



**Integrated report 2015**

A photograph of several brown chickens in a grassy field. The chickens are the central focus, with one in the foreground looking towards the left. The background is a soft-focus green field. A semi-transparent white box with a decorative top edge is overlaid on the image, containing text.

## **Quantum Foods**

owns and operates a diversified feeds and poultry business providing quality animal protein effectively to selected South African and African markets.

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# About this report

## OVERVIEW

This is the second integrated report of Quantum Foods Holdings Ltd and its subsidiaries ("Quantum Foods", "the Group" or "the Company"). It covers the financial period from 1 October 2014 to 30 September 2015.

It is important to note that, at the end of the previous financial year, the Group was still a wholly-owned subsidiary of the Pioneer Food Group Ltd ("Pioneer Foods"). It was unbundled to shareholders and listed separately on the main board of the Johannesburg Stock Exchange ("JSE") on 6 October 2014. This report therefore provides information about Quantum Foods' first year as an independent business.

The King Code of Governance for South Africa 2009 ("King III") and the International Integrated Reporting Council's <IR> Framework were considered in the compilation of this report.

## SCOPE AND BOUNDARY

Quantum Foods is a public company, duly incorporated in South Africa under the provisions of the Companies Act, Act 71 of 2008, as amended and its regulations ("the Companies Act").

The report provides performance data on the Group's business activities in all its operating geographies, including South Africa, Uganda and Zambia, and for all subsidiaries of the Group (more information is provided in the business overview section on page 13).

The scope of non-financial information provided in this report expands on that which was provided in the previous year. Quantum Foods is committed to improving the level of integration of its reporting over time.

## ASSURANCE

While the Group did not seek external assurance for the integrated report as a whole, assurance for elements of this report was provided by a combination of internal and external sources. This integrated report is the product of rigorous internal content development and control processes with oversight and responsibility at executive level. Quantum Foods' BBBEE score was externally assured by Empowerdex. The Group appreciates the need for a greater level of external assurance in its reporting of non-financial elements in particular and will continue to pursue improvement in this area.

## REPORTING PRINCIPLES AND COMPARABILITY

The summarised financial statements provided in this integrated report are extracted from the full statutory financial statements available on the Group's website. 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 independently audited by PricewaterhouseCoopers Inc. Comparability year-on-year is significantly affected by the change in business model for the Group's Western Cape broiler operations implemented from October 2014. The Group



exited the Western Cape broiler meat market following the closure of its Durbanville abattoir and commenced with the supply of its live broiler production to other abattoirs in the region.

### BOARD APPROVAL

The board of directors (“the Board”) of Quantum Foods, 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.

### MATERIAL MATTERS

The content of this report was developed using the concept of materiality to identify those matters that have a significant impact on the Group’s ability to create value in the short, medium and long term. As a first step towards entrenching materiality in the reporting process, a diverse group of managers representing different areas in the business was invited to participate in an externally facilitated discussion of Quantum Foods’ value creation abilities and strengths. Based on this discussion, the group identified matters that are likely to affect the value creation process, and prioritised those matters that have the highest potential impact on the business.



The following matters were identified as most material and are addressed in the sections referenced:

Material matter	Context and business response	More information
<b>Market understanding of the changed broiler business model</b>	<p>Quantum Foods has to ensure that the effect of the change to the broiler business model is understood.</p> <p>The Group largely hedged its exposure to the broiler meat market in South Africa by strategically repositioning itself and becoming a contract producer that sells live broilers to other abattoirs.</p>	<p>Business overview – page 14</p> <p>Risks and opportunities – page 16 Joint report of the chairman and CEO – page 25 – 26</p>
<b>Growth opportunities</b>	<p>The Group's experience, expertise and existing footprint in Africa enables it to identify and further realise growth on the continent, specifically in the poultry livestock, table eggs and feed value chains.</p> <p>Quantum Foods has secured a long-term rental farm to increase capacity for the production of layer livestock in South Africa.</p> <p>The Group continued its strategy of renting, rather than owning, commercial egg layer farms in areas where it supplies eggs.</p> <p>Growth in the feeds business will be mainly acquisitive.</p>	<p>Joint report of the chairman and CEO – page 27</p> <p>Business overview – page 13</p> <p>Business overview – page 14</p> <p>Joint report of the chairman and CEO – page 27</p>
<b>Ability to recover increases in input costs</b>	<p>The ability to recover increases in input costs, particularly of raw materials that are also affected by the weakening rand, is vital to the profitability of the Group. This is done by a relentless focus on efficiencies and cost management as well as meticulous margin management. The change in business model is also a contributing factor.</p>	<p>Joint report of the chairman and CEO – page 25</p>
<b>Power supply challenges</b>	<p>Interruptions in power supply due to load shedding impact business operations, especially as feed mills are not equipped with standby generators. Where production is lost during power supply interruptions, the business needs to make up for this in planned downtime. The Group's farming operations and egg packing stations are equipped with standby generators.</p>	<p>Risks and opportunities – page 17</p>



Material matter	Context and business response	More information
<p><b>Skills to drive a performance culture</b></p>	<p>Attracting and retaining talented employees that can drive a culture of performance is a priority for the Group. The business requires a rare skills set, particularly in the farming operations and egg business where succession is a challenge. The Group has a sound human resource and performance management framework in place to address this.</p>	<p>Remuneration report – page 39 Risks and opportunities – page 19 Ensuring responsible business – page 47</p>
<p><b>Poultry diseases</b></p>	<p>Despite having effective bio-security, vaccination and monitoring programmes in place – with the assistance of veterinary companies – disease outbreaks remain a material risk that negatively affects poultry productivity.</p>	<p>Ensuring responsible business – page 49 Risks and opportunities – page 19</p>
<p><b>Optimised procurement and availability of key raw materials</b></p>	<p>The risk of increasing costs and availability of key raw materials required for animal feed production is mitigated by an optimised procurement and supply chain capability.</p> <p>The Group has a centralised internal procurement team focusing on raw materials and agreements with dependable suppliers that source locally and abroad.</p>	<p>Risks and opportunities – page 17</p>
<p><b>Product safety and quality</b></p>	<p>As a producer of products for human consumption, the Group must adhere to strict food safety protocols to retain its licence to operate.</p> <p>The Group has stringent quality control processes in place and dedicated consumer feedback channels are actively monitored to ensure any issues are managed swiftly and professionally.</p>	<p>Ensuring responsible business – page 45</p> <p>Risks and opportunities – page 18</p>

Material matter	Context and business response	More information
<b>Broad-based black economic empowerment (“BBBEE”) and transformation</b>	<p>Quantum Foods has a moral and legal obligation to contribute towards improving the socio-economic status of historically disadvantaged South Africans (“HDSA”).</p> <p>The agricultural industry faces many transformation and skills challenges.</p> <p>The Group is committed to identifying and developing new managers and leaders, especially at farm level. The focus for the new period will be on transformation with priority pillars including: Employment Equity, Skills Development, Socio Economic Development and Procurement.</p>	<p>Ensuring responsible business – page 48</p>
<b>Animal welfare</b>	<p>Livestock husbandry is key to the success of the business.</p> <p>Quantum Foods has an obligation to treat animals in accordance with required protocols, not only from an ethical and legal point of view, but also due to the concomitant impact on mortality and livestock production.</p> <p>The Group engages with external parties on animal welfare matters in a transparent and open manner.</p>	<p>Ensuring responsible business – page 49</p> <p>Risks and opportunities – page 19</p>
<b>Protecting the environment</b>	<p>As an agricultural business, Quantum Foods depends on a range of natural resources and the future of the business is reliant on those resources being sustainable.</p> <p>It is therefore in the interest of the Group to contribute towards protecting the environment by promoting sustainable agricultural and production practices, particularly regarding water use, and supporting organisations that are focused on environmental stewardship.</p>	<p>Ensuring responsible business – page 45 – 46</p> <p>Risks and opportunities – page 17</p>



Material matter	Context and business response	More information
<p><b>Innovation</b></p>	<p>Creating new products and markets is important to diversify, grow and sustain margins.</p> <p>During the year, the Group acquired Safe Eggs, the only producer of pasteurised table eggs in South Africa, which complements the existing portfolio and further diversifies the product offering.</p> <p>Feed formulation for optimal animal nutrition is a highly technical field with many opportunities to innovate.</p>	<p>Business overview – page 14</p> <p>Risks and opportunities – page 18</p>
<p><b>Water availability and quality</b></p>	<p>Continuous access to high-quality water across the Group's operations is critical to sustaining a healthy agricultural business.</p> <p>While the Group successfully manages this need, climate change has the potential to significantly impact the business over the longer term.</p>	<p>Ensuring responsible business – page 45</p> <p>Risks and opportunities – page 17</p>
<p><b>Health and safety</b></p>	<p>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.</p> <p>Similarly, the Group is committed to ensuring that all products are safe for consumption.</p> <p>To this end, internal audits of all premises are conducted regularly on a rotational basis to evaluate and improve health and safety compliance.</p> <p>Training of employees is a priority to create the necessary health and safety awareness and competence.</p>	<p>Risks and opportunities – page 19</p> <p>Ensuring responsible business – page 48</p>

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# Quantum Foods at a glance

## PROFILE

Quantum Foods is a diversified feed and poultry business that provides quality animal protein to selected South African and African markets.

The Group is listed on the JSE main board in the "Farming and Fishing" sector under the share code QFH.

The Group is a fully integrated primary agricultural business with four focus areas: animal feed; eggs and layer livestock; broiler livestock, and related business on the African continent.

## South Africa

Animal feed is manufactured and sold under the Nova brand. External sales amounted to 262 409 tons for the year (2014: 243 513 tonnes), representing 47% of total feed volumes produced (2014: 44%). The balance is consumed internally by the integrated layer and broiler poultry operations.

Eggs are sold primarily under the Nulaid and Quantum brands, while layer livestock (day-old chicks and point-of-lay hens of the Lohmann breed) is sold under the Bergvlei Chicks brand. The egg business is the only national producer and supplied 50% of the approximately 862 million eggs sold to the retail sector during the year.

Day-old broiler chicks of the Cobb breed are sold under the Bellevue Chicks brand. An average of 579 000 live broilers were sold per week to third-party abattoirs in the Western Cape (2014: Nil). The Group operated an abattoir in Gauteng that supplied the market with 16.6 million kg of broiler meat during the year (2014: 14.7 million kg). The abattoir in Gauteng was sold to Crown Chickens (Pty) Ltd (trading as Sovereign Foods) in October 2015 and, in future, approximately 250 000 live broilers will be supplied to Sovereign Foods on a weekly basis.

## Other African countries

In Zambia, Quantum Foods operates a broiler and layer breeder business (selling of day-old chicks), a feed business and a table egg business. The table egg business sold 24.7 million eggs for the year (2014: 24.5 million). A capital project to increase production capacity by 37% is in process. The Group exited the distribution business in the year.

In Uganda, the business comprises of a broiler and layer breeder business (selling day-old chicks) and a feed business. A capital project to build a table egg production facility is in progress.



**GEOGRAPHIC FOOTPRINT**



**5.2%**

of Group revenue from other African operations

**558 000 tons**

feed produced per annum

**903.9 million**

eggs produced in South Africa per annum

**41.2 million**

live broilers produced per annum

**EXTERNAL REVENUE CONTRIBUTION (R'm)**



**Animal feed**

2014: 1 081



**Eggs and layer livestock**

2014: 1 087



**Broilers**

2014: 1 241



**Africa**

2014: 152

**GROUP STRUCTURE**

Quantum Foods Holdings Ltd

**100%**



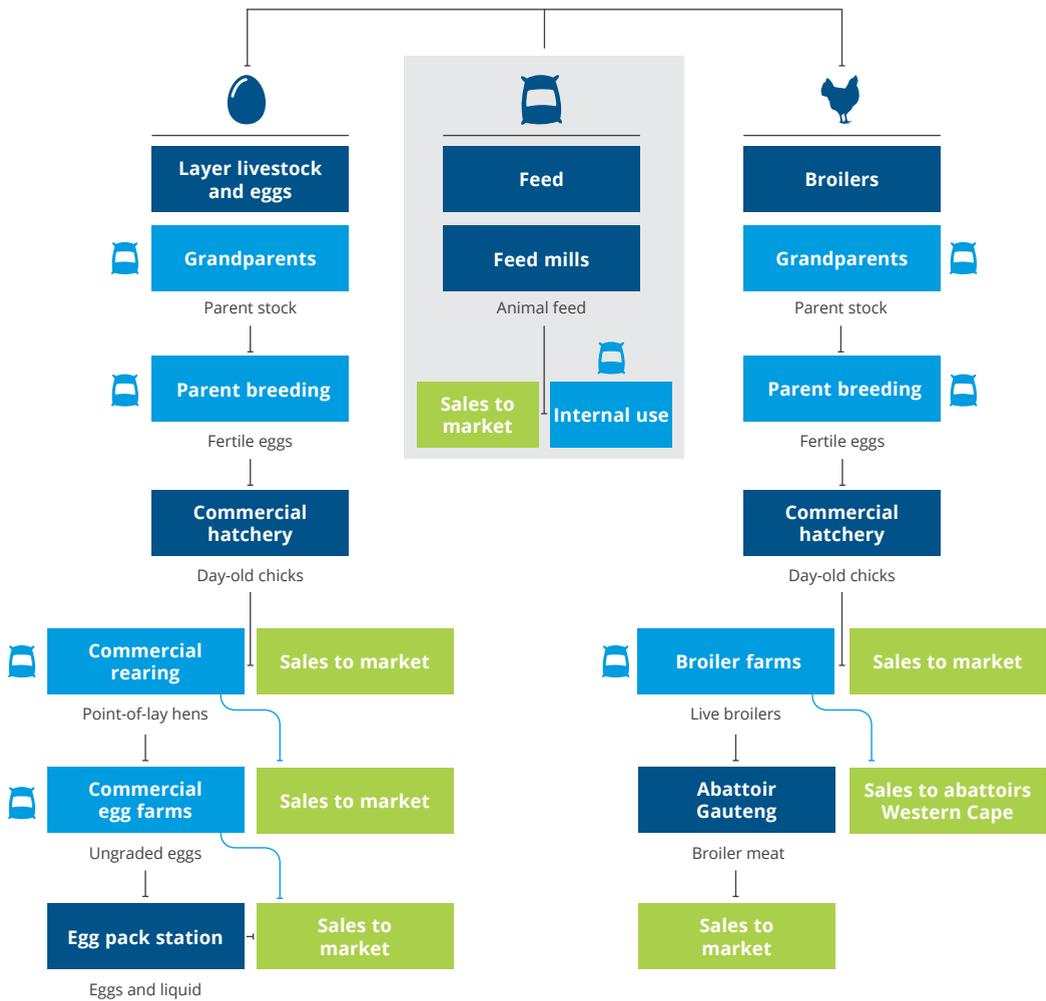
Quantum Foods (Pty) Ltd

**100%**



- Lohmann Breeding SA (Pty) Ltd
- Philadelphia Chick Breeders (Pty) Ltd
- Quantum Foods Zambia Ltd
- Quantum Foods Uganda Ltd
- Bergsig Breeders (Pty) Ltd (28%)

# VALUE CHAIN AND BUSINESS MODEL



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

# FINANCIAL HIGHLIGHTS

Group revenue decreased by 2.6% to

≈ **R3.5bn**



Headline earnings improved from R26m to

≈ **R126m**



Earnings per share of

≈ **54 cents**

2014: 4 cents loss

Headline earnings per share improved to

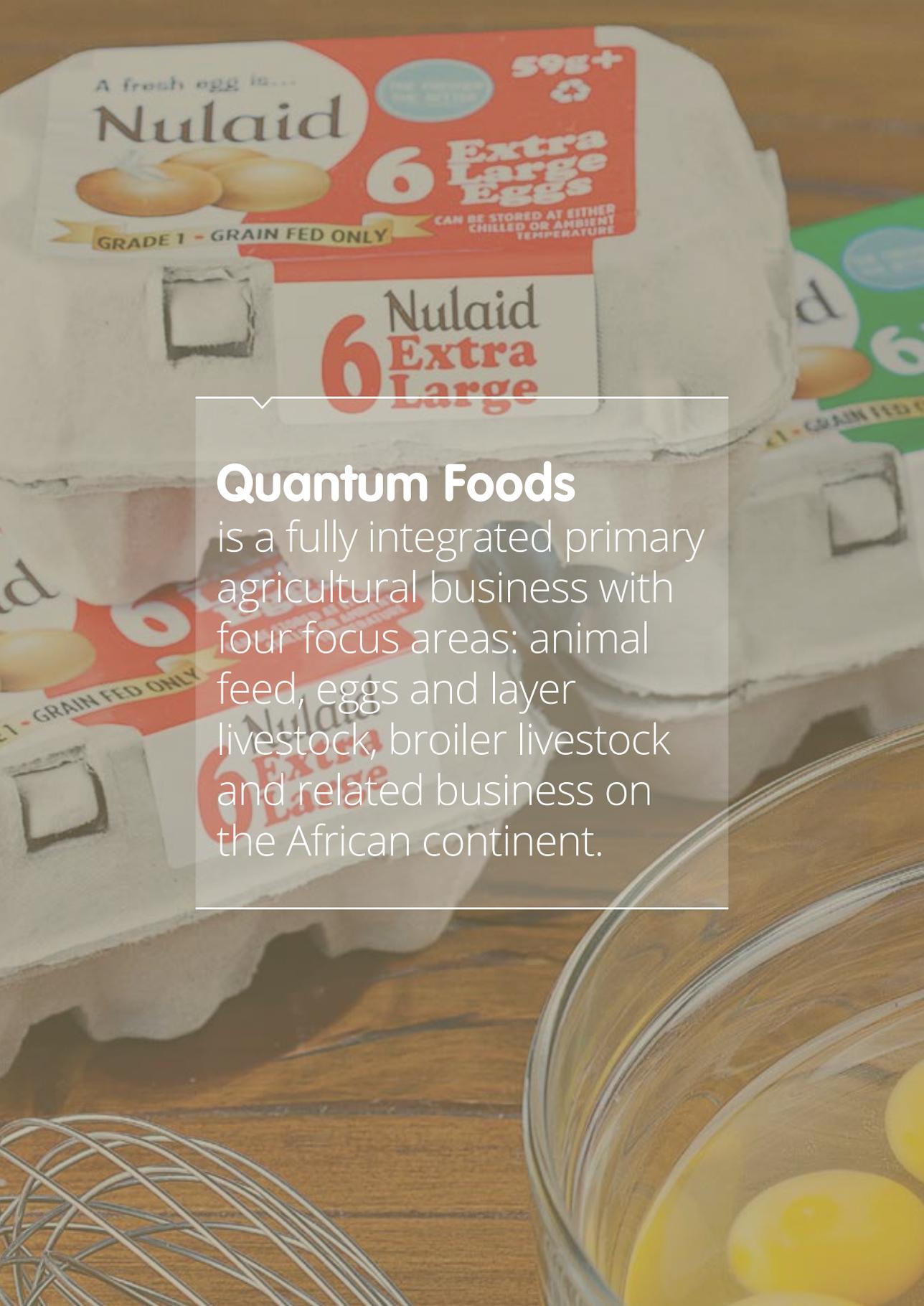
≈ **54 cents**

2014: 11 cents



Maiden dividend per share

**10 cents**



## Quantum Foods

is a fully integrated primary agricultural business with four focus areas: animal feed, eggs and layer livestock, broiler livestock and related business on the African continent.

## BUSINESS OVERVIEW

### SOUTH AFRICA

#### Animal feed manufacturing

Quantum Foods owns feed mills located in Malmesbury, George and Pretoria where feed is sold under the *NOVA* feeds brand.

The Malmesbury site consists of two factories, bringing the total number of feed mills to four, with a total production capacity of close to 55 000 tons per month. These mills are highly automated and are equipped to manufacture a wide variety of feeds for optimal animal nutrition. Integrated quality and safety systems are in place at all mills to ensure the consistent output of high-quality products for livestock consumption.

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 and pigs. Nova Feeds remains the leading supplier of dairy feed in the Western Cape, supplying feed to some of the country's leading dairy farmers. There is a strong focus on customised feed solutions and high levels of technical service to unlock value for customers.

#### Integrated layer livestock and egg production value chain

##### Layer livestock business

Lohmann Breeding SA (Pty) Ltd 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 parent chicks are reared and placed on two parent layer farms. Fertile hatching eggs are incubated at the two commercial hatcheries in the Western Cape and Gauteng, which have an annual capacity to produce 10.8 million day-old pullets. These female day-old chicks are either sold or placed on the Group's five commercial rearing farms and one rented facility.

*Bergvlei Chicks* is the sales brand under which layer parent stock, hatching eggs, day-old pullets and point-of-lay hens are sold. A rental farm was procured to increase the commercial rearing farm capacity by 13% to 6.8 million point-of-lay hens per annum. The strategic locations of the hatcheries and commercial rearing farms ensure extensive distribution coverage. The Group distributes nationally and into Namibia, Botswana, Swaziland and Mozambique.

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## Egg production

The Group owns 14 and rents two commercial layer farms on which an average of 75.3 million eggs are produced per month (2014: 76.8 million). The farms are located in the Western Cape, Eastern Cape, Free State, Gauteng and North West provinces. Free-range eggs are produced on two of the farms. The Group also procures approximately 7.2 million eggs per month from five contract farmers (2014: 7.2 million). This equates to a total production of about 1 billion eggs per year.

Eggs are processed at packing facilities located in the Western Cape, Eastern Cape, Free State and Gauteng, as well as the recent additions near East London and Durban which commenced operations during the year.

The eggs are distributed nationally as graded, ungraded or in liquid form. Graded eggs are eggs that have been sorted in the packing facilities according to weight (for example medium, large, extra-large, jumbo) whereas liquid eggs are produced in egg breaking plants where the shells are removed from the product for sale mostly to industrial customers.

The Safe Eggs business was acquired during the year. Pasteurised eggs, which have a reduced risk of bacteria and salmonella, are produced at the plant in Gauteng and distributed by two of the packing facilities. The Group intends to increase the footprint of pasteurised egg products in South Africa.

## Broiler business

Quantum Foods owns the rights to import pedigree grandparent broiler stock of the Cobb500 breed, which supplies next generation parent stock for its own requirements and non-exclusively for some customers in other countries in Africa. Day-old parent stock is placed on the three parent rearing farms in the Western Cape and thereafter placed on the five parent layer farms. Three 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 two hatcheries, which have an annual capacity of 48 million day-old chicks before the day-old chicks are transferred to commercial broiler farms, both company-owned and contract-grower farms.

The Group closed its remaining abattoir in the Western Cape at the end of the previous financial year. It supplied other abattoirs with approximately 579 000 live broilers per week, with the majority supplied in terms of a long-term supply agreement. In October 2015, the Group sold its abattoir in Gauteng to Sovereign Foods and entered into a long-term supply agreement in terms of which approximately 250 000 live broilers will be supplied on a weekly basis.

This has resulted in the alignment of the broiler value chain, with the Group having exited the broiler meat market entirely to focus on its position as a significant contract grower in South Africa.

The Group also sells broiler hatching eggs and broiler day-old chicks to the market to ensure that its broiler breeder production capacity is utilised efficiently.



## OTHER AFRICAN COUNTRIES

### Zambia

Quantum Foods Zambia commenced operations in 1997. Operations are conducted in three regions in the country, namely Lusaka, Chingola and Chipata. In Lusaka, there is a parent breeding facility, a hatchery, a feed mill and a small laying facility. The Lusaka facility produces 1.6 million Lohmann (2014: 1.05 million) and 2.9 million Cobb500 day-old chicks (2014: 2.8 million) per annum for its own use and for external sales. The feed facility produces 4 800 tons of feed (2014: 4 300 tons) and the farm produces 7 million eggs per annum (2014: 6.6 million).

Quantum Foods Zambia's major egg operation is located near Chingola in the Copperbelt and operates under the *Mega Eggs* brand. At this location, 62 million eggs are produced per annum (2014: 61 million) and more than 10 000 tons of feed is produced for consumption on the farm (2014: 9 800 tons). A project to develop a new rearing farm and convert the previous rearing facilities into laying facilities is in progress and will be completed in 2016. This is projected to increase the egg production in Chingola by 23 million eggs per year.

During the financial year, Quantum Foods Zambia commenced production of table eggs on a rental facility in Chipata in eastern Zambia. The facility will reach full production during 2016 and is projected to produce 13 million eggs per annum.

### Uganda

Quantum Foods Uganda commenced operations in 2000 and currently operates three farms located near Kampala. The farms comprise a parent breeding facility, a hatchery and a feed mill. They produce 1.4 million Lohmann (2014: 1 million) and 1.9 million Cobb500 (2014: 2.3 million) day-old-chicks per annum.

Quantum Foods Uganda initiated a table egg expansion project that should be completed during 2016. The project includes a layer rearing and egg laying facility and a feed mill, located near Masindi, in northern Uganda. On completion, the facility is projected to have a capacity of about 16.8 million eggs and 8 000 tons of feed per annum.

# RISKS AND OPPORTUNITIES

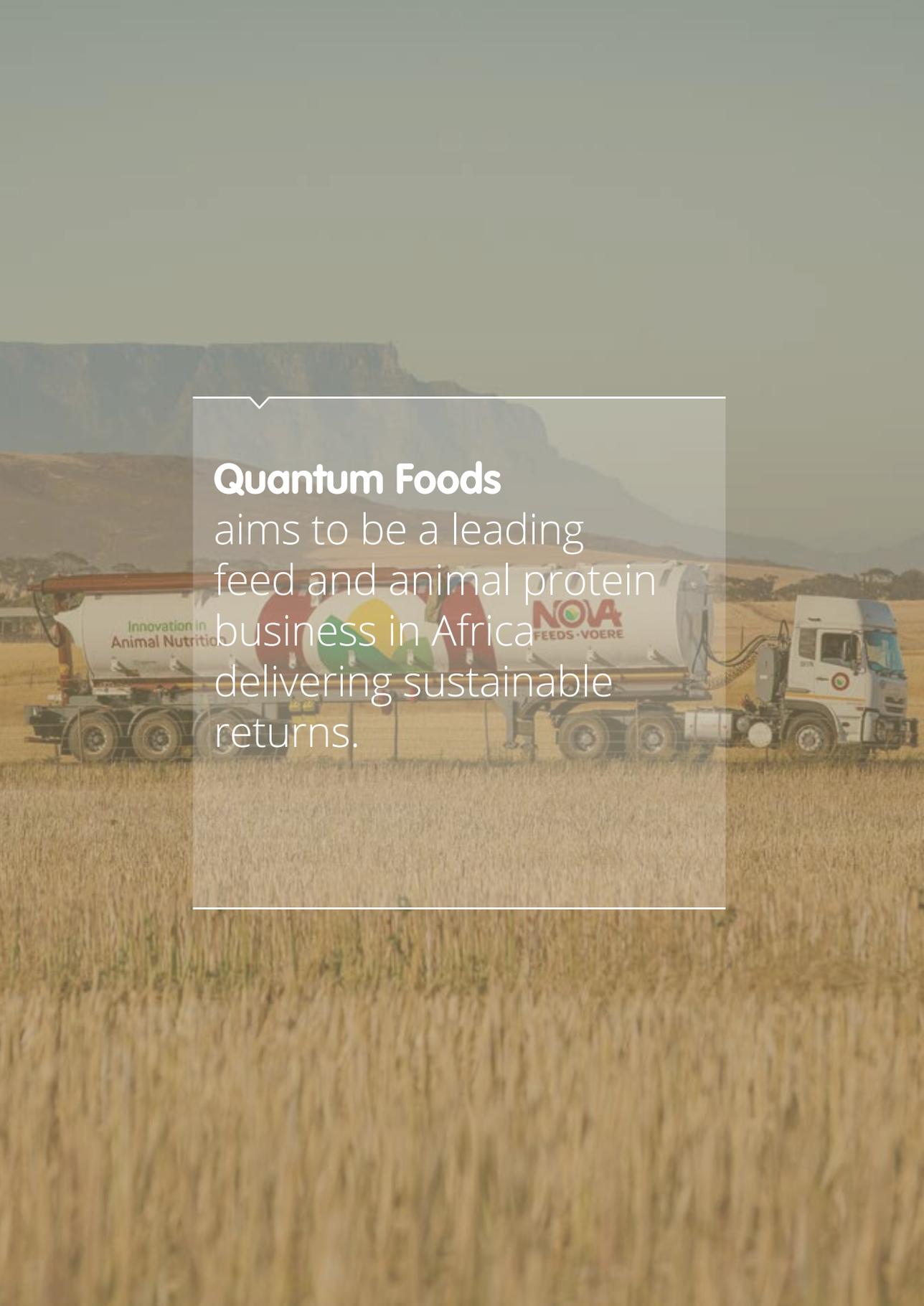
The Group determines its material risks through a risk management process, which considers the potential impact of each risk on the achievement of the Group's strategy, as well as the probability of each arising. The residual risk rating also considered the mitigation strategies in place. Material risks were identified by management in collaboration with the internal auditors. These risks are provided in summary below:

Risk description	Mitigation to create opportunities
<b>Risk: Market and industry</b>	
<b>Interruption in supply of grandparent stock due to disease outbreak in the country of origin</b>	<ul style="list-style-type: none"> <li>• Representation on the committees of the South African Poultry Association ("SAPA"), Zambia Poultry Association ("PAZ") and the Animal Feed Manufacturing Association of South Africa ("AFMA") to keep abreast of industry developments.</li> <li>• The providers of the Group's grandparent poultry stock can source this genetic material from different countries across the world reducing the risk of interrupted supply due to disease outbreak in a specific area.</li> </ul>
<b>Supply and demand imbalances negatively affecting profitability, especially in the egg and broiler meat markets in South Africa</b>	<ul style="list-style-type: none"> <li>• The Group has changed its broiler business model to no longer sell final product into the broiler meat market but to sell live broilers to other abattoirs.</li> <li>• Adjusting the production plan following the monitoring of industry trends and available statistics to forecast specifically potential egg supply and demand imbalances.</li> </ul>
<b>New market entrants increasing competition</b>	<ul style="list-style-type: none"> <li>• The Group maintains an awareness of new competitors entering the market through its market research initiatives.</li> <li>• Participates in the committees of SAPA, AFMA and PAZ that also play a role in maintaining industry standards.</li> <li>• Relentless focus on production efficiencies and cost management to remain competitive.</li> </ul>
<b>Declining consumer spend</b>	<ul style="list-style-type: none"> <li>• The Group supplies animal feed and produces eggs and broilers that fulfil basic nutritional requirements. Poultry are excellent converters of animal feed to protein (eggs and broiler meat) cost effectively. This, together with the continuous focus on efficiencies and costs management reduces the impact of a decline in consumer spend.</li> </ul>

Risk description	Mitigation to create opportunities
<b>Risk: Market and industry (continued)</b>	
<p><b>Raw material price increases – maize and soybean meal</b></p>	<ul style="list-style-type: none"> <li>• Raw materials are procured and monitored within a Board approved hedging strategy and policy.</li> <li>• Raw materials are procured and hedged for own production requirements: no speculative positions are taken.</li> <li>• Regular monitoring of the Group's raw material cost position informs margin management.</li> <li>• The centralised raw material procurement department observes market trends on a daily basis.</li> </ul>
<p><b>Volatility due to exchange rate instability</b></p>	<ul style="list-style-type: none"> <li>• Foreign currency positions (mostly USD) affecting imported soya bean meal, are managed from the Corporate office according to a Board approved hedging strategy and policy. No speculative positions are taken.</li> </ul>
<b>Risk: Business disruption</b>	
<p><b>Inconsistent power supply</b></p>	<ul style="list-style-type: none"> <li>• Back-up generators are in place on sites housing livestock and in the egg packing stations.</li> <li>• Feed mills are not equipped with back-up generators but have capacity planning programmes in place to make up lost production. The viability of equipping the feed mills with backup generators is being considered.</li> </ul>
<p><b>Inconsistent or insufficient water supply</b></p>	<ul style="list-style-type: none"> <li>• Farms and factories have back-up water reservoirs to reduce the effect of short interruptions in water supply.</li> <li>• Water can be supplied by tankers from off-site resources during longer periods of interruption.</li> </ul>
<p><b>Industrial action (for example, the Road Freight Association, national union action)</b></p>	<ul style="list-style-type: none"> <li>• Execution of human resources policies and regular interaction with employees and unions.</li> <li>• Transformation progress and reporting in accordance with legislation.</li> </ul>
<p><b>Change in regulatory framework</b></p>	<ul style="list-style-type: none"> <li>• Maintaining awareness of changes in the regulatory framework through participation in various industry bodies and interaction with professional advisors.</li> <li>• The Group has largely hedged its exposure to the effects of changes in the regulatory environment (including the deliberation on allowed brining levels in broiler meat and the importation of broiler meat from the USA related to the AGOA agreement) following its change in broiler business model, resulting in the effective exit from the broiler meat market in South Africa.</li> </ul>

Risk description	Mitigation to create opportunities
<b>Risk: Product safety</b>	
<b>Product efficacy (contamination, specification, technical advice)</b>	<ul style="list-style-type: none"> <li>• Raw material and final product testing (internal and external) frameworks.</li> <li>• The use of carefully selected suppliers and testing adherence of purchases against product specification.</li> <li>• Feed formulation process controls.</li> <li>• Production performance (farms and factories) monitoring.</li> </ul>
<b>Inadequate execution of product safety requirements</b>	<ul style="list-style-type: none"> <li>• Broilers and eggs: disease monitoring processes.</li> <li>• Broilers and eggs: weekly flock production performance indicators monitored.</li> <li>• Laboratory testing throughout the value chain.</li> <li>• Internal and external quality audits.</li> <li>• Internal process review on a continuous basis.</li> <li>• Monitoring customer feedback.</li> <li>• Customer satisfaction surveys.</li> <li>• Monitoring consumer feedback.</li> <li>• Maintaining membership in the Consumer Goods Counsel.</li> </ul>
<b>Risk: Supply chain</b>	
<b>Specialised logistics arrangement failing (for example, hatchery truck or bulk feed trucks not available)</b>	<ul style="list-style-type: none"> <li>• Outsourced service level agreement monitoring.</li> <li>• Spare capacity available in other areas.</li> <li>• Preventative maintenance programmes.</li> <li>• Feed can be sourced from alternative suppliers.</li> </ul>
<b>Inappropriate selection of suppliers</b>	<ul style="list-style-type: none"> <li>• Centrally managed process for key procurement categories.</li> <li>• Formalised procurement policy.</li> <li>• Supplier performance review against quality and safety requirements.</li> </ul>
<b>Risk: Information Technology (“IT”)</b>	
<b>Failure of key IT systems</b>	<ul style="list-style-type: none"> <li>• Service-level monitoring of outsourced providers of systems and support.</li> <li>• Performance and security monitoring by outsourced providers.</li> <li>• Disaster recovery and business continuity plan.</li> </ul>
<b>Risk: Finance</b>	
<b>Limited availability of funding for working capital or expansion requirements</b>	<ul style="list-style-type: none"> <li>• Regular engagement with suppliers of debt and equity funding to inform them of business developments and funding requirements.</li> </ul>

Risk description	Mitigation to create opportunities
<b>Risk: People</b>	
Key persons' exposure due to limitations in talent pipeline	<ul style="list-style-type: none"> <li>• Formal succession plan and biannual talent planning review.</li> <li>• Incentive programme for senior management.</li> </ul>
Failure to source candidates for specialised positions	<ul style="list-style-type: none"> <li>• Building relationships with universities and bursary programmes.</li> <li>• Formalised development plans for internal identified talent.</li> <li>• Annual intake of interns for animal production training.</li> <li>• Partnership with recruitment agencies.</li> </ul>
<b>Risk: Governance and statutory compliance</b>	
Occupational certificates	<ul style="list-style-type: none"> <li>• Progress according to a priority scorecard for future compliance at all sites.</li> <li>• Fire risk management framework and fire drills.</li> <li>• Internal and external certification audits.</li> </ul>
Non-compliance with key legislation such as competition law, consumer law, food safety law, labour law, company law, etc.	<ul style="list-style-type: none"> <li>• Implementation of relevant policies.</li> <li>• Employee training.</li> <li>• Legal advice for specific transactions.</li> </ul>
Non-compliance with occupational health and safety standards resulting in fines and/or operational losses	<ul style="list-style-type: none"> <li>• Internal and external audit of health and safety compliance programme.</li> <li>• Incident management process in terms of Compensation for Occupational Injuries and Diseases Act.</li> </ul>
Non-compliance with country specific requirements in Africa	<ul style="list-style-type: none"> <li>• Regular interaction with professional advisors, industry bodies and foreign investment centres.</li> </ul>
Environmental compliance not achieved	<ul style="list-style-type: none"> <li>• Feed mills are ISO 14000 accredited.</li> <li>• Other sites are audited internally and some externally, in terms of an environmental plan.</li> </ul>
<b>Risk: Transformation and BBBEE</b>	
Failure to achieve transformation objectives	<ul style="list-style-type: none"> <li>• Improve BBBEE rating on an ongoing basis.</li> <li>• Align employment practices with transformation objectives.</li> </ul>
<b>Risk: Animal welfare</b>	
Non-compliance with animal welfare requirements Negative market shift due to disease, such as Avian Influenza	<ul style="list-style-type: none"> <li>• Employee training assisted by veterinarians.</li> <li>• Internal and external audits.</li> <li>• Interaction with the National Society for the Prevention of Cruelty to Animals ("NSPCA").</li> <li>• Representation on the committees of SAPA, PAZ and AFMA to keep abreast of industry developments.</li> </ul>



## Quantum Foods

aims to be a leading  
feed and animal protein  
business in Africa  
delivering sustainable  
returns.

# STRATEGIC FOCUS

## PURPOSE

To build a leading feed and animal protein business through:

- low-cost operations;
- farming efficiency; and
- effective selling and customer relationship management.

Short-term focus areas include margin optimisation in South Africa and improved value extraction from investments in other African countries. In the medium term, the Group will invest for growth.



## INDUSTRY FEATURES

Conditions remain challenging for companies operating in the feed and poultry industry in South Africa as well as Zambia and Uganda. The cost of raw materials for feed production, variable demand levels, competitor activity, poultry flock health and changes in the regulatory environment, including governmental policy on industry protection, are some of the issues which the industry faces. The recent disagreement of the South African Government with

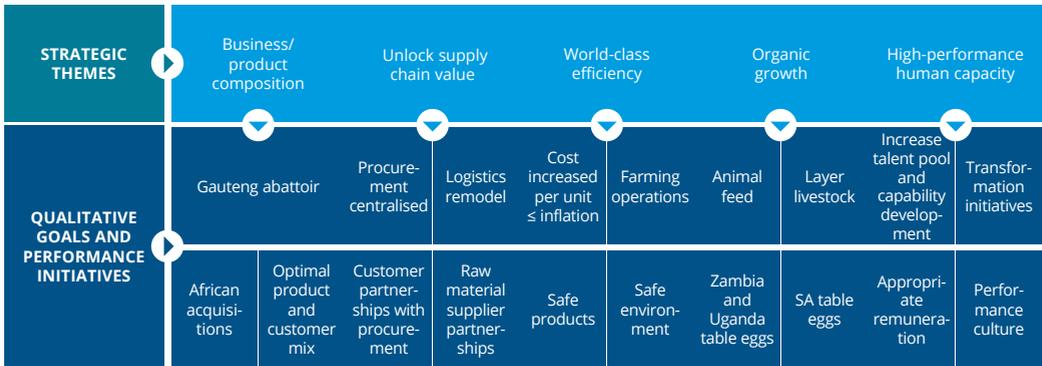
the USA regarding import barriers, and evaluation of South Africa's eligibility to participate in the African Growth and Opportunity Act ("AGOA"), is one of many examples of how government policy impacts the industry. In both Uganda and Zambia the egg market is less developed than in South Africa from a production and per capita consumption perspective, whereas the broiler market in Zambia has become increasingly competitive following the expansion of mostly South African broiler producers into the country.

The cost of key inputs for animal feed production (maize and soybean meal), which are the most significant cost factors in the industry, are influenced by global weather patterns, the exchange rate, commodity cycles and alternative uses.

Layer hens and broilers are efficient converters of feed into animal protein, with favourable conversion

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

### QUANTUM FOODS STRATEGIC FRAMEWORK



# INVESTMENT CASE

## 1. Balanced and optimised domestic portfolio

- Reduced exposure to cyclical nature of the poultry industry with the exit of the broiler meat market now completed.
- Increased focus on revenue from external feed sales, livestock and the African operations.
- Established egg business in South Africa with *Nulaid* achieving icon status as the best egg brand in the country for the third consecutive year in 2015/2016.
- A strong position with growth potential in animal feed.

## 2. Africa growth traction and prospects

- Proven track record of success in Africa – operating in Zambia and Uganda for over 16 years.
- Expansion of the existing table egg business in Zambia commenced, completion and first benefits expected during fiscal 2016.
- Project to build a commercial egg farm in Uganda will be completed in fiscal 2016.
- Strategic opportunities in other African countries are being investigated.

## 3. Efficient cost base

- The Group reduced its cost base further during 2015, with further improvements targeted specifically towards streamlining the supply chain and centralising further procurement categories in the near future.

## 4. Solid cash-generating ability

- The Group was unbundled with fully funded working capital and no long-term debt. The Group is cash generative and has sufficient debt capacity to enable growth. The Group has a healthy asset base from which to grow production of feed, layer and broiler livestock, egg and broiler sales without significant further investment.

## 5. The right people

- The Group has a team of talented, experienced and motivated people that have a strong desire to succeed while having the highest ethical standards and regard for the environment.



Improved financial results were achieved, driven by a significant change in the business model, as well as favourable trading conditions.

# JOINT REPORT OF THE CHAIRMAN AND CEO



**WA HANEKOM**  
*Chairman*



**HA LOURENS**  
*Chief Executive Officer*

## INTRODUCTION

2015 was a historic year for Quantum Foods, being our first operating as a stand-alone listed entity. The Group was listed on the JSE on 6 October 2014. Improved financial results were achieved, driven by a significant change in the business model, as well as favourable trading conditions.

## OPERATIONAL OVERVIEW

The business's primary input costs are maize and soybean meal. While maize prices were relatively low during the first half of the year, the drought in major maize-growing areas resulted in substantially increased prices during the second half. We enter the 2016 financial year with South African Futures Exchange ("Safex") maize prices at approximately R1 100 (60%) per ton more expensive than they were in September 2014.

Soybean meal costs were influenced by the South African rand, which weakened by 13.3% on a year-on-year basis. International soybean meal prices declined by 22.1% on a year-on-year basis but, due to the weakness of the local currency, soybean meal landed costs increased by 13.1% from the previous year.

Egg prices increased by 4.7%, driven by reduced supply of eggs to the market due to diseases in the national flock.

## SEGMENTAL OVERVIEW

The Nova Feeds business continued its growth of recent years. External sales volumes increased by 7.7%. Margins improved due to judicious procurement practices and the continuous drive to reduce costs and increase efficiencies.

The broiler business showed a marked improvement in financial performance. The change in the business model in the Western Cape was successfully executed and yielded a return to profitability. Broiler farm performances in the Western Cape were excellent and stellar broiler breeder performances were achieved. The Gauteng business improved, but remained loss-making. The Hartbeespoort abattoir was sold to Sovereign Foods in October 2015, and we have entered into

a contract grower's agreement that is projected to benefit both businesses. The broiler business models for the Western Cape and Gauteng operations have been strategically aligned and Quantum Foods is now the biggest broiler contract grower in South Africa, supplying its own feed and day-old chicks.

The layer business improved its financial performance. The layer livestock business performed well with volumes increasing satisfactorily. The egg business remained under pressure, with diseases specifically in the Gauteng / North West egg layer farms leading to increased mortality and lower egg production efficiency. This resulted in increased cost of production as well as lower volumes of eggs available for sale. During the year, Quantum Foods acquired the pasteurised egg business, Safe Eggs. Quantum Foods is one of a few companies globally able to supply pasteurised table eggs to consumers. The Nulaid brand was awarded icon status for the third year running.

The rapid weakening of the Zambian kwacha against the rand, as well as the US dollar, combined with the effect on profitability of an oversupply of day-old broilers, had a negative impact on the financial results of the Zambian business. The operation of a distribution centre in Zambia was terminated during the year to focus on core operations, while egg production capacity was increased with the rental of a farm in the Chipata region. The Zambian business remained very profitable. The project to increase egg production capacity at the Mega Eggs farm in the Copperbelt has progressed according to plan with egg production expected to commence in July 2016.

The Ugandan business also experienced a decline in financial results, mainly due to an increased cost base required for expansion. Demand for day-old chicks and pullets was also slower. The establishment of a commercial layer farm near Masindi is slightly behind schedule, and the Group expects egg production to start in the second half of 2016.

## FINANCIAL OVERVIEW AND DIVIDEND

Group revenue decreased by 2.6% to R3.5 billion with a decline of R119.8 million (3.5%) in South African operations and an increase of R27.1 million (17.8%) in

African operations. Revenue from African operations comprised 5.2% of Group revenue for 2015.

Revenue from South African operations:

- Declined by R206.5 million for the broiler segment, mostly due to the change in business model at the Western Cape operations.
- Increased by R67.7 million for the eggs and layer segment where sales volumes on layer livestock in particular increased by 27.3%. Selling prices of eggs increased by 4.7%.
- Increased by R19.0 million for the feed segment where an increase in external sales volumes of 7.7% was achieved

Cost of sales decreased by 4.0% to R2.9 billion. Cost of sales includes the biological assets (livestock) and agricultural produce (eggs) fair value adjustments that were realised and included in other gains and losses in the statement of comprehensive income. These fair value adjustments for the year ended September 2015 amounted to R238.0 million (2014: R112.5 million). Gross profit, excluding these fair value adjustments, improved by R151.5 million, resulting in a gross profit margin of 24.3% compared to 19.4% in 2014.

Cash operating expenses decreased further in 2015, following the closure of the Durbanville abattoir in the Western Cape. Various cost-saving initiatives, especially the remodelling of distribution, also contributed positively.

Operating profit increased by R184.9 million from a loss of R20.9 million in 2014. The 2014 operating loss included an impairment expense of R49.5 million. Operating profit in the South African operations improved by R202.6 million to R145.8 million at a margin of 4.4% (2014: -0.2%) with improvements in all three business segments. Operating profit in Africa declined by R9.8 million to R25.3 million at a margin of 14.1%.

Headline earnings per share ("HEPS") improved to 54 cents from the 11 cents per share of 2014.

Cash generated from operations amounted to R163.8 million in 2015. This includes an additional investment in working capital of R53.6 million.

## Headline earnings per share (“HEPS”) improved to 54 cents from the 11 cents per share of 2014.

Capital expenditure for the year amounted to R81.2 million, R31.9 million of which was incurred on the table egg expansion projects in Zambia and Uganda. South African capital expenditure includes R17.5 million for the acquisition of Safe Eggs, a pasteurised table egg business, during the year.

The Group had no interest-bearing debt at 30 September 2015.

Cash and cash equivalents increased from R105.5 million to R187.5 million and the Group has declared its first dividend of 10 cents per share, at a HEPS cover of 5.4.

Cash available to the Group will further increase following the sale of the Hartbeespoort abattoir and assist the Group in executing its expansion strategy, particularly in the South African feed operations as well as into Africa.

The Group’s net asset value (“NAV”) of R1.5 billion at 30 September 2015 translates to a NAV per share of R6.49 based on the number of shares in issue at that date.

### PROSPECTS

The South African economy remains under pressure due to a weakening currency and muted consumer spending. While trading conditions were favourable for Quantum Foods during the 2015 financial year, we expect high input costs coupled with a weak economy to put pressure on the Group’s profitability in 2016.

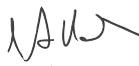
In the South African egg business, the emphasis will remain on operational efficiencies. An increase in point-of-lay sales is also targeted, following the addition of a farm rented for the purpose of expanding the Group’s production capacity. With the new business model in the broiler value chain

now complete, focused attention will be given to farm efficiencies to ensure livestock production meets customer standards. In Nova Feeds, volume and margin management will remain critical, while the execution of the growth strategy will be a priority. The expansions to the Group’s table egg production operations in Zambia and Uganda should be completed in 2016 and we expect both to contribute positively to the operating results in the year to come.

Due to the repositioning of the Group, some of the risks highlighted have now been mitigated. This, together with various supply chain and cost-saving initiatives, the continued relentless focus on efficiencies and further growth prospects in the feeds, layer livestock and businesses on the African continent, should assist the Group in navigating the anticipated headwinds successfully.

### APPRECIATION

A number of individuals and companies have contributed to the success of Quantum Foods during 2015. In particular, we would like to thank the board of directors, the executive committee and all the employees of Quantum Foods, as well as our customers and suppliers. A special word of thanks to Lambert Retief, who resigned from the board in February, and who played an important role in the establishment of the Group.



**WA HANEKOM**  
Chairman



**HA LOURENS**  
Chief Executive Officer

# BOARD OF DIRECTORS



**Wouter André Hanekom** (56)  
*Chairman*  
CA(SA)



**Hendrik Albertus Lourens** (52)  
*Chief Executive Officer*  
BCom (Hons), MCom, BProc



**Patrick Ernest Burton** (62)  
*Independent non-executive director*  
BCom (Hons) Financial Management, HDip in Tax Law



**Norman Celliers** (42)  
*Non-executive director*  
BEng (Civil), MBA

André was nominated and elected as chairman of the Board on 28 April 2015. 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. He was appointed to the Board on 1 October 2014.

Hennie was appointed as executive of Quantum Foods (Agri was renamed Quantum Foods in 2013) in 2007, while it was a division of Pioneer Foods. He commenced his services with Pioneer Foods as the human resources manager for Bokomo in 1996 and was later appointed as general manager for the Sasko Grain Business. He has been in the fast-moving consumer goods ("FMCG") industry for 19 years and was appointed to the Board on 27 January 2014.

Patrick was one of the founding members of Siphumelele Investments Ltd, a black economic empowerment company established in 1995 with a shareholder base representing in excess of 150 000 previously disadvantaged individuals. His experience as a director includes non-executive positions in fishing and food, investment and property holding companies and financial services. Patrick sits on the board of directors of various listed and unlisted companies. He was appointed to the Board on 29 July 2014.

Norman stepped down as chairman of the Board on 28 April 2015. He continues serving as a non-executive director. His professional experience includes engineering, management consulting and private equity in South Africa and abroad. Currently, he is the chief executive officer of Zeder Investments Ltd. He was appointed to the Board on 10 June 2014.



**Geoffrey George Fortuin (48)**

*Independent and non-executive director  
BCom (Acc), BCom (Acc) (Hons), CA(SA)*



**Prof. Abdus Salam Mohammad Karaan (47)**

*Independent non-executive director  
BSc Agric, BSc Agric (Hons), MSc Agric, PhD (Agric)*



**André Hugo Muller (45)**

*Chief Financial Officer  
CA(SA)*



**Lambert Phillips Retief (63)**

*Lead independent non-executive director  
BCom (Hons), CA(SA), OPM (HBS)  
Resigned*

Geoff is a qualified chartered accountant and practised as 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. Geoff is currently the Managing Executive (Finance) of Brimstone Investment Corporation Ltd. Geoff was appointed to the board on 28 April 2015.

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. Mohammad was appointed to the Board on 10 June 2014.

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. André was appointed to the Board on 27 January 2014.

Lambert is the chairman of Novus Holdings, formerly known as Paarl Media Group. He has held various executive positions in printing and publishing industry bodies. He is a non-executive director of Pioneer Foods and has also served on a number of boards, including Naspers, Media24 and Zeder Investments Ltd. He was appointed as a non-executive director on 10 June 2014. Lambert resigned on 19 February 2015.

# EXECUTIVE MANAGEMENT AND CORPORATE SERVICES

## EXECUTIVE COMMITTEE

The Quantum Foods executive committee meets regularly and acts as a consolidating oversight committee for the Group.



**Hendrik Albertus Lourens (52)**  
*Chief Executive Officer*  
BCom (Hons), MCom,  
BProc



**André Hugo Muller (45)**  
*Chief Financial Officer*  
CA(SA)



**Roelof Viljoen (49)**  
*Executive: Egg business*  
CA(SA)



**Marthinus Petrus van Lill (45)**  
*Executive: Feed business*  
BCompt (Hons), SAIPA (PA)



**Adel Deidré van der Merwe (44)**  
*Executive: Supply chain*  
BCom Management  
Accounting

Hennie was appointed as executive of Quantum Foods (Agri was renamed Quantum Foods in 2013) in 2007, while it was a division of Pioneer Foods. He commenced his services with Pioneer Foods as the human resources manager for Bokomo in 1996 and was later appointed as general manager for the Sasko Grain Business. He has been in the FMCG industry for 19 years and was appointed to the Board on 27 January 2014.

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. André was appointed to the Board on 27 January 2014.

Roelof was a financial manager and a sales manager at Sasko Grain, before joining Quantum Foods in 2008, while it was still a division of Pioneer Foods. He is the executive responsible for egg production, egg processing and egg sales. Roelof is also responsible for the Uganda business. He has 15 years' experience in the food industry, of which seven years have been spent in the poultry industry.

Thinus has been with the Nova Feeds business since 1997, when it was still a division of Pioneer Foods. He progressed from a financial manager to the executive responsible for the manufacturing and sales of the feed business. He has 18 years' experience in the animal feed and poultry industry.

Adel commenced her services with Pioneer Foods in 1995. She started out in the corporate finance department but 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 has over seven years' experience in the food industry and over 16 years in central procurement.



**James Joseph Murray (58)**

*Executive: Farming operations and broiler value chain*

*National Diploma in Agricultural Extension and Soil Conservation*



**Heather Elizabeth Pether (47)**

*Executive: Human resources*

*National Diploma in Human Resources*



**Louis Bester (56)**

*Executive: Zambia business*



**Jan Hendrik van Rhyn (50)**

*Executive: Business Development Africa*

*BEng, MSc, BCom (Hons)*



**Ignatia Ntokozo Tamarie Ndlovu (29)**

*Company Secretary and legal advisor*

*LLB*

Jimmy has 34 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, 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). Jimmy has been with Quantum Foods since 2013.

Heather has 20 years' experience in the human resources field. She spent seven years as the human resources manager of the Tydstroom business while it was a division of Pioneer Foods. She was appointed as the executive responsible for human resources at Quantum Foods in 2012.

Louis joined the Sasko Grain Business of Pioneer Foods in 1981 after doing his articles with Theron du Toit. He started as an internal auditor before becoming financial manager, regional financial manager and moving to general management. Louis has been in the FMCG industry for 33 years, of which the last six years have been in the poultry sector.

Jannie started his career in the South African Navy. Thereafter, he spent nine years with Naspers Ltd during which time he was involved in many start-up internet and related businesses in South Africa, China and a number of other African countries, including Nigeria, where he was based for three years. Jannie has been involved in projects, business development and operations in sub-Saharan Africa for the last 12 years. He joined Quantum Foods in November 2014, and is responsible for developing the business in Africa.

Ntokozo joined Quantum Foods in 2014 from Van der Spuy and Partners (Paarl), where she practised as an attorney in the commercial department. She articulated in Bloemfontein at Phatshoane Henney Attorneys. She has five years' experience in the legal and compliance environment.

# Corporate governance

Quantum Foods is a listed entity and monitors its compliance with the principles of good corporate governance, as recommended by King III. The Board evaluated the Company's compliance status and is satisfied that due consideration was given to the principles of corporate governance. No material non-compliance occurred during the period under

review and, in instances where the Group is not fully compliant, appropriate reasons are identified. A detailed analysis of the Group's adherence to King III is available at [www.quantumfoods.co.za/corporate-governance](http://www.quantumfoods.co.za/corporate-governance). The table below provides an overview of compliance with the King Code.

Chapter	Status	Explanation
1. Ethical leadership and corporate citizenship	Compliant	none
2. Boards and directors	Explain	The Group does not have a nominations committee, board appointments are a matter for the board as a whole.
3. Audit committees	Compliant	none
4. Governance of risk	Compliant	none
5. The governance of information technology	Compliant	none
6. Compliance with laws, rules, codes and standards	Compliant	none
7. Internal audit	Compliant	none
8. Governance of stakeholder relationships	Compliant	none
9. Integrated reporting and disclosure	Explain	Sustainability reporting was not independently reviewed. The requirement will be evaluated annually with a view to improve the level of independent review and taking into consideration the available resources.

## GOVERNANCE STRUCTURE



## THE BOARD

The Board and all its committees are constituted in terms of approved charters, which are reviewed annually.

### Composition and functions of the Board

The Board consists of seven directors, of whom five are non-executive directors. Four of the directors are independent non-executive directors. There were some changes to the Board during the reporting period. Mr N Celliers stepped down as chairman on 28 April 2015. He continues serving as a non-executive director. Mr WA Hanekom was nominated and elected as chairman on 28 April 2015.

Mr LP Retief did not avail himself for re-election at the annual general meeting ("AGM"), and resigned as the lead independent director and as chairman of the audit and risk committee. The Board appointed Mr GG Fortuin on 28 April 2015 as a member of the Board and audit and risk committee.

The duties of the chairman are separate from those of the chief executive officer ("CEO"). The CEO and the company secretary are appointed by the Board. 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. At each 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 decision-making framework clearly sets out the balance of power and authority at Board level, ensuring that no one director has unfettered powers of decision-making. In line with the requirements of King III, a formal appraisal of the Board, its committees and directors was done and no material issues were identified.

The key roles and responsibilities of the Board include:

- acting as the focal point for, and custodian of, corporate governance;
- 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 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 audit and risk committee and remuneration committee;
- ensuring that disputes are resolved effectively and efficiently; and
- appointing and evaluating the performance of the CEO and the company secretary.

The Board considers it a business imperative that all actions taken on behalf of the Company are executed ethically and professionally. Directors disclose their personal financial interests at the start of every Board or committee meeting.

### Legal and 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 combined risk and internal audit function manages the process of compliance according to a framework that has been approved. Progress against this is being monitored by the Company's audit and risk committee.

During the past financial year, no instances of material non-compliance were noted and no judgements, damages, penalties or fines were recorded or levied against Quantum Foods, its directors or employees.

### 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 the provision of appropriate information resources to assist members in the proper discharge of their duties.

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.

### BOARD COMMITTEES

The Board is assisted by three committees to fulfil its mandate, but ultimately remains responsible and accountable for all matters.

The committees of the Board are as follows:

- audit and risk committee;
- remuneration and human capital committee; and
- social and ethics committee.

### MEETING ATTENDANCE

The Board held five scheduled meetings and one special meeting during the reporting period. The board members also attended a full day session during which the 2016 strategy and budget were approved.

The committees each had two scheduled meetings and the remuneration and human capital committee attended an additional meeting during the reporting period.

All members who could not attend a meeting excused themselves accordingly.

	AGM	Board	Remuneration and human capital committee	Audit and risk committee	Social and ethics committee	Strategy session
WA Hanekom <sup>1</sup>	1/1	6/6	3/3	2/2	n/a	1/1
PE Burton	0/1	6/6	3/3	2/2	n/a	1/1
N Celliers	1/1	6/6	3/3	n/a	n/a	1/1
Prof. ASM Karaan <sup>2</sup>	0/1	5/6	n/a	1/1	2/2	1/1
HA Lourens	1/1	6/6	3/3	2/2	2/2	1/1
AH Muller	1/1	6/6	3/3	2/2	2/2	1/1
LP Retief <sup>3</sup>	1/1	2/2	n/a	1/1	n/a	n/a
GG Fortuin <sup>4</sup>	n/a	4/4	n/a	1/1	n/a	1/1
	20/02/15	>18/11/14 >19/02/15 >07/05/15 >19/05/15 >05/08/15 >15/09/15	>05/11/14 >19/02/15 >07/05/15	>17/11/14 >18/05/15	>29/10/14 >18/05/15	14/09/15

<sup>1</sup> WA Hanekom resigned as chairman of the audit and risk committee on 28 April 2015.

<sup>2</sup> Prof. ASM Karaan joined the audit and risk committee on 28 April 2015.

<sup>3</sup> LP Retief resigned as a member of the Board and consequently the audit and risk committee on 19 February 2015.

<sup>4</sup> GG Fortuin joined the Board on 28 April 2015.

### Audit and risk committee ("ARC")

The ARC comprises three independent non-executive directors. The CEO and the chief financial officer ("CFO") are permanent invitees to the meeting. The ARC holds a minimum of two meetings per annum. During the reporting period, the composition of the committee changed as follows:

- LP Retief resigned on 19 February 2015;
- WA Hanekom became the chairman of the Board and consequently resigned from the committee on 28 April 2015;
- PE Burton was appointed as chairman of the committee;
- Prof. ASM Karaan was appointed as a member of the committee on 28 April 2015; and
- GG Fortuin was appointed as a member of the committee on 28 April 2015.

The committee oversees the following functions:

- Integrated reporting
- Combined assurance
- The finance function
- Internal audit
- Risk management
- External audit

During the reporting period, the ARC performed the following functions:

- recommended the appointment of PricewaterhouseCoopers as the external auditors for 2015 and oversaw the annual financial audit process;
- approved the external audit fees;

- monitored the integrated reporting process and approved the integrity of the 2015 report;
- reviewed the annual financial statements, interim reports, preliminary or provisional results announcements, the summarised integrated information, trading statements and similar documents;
- reviewed the disclosure of non-financial information in the integrated report to ensure reliability and accuracy;
- reviewed the combined assurance model;
- reviewed the expertise, resources and experience of the Company's finance function and CFO;
- oversaw the internal audit function;
- oversaw financial reporting risks, internal financial controls, fraud risks and IT-related risk; and
- expressed a formal opinion to the Board on the effectiveness of the system and process of risk management.

### Group internal audit

The internal audit services were provided by Deloitte & Touche for 2015. The internal audit function is constituted in terms of a charter and is monitored by the ARC. 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.

During the year ended 30 September 2015, the internal auditors also assisted in the formulation of a Group risk framework and the monitoring of the 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 audit and risk committee is provided on page 53.

### Social and ethics committee ("SEC")

The SEC consists of three members. Two of the members are prescribed officers as described in the Companies Act and the SEC is chaired by Prof. ASM Karaan. The SEC holds a minimum of two meetings per annum. The SEC monitors the sustainable development and non-financial performance of the Group, specifically relating to:

- stakeholder management, engagement and reporting;
- health and public safety, including occupational health and safety and the quality of the Group's products and services;
- broad-based black economic empowerment;
- diversity management;
- labour relations and working conditions;
- training and skills development;
- management and monitoring of the Group's environmental impact;
- ethics management; and
- corporate social investments.

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

The RHCC members are Mr WA Hanekom, Mr N Celliers and the chairman is Mr PE Burton. 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.



The RHCC performs the following main functions:

- maintaining and approving human resource policies;
- enabling and recommending succession planning of the CEO and executive management;
- 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 executive management;
- ensuring that all remuneration packages are fair, market-related and responsible;
- enabling the Group to attract, engage and retain talent;
- ensuring that directors' remuneration is accurately, completely and transparently disclosed and reported on;
- establishing the criteria to evaluate the performance of the executive management and directors; and
- evaluating and approving the Group's remuneration philosophy, strategy and policy.



# SOCIAL AND ETHICS COMMITTEE REPORT

The SEC is chaired by Prof. ASM Karaan, and Mr JJ Murray and Ms HE Pether are members of the committee. The CEO and CFO are permanent invitees of the committee.

During the reporting period, the SEC reviewed the committee charter and work plan. The SEC is guided by the five main focus areas 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
- Labour and employment

The committee monitored the following matters:

- BBEE and targets – the Group was evaluated for the first time during the year. The committee will assist with the establishment and improvement of targets to ensure that Quantum Foods improves its compliance with BBEE legislation.
- Sponsorships and charitable donations – the committee monitored the various product donations and approved a social responsibility project, which is detailed under the Ensuring responsible business section on page 49.
- Water, energy and waste disposal management – a report containing usage details is monitored biannually.

- Occupational health and safety compliance – the committee noted progress in obtaining occupational health and safety certificates for various premises of the business, which is an ongoing process. Capital has been allocated per annum to ensure compliance.
- Customer complaints and food safety – the committee monitored customer complaints and food safety and is satisfied that such matters were adequately monitored and dealt with.
- Employment equity and training – the committee monitored employment equity and training as set out in the Ensuring responsible business section on page 47.
- Animal welfare – the committee monitored engagement with the NSPCA and other stakeholders to ensure that animal welfare remains a priority.
- Ethics management – the committee monitored adherence to the code of conduct.

The SEC evaluated and approved the non-financial information contained in this report.



**Prof. ASM Karaan**  
*Chairman*

Wellington  
23 November 2015

# REMUNERATION REPORT

The Group's remuneration approach is aimed at remunerating directors, executives and employees fairly and responsibly. This approach takes cognisance of local and international remuneration best practices to ensure that the Company attracts and retains appropriate skills and talent.

Quantum Foods' remuneration is governed by the RHCC, which is mandated by and reports to the Board. The RHCC considers the holistic compensation model in approaching the remuneration of all executive directors and prescribed officers, including the fees paid to all non-executive directors. Fees payable to non-executive directors are recommended for approval by the Board to shareholders at the AGM.

The committee performed the following functions during the period:

- reviewed its charter and annual work plan;
- reviewed certain policies, including the Human Resources policy and rules of the Equity-Settled Phantom Share Scheme and made recommendations to the Board;
- approved an amendment to the rules of the Phantom Share Scheme with reference to the determination of the baseline HEPS;
- approved the 2015 mandates for the adjustment of salaries and wages and made a recommendation to the Board;
- approved the performance indicators for the short-term incentive ("STI") and long-term incentive ("LTI") schemes for recommendation to the Board; and
- approved the STI and LTI allocation for 2015 for recommendation to the Board.

## PHILOSOPHY

Quantum Foods' remuneration framework supports the delivery of the strategy. To ensure competitiveness, a remuneration benchmark exercise was conducted against companies in the manufacturing sector.

The Company's remuneration approach comprises a combination of career growth opportunities and recognition of performance, culture and values, compensation, benefits and work environment.

The main aim of the remuneration policy is to attract, develop, motivate and retain talent to enable the growth strategy of the business.

## REMUNERATION POLICY

Annual reviews of salaries take into account financial and non-financial individual performance against agreed goals and market competitiveness. Selected employees are given the opportunity to participate in STI and LTI schemes. The LTI scheme rules are approved by the Board. The STI scheme is linked to business and individual performance.

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All remuneration (guaranteed and variable) is market-related and is differentiated on the basis of performance. Performance components considered for annual increases are Group and individual performance – with due consideration for inflation. Profitability and efficiency of business processes are the key Group performance indicators for reward. Individual performance indicators are determined according to the key measureable areas where individual performance will contribute to overall Group performance and strategy execution.

Remuneration comprises a combination of guaranteed pay (total cost to company (“CTC”)) and variable pay (STI and LTI). This will depend on the level of seniority in the organisational hierarchy.

### **Guaranteed pay**

Guaranteed pay is generally determined with reference to the job family market median.

### **Short-term incentive**

The STI is a performance bonus that is designed to incentivise management to drive business performance and increase shareholder value.

The STI scheme is based on three elements of performance measurement:

#### **1. Growth in the Group's headline earnings before tax (“HEBT”)**

The growth calculation will be based on an audited and agreed comparative base for the previous financial year, with 40% of any bonus dependent on this element.

#### **2. Growth in the Group's economic profit (“EP”)**

The calculation will be based on the weighted average cost of capital for the year applied to the average net asset base of the Group, with 40% of any bonus payable dependent on this element.

#### **3. Achievement of farming production efficiency targets**

20% of any bonus payable is dependent on this element.

Hurdle rates for HEBT, growth in EP and farming production efficiency targets will be determined annually by the Board to establish minimum and maximum potential bonus pay-outs.

A maximum bonus pool will be calculated annually to govern the total amount of the STI payable as follows:

- Annual CTC of participating executives and senior managers using maximum bonus multiples of between 15% and 100% of CTC.
- The bonus pool for the HEBT and EP components is self-funding. Achievement of targets for growth in HEBT and EP is calculated after any bonus pool has been taken into account.
- The bonus pool for farming production efficiency targets is not dependent on the achievement of targets for HEBT and PBT.



### Long-term incentive scheme

The purpose of the LTI scheme is to align management and shareholder interests, and to attract and retain key managers over the long term. The LTI is a share appreciation rights scheme ("SAR scheme") and is equity settled.

The Board approved the scheme and rules of the Equity-settled Phantom Share Plan ("the Plan"), in compliance with the JSE Listings Requirements. In terms of the Plan, selected employees are granted the opportunity to acquire shares in the Company, with the quantum of their awards based on the future increase in the value of the phantom shares. The Plan is intended to promote the continued growth of the Group. The RHCC determines the allocation to qualifying employees annually. The first allocations were made in the period under review.

Multiples of annual total CTC will determine the annual allocation of SARs to qualifying employees, varying between one and seven times. In determining the annual top-up allocations, only unvested past allocations will be taken into account.

The vesting of 50% of SARs allocated is dependent on performance measures. The hurdle for vesting is compound average growth ("CAGR") in Group headline earnings per share ("HEPS") equal to the consumer price index ("CPI") plus 1% growth. In terms of the rules of the SAR plan, the Board increased the baseline HEPS for the 2015 allocation to 28.1 cents per share from the actual 11.2 cents per share recorded in 2014, to ensure that the target for the vesting of this component is fair and reasonable to both shareholders and participants.

The total 100% vesting will be realisable at CAGR in HEPS growth of CPI plus 5% from the revised baseline of 28.1 cents per share. The remaining 50% is time dependent.

One-third of the phantom shares vests after three years, one-third after four years and one-third after five years to ensure that the LTI supports employee productivity and commitment for the duration of the period. No qualifying employee can be allocated more than 1 million ordinary shares, once converted.

The time allowed to exercise the SARs will be six months after each respective vesting date. If performance vesting conditions are not met at vesting date, the relevant SAR allocation is forfeited.

The total number of ordinary shares that may be transferred to employees under the SAR scheme is limited to 14.5 million shares. During the period under review, 6 210 491 SARs were granted at a strike price of R3.148 per share.

# IT GOVERNANCE REPORT

Information Technology (“IT”) at Quantum Foods is a strategic tool that facilitates the successful implementation of the Group’s strategy and sustainable business performance. The Quantum Foods IT charter is based on the principles of IT governance described in King III and guides the Board in discharging its IT responsibilities. The Board is responsible for IT governance and is ultimately responsible for ensuring information and IT strategies are aligned with business strategies. The audit and risk committee assists the Board in carrying out these responsibilities.

During the year, Quantum Foods established an IT governance framework and reporting system to provide the Board with assurance that the IT strategy, procedures and controls within the business reduce IT risk, including information security, to an acceptable level. An IT steering committee was also established, which reports to the audit and risk committee.

The Board has satisfied itself that, based on reports received from this committee, an appropriate IT governance framework exists and that its functioning is effectively monitored.



## VALUE-ADDED STATEMENT

The contribution of the Group to its various stakeholders is indicated in the table below:

	2015	
	R'000	%
Revenue	3 468 312	
Less: Cost of production and services	(2 928 923)	
Value added from operating activities	541 389	
Interest received – net	7 999	
<b>Total value added</b>	<b>549 388</b>	
Value distributed as follows:		
<b>To employees</b>		
Salaries, wages and employee benefits	318 491	58
<b>To the government</b>		
Income tax	45 764	8
Skills development levies	1 945	1
<b>To providers of capital</b>		
Interest paid	-	-
Dividends to shareholders	-	-
Total distributions	366 200	
<b>Income retained in the business</b>		
Depreciation and amortisation	56 272	10
Retained profit for the year	126 916	23
<b>Total value distributed and reinvested</b>	<b>549 388</b>	

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# Ensuring responsible business

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

Quantum Foods' stakeholders include employees, shareholders, government and regulators, customers and suppliers, as well as the communities impacted by its operations. As stakeholders contribute to the Group's success, it is important to ensure that there are open channels of communication and engagement. The Group takes stakeholder concerns seriously and strives to continuously improve its governance, transformation and sustainability initiatives.





## PRODUCT SAFETY AND CUSTOMER COMPLAINTS

### Feeds business

Quantum Foods' aim is to provide safe feed for safe food and therefore quality assurance is key. All feed mills have integrated quality systems in place which are subject to annual external audits and reviews to ensure adherence to industry, regulatory and product safety standards. Some of the audits are conducted by internationally accredited certification bodies. An internal audit programme is also in place for continuous monitoring and improvement of quality control systems.

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

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

### Egg business

It is important for the Group to provide safe, reliable products to its customers and consumers. The grading facilities are subjected to external audits conducted at regular intervals to ensure

compliance to food safety management systems, applicable laws and regulations. An internal health and safety audit is also conducted on layer farms, cull depots and grading facilities.

The Group uses an external company to monitor customer complaints. A toll-free number is available to consumers and all calls are logged and dealt with. A weekly management report is generated and monitored by executive management.

## 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.

Quantum Foods is fully committed to both the letter and spirit of environmental laws and regulations.

All efforts are made to minimise Quantum Foods' environmental impact and to support the effective consumption of resources, with specific focus on water and energy. Poultry farming contributes a large component of the Group's water consumption requirements, with limited opportunities for reduction beyond ensuring that water is not wasted. The aim is to critically analyse waste production and to ensure that all relevant aspects are managed responsibly. Initiatives for recycling are also investigated and implemented as far as practically possible. The table below outlines the overall performance for 2015 which will serve as a benchmark for monitoring future performance and the identification of improvement initiatives.

## Environmental performance indicators

	Units	September 2015
<b>Consumption</b>		
Water	Kilolitres	<b>1 222 051</b>
– Boreholes/river extraction/dams		<b>818 683</b>
– Municipal sources		<b>403 368</b>
Electricity	kWh'000	<b>52 057</b>
Coal	Tons	<b>2 352</b>
Gas	Kg	<b>877 216</b>
Diesel/petrol/paraffin	Litres	<b>1 449 125</b>
HFO	Litres	<b>954 166</b>
Packaging	Tons	<b>23 926</b>
<b>Waste</b>		
Litter/manure produced	Tons	<b>147 972</b>
Mortalities to landfill/waste pit	Tons	<b>1 104</b>
Effluent water	Kilolitres	<b>5 758</b>
Packaging	Tons	<b>237</b>

### Conservation

During the year under review the Group entered into a perpetual biodiversity agreement with the Western Cape Nature Conservation Board in respect of a portion of the Farm Zouterivier. This conserved area is known as the Quantum Foods Atlantis Sand Fynbos Conservation Area. Critically endangered Atlantis Sand Fynbos is conserved on the property.

### Energy efficiency

Energy-saving opportunities have been identified, with the assistance of an external service provider, at certain sites across the integrated value chain. The Group's main energy intensive activities are the boilers used in the preparation of animal feed, the temperature control of the hatching eggs, the rearing of the broiler chicks and the overall production of the egg pack stations. Opportunities include process optimisation and introducing advanced technologies in these activities. Approved projects are being implemented and tracked to ensure that the full benefit from lower energy consumption is realised. The energy-saving programme will be extended to other sites across the value chains where similar opportunities are identified. The programme will

also be expanded to identify opportunities to reduce energy consumption within the Group through behavioural change of the Group's employees.

### DIVERSITY AND EMPLOYMENT EQUITY

Continuously improving the diversity of the Group's workforce is a strategic imperative of the Group. Quantum Foods remains committed to attracting and developing key skills. In order to improve this, an employment equity project was concluded during the year. This involved the following:

- developing an employment equity strategy;
- engaging extensively with employees to identify any barriers to diversity;
- introducing measures to improve diversity at all Quantum Foods' operations and ensuring that diversity measures are integrated into the employment equity plan.

The Group has also embarked on a pilot project with its learnership service provider to appoint disabled learners at the Group's head office in Wellington, Western Cape.

The employment equity statistics of the South African operations of the Group are provided in the table below:

### EMPLOYMENT EQUITY STATISTICS AS AT 30 SEPTEMBER 2015

Occupational levels	African		Coloured		Indian		White		Foreign nationals		Total
	M	F	M	F	M	F	M	F	M	F	
Top management	0	0	0	1	0	0	6	1	0	0	8
Senior management	1	1	0	0	1	0	16	2	0	0	21
Professionally qualified, experienced specialists and mid-management	8	1	9	8	4	2	46	5	0	0	83
Skilled technical and qualified workers, junior management, supervisors, foremen, superintendents	82	13	44	33	4	3	37	32	0	0	248
Semi-skilled and discretionary decision-making	191	201	83	54	0	3	3	10	4	13	562
Unskilled and defined decision-making	315	300	43	62	0	0	0	0	3	0	723
Total permanent	597	516	179	158	9	8	108	50	7	13	1 645
Non-permanent employees	13	4	2	1	1	0	8	2	2	0	33
<b>Total</b>	<b>610</b>	<b>520</b>	<b>181</b>	<b>159</b>	<b>10</b>	<b>8</b>	<b>116</b>	<b>52</b>	<b>9</b>	<b>13</b>	<b>1 678</b>

The Group also employs 240 employees in Zambia and 61 employees in Uganda.

### Training

The Group continuously engages with the Skills Education Training Authority ("SETA") regarding mandatory and discretionary skills levy refunds and requests for learnerships.

The partnership with Tshwane University of Technology was once again successful, with the business permanently appointing a number of students who were on internships. The newly formed partnership with Elsenburg in the Western Cape will ensure that Quantum Foods has access to a larger pool of candidates.

The Group launched an ABET initiative and, while enrolment was low, it will continue to focus on this important initiative.

The commitment to employee development has resulted in a number of bursaries being awarded to employees. The development of unqualified artisans to address the issue of skills shortages in this discipline remains a focus area.

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

### Skills pipeline

	2015
Interns	10
Apprenticeships	8
Learnerships	18
Bursaries	12

## Occupational health and safety

Quantum Foods strives to adhere to and comply with all health and safety legislation across all its businesses to ensure a safe work environment for its employees.

The number of injuries on duty for 2015 was 42 compared to 47 in 2014, with one fatality reported in 2015.

The fatality, which occurred at the Hartbeespoort abattoir due to drowning, was reported to the authorities and the investigation that followed exonerated the Group from any liability. A special internal audit was conducted at the abattoir to verify health and safety measures.

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 NOSA system, which formalises management of safety, health and the environment, was evaluated and updated at all the Group's feed factories.

## Employee turnover

The employee turnover figures for the South African operations of the Group were as follows:

- Management – 0.61% compared with 0.35% in 2014.
- Not in management – 38.84% compared with 25.13% in 2014

The turnover percentages for both include restructuring processes that occurred in 2014 and 2015. Turnover percentages reported also include the termination of fixed term contracts.

## BBBEE

Below are the results of the Group's first BBBEE rating. The group achieved a level 6 rating. The audit was carried out by Empowerdex, an accredited BEE verification agency using the Agricultural Sector Code scorecard. This score forms the baseline for further improvements.

	AGRI BEE indicative scorecard	Quantum Foods score
<b>Empowerment indicator</b>		
Ownership (Land and Equity)	20	10.18
Management Control	10	2.63
Employment Equity	10	3.07
Skills Development	20	6.32
Preferential Procurement	20	10.27
Enterprise Development	10	10.00
Rural Development, Poverty Alleviation and SED	10	2.48
<b>Level 6 Contributor</b>	<b>100</b>	<b>45.95</b>

The rating is valid until November 2016. The focus for the new period will be on transformation with priority pillars including: Employment Equity, Skills Development, Socio Economic Development and Procurement.



## COMMUNITY PROJECTS

Quantum Foods is involved in a variety of community projects, including education and donations of products to impoverished communities.

The Group recently adopted a primary school in the area close to its head office in Wellington. Quantum Foods funds the salary of an additional teacher to assist with literacy and numeracy in the foundation phase and also funded the installation of teaching equipment at the school.

The Group started a scholarship programme aimed at Historically Disadvantaged South African's, who are studying towards an agricultural qualification.

## HUMAN RIGHTS

Quantum Foods is committed to and strives to protect basic human rights as set out in the Constitution of the Republic of South Africa, Act 108 of 1996, and internationally proclaimed human rights.

## ETHICS

Quantum Foods believes in doing what is right with regard to the effect of its products and operations, and in relation to its stakeholders. The Group's code of ethics ensures that employees are aware of the situations which may require ethical responses.

## CONFLICT OF INTEREST

All Group employees are required to declare any gifts received from stakeholders in a register monitored by the executive committee. A monthly competitor contact register is also monitored by the executive committee. These matters are regulated in the code of ethics.

## INSIDER TRADING

The Board approved an insider trading policy in November 2014 which regulates trading in Group shares by employees during open and closed periods. In this regard, all executives and board members must request permission to trade in shares from the authorised individuals.

## TIP-OFFS ANONYMOUS

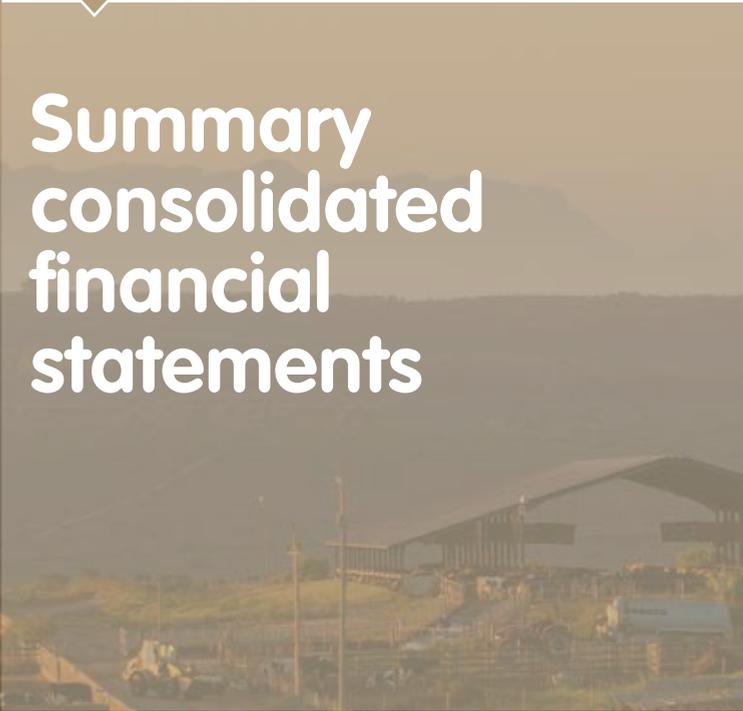
Quantum's tip-offs anonymous line was activated in November 2014 and from the tip-offs received, seven were investigated in the period under review. Four of the tip-offs received were founded, and were resolved appropriately.

## BRIBERY, CORRUPTION, THEFT AND FRAUD

No form of bribery, corruption, theft or fraud is tolerated from employees. The Group is guided by the Prevention and Combating of Corrupt Practices Act which clearly defines the offense of corruption. The social and ethics committee monitors these matters as well as the audit and risk committee.

## ANIMAL WELFARE

Animal welfare remains a major focus area. Regular internal audits are conducted on farms and at factories to ensure adherence to the set standards. Employee training on the handling of chickens was conducted during the year and is further provided as and when needed. Quantum Foods engaged with the NSPCA and regularly conducts audits with inspectors from the NSPCA to ensure compliance. In addition, strict bio-security measures are in place at all farms to protect chickens against disease and illness.



# Summary consolidated financial statements



## DIRECTORS' RESPONSIBILITY

In accordance with the requirements of the Companies Act, the Board is responsible for the preparation of the annual financial statements and the consolidated annual financial statements of Quantum Foods. These conform to IFRS and fairly present the state of the Group at the reporting date.

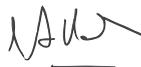
It is the responsibility of the independent external auditors to report on the fair presentation of the financial statements.

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 were approved by the Board on 23 November 2015 and are signed on its behalf by:



**WA HANEKOM**  
*Chairman*



**HA LOURENS**  
*Chief Executive Officer*

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## **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 2015. The consolidated annual financial statements have been audited in compliance with the Companies Act. The consolidated 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](http://www.quantumfoods.co.za)

## **COMPANY SECRETARY DECLARATION**

In accordance with section 88 of the Companies Act, for the year ended 30 September 2015, 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.



**INT Ndlovu**

*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 King III.

### AUDIT AND RISK COMMITTEE CHARTER

The committee is guided by formal terms of reference. An annual work plan which serves as a guideline for the committee in the execution of its mandate was adopted during the period.

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 III.

### MEMBERS OF THE AUDIT AND RISK COMMITTEE

As at 30 September 2015, the committee comprised of three independent non-executive directors namely, ASM Karaan, GG Fortuin and is chaired by PE Burton.

These members will retire and avail themselves for re-election at the second AGM 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 III.

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

The Board has approved the recommended external auditor who will be formally recommended for appointment to the shareholders at the AGM. The auditor will attend all meetings of the committee in his capacity as assurance provider.

### MEETINGS

The committee held two meetings during the year. Attendance of the meetings is shown on page 35 of the integrated report.

### 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 III:

- Reviewed the interim, preliminary and summary results as well as the year-end financial statements, culminating in a recommendation to the Board for approval. In the course of its review, the committee:
  - took the necessary steps to ensure that the financial statements are prepared in accordance with IFRS and the requirements of the Companies Act; considered and, when appropriate, made recommendations on internal financial controls;
  - 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.

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## AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

- Reviewed the external audit reports on the Group's 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.
- Recommended the reappointment of PricewaterhouseCoopers Inc. as the external auditor and Mr DG Malan as the designated auditor, after satisfying itself through enquiry that PricewaterhouseCoopers Inc. is independent as defined in terms of the Companies Act. This will be Mr DG Malan's third year as designated auditor of the Company.
- Confirmed that PricewaterhouseCoopers Inc. and the designated auditor are accredited by the JSE.
- Confirmed and approved the internal audit charter and annual internal audit year plan.
- Reviewed the internal audit risk reports and tip-offs anonymous reports.
- Reviewed and approved risk management policy and plan.
- Reviewed business continuity capability, disaster management plans and insurance cover.

### CHIEF FINANCIAL OFFICER

The committee has considered and satisfied itself of the appropriateness of the expertise and experience of Mr AH Muller as chief financial officer.

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

### GOING CONCERN

The committee has considered and reviewed a documented assessment, including key assumptions, as prepared by management of the going concern status of the Group and has made recommendations to the Board in accordance. 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 51.



**PE Burton**

*Chairman: Audit and risk committee*

Wellington  
23 November 2015

## INDEPENDENT AUDITOR'S REPORT ON SUMMARY FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF QUANTUM FOODS HOLDINGS LTD

The summary consolidated financial statements of Quantum Foods Holdings Ltd, set out on pages 56 to 68, which comprise the summary consolidated statement of financial position as at 30 September 2015, and the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Quantum Foods Holdings Ltd for the year ended 30 September 2015. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 23 November 2015. Our auditor's report on the audited consolidated financial statements contained an Other Matter paragraph: 'Other Reports Required by the Companies Act' (refer below).

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Quantum Foods Holdings Ltd.

### DIRECTORS' RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of a summary of the audited consolidated financial statements in accordance with the JSE Ltd's (JSE) 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, and for such internal control as the directors determine is necessary to enable the preparation of summary consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, 'Engagements to Report on Summary Financial Statements'.

### OPINION

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Quantum Foods Holdings Ltd for the year ended 30 September 2015 are consistent, in all material respects, with those 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.

### OTHER REPORTS REQUIRED BY THE COMPANIES ACT

The 'Other Reports Required by the Companies Act' paragraph in our audit report dated 23 November 2015 states that as part of our audit of the consolidated financial statements for the year ended 30 September 2015, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. The paragraph also states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated financial statements. The paragraph furthermore states that we have not audited these reports and accordingly do not express an opinion on these reports. The paragraph does not have an effect on the summary consolidated financial statements or our opinion thereon.

*PricewaterhouseCoopers Inc*

**PricewaterhouseCoopers Inc.**

**Director: DG Malan**

*Registered Auditor*

Paarl

23 November 2015

## SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2015

	Notes	2015 R'000	2014 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	945 625	1 061 357
Intangible assets		923 322	1 045 078
Investment in associate		12 784	7 116
Deferred income tax		6 731	6 112
		2 788	3 051
<b>Current assets</b>			
Inventories		1 053 062	985 291
Biological assets		234 566	232 544
Trade and other receivables		288 775	292 372
Derivative financial instruments		334 794	353 863
Cash and cash equivalents		7 424	991
Assets held for sale	10	187 503	105 521
		83 399	–
<b>Total assets</b>		<b>2 082 086</b>	<b>2 046 648</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to owners of the parent</b>			
Share capital		1 514 567	1 461 224
Other reserves		1 585 386	1 585 386
Retained earnings		(228 968)	(155 395)
		158 149	31 233
<b>Total equity</b>		<b>1 514 567</b>	<b>1 461 224</b>
<b>Non-current liabilities</b>			
Deferred income tax		220 747	195 922
Provisions for other liabilities and charges		214 258	189 577
		6 489	6 345
<b>Current liabilities</b>			
Trade and other payables		346 772	389 502
Current income tax		343 890	388 037
		2 882	1 465
<b>Total liabilities</b>		<b>567 519</b>	<b>585 424</b>
<b>Total equity and liabilities</b>		<b>2 082 086</b>	<b>2 046 648</b>

## SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	Notes	2015 R'000	2014 R'000
Revenue		3 468 312	3 560 943
Cost of sales		(2 864 073)	(2 982 629)
Gross profit		604 239	578 314
Other income		11 639	14 450
Other gains/(losses) – net	4	238 482	74 767
Sales and distribution costs		(193 631)	(261 203)
Marketing costs		(11 287)	(9 080)
Administrative expenses		(96 168)	(95 284)
Other operating expenses		(389 212)	(322 823)
Operating profit/(loss)		164 062	(20 859)
Investment income		9 886	5 899
Finance costs		(1 887)	(4 974)
Share of profit of associate company		619	595
Profit/(loss) before income tax		172 680	(19 339)
Income tax (expense)/credit		(45 764)	10 852
<b>Profit/(loss) for the year</b>		<b>126 916</b>	<b>(8 487)</b>
<b>Other comprehensive income/(loss) for the year</b>			
<i>Items that may subsequently be reclassified to profit or loss:</i>			
Fair value adjustments to cash flow hedging reserve		796	238
For the year		16 851	331
Deferred income tax effect		-	(93)
Current income tax effect		(4 718)	-
Realised to profit or loss		(15 747)	-
Deferred income tax effect		93	-
Current income tax effect		4 317	-
Movement on foreign currency translation reserve			
Currency translation differences		(75 513)	(19 927)
<b>Total comprehensive income/(loss) for the year</b>		<b>52 199</b>	<b>(28 176)</b>
Profit/(loss) for the year attributable to owners of the parent		126 916	(8 487)
Total comprehensive income/(loss) for the year attributable to owners of the parent		52 199	(28 176)
Earnings/(loss) per ordinary share (cents)	5	54	(4)
Diluted earnings/(loss) per ordinary share (cents)	5	54	(4)

## SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	2015 R'000	2014 R'000
<b>Share capital</b>	<b>1 585 386</b>	1 585 386
Opening balance	<b>1 585 386</b>	-
Borrowings and net invested equity capitalised during the year	-	1 344 176
Common control transaction	-	160 178
Shares issued during the year	-	81 032
<b>Net invested equity</b>	<b>-</b>	-
Opening balance	-	38 071
Net invested equity capitalised during the year	-	(38 071)
<b>Other reserves</b>	<b>(228 968)</b>	(155 395)
Opening balance	<b>(155 395)</b>	24 472
Other comprehensive loss for the year	<b>(74 717)</b>	(19 689)
Recognition of share-based payments	<b>1 144</b>	-
Common control transaction	-	(160 178)
<b>Retained earnings</b>	<b>158 149</b>	31 233
Opening balance	<b>31 233</b>	39 720
Profit/(loss) for the year	<b>126 916</b>	(8 487)
<b>Total equity</b>	<b>1 514 567</b>	1 461 224



## SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	Note	2015 R'000	2014 R'000
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>163 819</b>	41 946
Net cash profit from operating activities		<b>232 127</b>	70 945
Working capital changes		<b>(53 630)</b>	(27 649)
Cash effect of hedging activities		<b>1 104</b>	-
Net cash generated from operations		<b>179 601</b>	43 296
Income tax paid		<b>(15 782)</b>	(1 350)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(62 031)</b>	(35 359)
Additions to property, plant and equipment		<b>(58 323)</b>	(37 364)
Additions to intangible assets		<b>(5 389)</b>	(7 188)
Proceeds on disposal of property, plant and equipment		<b>9 295</b>	3 294
Business combination	9	<b>(17 500)</b>	-
Interest received		<b>9 886</b>	5 899
Net cash surplus		<b>101 788</b>	6 587
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(1 370)</b>	76 752
Proceeds from issue of ordinary shares		-	81 032
Interest paid		<b>(1 370)</b>	(4 280)
Net increase in cash and cash equivalents		<b>100 418</b>	83 339
Effects of exchange rate changes		<b>(18 436)</b>	(2 038)
Net cash and cash equivalents at beginning of year		<b>105 521</b>	24 220
Net cash and cash equivalents at end of year		<b>187 503</b>	105 521

## SUMMARY CONSOLIDATED SEGMENT REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	2015 R'000	2014 R'000
<b>Segment revenue</b>	<b>3 468 312</b>	3 560 943
Eggs and layer livestock	<b>1 154 315</b>	1 086 619
Broilers	<b>1 034 834</b>	1 241 320
Animal feed	<b>1 099 905</b>	1 080 880
Africa	<b>179 258</b>	152 124
<b>Segment results</b>	<b>164 062</b>	(20 859)
Eggs and layer livestock	<b>40 571</b>	(16 435)
Broilers	<b>39 706</b>	(101 267)
Animal feed	<b>65 493</b>	60 889
Africa	<b>25 286</b>	35 114
Unallocated	<b>(6 994)</b>	840
<b>A reconciliation of the segment results to operating profit/(loss) before income tax is provided below:</b>		
Segment results	<b>164 062</b>	(20 859)
Adjusted for:		
Investment income	<b>9 886</b>	5 899
Finance costs	<b>(1 887)</b>	(4 974)
Share of profit of associate company	<b>619</b>	595
Profit/(loss) before income tax per statement of comprehensive income	<b>172 680</b>	(19 339)
<b>Items of a capital nature per segment included in other gains/ (losses) – net</b>		
Impairment of property, plant, equipment and intangible assets before income tax	-	49 478
Broilers	-	49 478
<b>Segment assets</b>	<b>1 885 064</b>	1 931 964
Eggs and layer livestock	<b>736 872</b>	753 485
Broilers	<b>568 344</b>	596 920
Animal feed	<b>390 376</b>	358 054
Africa	<b>168 645</b>	199 445
Other	<b>20 827</b>	24 060



	2015 R'000	2014 R'000
<b>A reconciliation of the segments' assets to the Group's assets is provided below:</b>		
Segment assets per segment report	<b>1 885 064</b>	1 931 964
Adjusted for:		
Investment in associate	<b>6 731</b>	6 112
Deferred income tax assets	<b>2 788</b>	3 051
Cash and cash equivalents	<b>187 503</b>	105 521
Total assets per statement of financial position	<b>2 082 086</b>	2 046 648
<b>Total segment liabilities</b>		
Eggs and layer livestock	<b>84 456</b>	62 202
Broilers	<b>53 258</b>	71 217
Animal feed	<b>150 890</b>	200 448
Africa	<b>18 686</b>	13 123
Other	<b>43 089</b>	47 392
<b>A reconciliation of the segments' liabilities to the Group's liabilities is provided below:</b>		
Segment liabilities per segment report	<b>350 379</b>	394 382
Adjusted for:		
Current and deferred income tax liabilities	<b>217 140</b>	191 042
Total liabilities per statement of financial position	<b>567 519</b>	585 424
<b>Total assets held for sale</b>		
Broilers	<b>83 399</b>	-
	<b>83 399</b>	-

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## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2015

### BACKGROUND

The Group was established during the previous reporting period when the business of the Pioneer Foods related to the production of eggs, chicken products, animal feed and poultry livestock was incorporated as Quantum Foods. The Group comprises the following businesses: the Nulaid eggs and layer livestock business, the Tydstroom broiler business and the Nova feeds business, which are divisions of Quantum Foods (Pty) Ltd; Philadelphia Chick Breeders (Pty) Ltd; Lohmann Breeding SA (Pty) Ltd; Quantum Foods Uganda Ltd; Quantum Foods Zambia Ltd and an investment in Bergsig Breeders (Pty) Ltd, classified as an associate.

### 1. BASIS OF PREPARATION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE 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 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 financial statements from which the summary consolidated annual financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

### 2. ACCOUNTING POLICIES

These summary consolidated financial statements incorporate accounting policies that are consistent with those applied in the Group's consolidated financial statements for the year ended 30 September 2015 and with those of previous financial years, except for the adoption of the following amendments to published standards and interpretations that became effective for the current reporting period beginning on 1 October 2014:

- *Amendments to IAS 32 – Financial instruments: Presentation*
- *Amendments to IAS 36 – Impairment of assets*
- *Improvements to IFRSs 2013*

The adoption of these amendments to standards and interpretations did not have any material impact on the Group's results and cash flows for the year ended 30 September 2015 and the financial position at 30 September 2015.

	Land and buildings R'000	Plant, machinery and equipment R'000	Vehicles R'000	Total R'000
<b>3. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>30 September 2015</b>				
<b>Cost</b>				
At 1 October 2014	487 273	1 104 362	44 389	1 636 024
Additions	19 230	37 759	1 334	58 323
Transfers	2 979	(2 979)	-	-
Business combinations	-	15 500	-	15 500
Foreign exchange adjustment	(25 100)	(30 846)	(2 369)	(58 315)
Disposals	(11 485)	(5 586)	(4 327)	(21 398)
Transferred to assets held for sale	(74 842)	(85 546)	(789)	(161 177)
At 30 September 2015	398 055	1 032 664	38 238	1 468 957
<b>Accumulated depreciation and impairment</b>				
At 1 October 2014	(137 944)	(433 892)	(19 110)	(590 946)
Charge for the year	(9 100)	(42 651)	(3 256)	(55 007)
Foreign exchange adjustment	3 553	3 927	1 377	8 857
Depreciation on disposals	7 321	3 885	2 477	13 683
Transferred to assets held for sale	25 170	52 177	431	77 778
At 30 September 2015	(111 000)	(416 554)	(18 081)	(545 635)
<b>Net book value at 30 September 2015</b>	287 055	616 110	20 157	923 322

	2015 R'000	2014 R'000
<b>4. OTHER GAINS/(LOSSES) – NET</b>		
Biological assets fair value adjustment	111 882	51 950
Unrealised – reflected in carrying amount of biological assets	(4 489)	9 767
Realised – reflected in cost of goods sold	116 371	42 183
Agricultural produce fair value adjustment	121 128	70 722
Foreign exchange differences	4 000	(272)
Foreign exchange contract fair value adjustments	(108)	230
Profit on disposal of property, plant and equipment	1 580	1 615
Impairment of property, plant and equipment	-	(49 478)
	238 482	74 767

## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2015 (CONTINUED)

	2015 R'000	2014 R'000
<b>5. EARNINGS PER ORDINARY SHARE</b>		
<b>Basic and diluted</b>		
The calculation of basic and diluted earnings per share is based on earnings attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the year:		
Profit/(loss) for the year attributable to owners of the parent	<b>126 916</b>	(8 487)
Headline earnings is calculated based on Circular 2/2013 issued by the South African Institute of Chartered Accountants.		
The Group has no dilutive potential ordinary shares.		
<i>Reconciliation between profit/(loss) attributable to owners of the parent and headline earnings</i>		
Profit/(loss) for the year attributable to owners of the parent	<b>126 916</b>	(8 487)
Remeasurement of items of a capital nature		
Profit on disposal of property, plant and equipment	<b>(1 000)</b>	(1 312)
Gross	<b>(1 580)</b>	(1 615)
Tax effect	<b>580</b>	303
Impairment of property, plant and equipment	-	35 840
Gross	-	49 478
Tax effect	-	(13 638)
Headline earnings for the year	<b>125 916</b>	26 041
Weighted average number of ordinary shares in issue ('000)*	<b>233 249</b>	233 249
<b>Earnings/(loss) per share (cents)</b>		
Basic and diluted	<b>54</b>	(4)
<b>Headline earnings per share (cents)</b>		
Basic and diluted	<b>54</b>	11

\* The loss per share and headline earnings per share for the previous reporting period set out above were based on Quantum Foods' actual number of shares in issue on 6 October 2014, the date of listing on the JSE, being 233 248 590 shares.

	2015 R'000	2014 R'000
<b>6. CONTINGENT LIABILITIES</b>		
Guarantees in terms of loans by third parties to contracted service providers	<b>42 300</b>	45 900

**Litigation***Dispute with egg contract producers*

As previously reported, six contract egg producers proceeded with claims in the Western Cape High Court: Cape Town. The claim from one of the six contract producers is still unresolved.

Pioneer Foods is defending contractual claims from its privatised egg contract producers and the matters were set down for arbitration during 2012. Since the hearings commenced in 2012, settlements were negotiated with four egg contract producers. A further contract producer withdrew its claim. These settlements had no adverse financial impact on Pioneer Foods.

Pioneer Foods filed a plea in respect of the remaining claim as well as a counterclaim to recover damages suffered by Pioneer Foods as a result of breach of contract by the contract producer. Pioneer Foods is awaiting the setting of a trial date in this matter.

Although the claims were brought against Pioneer Foods, the Group indemnified Pioneer Foods against any damages that may be suffered as a result of same in terms of the internal restructuring agreements when it acquired the egg business.

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

*Termination of contract*

The Group received a summons in respect of early termination of a distribution contract. The matter will be defended in the High Court.

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

**7. FUTURE CAPITAL COMMITMENTS**

Capital expenditure approved by the Board and contracted for amount to R49.0 million (30 September 2014: R40.5 million). Capital expenditure approved by the Board, but not contracted for, amount to R113.0 million (30 September 2014: R73.8 million). This amount includes the approved acquisition of the Olifantskop feed mill, as well as the possible acquisition of a business in another African country.

## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2015 (CONTINUED)

### 8. 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.

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 financial assets and liabilities that are measured at fair value at 30 September 2015:

	Level 1 R'000	Level 2 R'000	Level 3 R'000
<b>Assets measured at fair value</b>			
Derivative financial instruments			
- Foreign exchange contracts	-	4	-
- Fair value hedges	-	7 420	-
	-	7 424	-
Total assets measured at fair value			7 424

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.

### 9. BUSINESS COMBINATION

During the year under review, the following business was acquired and all assets and liabilities relating to this acquisition has been accounted for on the acquisition basis:

2015  
R'000**9. BUSINESS COMBINATION (CONTINUED)****Safe Eggs – Pasteurised eggs (on 20 April 2015)***Fair value*

Property, plant and equipment

15 500

Trademarks

1 544

Inventory

510

Trade and other payables

(54)

**Purchase consideration – settled in cash****17 500****Reason for business combination**

To enter into a new market segment in the egg industry. Pasteurised eggs is a value added product.

*Contribution since acquisition*

Revenue

12 602

Operating profit before finance cost and income tax

837

*Pro forma contribution assuming the acquisition was at the beginning of the year*

Revenue

30 245

Operating profit before finance cost and income tax

2 009

**10. ASSETS HELD FOR SALE**

The Group's shareholders were advised on SENS on 11 May 2015 of an agreement entered into with Sovereign Food Investments Ltd, in terms of which the Group will dispose of the Tydstroom Abattoir business in Hartbeespoort, as a going concern. The Tydstroom Abattoir business in Hartbeespoort, relates to the slaughtering and processing of broilers for human consumption.

Accordingly, the Tydstroom Abattoir business in Hartbeespoort has been treated as an "asset held for sale" in terms of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* for the year ended 30 September 2015.

The disposal will result in the Group exiting the broiler meat market served from the Hartbeespoort abattoir in Gauteng. It will furthermore result in an aligned broiler business model for the Group in both the Western Cape and Gauteng, with the Group being a contract producer of live broilers and not participating directly in the broiler meat market.

The Group's shareholders were advised on SENS on 7 October 2015 that all of the conditions precedent to the sale have been fulfilled and accordingly the sale is unconditional, with an effective date of 19 October 2015.

2015  
R'000**Assets of the disposal group classified as held for sale**

Property, plant and equipment

83 399

83 399

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## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2015 (CONTINUED)

### 11. EVENTS AFTER THE REPORTING PERIOD

#### *Dividend*

A final dividend of 10 cents per ordinary share has been declared for the year, on 23 November 2015. 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 15%, 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 8.5 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 233 248 590 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.

### 12. PREPARATION OF FINANCIAL STATEMENTS

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

### 13. AUDIT

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 at the Company's registered office.

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

# 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)  
N Celliers  
HA Lourens (CEO)\*  
PE Burton  
GG Fortuin  
Prof. ASM Karaan  
AH Muller\*  
\* *Executive*

## COMPANY SECRETARY

INT Ndlovu  
Email: Ntkozko.Ndlovu@quantumfoods.co.za

## COMPANY DETAILS

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PO Box 1183  
Wellington  
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South Africa  
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Fax: 021 873 5619

## SHAREHOLDERS' DIARY

Financial year-end  
Annual general meeting

30 September  
19 February 2016

## Reports

Interim report for the half-year ended 31 March 2016  
Announcement of results for the year ended 30 September 2016  
Integrated report for the year ended 30 September 2016

May 2016  
November 2016  
December 2016

## Dividends

Interim	Announcement Payment	May 2016 July 2016
Final	Announcement Payment	November 2016 February 2017

Email: info@quantumfoods.co.za

## TRANSFER SECRETARIES

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South Africa  
Tel: 011 370 5000  
Fax: 011 688 5209

## SPONSOR

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and

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