measurements for egg production per hen housed and hatchability.

The point-of-lay business experienced a difficult financial year. The decline in egg prices during the early part of the year resulted in many customers cancelling or postponing point-of-lay orders. As a result, birds were moved to layer farms (customer or Group) later and significantly higher feed costs were incurred. These challenges were resolved by the last quarter of 2020, and higher volumes of day-old layer chicks and point-of-lays hens were sold for the full year. It is pleasing to report that the commercial layer farms are now performing at the expected efficiency level. New management practices for rearing, feeding, and farming were implemented

Commentary (continued)

three years ago and the steady improvement in layer farm productivity seen over this period has reached an acceptable level.

The egg business profitability was severely affected by the higher feed cost and lower average egg prices, which declined year on year by 2.4%. The decline in egg prices could have been significantly worse. However, lockdown increased demand for eggs and stabilised prices. Operationally, the business performed well and key efficiency measurements remained high. Costs were well managed and the cost per dozen decreased compared to 2019. This decrease was assisted by an egg volume increase of 15.4%. After lockdown restrictions were reduced, egg prices started to decline. This was expected due to the high national flock numbers and egg supply.

The financial performance for the rest of Africa business was influenced by drought as well as difficult economic circumstances, particularly in Zambia. Despite this, the egg businesses in all three jurisdictions performed satisfactorily and egg volumes increased by 15.7%. This was mainly due to an increase in hens placed in all three countries.

Productivity on the layer farms in Zambia and Uganda remained high. Productivity in Mozambique also improved.

The breeder businesses in Zambia and Uganda struggled due to low customer demand. This followed higher maize costs (increased by 45.2% in Zambia and 57.7% in Uganda) and was further impacted by COVID-19 restrictions. Despite serious economic and industry challenges, all three countries remained profitable. It is interesting to note that in the past year Quantum Foods sold just under 1.2 billion eggs on the African continent.

Financial overview and dividend

Group revenue increased by 15.3% to R5.1 billion, with a 15.3% increase of R638 million in the South African operations and a 16.6% increase of R40 million in other African operations. Revenue from other African operations contributed 5.5% of the Group's revenue for 2020 (2019: 5.4%).

Revenue from South African operations:

- Increased by R478 million for the feeds segment. This increase of 27.2% is due to an increase in volumes sold and the adjustment of selling prices for higher input costs.
- Increased by R25 million for the farming segment. Broiler farming revenue benefited from increased volumes sold to customers in the Western Cape but was lower, in total, due to the

change in business model implemented in 2019. Layer farming revenue increased by R41 million due to increased volumes.

- Increased by R134 million for the eggs segment, where an average price decrease of 2.4% and a volume increase of 15.4% was achieved.

Cost of sales increased by 16.2% to R3.9 billion. 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 2020 amounted to R100 million (2019: R147 million), with the decrease mostly reflective of the decreased margins in the egg business. Gross profit, excluding these fair value adjustments, increased by R81 million to R1 250 million at a margin of 24.5% (2019: 26.5%).

Operating expenses were well managed and, although nominal costs increased by 10.5%, costs decreased on a per unit basis.

Operating profit before items of a capital nature decreased by 10.2% to R220 million for the period under review. South African operations recorded a 5.2% decrease of R12 million to a profit of R227 million at a margin of 4.7% (2019: 5.7%). Feeds and farming improved by R10 million and R9 million respectively, while eggs weakened by R32 million. Feeds profit benefited from the increase in sales volumes to the external market as well as the increased volumes required by the internal layer farming business. The improvement in farming profit is due to improved production efficiencies and volumes on broiler and layer farms in 2020. Other African operations recorded a decrease in profits of R8 million, mainly due to lower profitability from the Zambian business.

Profit before tax decreased by 16% to R215 million.

The adoption of IFRS 16 – Leases impacted 2020 earnings as follows:

- Increased operating profit by R8.8 million
- Increased finance costs by R7.8 million
- Increased profit before tax by R1.0 million

Headline earnings per share ("HEPS") decreased to 80.5 cents from the 92.3 cents per share of 2019. This decrease of 12.8% includes the effect of the repurchase of shares in the second half of 2019 and during the current reporting period.

Cash inflow from operations amounted to R216 million for the reporting period. This includes an increased investment of R70 million in working capital.

Capital expenditure for the period amounted to R91 million. The main projects being the new layer breeder farm in Uganda; capacity expansion at the Malmesbury feed mill; an egg-grading machine for the East London packing station; and projects to ensure fire risk compliance.

Cash and cash equivalents increased from R220 million at 30 September 2019 to R252 million at 30 September 2020.

The Group's borrowings at 30 September 2020 only comprised lease liabilities as accounted for in terms of IFRS 16 – Leases.

Dividend

In declaring the 2020 final dividend, the Board resolved to increase the targeted dividend cover of 4 times (announced in 2019) to 5 times. This is due to the anticipated increased investment in working capital that will be required in 2021 following a substantial increase in the cost of key raw materials; the concomitant pressure expected on margins in especially the egg business; the approved capital expenditure programme; and continued uncertainty about the full extent of the impact of COVID-19 on the economy (specifically consumer expenditure). This resulted in the Board resolving to declare a final gross cash dividend of 10.0 cents per share, from income reserves, for the year ended 30 September 2020.

At a rate of 20%, dividends tax will amount to 2.0 cents per share. Consequently, shareholders who are not exempt from dividends tax will receive a net dividend amount of 8.0 cents per share. Such tax will be withheld unless beneficial owners of the dividend have provided 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. The dividend amounts to 10.0 cents per share for shareholders exempt from paying dividends tax.

The applicable dates are as follows:

Declaration date	Thursday, 26 November 2020
Last date of trading cum dividend	Tuesday, 12 January 2021
Trading ex dividend commences	Wednesday, 13 January 2021
Record date	Friday, 15 January 2021
Dividend payable	Monday, 18 January 2021

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 13 January 2021 and Friday, 15 January 2021, both days inclusive.

During the period under review, a subsidiary of Quantum Foods purchased 1 296 647 shares at a cost of R4.3 million, equating to an average of R3.31 per share. These shares are held as treasury shares and used for corporate purposes.

The shares in issue as at declaration date are 200 024 716.

Outlook

The past year has been eventful, both from a business and corporate activity perspective.

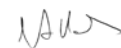
The steep increase in raw material costs will have a negative impact going forward, particularly in terms of egg and layer livestock profitability. Together with the expected decline in egg prices, this will put egg businesses, including *Nulaid*, under severe financial pressure. However, cyclical profitability is part of the egg industry's natural cycle and might create acquisition opportunities. The farming and feed businesses are less exposed to raw material dynamics over time but might experience margin pressure in the short term due to the steep increase in raw material costs.

The financial performance of the businesses in Uganda and Zambia is expected to benefit from lower maize costs.

Medium-term weather forecasts indicate that South Africa should receive at least normal rainfall in the summer rain areas. If that is the case, there should be sufficient domestic maize. However, the Rand to US dollar exchange rate remains unpredictable and will influence all raw material costs. A weaker Rand will result in an increase in the cost of all major raw materials.

The next period is expected to be challenging. However, the strength of the business portfolio, investments made in recent years to increase production capacity, maintenance of operational efficiency and a focus on cost management should ensure that we navigate through the period successfully.

By order of the Board



WA Hanekom
Chairman



HA Lourens
Chief Executive Officer

26 November 2020

Summary consolidated statement of financial position

	Audited As at 30 September 2020 R'000	Audited As at 30 September 2019 R'000
ASSETS		
Non-current assets	1 222 063	1 181 521
Property, plant and equipment	1 140 282	1 160 768
Right-of-use assets	57 909	–
Intangible assets	5 832	7 722
Investment in associates	13 679	8 998
Trade and other receivables	4 035	3 356
Deferred income tax	326	677
Current assets	1 422 723	1 332 808
Inventories	297 872	288 029
Biological assets	354 511	379 596
Trade and other receivables	518 043	433 280
Derivative financial instruments	–	4 658
Current income tax	516	7 651
Cash and cash equivalents	251 781	219 594
Total assets	2 644 786	2 514 329
EQUITY AND LIABILITIES		
Capital and reserves attributable to owners of the parent	1 885 642	1 837 412
Share capital	1 465 069	1 465 069
Treasury shares	(19 338)	(23 947)
Other reserves	(85 089)	(210 432)
Retained earnings	525 000	606 722
Total equity	1 885 642	1 837 412
Non-current liabilities	283 597	256 790
Interest-bearing liability	–	6 021
Lease liabilities	53 692	–
Deferred income tax	221 475	242 843
Provisions for other liabilities and charges	8 430	7 926
Current liabilities	475 547	420 127
Trade and other payables	444 384	420 019
Derivative financial instruments	6	–
Current income tax	12 989	–
Interest-bearing liability	–	108
Lease liabilities	18 168	–
Total liabilities	759 144	676 917
Total equity and liabilities	2 644 786	2 514 329

Summary consolidated statement of comprehensive income

	Notes	Audited Year ended 30 September 2020 R'000	Audited Year ended 30 September 2019 R'000
Revenue	3	5 095 085	4 417 674
Cost of sales		(3 945 221)	(3 395 377)
Gross profit		1 149 864	1 022 297
Other income		10 655	9 915
Other gains/(losses) – net	4	92 500	149 517
Sales and distribution costs		(263 434)	(251 995)
Marketing costs		(13 941)	(13 278)
Administrative expenses		(140 610)	(126 517)
Other operating expenses		(616 566)	(544 706)
Operating profit		218 468	245 233
Investment income		6 010	15 102
Finance costs		(8 579)	(3 959)
Share of (loss)/profit of associate companies		(432)	209
Profit before income tax		215 467	256 585
Income tax expense		(60 568)	(67 390)
Profit for the year		154 899	189 195
Other comprehensive income for the year			
Items that may subsequently be reclassified to profit or loss:			
Fair value adjustments to cash flow hedging reserve		(1 714)	(1 227)
For the year		41 349	26 178
Deferred income tax effect		1	(1 426)
Current income tax effect		(11 579)	(5 903)
Realised to profit or loss		(43 730)	(27 883)
Deferred income tax effect		1 427	18
Current income tax effect		10 818	7 789
Movement in foreign currency translation reserve			
Currency translation differences		(45 680)	13 080
Total comprehensive income for the year		107 505	201 048
Profit for the year attributable to owners of the parent		154 899	189 195
Total comprehensive income for the year attributable to owners of the parent		107 505	201 048
Earnings per ordinary share (cents)	5	80.1	92.6
Diluted earnings per ordinary share (cents)	5	77.6	91.3

Summary consolidated statement of changes in equity

	Audited Year ended 30 September 2020 R'000	Audited Year ended 30 September 2019 R'000
Share capital and treasury shares	1 445 731	1 441 122
Opening balance	1 441 122	1 498 707
Shares repurchased and cancelled	–	(35 179)
Ordinary shares acquired by subsidiary	(4 296)	(27 368)
Ordinary shares transferred – share appreciation rights	8 905	4 962
Other reserves	(85 089)	(210 432)
Opening balance	(210 432)	(226 402)
Other comprehensive income for the year	(47 394)	11 853
Common control reserve reclassified to retained earnings	167 877	–
Recognition of share-based payments	14 746	8 090
Ordinary shares transferred – share appreciation rights	(9 886)	(3 973)
Retained earnings	525 000	606 722
Opening balance	606 722	582 086
Adjustment to opening retained earnings*	(9 864)	(795)
Profit for the year	154 899	189 195
Dividends paid	(59 861)	(162 775)
Common control reserve reclassified to retained earnings	(167 877)	–
Ordinary shares transferred – share appreciation rights	981	(989)
Total equity	1 885 642	1 837 412

* Refer to note 2 for details regarding the restatement of the opening balance of retained earnings on 1 October 2019.

Summary consolidated statement of cash flows

	Audited Year ended 30 September 2020 R'000	Audited Year ended 30 September 2019 R'000
CASH FLOW FROM OPERATING ACTIVITIES	216 311	162 706
Cash profit from operating activities	332 548	329 847
Working capital changes	(70 312)	(109 244)
Cash effect of hedging activities	2 718	(6 736)
Cash generated from operations	264 954	213 867
Income tax paid	(48 643)	(51 161)
CASH FLOW FROM INVESTING ACTIVITIES	(85 413)	(140 946)
Additions to property, plant and equipment	(91 155)	(152 587)
Additions to intangible assets	–	(4)
Proceeds on disposal of property, plant and equipment	411	3 271
Advance of non-interest-bearing loan	–	(6 728)
Interest received	5 331	15 102
Cash surplus	130 898	21 760
CASH FLOW FROM FINANCING ACTIVITIES	(94 463)	(225 941)
Principal elements of lease payments (2019: principal elements of finance lease payments)	(22 441)	(98)
Shares repurchased	–	(35 179)
Treasury shares acquired by subsidiary	(4 296)	(27 368)
Interest paid	(7 909)	(724)
Dividends paid to ordinary shareholders	(59 817)	(162 572)
Increase/(decrease) in cash and cash equivalents	36 435	(204 181)
Effects of exchange rate changes	(4 248)	1 314
Cash and cash equivalents at beginning of year	219 594	422 461
Cash and cash equivalents at end of year	251 781	219 594

Segmental analysis

	Audited Year ended 30 September 2020 R'000	Audited Year ended 30 September 2019 R'000
SEGMENT INFORMATION		
Segment revenue	5 095 085	4 417 674
Eggs	1 229 592	1 095 195
Farming	1 350 043	1 325 152
Animal feeds	2 237 071	1 758 627
Other African countries	278 379	238 700
Segment results – excluding items of a capital nature	219 556	244 611
Eggs	6 254	38 341
Farming	121 505	112 087
Animal feeds	99 288	89 100
Other African countries	5 899	14 226
Head office costs	(13 390)	(9 143)
Items of a capital nature per segment included in other gains/(losses) – net		
(Loss)/profit on disposal of property, plant and equipment before income tax	(1 088)	622
Eggs	(1)	(96)
Farming	(267)	1 053
Animal feeds	(989)	(426)
Other African countries	169	91
Segment results	218 468	245 233
Eggs	6 253	38 245
Farming	121 238	113 140
Animal feeds	98 299	88 674
Other African countries	6 068	14 317
Head office costs	(13 390)	(9 143)
A reconciliation of the segment results to operating profit before income tax is provided below:		
Segment results	218 468	245 233
Adjusted for:		
Investment income	6 010	15 102
Finance costs	(8 579)	(3 959)
Share of (loss)/profit of associate companies	(432)	209
Profit before income tax per statement of comprehensive income	215 467	256 585

Notes to the summary consolidated financial statements

1. BASIS OF PREPARATION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements ("Listings Requirements") for provisional reports, and the requirements of the Companies Act, No. 71 of 2018, applicable to summary financial statements. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the South African Institute of Chartered Accountants ("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.

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

The impact of the COVID-19 pandemic was considered as part of the assessment of assumptions used in accounting estimates and judgements throughout the financial statements. The Group continued to operate at full capacity throughout the COVID-19 lockdown period. The COVID-19 pandemic therefore had a minimal impact on the Group's business and the consolidated annual financial statements.

1.1 New and amended standards adopted by the Group

New or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 – Leases.

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

2. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 – Leases on the Group's financial statements. It also discloses the new accounting policies that have been applied from 1 October 2019, where they are different to those applied in prior periods. The Group has adopted IFRS 16 retrospectively from 1 October 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 October 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 – Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 October 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 10.2%. On adoption the Group has elected to raise temporary timing differences between lease liabilities and right-of-use assets and recognise deferred taxation.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in a measurement adjustment of R6.1 million for variable lease payments not based on an index or rate. R5.5 million of this remeasurement to the lease liabilities was recognised as an adjustment to the related right-of-use asset immediately after the date of initial application, and an adjustment to profit or loss.

Notes to the summary consolidated financial statements (continued)

2. CHANGES IN ACCOUNTING POLICIES (continued)

(a) Adjustments recognised on adoption of IFRS 16 (continued)

	R'000
Operating lease commitments disclosed as at 30 September 2019	52 529
Discounted using the lessee's incremental borrowing rate at the date of initial application	(20 461)
Add: finance lease liabilities recognised as at 30 September 2019	6 128
(Less): short-term leases recognised on a straight-line basis as expense	(1 155)
(Less): low-value leases recognised on a straight-line basis as expense	(209)
Add: lease extensions (highly likely to be exercised)	45 823
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	(179)
Lease liability recognised as at 1 October 2019	82 476
Of which are:	
Current lease liabilities	20 570
Non-current lease liabilities	61 906

Right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 September 2020 R'000	1 October 2019 R'000
Land and buildings	22 849	21 817
Plant, machinery and equipment	8 600	16 149
Vehicles	26 460	29 581
Total right-of-use assets	57 909	67 547

The change in accounting policy affected the following items in the statement of financial position on 1 October 2019. 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 amounts provided.

	30 September 2019 As originally presented R'000	IFRS 16 impact R'000	1 October 2019 R'000
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EXTRACT)			
ASSETS			
Non-current assets	1 181 521	62 023	1 243 544
Property, plant and equipment	1 160 768	(5 524)	1 155 244
Right-of-use assets	–	67 547	67 547
Total assets	2 514 329	62 023	2 576 352
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent	1 837 412	(9 864)	1 827 548
Retained earnings	606 722	(9 864)	596 858
Non-current liabilities	256 790	51 786	308 576
Interest-bearing liability	6 021	(6 021)	–
Lease liability	–	61 906	61 906
Deferred income tax	242 843	(4 099)	238 744
Current liabilities	420 127	20 101	440 228
Trade and other payables	420 019	(361)	419 658
Interest-bearing liability	108	(108)	–
Lease liability	–	20 570	20 570
Total liabilities	676 917	71 887	748 804
Total equity and liabilities	2 514 329	62 023	2 576 352

No impact on the statement of comprehensive income.

(i) Impact on segment disclosures and earnings per share

Segment results for 30 September 2020 all included a profit as a result of the change in accounting policy. The following segments were affected by the change in policy:

	Segment results R'000	Segment assets R'000	Segment liabilities R'000
Eggs	3 760	34 717	43 950
Farming	2 718	18 695	22 621
Animal feeds	2 274	4 257	5 080
Other African countries	39	240	209
	8 791	57 909	71 860

Earnings per share increased by 0.4 cents per share for the year ended 30 September 2020 as a result of the adoption of IFRS 16.

Notes to the summary consolidated financial statements (continued)

2. CHANGES IN ACCOUNTING POLICIES (continued)

(a) Adjustments recognised on adoption of IFRS 16 (continued)

(ii) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to re-assess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 – Determining Whether an Arrangement Contains a Lease.

(b) The Group's leasing activities and how these are accounted for

The Group leases various farms, equipment, warehouses and delivery vehicles. Lease agreements are typically made for fixed periods of two to five years but may have extension options as described in (ii) on the following page. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 October 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing
- Makes adjustments specific to the lease, e.g. term and security

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is re-assessed and adjusted against the right-of-use asset.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Restoration costs

Payments associated with short-term leases, variable lease payments not based on an index or a rate in (i) below and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly IT-equipment.

(i) Variable lease payments

Estimation uncertainty arising from variable lease payments

Variable lease payments relate to the lease of solar panels whereby the rental payments are 100% based on the energy generated by the solar panels. These variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

(ii) Extension and termination options

Extension and termination options are included in a number of property, delivery vehicle and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the lease payments made in 2020 were optional.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of R2.7 million have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, there were no revisions to lease terms resulting from changes in our view on extension or termination options in lease contracts.

Notes to the summary consolidated financial statements (continued)

	Audited Year ended 30 September 2020 R'000	Audited Year ended 30 September 2019 R'000
3. REVENUE		
Disaggregation of revenue from contracts with customers:		
Revenue		
Eggs	1 229 592	1 095 195
Layer farming*	237 671	197 058
Broiler farming**	1 112 372	1 128 094
Animal feeds	2 237 071	1 758 627
Zambia***	157 626	144 538
Uganda***	67 329	48 966
Mozambique****	53 424	45 196
	5 095 085	4 417 674

* Layer farming sales include the sales of day-old pullets and point-of-lay hens.

** Broiler farming sales include the sales of day-old broilers and live birds.

*** Includes the sales of animal feeds, commercial eggs and day-old chicks.

**** Includes the sale of commercial eggs.

4. OTHER GAINS/(LOSSES) – NET		
Biological assets fair value adjustment	70 265	105 091
Unrealised – reflected in carrying amount of biological assets	(4 598)	790
Realised – reflected in cost of goods sold	74 863	104 301
Agricultural produce fair value adjustment	25 813	40 015
Unrealised – reflected in carrying amount of inventory	248	(2 891)
Realised – reflected in cost of goods sold	25 565	42 906
Foreign exchange differences	(64)	339
Financial instruments fair value adjustments	(33)	3 003
Foreign exchange contract cash flow hedging ineffective (loss)/gain	(2 393)	447
(Loss)/profit on disposal of property, plant and equipment	(1 088)	622
	92 500	149 517

	Audited Year ended 30 September 2020 R'000	Audited Year ended 30 September 2019 R'000
5. EARNINGS PER ORDINARY SHARE		
Basic		
The calculation of basic earnings per share is based on profit for the year 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	154 899	189 195
Weighted average number of ordinary shares in issue ('000)	193 291	204 298
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 year attributable to owners of the parent divided by the diluted weighted average number of ordinary shares (net of treasury shares) in issue during the year:		
Profit for the year	154 899	189 195
Diluted weighted average number of ordinary shares in issue ('000)	199 653	207 185
Headline earnings is calculated in accordance with Circular 1/2019 issued by SAICA.		
<i>Reconciliation between profit attributable to owners of the parent and headline earnings</i>		
Profit for the year	154 899	189 195
Remeasurement of items of a capital nature		
Loss/(profit) on disposal of property, plant and equipment	752	(554)
Gross	1 088	(622)
Tax effect	(336)	68
Headline earnings for the year	155 651	188 641
Earnings per share (cents)	80.1	92.6
Diluted earnings per share (cents)	77.6	91.3
Headline earnings per share (cents)	80.5	92.3
Diluted headline earnings per share (cents)	78.0	91.0
6. CONTINGENT LIABILITIES		
Guarantees in terms of loans by third parties to contracted service providers	23 231	23 861
No litigation matters with potential material consequences exist at the reporting date.		

Notes to the summary consolidated financial statements (continued)

7. FUTURE CAPITAL COMMITMENTS

Capital expenditure approved by the Board and contracted for amounts to R27.0 million (2019: R14.6 million).
Capital expenditure approved by the Board but not yet contracted for amounts to R135.5 million (2019: R86.0 million).

8. EVENTS AFTER THE REPORTING PERIOD

Dividend

A final gross cash dividend of 10.0 cents per ordinary share has been approved and declared by the Board for the year ended 30 September 2020, on 26 November 2020. 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, No. 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 8.0 cents per ordinary share for shareholders liable to pay dividends tax.
The dividend amounts to 10.0 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.

The Group considered the impact of the COVID-19 pandemic post 30 September 2020 and concluded that the significant accounting judgements, estimates and assumptions applied in the preparation of the annual financial statements remain appropriate.

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

This summary report is extracted from audited information, but is not itself audited.

The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection on the Company's website, <https://quantumfoods.co.za/financial-reports/> or at the Company's registered office.

The Group's auditor has not reviewed nor reported on any of the comments relating to prospects.

DIRECTORS

WA Hanekom (chairman)*, Prof. ASM Karaan (lead independent director)*, GG Fortuin*, T Golden*, LW Riddle* (appointed 28 September 2020), PE Burton* (resigned 17 August 2020), N Celliers (resigned 19 June 2020), HA Lourens (CEO)*, AH Muller (CFO)*

* Executive * Independent

COMPANY SECRETARY

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