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**Integrated report 2016**

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# OUR BRANDS

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**NOVA**  
FEEDS-VOERE



 **Nulaid**



*mega* **EGGS**



  
**BERGVLEI**  
**CHICK**



 **QUANTUM**  
FOODS



  
**GALOVOS**



 **Bellevue Chix**



**Quantum**  
NEST EGGS



**SAFE**  
**EGGS**  


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# INVESTMENT CASE

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## 1 Balanced and optimised domestic portfolio

- With the completion of the Group's exit from the broiler meat market, Quantum Foods now has reduced exposure to the cyclical nature of the poultry industry.
- Increased focus on growing 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.
- A strong market 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 17 years.
- Expansion of the existing table egg business in Zambia was completed during 2016, with the full volume benefit to be realised in 2017.
- Construction of a commercial egg farm in Uganda was completed in 2016, with anticipated benefits to flow in the future.
- A commercial egg business was acquired in Mozambique during September 2016. Limited benefits should be experienced during 2017.
- Further strategic opportunities in other African countries remain under investigation.

## 3 Efficient cost base

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

## 4 Solid cash-generating ability

- Quantum Foods was unbundled from the Pioneer Food Group with fully funded working capital and no long-term debt. The investment in working capital increased substantially in 2016 due to the increased cost of raw materials and new business acquisitions. However, the Group retains its ability to generate cash and has sufficient debt capacity to enable organic growth, as well as growth through acquisitions.
- The Group has a healthy asset base from which to grow production of feed, layer and broiler livestock, and drive egg and broiler sales without significant further investment.

## 5 The right people

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



**Mega Eggs**  
Copperbelt, Zambia

# About this report

## OVERVIEW

This is the third 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 2015 to 30 September 2016.

This report provides information about Quantum Foods’ second year as an independent business, following its unbundling from the Pioneer Food Group on 6 October 2014. Aimed primarily at the Group’s shareholders and other interested stakeholders, this report aims to provide a holistic overview of Quantum Foods’ strategy, performance and business activities, and provides a measure of the Group’s ability to ensure a sustainable business future.

The King Code of Governance for South Africa, 2009 (“King III”) and the International Integrated Reporting Council’s (“IIRC’s”) Integrated Reporting <IR> Framework were considered in the compilation of this report. In accordance with the <IR> Framework, the Group has considered the six capitals, namely financial, manufactured, intellectual, human, social and relationship and natural capital, in the compilation of this report.

## SCOPE AND BOUNDARY

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

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



More information is provided in the business overview section on page 18.

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

## REPORTING PRINCIPLES AND COMPARABILITY

The summary consolidated financial statements provided in this integrated report are extracted from the full statutory financial statements available on the Group's website. The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Companies Act and the Listings Requirements of the JSE ("JSE Listings Requirements") and were audited by PricewaterhouseCoopers Inc. Year-on-year comparability is affected by the further change in business model for the Group's broiler operations, implemented from October 2015. The Group exited the Gauteng/North West broiler meat market following the sale of its Hartbeespoort abattoir on 19 October 2015. Quantum Foods now supplies its total live broiler production capacity, in both the Western Cape and Gauteng/North West, to other abattoirs.



Readers of this report are referred to the summary consolidated segment report in the summary consolidated financial statements on page 64, where reasons for and the effect of the change in operating segments are disclosed and reported on.

at executive level. Quantum Foods' BBBEE score was externally assured by Empowerdex. The Group appreciates the need for an increased level of external assurance in its reporting of non-financial elements in particular, and will continue to pursue improvement in this area.

## 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.

## FEEDBACK

We are committed to communicating meaningfully with our stakeholders, and would therefore appreciate feedback on the effectiveness of this report. Any feedback can be emailed to our company secretary, Ntokozo Ndlovu, at [Ntokozo.ndlovu@quantumfoods.co.za](mailto:Ntokozo.ndlovu@quantumfoods.co.za).



This report is also available on the Company website: [www.quantumfoods.co.za](http://www.quantumfoods.co.za)

## ASSURANCE

The Group did not seek external assurance for the integrated report as a whole. However, assurance for certain elements of this report was provided by a combination of internal and external sources. This integrated report is the product of comprehensive and detailed internal content development and control processes, with oversight and responsibility

## FORWARD-LOOKING STATEMENTS

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

## NAVIGATIONAL ICONS

The following navigational icons are featured throughout this report to increase usability and demonstrate supporting information:



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



This icon refers to where additional information can be found online.

## COMMONLY USED TERMS

The following industry terms are commonly used throughout this report:

<b>Birds</b>	All varieties of live chicken, i.e. meat-type chicken, egg-type chicken, day-old chicken, layer chicken, etc.
<b>Brining</b>	Also “brine-based injection”: the practice of injecting broilers with brine in order to tenderise and moisten tissue muscle and increase weight
<b>Broilers</b>	Also “broiler chickens”: a young, tender chicken of a meat-type strain suitable for roasting or grilling
<b>Day-old chicks</b>	Chicks that are one day old, usually from the same stock as broilers
<b>Day-old pullets</b>	Female layer chicks that are one day old
<b>Feed conversion rate</b>	The quantity of feed, in kilograms, required by birds of the egg type to produce 1 doz table eggs, or required by birds of the meat type to produce 1 kg of broiler meat
<b>Free-range eggs</b>	Eggs produced from poultry kept in natural conditions that include freedom of movement
<b>Hatching eggs</b>	Fertile eggs produced on a breeding farm
<b>Layers</b>	Mature female chickens (at least 19 weeks old) used to produce marketable egg products
<b>Liquid eggs</b>	A product especially for the catering industry, where eggs are sold in liquid form
<b>Livestock</b>	Farmed animals kept for commercial use
<b>Parent stock</b>	Chickens bred specifically for further reproduction. There is different parent stock for broiler and egg-type chickens
<b>Point of lay</b>	The age at which a pullet lays its first eggs
<b>Poultry</b>	All forms of domestic fowl, e.g. chickens, turkeys, ducks, geese, etc.
<b>Rearing</b>	The process of growing a day-old chick or pullet into a mature bird
<b>Table eggs</b>	Eggs intended for consumption. Table eggs are normally graded according to a number of criteria, including weight and quality

## MATERIAL MATTERS

The content of this report was developed by applying the concept of materiality as defined in the <IR> Framework. Materiality assists the Group in identifying those matters that have a significant impact on Quantum Foods’ ability to create value in the short, medium and long term. A diverse group of managers, representing different areas of the business, were invited to participate in an externally facilitated discussion of Quantum Foods’ value-creation abilities,

strengths, risks and opportunities. Based on this discussion, the Group identified matters that are most likely to affect the value-creation process. These matters were presented to, and approved by, the Board, and reflect those matters that could have the most significant impact on the business if not carefully managed.

The following economic, environmental and social matters were identified. More information is available in the sections as referenced:

Economic		
Material matter	Context and business response	More information
Market understanding of Quantum Foods’ changed broiler business model	The Group has significantly hedged its exposure to the broiler meat market in South Africa by strategically repositioning itself as a contract producer that sells live broilers to other abattoirs.	Risks and opportunities – pages 26 – 27  Joint report of the chairman and CEO – pages 28 – 31
	Quantum Foods has to ensure that the effect of this change to the Group’s broiler business model is understood by the market.	Business overview – pages 18 – 21
Growth opportunities	During the year, Quantum Foods acquired a feed mill in Paterson in the Eastern Cape, increasing its external sales footprint, particularly in the dairy market.	Business overview – pages 18 – 21
	The Group’s experience, expertise and footprint in Africa enables it to identify and further realise growth opportunities on the continent, specifically in the table eggs and livestock feed value chains.	Joint report of the chairman and CEO – pages 28 – 31
	The Group increased its African footprint by acquiring an egg business outside Maputo, Mozambique, in September 2016.	Business overview – pages 18 – 21
Ability to recover rising input costs	The Group’s ability to recover rising input costs, particularly of raw materials that are affected by the weakening rand and local and international grain crops, is vital to Quantum Foods’ profitability. This is achieved through a relentless focus on procurement, currency movement, efficiencies, cost management and meticulous margin management. The further change in the Group’s broiler business model is also a contributing factor.	Joint report of the chairman and CEO – pages 28 – 31





## Economic

Material matter	Context and business response	More information
Power supply challenges	During the year, power supply remained stable. While Quantum Foods' farming operations and egg packing stations are equipped with standby generators, interruptions in power supply due to load-shedding can impact business operations at the Group's feed mills, which are not yet equipped with standby generators.	Risks and opportunities – pages 26 – 27
Innovation	Developing products that cater to customers and markets is important in enabling the Group to diversify, grow and sustain its margins. Feed formulation for optimal animal nutrition, in particular, is a highly technical field with many opportunities to innovate. In the Group's broiler and egg businesses, innovation is focused on the continuous enhancement of farming practices to optimise livestock health and production efficiencies.	Business overview – pages 18 – 21 Risks and opportunities – pages 26 – 27

## Environmental

Poultry disease	Outbreaks of poultry disease have the potential to significantly impact productivity, efficiencies and financial performance in the Group's farming operations. Bio-security, vaccination and monitoring programmes are continually reviewed with the assistance of veterinary companies to improve the protection of the birds.	Ensuring responsible business – pages 37 – 41 Risks and opportunities – pages 26 – 27 Joint report of the chairman and CEO – pages 28 – 31
Optimised procurement and the availability of key raw materials	The rising cost and reduced availability of key raw materials required for animal feed production is an ongoing concern. This threat was compounded during the year by the effects of the severe, ongoing drought in South Africa's grain-producing areas, among others. This was effectively mitigated by the Group's capable, centralised, internal procurement team, who sourced and secured raw materials through agreements with dependable local and international suppliers.	Risks and opportunities – pages 26 – 27
Protecting the environment	As an agricultural business, the long-term sustainability of Quantum Foods depends on its ability to access a range of natural resources. It is therefore in the interest of the Group to contribute towards the protection of the environment by promoting sustainable agricultural and production practices, particularly with regard to water usage.	Ensuring responsible business – pages 37 – 41 Risks and opportunities – page 26 – 27
Water availability and quality	The Group is dependent on continuous access to high-quality water across its operations, particularly in its poultry operations, as this is critical in sustaining a healthy agricultural business. While the Group successfully manages this need, climate change has the potential to significantly impact the business in the long term.	Ensuring responsible business – pages 37 – 41 Risks and opportunities – pages 26 – 27



Social		
Material matter	Context and business response	More information
Ensuring the necessary skills to drive a high-performance culture	Attracting and retaining talented employees who can drive a high-performance culture is a priority for the Group. The business requires rare skill sets, particularly in the farming operations and egg business, where succession is a challenge. To strengthen its layer-egg farming operations, in particular, the Group expanded its recruitment strategy during the year, considering candidates from India.	Remuneration report – pages 50 – 51 Risks and opportunities – pages 26 – 27 Ensuring responsible business – page 37 – 41
Product safety and quality	The Group produces products for human and animal consumption. Quantum Foods must therefore adhere to strict food safety protocols in order to retain its licence to operate. In response, the Group has stringent quality-control processes in place, as well as a dedicated consumer-feedback channel that is actively monitored to ensure that any issues that arise are attended to swiftly and professionally.	Ensuring responsible business – pages 37 – 41 Risks and opportunities – pages 26 – 27
Broad-based black economic empowerment (“BBBEE”) and transformation	Quantum Foods recognises its obligation to contribute towards improving the socio-economic status of historically disadvantaged South Africans (“HDSA”). While the agricultural industry faces many transformation and skills challenges, the Group is committed to identifying and developing new managers and leaders, especially at farm level. The focus remains on transformation with priority pillars that include Employment Equity, Skills Development, Socio-economic Development, Enterprise Development and Preferential Procurement.	Ensuring responsible business – pages 37 – 41
Animal welfare	Livestock husbandry is critical to the success of the business. Quantum Foods therefore has an obligation to treat animals in accordance with required protocols, not only from an ethical and legal perspective, but also due to the concomitant impact on mortality and livestock production. In response, the Group frequently engages with external parties on matters related to animal welfare in a transparent and open manner.	Ensuring responsible business – page 37 – 41 Risks and opportunities – page 26 – 27
Health and safety	Quantum Foods is committed to ensuring that its operations are conducted in an environment that supports the health and safety of employees and the animals with which they work. Similarly, the Group is committed to ensuring that all products are safe for consumption. Internal audits of premises are conducted regularly, on a rotational basis, to evaluate and improve health and safety compliance. Training of employees to ensure the necessary health and safety awareness and competency remains a priority.	Risks and opportunities – pages 26 – 27 Ensuring responsible business – pages 37 – 41

# Quantum Foods

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



# Quantum Foods at a glance

## PROFILE

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

- Animal feed
- Layer and broiler farming
- Eggs
- Related business on the African continent

The Group is listed on the JSE main board in the “Farming and Fishing” sector under the share code QFH, and provides quality animal protein to selected South African and African markets.

### South Africa

Animal feed is manufactured and sold under the *Nova Feeds* brand. External sales amounted to 301 562 tons for the year (2015: 262 409 tons), representing 51% of total feed volumes produced (2015: 47%). The balance is consumed internally by the Group’s integrated layer and broiler poultry operations. Following the acquisition of Olifantskop Feeds in Paterson, Eastern Cape, in February 2016, external sales volumes have exceeded internal consumption on a monthly basis.

Eggs are sold under the *Nulaid*, *Safe Eggs*, *Quantum*, and retailers’ own brands, while layer livestock (day-old chicks and point-of-lay hens of the Lohmann breed) are sold under the *Bergvlei Chicks* brand. Quantum Foods is the largest producer of eggs in South Africa. During the year, Nulaid produced approximately 873 million eggs of which the Group supplied 54% to the retail sector.

Day-old broiler chicks of the Cobb breed are sold under the *Bellevue Chicks* brand. An average of 841 000 live broilers were sold per week to third-party abattoirs (2015: 579 000). In the previous year, the Group operated an abattoir in Gauteng that supplied the market with 16.6 million kg of broiler meat. This abattoir was sold to Crown Chickens (Pty) Ltd (trading as Sovereign Foods) in October 2015.

### Other African countries

In Zambia, Quantum Foods operates a broiler and layer breeder business (selling day-old chicks), a feed business and a table egg business. The table egg business sold 81 million eggs for the year (2015: 69 million). A project to increase production capacity was completed during the last quarter of the year. Due to the time lag between the placement of an increased number of layer hens, and actual egg production, the benefit of increased production capacity will only be realised in the next financial year.

In Uganda, the business comprises a broiler and layer breeder business and a feed business. The construction of a table egg production facility near Masindi was completed during the second half of the year. Similarly to the Zambian expansion, the benefit of this project will only be realised in the next financial year.

In Mozambique, the business comprises a table egg business located near Maputo, which supplies both the retail and informal markets. The business was acquired in September 2016.

## Geographic footprint



**4.1%**

of Group revenue from other African operations

2015: 5.2%

**597 000 tons**

feed produced in South Africa

2015: 558 000 tons

**938 million**

table eggs sold in South Africa

2015: 976 million

**43.7 million**

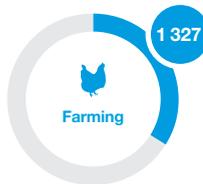
live broilers produced per annum

2015: 41.2 million

## External revenue contribution (R'm)



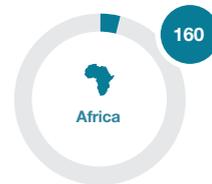
2015: 1 100



2015: 1 227



2015: 963



2015: 179

## 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
- Quantum Foods Mozambique, S.A.
- Bergsig Breeders (Pty) Ltd (28%)

# VALUE CHAIN AND BUSINESS MODEL

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

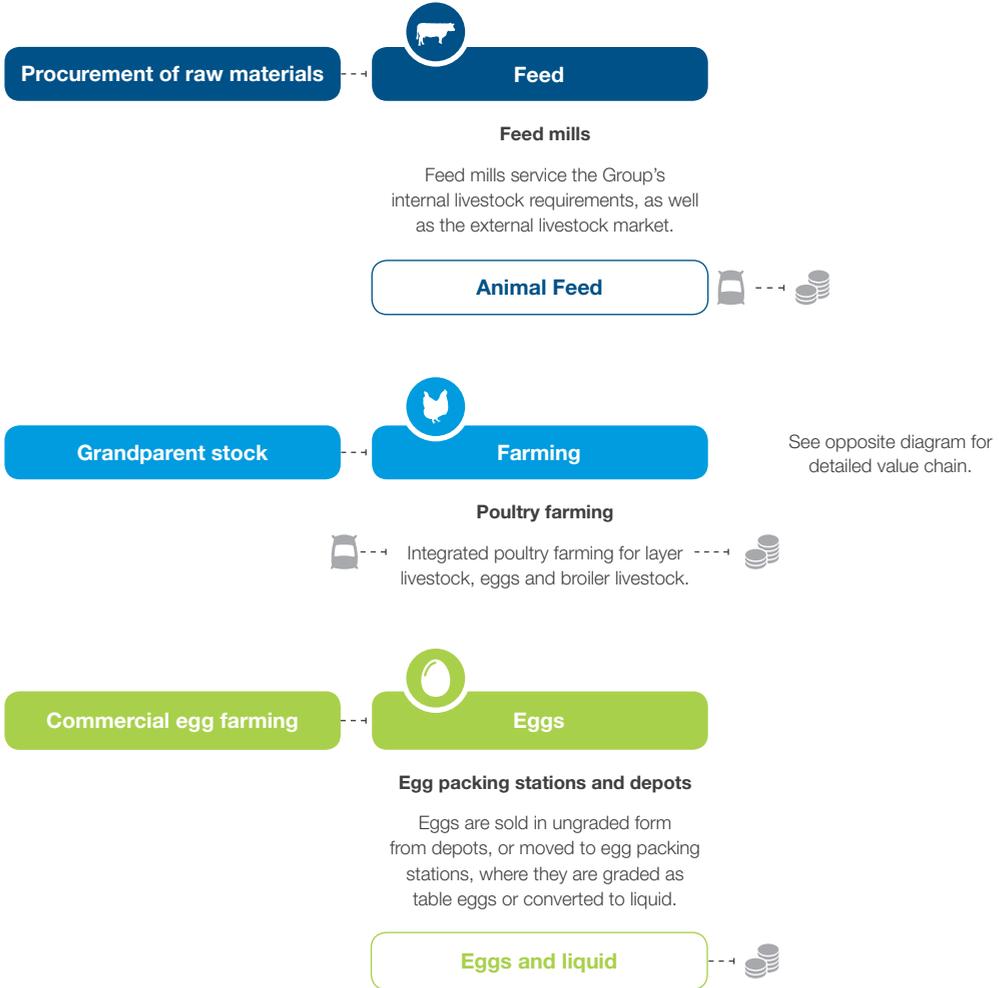
The Group creates value for customers by ensuring consistent and fresh supply, ease of access and competitive pricing through trusted and market-leading brands. The Group's business activities enable an integrated and diversified value chain that supports Quantum Foods' own poultry operations, while servicing the external market locally and in selected African countries. A strong focus on responsive and customised service and technical solutions (particularly in feed), is supported by leading expertise and dedicated points of contact.

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

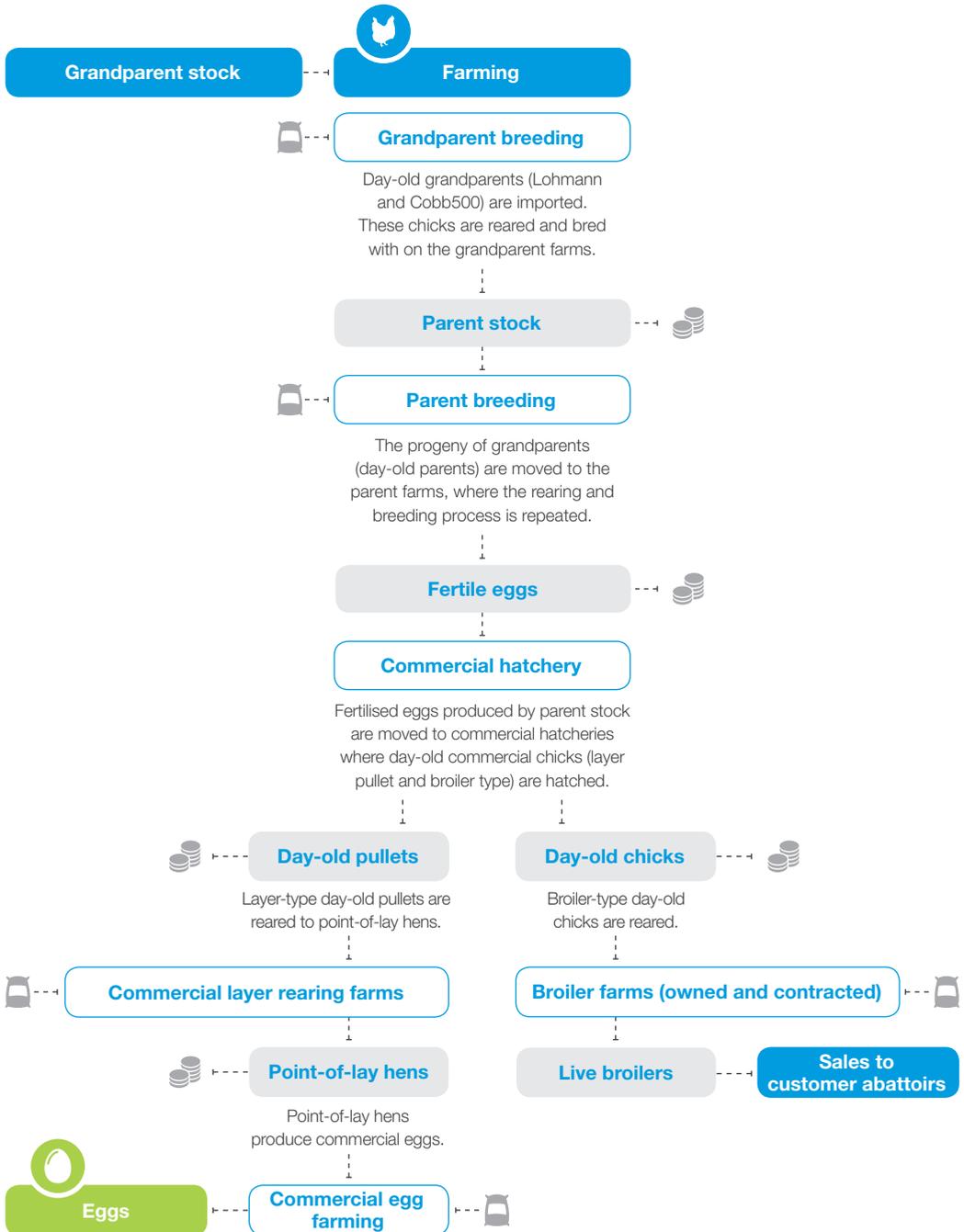
The Group's value creation is supported by its stock of the six capitals:

- **Manufactured** – Strategically located packing stations, feed mills, commercial hatcheries and rearing farms support Quantum Foods' business activities and enable extensive distribution coverage, locally and into Africa.
- **Intellectual** – Leading brands, IP licences, in-house expertise and feed and farming capabilities (particularly with regard to layers and feed formulation) provide Quantum Foods with intangible assets that support value creation.
- **Human** – The rare skills, expertise and experience of Quantum Foods' employees are critical in creating value.
- **Social and relationship** – A wide range of activities and interactions support Quantum Foods' relationship with its customers, suppliers and communities. The Group's working relationship with the National Society for the Prevention of Cruelty to Animals ("NSPCA") supports animal welfare, which is critical to the success of the business.
- **Natural** – The Group relies on a range of natural resources to enable its business activities. This includes, most importantly, grain, water and gas.
- **Financial** – The combination of a largely ungeared statement of financial position, sufficient debt capacity to enable growth, revenue-generated, investment by shareholders and financial institutions provides Quantum Foods with the financial capital it needs to grow.

The following diagram illustrates Quantum Foods' business activities and value chain:



-  Indicates in which areas of the value chain feed for internal use is applicable
-  Sales to market



# FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

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



Mostly due to an increased contribution from the feed business, where the Olifantskop feed mill in Paterson was acquired effective 1 February 2016.

Mostly due to weaker performance from eggs and other African countries.

2015: 54 cents

- Dividend per share of 6 cents compared to 10 cents in 2015
- Number of employees increased from 1 979 in 2015 to 2 130 in 2016
- Nulaid was awarded Egg Category winner in the 2016/2017 Icon Brand Survey
- Table egg expansion projects completed in Zambia and Uganda
- Acquired Olifantskop Feeds in Paterson, Eastern Cape
- Acquired a table egg business in Mozambique



More information about how the Group is creating social value and managing its environmental impact is available in the ensuring responsible business section on pages 37 – 41.



THE FRESHER  
THE BETTER

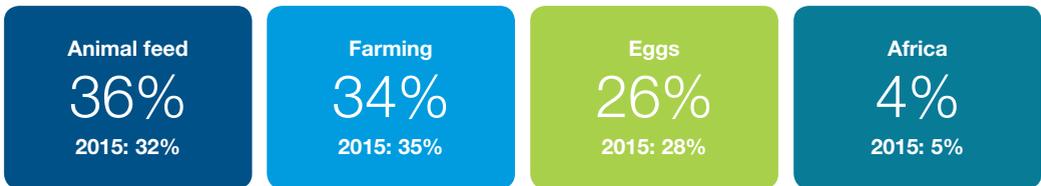
**VOTED AS WINNER IN THE EGG CATEGORY  
IN THE 2016/2017 KASI STAR BRANDS SURVEY.  
WE THANK YOU SOUTH AFRICAN CONSUMERS  
FOR YOUR LOYAL SUPPORT.**

Fresh eggs are better for baking, fresh eggs nourish the mind and body.  
Always choose NULAIID EGGS, because...

A fresh egg is...  
**Nulaid**  
WWW.NULAIID.CO.ZA

# BUSINESS OVERVIEW

## Revenue contribution by business



## Industry features

Current conditions are extremely challenging for companies operating in the feed and poultry industries in South Africa, Mozambique, Zambia and Uganda. Issues faced by the industry include the rising cost of raw materials for feed production due to poor grain crops and volatile currencies; consumer demand that remains muted due to low economic growth levels; the continued pressure on the South African broiler industry due to dumping by international broiler exporters; and, in particular, the South African layer flock diseases that negatively impact poultry productivity.

The South African government entered into an agreement with the USA that allows for chicken meat to be imported at lower duties in order for South Africa to remain a beneficiary of the African Growth and Opportunity Act ("AGOA"). This, together with the continued imports of vast quantities of broiler meat from Brazil and some Western European countries, as well as the expected impact of the implementation of reduced allowable brining levels will increase pressure on broiler producers in South Africa.

Quantum Foods is not a direct participant in South Africa's broiler meat market, and is therefore not directly exposed to these effects. However, the increased financial pressure experienced by abattoirs that are supplied by the Group could impact Quantum Foods. The Mozambican, Ugandan and Zambian egg markets are less developed in terms of production volumes and per capita consumption than the South African egg market. However, these markets are currently impacted by the slowdown in economic growth, mostly related to the international commodity cycle and increased raw material cost due to drought. In addition to this, the broiler market in Zambia remains highly competitive following the expansion of mostly South African broiler producers into the country.

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

## SOUTH AFRICA

### Animal feed manufacturing

Quantum Foods owns feed mills located in George, Malmesbury and Pretoria, where feed is sold under the *Nova Feeds* brand. On 1 February 2016, Quantum Foods acquired Olifantskop Feeds situated in Paterson, Eastern Cape.

The Malmesbury site consists of two factories, bringing the total number of feed mills to five, with a total production capacity of approximately 60 000 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 and now the Eastern 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.

### Farming

#### Layer farming

Lohmann Breeding SA (Pty) Ltd owns the rights to import pedigree grandparent layer stock of the Lohmann breed, as well as distribute next generation parent stock, exclusively in South Africa and non-exclusively to some southern African countries.

Day-old parent chicks are reared and placed on 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 obtained 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 Botswana, Mozambique, Namibia and Swaziland.

The Group owns 14 and rents two commercial layer farms on which an average of 72.8 million eggs are produced per month (2015: 75.3 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 7.4 million eggs per month from five contract farmers (2015: 7.2 million). This equates to a total of about 962 million eggs per year.

#### Broiler farming

Quantum Foods owns the rights to import pedigree grandparent broiler stock of the Cobb500 breed, which supplies next generation parent stock for its own requirements and non-exclusively for some customers in other countries in Africa. Day-old parent stock is placed on the three parent rearing farms in the Western Cape and, thereafter, on the five parent layer farms. Three are owned by the Group, while 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. The day-old chicks are transferred to commercial broiler farms, both Company-owned and contract-grower farms.

The Group supplied abattoirs in the Western Cape and Gauteng with approximately 841 000 live broilers per week, with the majority supplied to Astral and Sovereign Foods in terms of long-term supply agreements.

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 of broiler livestock in South Africa.

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

## Eggs

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

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

The *Safe Eggs* plant in Gauteng produces pasteurised eggs, which have a reduced risk of bacteria. These eggs are distributed via four of the Group's packing facilities.

## 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 1.5 million Lohmann (2015: 1.6 million) and 1.8 million Cobb500 day-old chicks (2015: 2.3 million) per annum for its own use and for external sales. The feed facility produced 3 816 tons of feed (2015: 3 985 tons) and the farm produced 5.4 million eggs during 2016 (2015: 6.8 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, 64 million eggs are produced per annum (2015: 61 million) and more than 10 500 tons (2015: 9 800 tons) of feed is produced for

consumption on the farm. During the year, a new rearing farm was completed, and the old rearing facility was converted into additional laying facilities. This new laying facility will be at full production by December 2016, and will increase egg production in Chingola by 23 million eggs per year.

During the year, Quantum Foods Zambia also produced 11.7 million eggs (2015: 1.2 million) at a rental facility in Chipata in eastern Zambia.

### Uganda

Quantum Foods Uganda commenced operations in 2000. The business operates three farms located near Kampala, and a commercial rearing and laying farm in the Masindi area, north west of Kampala.

The Kampala sites comprise a parent breeding facility, a hatchery and a feed mill. They produce 1.5 million Lohmann (2015: 1.5 million) and 1.9 million Cobb500 (2015: 1.7 million) day-old-chicks per annum.

The Masindi farm expansion project, which includes a feed mill, layer rearing and egg laying facilities was completed in April 2016, and the first eggs were produced in June 2016. The farm will reach full production during 2017, producing an estimated 11 million eggs (2016: 1.1 million), and 3 000 tons of feed (2016: 740 tons).

During the year, Quantum Foods participated in the Investor of the Year Awards in Uganda and achieved second place in the medium-sized enterprise category for starting the commercial layer farm near Masindi.

### Mozambique

During September 2016, Quantum Foods Mozambique completed the acquisition of a layer farm in the Maputo province. The farm has a capacity for 180 000 layer hens, and the eggs are sold to the formal and informal markets in and around Maputo.

## 2017 MANAGEMENT FOCUS AREAS

Business area	Icon	Management focus areas
Animal feed		Embed Olifantskop acquisition and increase external sales volumes
Farming		Improve layer farm productivity and reduce non-feed cost per unit Ensure world-class broiler farm results
Eggs		Achieve packing station efficiency targets and increase volumes
Africa		Extract value from expansions in Mozambique, Uganda and Zambia Consider further opportunities in Africa, focusing on feed and eggs



**Olifantskop feed mill**  
Eastern Cape, South Africa

# STRATEGIC FOCUS

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## VISION

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

## PURPOSE

To build a leading feed and animal protein business through:

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

## VALUES

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

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

Following the Group's unbundling, Quantum Foods' focus has been on stabilising the business, reducing costs, driving efficiency and improving margins by reducing the Group's exposure to the cyclical nature of the poultry industry. This has largely been achieved by the change in the Group's broiler business model. Quantum Foods exited its abattoirs and ceased direct participation in the broiler meat market. The broiler business model now focuses on producing live broilers, using the Group's chicks and feed, which are in turn supplied to third-party abattoirs.

In the two years since the Group's unbundling, a number of projects have been completed that will ensure future growth. These include:

- the acquisition of Olifantskop Feeds in Paterson, Eastern Cape, which supplies mainly dairy farmers. The volumes added by this acquisition increased external feed sales by 17% on a monthly basis;

- the rental of a point-of-lay rearing farm in the North West province, increasing production capacity by 13%;
- the rental of an egg layer farm and egg packing station near Stutterheim, Eastern Cape, increasing production capacity in the region by 47%;
- the acquisition of *Safe Eggs*, the only commercial producer of pasteurised eggs in South Africa;
- the implementation of a project to increase the production capacity of the table egg farm in Chingola, Zambia, by 35%;
- the establishment of a new table egg farm in Masindi, Uganda; and
- the acquisition of a table egg business in Mozambique.

Extracting maximum value from these investments is a key, short-term priority.

## QUANTUM FOODS STRATEGIC FRAMEWORK

Performance initiative	Action taken	Going forward
<b>Strategic theme: Business/product composition</b>		
Increase the footprint of the Group's feed business	Olifantskop Feeds acquired in Paterson, Eastern Cape, during the year.	Increase the production capacity of the Paterson feed mill.  Consider further acquisition opportunities in the feed business, should they arise.
Disposal of the Hartbeespoort abattoir to reduce the Group's exposure to the cyclical nature of the poultry industry	Disposal completed and broiler business model now aligned.	Quantum Foods is the largest contract grower of live broilers, supplying own chicks and feed for sale to third-party abattoirs. The Group will seek opportunities to leverage this position and extract maximum value going forward.
Increase sales of higher-value eggs	Improved sales mix resulted in the achievement of higher than average selling price increases.	Continuous improvement remains a priority.
Increase egg sales outside South Africa	Table egg expansion projects in Zambia and Uganda completed during the year.	Extract maximum value from the increased capacity.
Further the Group's footprint outside South Africa	Table egg business in Mozambique was acquired during the year.	Extract maximum value from the acquisition.

Performance initiative	Action taken	Going forward
<b>Strategic theme: Unlock supply chain value</b>		
Implement projects to reduce distribution costs	Implemented new outsourced distribution agreements in the feed, farming and egg business to improve efficiencies and customer experience.	Target continuous improvement in efficiency and customer experience.
Consolidate the Group's inbound farm logistics	Implemented new outsourced distribution agreements to improve efficiencies and bird health.	Target continuous improvement in efficiencies and bird health.
Implement energy-saving projects and initiatives	A solar power system was implemented at the Sovo packing station in January 2016.	Consider further energy-saving projects.
Further centralisation of procurement	Group purchasing power utilised effectively during the year.	Centralise the procurement of further expense categories.
<b>Strategic theme: World-class efficiency</b>		
Reach stated farm efficiency targets	<p>The broiler value chain achieved efficiency targets in the breeding operation and Western Cape commercial broiler operation.</p> <p>Gauteng/North West commercial broiler efficiencies improved resulting in lower conversion costs, however, not yet on target.</p> <p>In the layer value chain, efficiency targets were achieved in the breeding operation. However, efficiencies in the commercial rearing and egg laying operations were well below target due to disease and below par husbandry practices, resulting in higher conversion cost.</p>	<p>Target further improvement to reduce conversion costs.</p> <p>Consider the conversion of gas heating systems on farms to coal heating systems.</p> <p>Convert open layer house systems to environmentally controlled systems.</p>
Non-feed cost per unit increase below inflation	Reduced production on especially egg layer farms resulted in cost increases per unit above inflation.	Achieve cost per unit target.

Performance initiative	Action taken	Going forward
<b>Strategic theme: World-class efficiency</b>		
Decrease waste at egg packing stations	Waste reduction achieved but not yet on standard.	Target further improvement to improve efficiency and reduce costs.
Ensure a safe environment and safe products	Achieved.	Continue to maintain the highest safety standards.
<b>Strategic theme: Organic growth</b>		
Grow external feed volumes	Achieved due to the additional volumes from Paterson feed mill.	Grow further, organically and by considering acquisition opportunities.
Grow layer livestock	Achieved due to the additional volumes from the Sterkstroom rented farm.	Extract maximum value from the additional capacity.
Grow broiler livestock	Achieved due to the implementation of the live broiler supply agreement with Sovereign Foods.	Further growth is dependent on the dynamics of the broiler industry – monitor this moving forward.
Grow table eggs	Not achieved as a result of egg farm production, and therefore associated sales, that reduced due to disease challenges.	Improving farm production efficiencies will result in more eggs available for sale.  The Group will consider renting additional egg farms to increase production capacity.
<b>Strategic theme: High-performance human capacity</b>		
Strengthen the egg business team by strategic appointments	26 middle to senior management members successfully recruited during the year.	Retain and further develop talent.
Grow talent via farm internships	Internships awarded to 19 students during the year.	Continue with initiative to improve talent pool.
Improve BBBEE profile	The Group retained level 6 status on the current codes.	Target improvement across most pillars.
Build a sustainable performance culture	An employee engagement model was developed during the year.	Roll out and monitor the success of the Group's employee engagement model.

# RISKS AND OPPORTUNITIES

The Group determines its material risks through a risk management process that 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. The top 10 residual risks are provided in summary below:

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>1 Volatility due to exchange rate instability</li> <li>2 Inability to cope commercially with raw material price increases – maize and soya meal</li> <li>3 Declining consumer spend impacting sales</li> <li>4 Poultry diseases impacting the productivity of poultry</li> <li>5 Inadequate talent pipeline</li> </ul> | <ul style="list-style-type: none"> <li>6 Exposure to internal labour action</li> <li>7 Inability to recruit suitably skilled candidates for specialised positions</li> <li>8 Supply and demand imbalances – oversupply resulting in pricing challenges (chickens and eggs)</li> <li>9 New market entrants increasing market competition</li> <li>10 Statutory compliance of all sites (specifically focusing on occupational certificates)</li> </ul> |
|---|---|

Risk description	Mitigation to create opportunities
Volatility due to exchange rate instability	<ul style="list-style-type: none"> <li>• Foreign currency positions (mostly USD) affecting imported soya meal and maize are managed by the corporate office according to a Board-approved hedging strategy and policy. No speculative positions are taken.</li> </ul>
Inability to cope commercially with raw material price increases as a result of unfavourable weather conditions and the weakening rand – maize and soya meal in particular	<ul style="list-style-type: none"> <li>• Raw materials are procured and monitored according to a Board-approved hedging strategy and policy for the Group's own production requirements. No speculative positions are taken.</li> <li>• Regular monitoring of the Group's raw material cost position informs margin management.</li> <li>• The centralised raw material procurement department observes market trends on a daily basis.</li> </ul>

Risk description	Mitigation to create opportunities
Declining consumer spend impacting sales	<ul style="list-style-type: none"> <li>• The Group supplies animal feed and produces eggs and broilers that fulfil basic nutritional requirements. Poultry (eggs and broiler meat) are excellent, cost-effective converters of animal feed to protein.</li> <li>• The continuous focus on efficiencies and cost management.</li> </ul>
Poultry diseases impacting the productivity of poultry	<ul style="list-style-type: none"> <li>• The Group runs a comprehensive vaccination and flock health monitoring programme. The Group also enforces strict bio-security management.</li> </ul>
Inadequate talent pipeline	<ul style="list-style-type: none"> <li>• A formal succession plan is being developed, and talent planning reviews are conducted biannually.</li> </ul>
Exposure to internal labour action	<ul style="list-style-type: none"> <li>• The Group conducts decentralised negotiations at its various operations. The negotiations are further staggered throughout the year, and temporary labour is appointed where necessary.</li> </ul>
Inability to recruit suitably skilled candidates for specialised positions	<ul style="list-style-type: none"> <li>• The Group builds relationships with universities and offers bursary programmes.</li> <li>• There are formalised development plans for internally identified talent.</li> <li>• There is an annual intake of interns for animal production training.</li> <li>• There are partnerships with recruitment agencies.</li> </ul>
Supply and demand imbalances – oversupply resulting in pricing challenges (chicken and eggs)	<ul style="list-style-type: none"> <li>• The Group no longer sells broiler meat to the market but rather sells live broilers to abattoirs. Pricing models reflect production and not market risk.</li> <li>• The production plan is adjusted based on the monitoring of industry trends and available statistics to forecast potential egg supply and demand imbalances.</li> </ul>
New market entrants increasing market competition	<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>• Quantum Foods also participates in the committees of the South African Poultry Association (“SAPA”), the Animal Feed Manufacturers Association (“AFMA”), and the Poultry Association of Zambia (“PAZ”) that play a role in maintaining industry standards.</li> <li>• A relentless focus on production efficiencies and cost management enables the Group to remain competitive.</li> </ul>
Statutory compliance of all sites (specifically focused on occupational certificates)	<ul style="list-style-type: none"> <li>• The Group monitors its progress according to a priority scorecard for future compliance across all sites.</li> <li>• A fire risk management framework is in place and certification audits are conducted annually.</li> </ul>

# JOINT REPORT OF THE CHAIRMAN AND CEO

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**WA Hanekom**  
Chairman



**HA Lourens**  
Chief Executive Officer

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## INTRODUCTION

The past financial year was very challenging for the poultry industry. The change in the Group's business model, implemented over the past two years, protected Quantum Foods from market risk in the South African broiler industry. However, the egg business in South Africa and the businesses in the other African countries were severely affected by higher raw material prices and less favourable market conditions. Combined, these negative factors resulted in a weaker financial performance. The feed business performed well, and the acquisition of Olifantskop Feeds in the Eastern Cape was a highlight.

## OPERATIONAL OVERVIEW

Maize and soy bean meal remain the primary input costs of the Group. The cost of these raw materials increased dramatically during the year. The average price of yellow maize on the South African Future Exchange ("SAFEX") increased by 41.6% compared to the previous year. Maize reached its highest trading point in January 2016 at R4 130 per ton. The landed cost of soybean meal was negatively impacted by a 23% weakening of the rand against the US dollar compared to the previous year. These increases affected the cost of other raw materials, such as wheat and maize bran, which increased on a similar scale as maize and soy bean meal.

These increases resulted from the ongoing drought in South Africa, as well as the devaluation of the domestic currency. However, it is not only the continuous weakening trend, but also the volatility of the exchange rate that negatively impacted Quantum Foods' financial performance. The rand fluctuated between R13.03 and R16.87 against the US dollar for the period under review.

During the year, the Group finalised the sale of the Hartbeespoort abattoir to Sovereign Foods and implemented a supply agreement for live broilers. Quantum Foods is now positioned as a livestock farming business within the broiler supply chain. This adjustment to the business model protected Quantum Foods against the market risk of lower chicken meat prices. This price drop was caused by an increase in dumped chicken, as well as domestic supply and demand imbalances. However, due to the broiler adjusted business model, Quantum Foods only assumed production risk at a limited margin, rather than facing market risk on top of production risk.

The production performances of the broiler breeder and commercial broiler farms remained world class. This can be attributed to a combination of favourable farming conditions, excellent genetics, solid farming practices and well-formulated feed.

In the layer farming operations, disease had a negative effect on production volumes and production efficiencies, resulting in certain flocks being culled earlier than planned. This negatively impacted the Group's financial performance due to lower egg production per hen, as well as poultry houses not being placed for extended periods. Although layer livestock volumes increased, it was not possible to recover the increased production costs caused by higher raw material costs from the market. This resulted in margin compression.

## Segmental overview

The animal feeds business performed well. Volumes from the historical footprint (excluding Olifantskop) were maintained in tough industry conditions. The financial performance and volumes produced by the Olifantskop feed mill were in line with expectations.

The performance of the egg business was unsatisfactory for the first six months. However, the operational performance improved significantly during the second half of the year. This improvement can be attributed to two main factors. Firstly, management and leadership capacity was strengthened by new appointments. Secondly, the responsibility for broiler and layer farming was restructured into one division, which increased the focus on farming efficiencies. Egg sales volumes declined due to lower production volumes caused by diseases on some of the commercial egg farms. However, average selling prices increased by 8.1% due to an improved sales mix and lower supply of eggs to the market.

The performance of the other African businesses was disappointing. While operational performance was generally satisfactory, financial results were poor.

In Zambia, the combination of drought, exchange rate fluctuation, commodity price slump, energy supply challenges, and oversupply of day-old broiler chicks created a difficult environment. On the positive side, Quantum Foods completed the expansion of the Mega Eggs operation in Zambia during the year. Looking ahead, this will result in increased volumes of eggs available for sale.

Uganda experienced high raw material prices that could not be transferred to the customer base, resulting in margin pressure. The new commercial egg farm in Masindi was completed and will be in full production by December 2016. This farm will enable the Group to participate in the table egg market in Uganda for the first time.

During September 2016, Quantum Foods acquired Galovos Eggs, the largest commercial egg producer in Mozambique. This acquisition provides the Group with an entry point into the Mozambique table egg market, and establishes a base for further expansion.

## FINANCIAL OVERVIEW AND DIVIDEND

Group revenue increased by 12.8% to R3.9 billion with an increase of R463.7 million (14.1%) in South African operations and a decrease of R18.9 million (10.5%) in other African operations. Revenue from other African operations contributed 4.1% of Group revenue for 2016 (2015: 5.2%) and the decrease in rand terms is due to translation at weaker foreign currency exchange rates.

Revenue from South African operations:

- Increased by R320.9 million for the feed segment, mostly due to increased selling prices in response to higher raw material costs and the acquisition of the Olifantskop feed mill in February 2016.
- Increased by R100.2 million for the farming segment, mostly due to increased volumes and prices of live broilers and point of lay hens sold.
- Increased by R42.6 million for the eggs segment where an average price increase of 8.1% was achieved.

Cost of sales increased by 12.6% to R3.2 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 30 September 2016 amounted to R145.1 million (2015: R238.0 million). Gross profit, excluding these fair value adjustments, decreased by R8.3 million, resulting in a gross profit margin of 21.3% compared to 24.3% in 2015.

Cash operating expenses increased by 6.8% in 2016. The decrease in operating expenses due to the sale of the Hartbeespoort abattoir was, however, offset by additional expenditure at the Sterkstroom layer rearing facility rented from October 2015, the Olifantskop feed mill, the pasteurised eggs (*Safe Eggs*) business acquired in April 2015 and the Stutterheim egg layer farm and pack station rented from May 2015.

Included in other gains/(losses) is a foreign exchange loss of R15.9 million compared to a profit of R3.9 million in the previous year, mostly due to rand vs US dollar currency fluctuations.

Operating profit, before items of a capital nature, decreased by R73.2 million from the profit of R162.5 million in 2015. The South African operations recorded a decrease of R37.5 million to a profit of R106.7 million at a margin of 2.8% (2015: 4.4%). Feeds and Farming improved by R7.0 million and R14.0 million respectively while Eggs reported a loss of R26.9 million compared to a profit of R31.7 million in 2015. The other African operations recorded a decline of R25.5 million to report a loss of R0.2 million.

Headline earnings per share ("HEPS") decreased to 28 cents from the 54 cents per share of 2015.

Cash generated from operating activities amounted to an outflow of R42.1 million in 2016. This includes an additional investment in working capital of R173.6 million. Capital expenditure for the year amounted to R167.0 million, R58.2 million of which was incurred on the table egg expansion projects in Zambia and Uganda, R43.6 million on the acquisition of the Olifantskop feed mill and R24.6 million on the acquisition of the Galovos table egg business in Mozambique.

The Group had minimal borrowings at 30 September 2016 comprising an arrangement to purchase electricity from solar panels capitalised as a finance lease in terms of IFRS.

Cash and cash equivalents decreased from R187.5 million to R79.5 million and the Group has declared a dividend of 6 cents per share, at a HEPS cover of 4.7.

The Group's net asset value ("NAV") of R1 596 million at 30 September 2016 translates to a NAV per share of R6.89 based on the number of shares in issue at that date.

During the year, Quantum Foods repurchased and cancelled 1 445 274 shares.

## Group revenue increased by 12.8% to R3.9 billion with an increase of R463.7 million (14.1%) in South African operations

### PROSPECTS

Protein consumption is largely driven by an increase in per capita income, as well as higher levels of urbanisation. Although the latter continues to occur in South Africa, per capita income has declined in recent years. This is reflected in weakened consumer demand, and will continue to put pressure on the Group's profitability, particularly if the cost of raw materials does not decrease. To mitigate this risk, Quantum Foods will continue to focus on efficiencies on farms and in factories. Optimal procurement of raw materials will remain a key focus area.

The focus created by combining broiler and layer farming at executive level has proved successful, and has enabled the egg business to concentrate on processing and commercial performance.

The feed business remains the backbone of Quantum Foods, and we will continue to invest in organic and acquisitive growth opportunities as they arise. Africa faces a negative medium-term outlook due to the slowdown in global commodity prices as well as the drought in southern Africa. Despite this, we believe that this current situation will turn around and that the Group is well positioned to benefit from the recent investments in Zambia, Uganda and Mozambique. The Group will continue to consider opportunities on the African continent, focusing on the feed and eggs value chains.

### APPRECIATION

A special word of thanks to Louis Bester, who retired in March 2016, as Zambia Country Manager. Louis played an important role in expanding the operations of the Group.

Quantum Foods' performance would not have been possible without the contribution of our employees, suppliers, customers and the board of directors. We sincerely thank them for their contributions.



**WA Hanekom**  
Chairman



**HA Lourens**  
Chief Executive Officer

# BOARD OF DIRECTORS



**Wouter André Hanekom (57)**  
Chairman

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

**Qualifications:**  
CA(SA)

**Quantum Foods Board and Committee Membership:**  
Chairman, Remuneration and human capital

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.



**Patrick Ernest Burton (63)**  
Independent non-executive director

Patrick was appointed to the Board on 29 July 2014.

**Qualifications:**  
BCom (Hons) Financial Management, HDip in Tax Law

**Quantum Foods Board and Committee Membership:**  
Non-executive director, Audit and risk (chairman), Remuneration and human capital (chairman)

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



**Geoffrey George Fortuin (49)**  
Independent non-executive director

Geoff was appointed to the Board on 28 April 2015.

**Qualifications:**  
BCom (Acc), BCom (Acc) (Hons), CA(SA)

**Quantum Foods Board and Committee Membership:**  
Non-executive director, Audit and risk

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 Financial Director of Brimstone Investment Corporation Ltd.



**Prof. Abdus Salam Mohammad Karaan (48)**  
Independent non-executive director

Mohammad was appointed to the Board on 10 June 2014.

**Qualifications:**  
BSc Agric, BSc Agric (Hons), MSc Agric, PhD (Agric)

**Quantum Foods Board and Committee Membership:**  
Non-executive director, Audit and risk, Social and ethics (chairman)

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



**Norman Celliers (43)**  
Non-executive director

Norman was appointed to the Board on 10 June 2014.

**Qualifications:**  
BEng (Civil), MBA

**Quantum Foods Board and Committee Membership:**  
Non-executive director, Remuneration and human capital

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



**Hendrik Albertus Lourens (53)**  
Chief Executive Officer

Hennie was appointed as executive of Quantum Foods in 2007, while it was a division of Pioneer Foods.

**Qualifications:**  
BCom (Hons), MCom, BProc

**Quantum Foods Board and Committee Membership:**  
Executive director

Hennie commenced his services with Pioneer Foods as the human resources manager for Bokomo in 1996 and was later appointed as general manager for the Sasko Grain Business. He has been in the fast-moving consumer goods ("FMCG") industry for 20 years and was appointed to the Board on 27 January 2014.



**André Hugo Muller (46)**  
Chief Financial Officer

André was appointed to the Board on 27 January 2014.

**Qualifications:**  
CA(SA)

**Quantum Foods Board and Committee Membership:**  
Executive director

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

**COMPANY SECRETARY**



**Ignatia Ntokozi Tamarie Ndlovu (30)**  
Company secretary and legal advisor

Ntokozi has been with Quantum Foods since 2014.

**Qualifications:**  
LLB

Ntokozi joined Quantum Foods as company secretary and legal advisor 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 six years' experience in the legal and compliance environment.

# EXECUTIVE MANAGEMENT

## EXECUTIVE COMMITTEE

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



**Hendrik Albertus Lourens (53)**  
Chief Executive Officer

Hennie has been with Quantum Foods since 2007.

**Qualifications:**  
BCom (Hons), MCom, BProc

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



**André Hugo Muller (46)**  
Chief Financial Officer

André has been with Quantum Foods since 2003.

**Qualifications:**  
CA(SA)

André joined Quantum Foods 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.



**Roelof Viljoen (50)**  
Executive:  
Supply chain

Roelof has been with Quantum Foods since 2008.

**Qualifications:**  
CA(SA)

Roelof was a financial manager and a sales manager at Sasko Grain, before joining Quantum Foods while it was still a division of Pioneer Foods. He has 16 years' experience in the food industry, of which nine years have been spent in the poultry industry.



**Marthinus Petrus van Lill (46)**  
Executive:  
Feed business

Thinus has been with Quantum Foods since 1997.

**Qualifications:**  
BCom (Acc), BCompt (Hons), SAIPA (PA)

Thinus has been with the Nova Feeds business since 1997, when it was still a division of Pioneer Foods. He has progressed from a financial manager to the executive responsible for the feed business. He has 19 years' experience in the animal feed and poultry industry.



**Adel Deidré van der Merwe (45)**

**Executive:**  
Egg business

Adel has been with Quantum Foods since 2008.

**Qualifications:**  
BCom Management Accounting

Adel started out in the corporate finance department of Pioneer Foods in 1995 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 joined the egg business during 2016. She has more than eight years' experience in the feed and food industry and more than 16 years' experience in procurement.



**James Joseph Murray (59)**

**Executive:**  
Farming operations

Jimmy has been with Quantum Foods since 2013.

**Qualifications:**  
National Diploma in Agricultural Extension and Soil Conservation

Jimmy has 35 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).



**Heather Elizabeth Pether (48)**

**Executive:**  
Human resources

Heather has been with Quantum Foods since 2005.

**Qualifications:**  
National Diploma in Human Resources

Heather has 21 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.



**Jan Hendrik van Rhyn (51)**

**Executive:**  
Africa

Jannie has been with Quantum Foods since 2014.

**Qualifications:**  
BEng, MSc, BCom (Hons)

Jannie spent nine years with Naspers Ltd during which time he was involved in many start-up internet and related businesses in South Africa, China and a number of 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 13 years. He joined Quantum Foods in November 2014, and is responsible for the business in the rest of Africa.



## Quantum Foods

aims to be a leading feed and animal protein business in Africa, delivering sustainable financial and non-financial value.

# Ensuring responsible business

The Group is committed to creating value for its stakeholders by ensuring the sustainability of its business model. The value of sustainability will be realised through an improved ability to attract capital from socially responsible investors, an increased ability to attract and retain like-minded 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 success of Quantum Foods, it is important to ensure that the Group maintains open channels of communication and engagement.

The Group takes stakeholder concerns seriously, and strives to improve continuously its governance, transformation and sustainability initiatives.

## PRODUCT SAFETY AND CUSTOMER COMPLAINTS

### Feeds business

Quantum Foods aims to provide safe feed as a foundation for safe food. Therefore, quality assurance is crucial. All feed mills have integrated quality systems in place that are subject to annual external audits and reviews to ensure adherence to industry, regulatory and product safety standards. Some of the audits are conducted by internationally accredited certification bodies. An internal audit programme is also in place that enables 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 that Quantum Foods provides safe, reliable products to its customers and consumers. The Group's grading facilities are subjected to external audits that are 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 annually at all layer farms, cull depots and grading facilities.

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

## ENVIRONMENT

As a business reliant on agriculture, the Group is concerned about changing weather patterns, droughts, floods and the other likely effects of climate change.

Quantum Foods is fully committed to both the letter and spirit of environmental laws and regulations. A substantial effort is made to minimise Quantum Foods' environmental impact and to support the effective consumption of resources, with a specific focus on water and energy. Poultry farming contributes

a large component of the Group's water consumption requirements, with limited opportunities for reduction beyond ensuring that water is not wasted. The aim is to critically analyse waste production and to ensure that all relevant aspects are managed responsibly.

The table below outlines the Group's overall performance for 2016 against the 2015 benchmark year. This enables stakeholders to monitor performance, and helps the Group to identify improvement opportunities:

### Environmental performance indicators

Consumption	Units	September	(Decrease)/
		2016	Increase from 2015
Water	Kilolitres	<b>1 042 082<sup>1</sup></b>	(14%)
– Boreholes/river extraction/dams		<b>787 622</b>	(4%)
– Municipal sources		<b>254 460<sup>1</sup></b>	(36%)
Electricity	kWh*000	<b>46 614</b>	(10%)
Coal	Tons	<b>1 091</b>	(54%)
Gas	Kg	<b>1 111 643<sup>2</sup></b>	27%
Diesel/petrol/paraffin	Litres	<b>1 111 873<sup>1</sup></b>	(26%)
Heavy fuel oil (HFO)	Litres	<b>983 906</b>	3%
Packaging	Tons	<b>16 105</b>	(33%)
Litter/manure produced	Tons	<b>145 542</b>	(2%)
Mortalities to landfill/waste pit	Tons	<b>995</b>	(10%)
Effluent water	Kilolitres	<b>63 543<sup>3</sup></b>	(1%)

<sup>1</sup> Mainly due to the sale of Hartbeespoort abattoir

<sup>2</sup> Changed broiler production from a farm using coal heaters to a farm using gas heaters

<sup>3</sup> Correction made to the 2015 number reported

### Conservation

During the previous year, 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 conservation area is known as the Quantum Foods' Atlantis Sand Fynbos Conservation Area, and critically endangered Atlantis Sand Fynbos is conserved on the property.

### Energy efficiency

With the assistance of an external service provider, energy-saving opportunities have been identified at certain sites across the Group's integrated value chain. Quantum Foods' main energy-intensive activities relate to the boilers used in the preparation of animal feed, the temperature control of hatching eggs, the rearing of layer and broiler chicks and the overall

production of egg packing stations. During the year, the Group implemented a solar power unit at the Sova packing station. Opportunities for energy efficiency and energy saving include process optimisation and introducing advanced technologies in the Group's energy-intensive activities. Approved projects are being implemented and tracked to ensure that the full benefit from lower energy consumption is realised. Going forward, these programmes will be expanded to identify further opportunities to reduce energy consumption within the Group.

## DIVERSITY AND EMPLOYMENT EQUITY

Quantum Foods is committed to addressing inequalities with regard to race, gender and disability. The Group believes that a diverse and transformed workplace adds value in the form of improved employee capabilities and shared values that strengthen, motivate and enhance employee productivity to the ultimate benefit of society.

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

### Employment Equity Statistics as at 30 September 2016

Occupational levels	African		Coloured		Indian		White		Foreigners		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	1	1	0	17	2	0	0	23
Professionally qualified, experienced specialists and mid-management	8	1	9	8	5	1	44	10	0	0	86
Skilled technical and qualified workers, junior management, supervisors, foremen, superintendents	89	23	46	39	4	5	42	37	0	0	285
Semi-skilled and discretionary decision-making	202	144	94	64	0	0	2	7	0	0	513
Unskilled and defined decision-making	330	337	42	52	0	0	0	0	0	0	761
Total permanent	630	506	191	165	10	6	111	57	0	0	1 676
Non-permanent employees	18	5	3	3	1	1	11	5	2	0	49
<b>Total</b>	<b>648</b>	<b>511</b>	<b>194</b>	<b>168</b>	<b>11</b>	<b>7</b>	<b>122</b>	<b>62</b>	<b>2</b>	<b>0</b>	<b>1 725</b>

The Group also employs 243 employees in Zambia (144 at Mega Eggs, 75 at Lusaka Farm, 22 in Chipata, and two regional managers), 97 employees in Uganda (61 in Kampala and 36 in Masindi) and 65 employees in Mozambique.

### Training

The Group remains committed to investing in the development of the skills, knowledge and capabilities of its employees. Legislative training was completed, and a number of workshops and seminars were attended by employees during the year.

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

Skills pipeline	2016	2015
Internships	19	10
Apprenticeships	3	8
Learnerships	16	18
Bursaries	16	12

In addition to the above, four formal workshops to upskill farmworkers were held during the year, with a total of 40 farmworkers attending.

### Occupational health and safety

In order to provide a safe work environment for its employees, Quantum Foods strives to adhere to and comply with all relevant health and safety legislation across its operations.

The number of work-related injuries reported in 2016 was 71, compared to 42 in 2015.

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

### Employee turnover

Quantum Foods' employee turnover figures for its South African operations were as follows:

- Management – 1.39% compared with 0.61% in 2015
- Not in management – 20.69% compared with 38.84% in 2015

The turnover percentages for 2016 include closure of the Hartbeespoort abattoir in October 2015. The turnover percentages for 2015 include closure of the Durbanville abattoir at the start of the previous financial year. Turnover percentages reported also include the termination of fixed-term contracts.

### BBBEE

The Group retained its level 6 BBBEE status. The audit was carried out by Empowerdex, an accredited verification agency, using the Agricultural Sector Code scorecard. This is the second BBBEE rating for Quantum Foods, and it is valid from November 2016 to November 2017.

Quantum Foods recognises its obligation to contribute towards improving the socio-economic status of HDSA. To achieve transformation in the Group, and to improve the level of transformation in the agricultural industry, Quantum Foods has developed a three-year strategy to assist the Group in reaching its target level 4 BBBEE status, based on the current Agricultural sector Code scorecard, by 2019.

### Empowerment indicator

Ownership (Land and Equity)
Management Control
Employment Equity
Skills Development
Preferential Procurement
Enterprise Development
Rural Development, Poverty Alleviation and SED
Level 6 Contributor

AGRI BEE indicative scorecard	Quantum Foods score
20	9.64
10	3.11
10	3.98
20	2.62
20	11.99
10	10.00
10	7.65
100	48.99

The Group continues to contribute to Enterprise Development. Current initiatives include the rental of a farm in Bronkhorstspuit from a HDSA with the benefit of R4.1 million accruing for the year.

Other projects to assist suppliers, specifically small enterprise farms, will be implemented to assist these farmers to obtain BBEE ratings which will, in turn, improve the Group's Preferential Procurement score.

The Group identified a number of senior appointments that it will make over the next three years to increase the Management Control, and Employment Equity score.

### COMMUNITY PROJECTS

The Group's involvement in its "adopted" primary school, which is situated close to its head office in Wellington, has grown. Quantum Foods was initially committed to funding the salary of an additional teacher, as well as additional teaching equipment. However, due to the marked improvement in foundation phase results, the Group now funds the salaries of two additional teachers, both of whom focus on literacy and numeracy in the foundation phase. Through its Social Club, Quantum Foods' employees have also involved the school in a number of its social activities.

The Group will continue with its scholarship programme aimed at HDSA who are studying towards an agricultural qualification by offering bursaries.

### HUMAN RIGHTS

Quantum Foods is committed to, and strives to protect, basic human rights as defined in the Constitution of the Republic of South Africa, Act 108 of 1996, and according to internationally proclaimed human rights' standards. No incidents of human rights violations were reported during the year.

### ETHICS

Quantum Foods believes in doing what is right. This includes considering the impact of the Group's products and operations in relation to its stakeholders. The Group's code of ethics ensures that employees are aware of, and know how to avoid and manage, any situations that require an ethical response. To assist the Group in monitoring and managing its ethical performance, a Tip-offs Anonymous

line is available. During the year, four tip-offs were investigated. Of the tip-offs investigated, three were founded and were resolved appropriately.

### CONFLICT OF INTEREST

All Group employees are required to declare any gifts received from stakeholders in a register that is 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 properly authorised individuals.

### BRIBERY, CORRUPTION, THEFT AND FRAUD

No form of bribery, corruption, theft or fraud by the Group's employees is tolerated. Quantum Foods is guided by the Prevention and Combating of Corrupt Practices Act, Act 12 of 2004, which clearly defines the offense of corruption. The social and ethics committee, as well as the audit and risk committee, monitors these matters.

### ANIMAL WELFARE

Animal welfare remains a major focus area. Regular internal audits are conducted on all the Group's farms to ensure adherence to set internal standards. Employee training on the handling of chickens was conducted during the year, with additional training available and provided as and when needed. Quantum Foods regularly engages with the NSPCA and conducts audits with inspectors from the NSPCA to ensure compliance. During the year, 24 internal self-audits were conducted. In addition, strict bio-security measures are in place at all farms to protect chickens against disease and illness.



## Quantum Foods

believes that good corporate governance principles must be incorporated into all aspects of the business.

# 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 good 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 on the website.

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 as 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 improving 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. The chairman, Mr André Hanekom, an independent non-executive director, presides over meetings of the Board. The duties and functions performed by Mr André Hanekom as chairman are separate from those performed by the chief executive officer (“CEO”), Mr Hennie Lourens, who is an executive director.

The Board appoints the CEO and the company secretary. The independence of each non-executive director is regularly assessed by monitoring information submitted by directors relating to their relevant business interests. Quantum Foods elected not to have a nominations committee. The appointment of directors is considered a matter for the Board as a whole. The appointment of directors is transparent and takes place according to a formal process that includes proposal submissions from all incumbent directors, followed by interviews with nominated directors.

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

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

A 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 internal appraisal of the Board and committees was done during the reporting period 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.

During the year, the Board:

- reviewed its charter and approved the work plan for the financial year;
- reviewed and amended the decision-making framework;
- approved the interim financial results;
- approved the Group budget;
- reviewed and approved the Group strategy as presented by management;
- oversaw the acquisition of the Paterson feed mill;
- oversaw the completion of the expansion projects in Zambia and Uganda; and
- oversaw the acquisition of Quantum Foods Mozambique.

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 by the Board. Progress against this is 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 during the reporting period. The Board members also attended a full-day session during which the 2017 strategy and budget were approved. The committees each had two scheduled meetings during the year, with the exception of the audit and risk committee, which had

three scheduled meetings, and the remuneration and Human Capital committee held an additional *ad hoc* meeting.

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

Status	AGM	Board	Remuneration	Audit	Social and	Strategy session	
			and human capital committee	and risk committee	ethics committee		
WA Hanekom	Chairman						
	Independent non-executive director	1/1	5/5	3/3*	2/3^	n/a	1/1
PE Burton	Independent non-executive director	0/1	5/5	3/3*	3/3	n/a	1/1
N Celliers	Non-executive director	1/1	4/5	3/3*	n/a	n/a	1/1
Prof. ASM Karaan	Independent non-executive director	0/1	5/5	n/a	3/3	2/2	1/1
GG Fortuin	Independent non-executive director	0/1	4/5	n/a	3/3	n/a	1/1
HA Lourens	Chief executive officer	1/1	5/5	3/3*	3/3	2/2	1/1
AH Muller	Chief financial officer	1/1	5/5	3/3*	3/3	2/2	1/1

^ WA Hanekom attended the meetings as an invitee

\* The committee held an additional *ad hoc* meeting

## Audit and risk committee ("ARC")

Members

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

The ARC comprises three independent non-executive directors. Mr HA Lourens and Mr AH Muller, in their respective capacities as CEO and CFO, are permanent invitees to the meeting. The internal and external auditors also attend the meetings of the committee. The ARC holds a minimum of three meetings per annum. One of the meetings focuses on risk in order to

ensure that risk management is adequately addressed. During the reporting period, there were no changes to the composition of the committee. The committee oversees the following functions:

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



More information about the functions and responsibilities of the ARC during the year is provided in the ARC report on page 57.

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### Group internal audit

The internal audit services for 2016 were provided by Deloitte & Touche. The internal audit service contract was renewed during the year for a further period of two years. 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 2016, the internal auditors assisted in monitoring the effectiveness and adequacy of the Group's risk framework and risk register. The assurance process was determined as being a combination of internal and external accountabilities. Risk mitigation was identified, and risks with a high probability and impact were prioritised and included in the internal auditors' programme for the year.



The report of the ARC is provided on page 57.

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

The SEC consists of three members. Mr JJ Murray and Ms HE Pether are prescribed officers as described in the Companies Act and is chaired by Prof. ASM Karaan. It holds a minimum of two meetings per annum. The committee 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.



The report of the SEC is provided on page 49.

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## Remuneration and human capital committee (“RHCC”)

The RHCC members are Mr WA Hanekom and 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.



The report of the RHCC is provided on pages 50 – 51.



**Masindi Farm**  
Western Region, Uganda

# 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. Mr HA Lourens and Mr AH Muller 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, as set out in regulation 43 of the Companies Regulations, 2011. These are:

- Social and economic development
- Good corporate citizenship
- Environment, health and safety
- Consumer relationships
- Labour and employment

The committee monitors the following matters:

- BBBEE and targets – The committee monitors the strategy and targets approved by the Board during the financial year.
- Sponsorships and charitable donations – The committee monitors the various product donations, and continues to monitor the social responsibility project, which is detailed under the Ensuring responsible business section on pages 37 to 41.
- Water, energy and waste disposal management – A report containing usage details is monitored biannually. It was noted during the year that the short-term aim will be to reduce wastage of these elements across the Group's operations.

- Occupational compliance – During the year, the committee noted progress in obtaining occupational certificates for various business premises. This is an ongoing process. Capital is allocated each year to ensure progress on compliance.
- Customer complaints and food safety – The committee monitors customer complaints and food safety, and is satisfied that such matters were adequately monitored and dealt with during the year.
- Employment equity and training – The committee monitors employment equity and training as set out in the Ensuring responsible business section on pages 37 to 41.
- Animal welfare – The committee monitors engagement with the NSPCA and other stakeholders to ensure that animal welfare remains a priority.
- Ethics management – The committee monitors adherence to the code of conduct.

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



**Prof. ASM Karaan**  
Chairman

Wellington  
22 November 2016

# REMUNERATION REPORT

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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. The fees payable to non-executive directors are recommended for approval by the Board to the 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 the 2016 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 2016 for recommendation to the Board.

## PHILOSOPHY

Quantum Foods' remuneration framework supports the delivery of the strategy. 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.

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 of inflation. Profitability and efficiency of business processes are the key Group performance indicators for reward. Individual performance indicators are determined according to the key measurable 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 depends 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 is based on an audited and agreed comparative base for the previous financial year, with 40% of any bonus payable dependent on this element.

### 2. Growth in the Group's economic profit ("EP"):

- The calculation is based on the weighted average cost of capital over a rolling three-year period applied to the average net asset base of the Group, 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 and farming production efficiency targets are determined annually by the Board to establish minimum and maximum potential bonus payouts. The percentage of growth in EP included in the bonus pool is determined annually by the Board.

A maximum bonus pool is 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.

## 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 second 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 are 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 scheme, the Board can increase the baseline HEPS for an allocation to ensure that the target for the vesting of this component is fair and reasonable to both shareholders and participants. No such adjustment was made to the baseline HEPS of 54.1 cents per share recorded in 2015. The total 100% vesting, for the performance component of the 2016 allocation, will therefore be realisable at CAGR in HEPS of CPI plus 5% from the baseline of 54.1 cents per share. The vesting of the remaining 50% is time dependent.

One-third of the SARs 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 one 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, 3 952 174 SARs were granted at a strike price of R2.66 per share.

# IT GOVERNANCE REPORT

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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 as 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 ARC assists the Board in carrying out these responsibilities.

An IT governance framework and reporting system provides the Board with assurance that the IT strategy, procedures and controls within the business reduce

IT risk, including information security, to an acceptable level. PricewaterhouseCoopers Inc. (“PwC”), as external advisors, assist with ensuring that measures are put in place to ensure the security of IT. The IT steering committee reported its progress to the ARC.

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

# VALUE-ADDED STATEMENT

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

	2016 R'000	2016 %	2015 R'000	2015 %
Revenue	<b>3 913 078</b>		3 468 312	
Less: Cost of production and services	<b>(3 420 978)</b>		(2 928 503)	
Value added from operating activities	<b>492 100</b>		539 809	
Profit on disposal of assets	<b>34 947</b>		1 580	
Interest received – net	<b>6 814</b>		7 999	
<b>Total value added</b>	<b>533 861</b>		549 388	
Value distributed as follows:				
<b>To employees</b>				
Salaries, wages and employee benefits	<b>322 078</b>	<b>60</b>	318 491	58
<b>To the government</b>				
Income tax	<b>39 991</b>	<b>7</b>	45 764	8
Skills development levies	<b>2 160</b>	<b>0</b>	1 945	0
<b>To providers of capital</b>				
Interest paid	<b>–</b>	<b>0</b>	–	0
Dividends to shareholders	<b>23 325</b>	<b>4</b>	–	0
Total distributions	<b>387 554</b>		366 200	
Income retained in the business				
Depreciation and amortisation	<b>54 953</b>	<b>10</b>	56 272	10
Retained profit for the year	<b>91 354</b>	<b>17</b>	126 916	23
<b>Total value distributed and reinvested</b>	<b>533 861</b>		549 388	

# Quantum Foods

Financial performance supported by its defensive broiler business model and growth in animal feeds.

**Newlands Farm**  
Copperbelt, Zambia

# Summary consolidated financial statements

## Director's responsibility

In accordance with the requirements of the Companies Act, the Board is responsible for the preparation of the summary consolidated financial statements of Quantum Foods. The audited annual financial statements of the Group for the year ended 30 September 2016, from which these summary consolidated financial statements have been derived, were prepared in accordance with the requirements of the Companies Act.

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

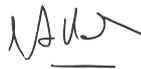
The Board is ultimately responsible for the internal control processes of Quantum Foods. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of financial records and of the financial statements and to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

Based on the information and reasons given by management and the internal auditors, the Board is of the opinion that the accounting controls are sufficient

and the financial records may be relied upon for preparing the financial statements and maintaining accountability for the Group's assets and liabilities.

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

The summary consolidated financial statements of the Group were approved by the Board on 22 November 2016 and are signed on its behalf by:



**WA Hanekom**  
Chairman



**HA Lourens**  
Chief Executive Officer

## Notice in terms of Section 29 of the Companies Act

The summary consolidated financial statements comprise a summary of the audited annual financial statements of the Group for the year ended 30 September 2016. The annual financial statements have been audited in compliance with the Companies Act. The annual financial statements have been prepared under the supervision of AH Muller CA(SA), chief financial officer. A copy of the full audited annual financial statements of the Group is available on [www.quantumfoods.co.za](http://www.quantumfoods.co.za).

## Company secretary certificate

In accordance with section 88 of the Companies Act, for the year ended 30 September 2016, 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 serves as a guideline for the committee in the execution of its mandate.

Both the charter and work plan are reviewed annually and amended as necessary.

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

### MEMBERS OF THE AUDIT AND RISK COMMITTEE

As at 30 September 2016 the committee comprised of three independent non-executive directors namely, Prof. ASM Karaan, Mr GG Fortuin and is chaired by Mr PE Burton.

These members will retire and avail themselves for re-election at the third 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 are 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 attends all meetings of the committee in his capacity as assurance provider.

### MEETINGS

The committee held three meetings during the year. Attendance of the meetings is shown on page 46 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; and
  - ensured that a process is in place to be informed of any reportable irregularities (as per the Auditing Professions Act, Act 26 of 2005) identified and reported by the external auditor; and relating to the accounting practices and internal audit of the Group, the content of the financial statements, the internal financial controls of the Group or any related matter during the financial year. No such material concerns and/or complaints were raised during the financial year.

## Audit and risk committee report (continued)

- Reviewed the external audit reports on the consolidated annual financial statements.
- Oversaw the integrated reporting process. The committee considered the Group's information pertaining to its non-financial performance as disclosed in the integrated report and has assessed its consistency with operational and other information known to committee members, and for consistency with the annual financial statements.
- 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 fourth 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 the 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 55.



#### PE Burton

Chairman: Audit and risk committee

Wellington

22 November 2016

## 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 60 to 71 of the Integrated Report, which comprise the summary consolidated statement of financial position as at 30 September 2016, 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 2016. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 22 November 2016. 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 Limited'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 2016 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 22 November 2016 states that as part of our audit of the consolidated financial statements for the year ended 30 September 2016, we have read the Directors' Report, the Audit and Risk 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.**

**Director: DG Malan**  
Registered Auditor

Paarl  
22 November 2016

## Summary consolidated statement of financial position

as at 30 September 2016

	2016 R'000	2015 R'000
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>1 071 729</b>	945 625
Property, plant and equipment	<b>1 048 280</b>	923 322
Intangible assets	<b>15 559</b>	12 784
Investment in associate	<b>6 988</b>	6 731
Deferred income tax	<b>902</b>	2 788
<b>Current assets</b>	<b>1 194 300</b>	1 053 062
Inventories	<b>307 424</b>	234 566
Biological assets	<b>323 950</b>	288 775
Trade and other receivables	<b>481 480</b>	334 794
Derivative financial instruments	–	7 424
Current income tax	<b>1 935</b>	–
Cash and cash equivalents	<b>79 511</b>	187 503
Assets held for sale	–	83 399
<b>Total assets</b>	<b>2 266 029</b>	2 082 086
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves attributable to owners of the parent</b>	<b>1 596 148</b>	1 514 567
Share capital	<b>1 581 402</b>	1 585 386
Other reserves	<b>(211 432)</b>	(228 968)
Retained earnings	<b>226 178</b>	158 149
<b>Total equity</b>	<b>1 596 148</b>	1 514 567
<b>Non-current liabilities</b>	<b>242 372</b>	220 747
Interest-bearing liability	<b>6 318</b>	–
Deferred income tax	<b>228 878</b>	214 258
Provisions for other liabilities and charges	<b>7 176</b>	6 489
<b>Current liabilities</b>	<b>427 509</b>	346 772
Trade and other payables	<b>417 172</b>	343 890
Derivative financial instruments	<b>4 224</b>	–
Current income tax	<b>6 029</b>	2 882
Interest-bearing liability	<b>84</b>	–
<b>Total liabilities</b>	<b>669 881</b>	567 519
<b>Total equity and liabilities</b>	<b>2 266 029</b>	2 082 086

## Summary consolidated statement of comprehensive income

for the year ended 30 September 2016

	Notes	2016 R'000	2015 R'000
Revenue		3 913 078	3 468 312
Cost of sales		(3 224 202)	(2 864 073)
Gross profit		688 876	604 239
Other income		16 603	11 639
Other gains/(losses) – net	3	155 800	238 482
Sales and distribution costs		(194 904)	(193 631)
Marketing costs		(12 087)	(11 287)
Administrative expenses		(98 972)	(96 168)
Other operating expenses		(431 042)	(389 212)
Operating profit		124 274	164 062
Investment income		7 736	9 886
Finance costs		(922)	(1 887)
Share of profit of associate company		257	619
Profit before income tax		131 345	172 680
Income tax expense		(39 991)	(45 764)
<b>Profit for the year</b>		<b>91 354</b>	126 916
<b>Other comprehensive income for the year</b>			
<i>Items that may subsequently be reclassified to profit or loss:</i>			
Fair value adjustments to cash flow hedging reserve		(2 283)	796
For the year		4 737	16 851
Deferred income tax effect		47	–
Current income tax effect		(1 374)	(4 718)
Realised to profit or loss		(7 907)	(15 747)
Deferred income tax effect		–	93
Current income tax effect		2 214	4 317
Movement on foreign currency translation reserve			
Currency translation differences		25 026	(75 513)
<b>Total comprehensive income for the year</b>		<b>114 097</b>	52 199
Profit for the year attributable to owners of the parent		91 354	126 916
Total comprehensive income for the year attributable to owners of the parent		114 097	52 199
Earnings per ordinary share (cents)	4	39	54
Diluted earnings per ordinary share (cents)	4	39	54

## Summary consolidated statement of changes in equity

for the year ended 30 September 2016

	2016 R'000	2015 R'000
<b>Share capital</b>	<b>1 581 402</b>	1 585 386
Opening balance	<b>1 585 386</b>	1 585 386
Shares repurchased and cancelled	<b>(3 984)</b>	–
	<b>(211 432)</b>	(228 968)
<b>Other reserves</b>	<b>(211 432)</b>	(228 968)
Opening balance	<b>(228 968)</b>	(155 395)
Other comprehensive income for the year	<b>22 743</b>	(74 717)
Recognition of share-based payments	<b>2 492</b>	1 144
Adjustment to common control reserve *	<b>(7 699)</b>	–
	<b>226 178</b>	158 149
<b>Retained earnings</b>	<b>226 178</b>	158 149
Opening balance	<b>158 149</b>	31 233
Profit for the year	<b>91 354</b>	126 916
Dividends paid – net	<b>(23 325)</b>	–
	<b>1 596 148</b>	1 514 567
<b>Total equity</b>	<b>1 596 148</b>	1 514 567

\* *Deferred tax on business combinations prior to unbundling from the previous holding company not previously recognised, adjusted against common control reserve.*

## Summary consolidated statement of cash flows

for the year ended 30 September 2016

	2016 R'000	2015 R'000
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(42 061)</b>	163 819
Net cash profit from operating activities	<b>164 250</b>	232 127
Working capital changes	<b>(173 622)</b>	(53 630)
Cash effect of hedging activities	<b>(3 002)</b>	1 104
Net cash (utilised in)/generated from operations	<b>(12 374)</b>	179 601
Income tax paid	<b>(29 687)</b>	(15 782)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(48 762)</b>	(62 031)
Additions to property, plant and equipment	<b>(98 759)</b>	(58 323)
Additions to intangible assets	–	(5 389)
Proceeds on disposal of property, plant and equipment	<b>122 080</b>	9 295
Business combinations	<b>(79 819)</b>	(17 500)
Interest received	<b>7 736</b>	9 886
Net cash (deficit)/surplus	<b>(90 823)</b>	101 788
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(27 668)</b>	(1 370)
Repayment of interest-bearing liability	<b>(46)</b>	–
Shares repurchased	<b>(3 984)</b>	–
Interest paid	<b>(371)</b>	(1 370)
Dividends paid to ordinary shareholders	<b>(23 267)</b>	–
Net (decrease)/increase in cash and cash equivalents	<b>(118 491)</b>	100 418
Effects of exchange rate changes	<b>10 499</b>	(18 436)
Net cash and cash equivalents at beginning of year	<b>187 503</b>	105 521
Net cash and cash equivalents at end of year	<b>79 511</b>	187 503

Note

7

## Summary consolidated segment report

for the year ended 30 September 2016

	2016 R'000	Restated* 2015 R'000
<b>Segment revenue</b>	<b>3 913 078</b>	3 468 312
Eggs	<b>1 005 221</b>	962 645
Farming	<b>1 326 746</b>	1 226 504
Animal feeds	<b>1 420 758</b>	1 099 905
Other African countries	<b>160 353</b>	179 258
	<b>124 274</b>	164 062
<b>Segment results</b>		
Eggs	<b>(26 590)</b>	32 406
Farming	<b>96 319</b>	47 871
Animal feeds	<b>71 891</b>	65 493
Other African countries	<b>(234)</b>	25 286
Head office costs	<b>(17 112)</b>	(6 994)
<b>A reconciliation of the segment results to operating profit before income tax is provided below:</b>		
Segment results	<b>124 274</b>	164 062
Adjusted for:		
Investment income	<b>7 736</b>	9 886
Finance costs	<b>(922)</b>	(1 887)
Share of profit of associate company	<b>257</b>	619
Profit before income tax per statement of comprehensive income	<b>131 345</b>	172 680
<b>Items of a capital nature per segment included in other gains/(losses) – net</b>		
Profit/(loss) on disposal of property, plant and equipment before income tax	<b>34 947</b>	1 580
Eggs	<b>291</b>	725
Farming	<b>35 297</b>	887
Animal feeds	<b>(641)</b>	(35)
Other African countries	<b>–</b>	3

The farming segment's profit on disposal of property, plant and equipment includes the profit on the sale of the Hartbeespoort abattoir, which was disclosed as an asset held for sale at 30 September 2015.

\* The comparative information has been restated to reflect the new reporting structure

	2016 R'000	Restated* 2015 R'000
<b>Segment assets</b>	<b>2 176 693</b>	1 885 064
Eggs	<b>229 799</b>	218 054
Farming	<b>1 068 460</b>	1 087 162
Animal feeds	<b>538 981</b>	390 376
Other African countries	<b>304 894</b>	168 645
Head office costs	<b>34 559</b>	20 827
<b>A reconciliation of the segments' assets to the Group's assets is provided below:</b>		
Segment assets per segment report	<b>2 176 693</b>	1 885 064
Adjusted for:		
Investment in associate	<b>6 988</b>	6 731
Current and deferred income tax assets	<b>2 837</b>	2 788
Cash and cash equivalents	<b>79 511</b>	187 503
Total assets per statement of financial position	<b>2 266 029</b>	2 082 086
<b>Total segment liabilities</b>	<b>434 974</b>	350 379
Eggs	<b>50 991</b>	41 158
Farming	<b>94 827</b>	96 556
Animal feeds	<b>238 477</b>	150 890
Other African countries	<b>19 464</b>	18 686
Head office costs	<b>31 215</b>	43 089
<b>A reconciliation of the segments' liabilities to the Group's liabilities is provided below:</b>		
Segment liabilities per segment report	<b>434 974</b>	350 379
Adjusted for:		
Current and deferred income tax liabilities	<b>234 907</b>	217 140
Total liabilities per statement of financial position	<b>669 881</b>	567 519

\* The comparative information has been restated to reflect the new reporting structure

## Summary consolidated segment report (continued)

for the year ended 30 September 2016

As a result of the Group exiting the broiler meat market at the start of the reporting period and the change in the responsibilities of key management, the Group has updated the disclosure of the previously disclosed segments to align with information reviewed by the Group's Chief operating decision maker for the purposes of allocating resources.

Previously reported segments of Eggs and layer livestock and Broilers have been restated based on the revised operating segments of Eggs, Layer farming and Broiler farming. Animal feeds and Other African countries continue to be standalone segments as previously reported.

The Eggs business is the commercial egg business, which consist of the sale of ungraded eggs and the processing of eggs in the pack stations and distribution thereof, to the market. The Layer farming business includes the layer livestock and commercial layer farms.

The broiler farming and layer farming operating segments are aggregated for segment reporting. Both operations have similar risk profiles, being the production risk inherent to live bird farming. The exposure of these operations to market risk is very low.

## Notes to the summary consolidated financial statements

for the year ended 30 September 2016

### 1. BASIS OF PREPARATION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Ltd ("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 International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated annual financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

### 2. ACCOUNTING POLICIES

These summary consolidated financial statements incorporate accounting policies that are consistent with those applied in the Group's consolidated financial statements for the year ended 30 September 2016 and with those of previous financial years. The Group has not adopted any revised accounting standards for the first time for the financial year beginning on 1 October 2015.

### 3. OTHER GAINS/(LOSSES) – NET

Biological assets fair value adjustment  
 Unrealised – reflected in carrying amount of biological assets  
 Realised – reflected in cost of goods sold  
 Agricultural produce fair value adjustment  
 Unrealised – reflected in carrying amount of biological assets  
 Realised – reflected in cost of goods sold  
 Foreign exchange differences  
 Foreign exchange contract fair value adjustments  
 Foreign exchange contract cash flow hedging ineffective losses  
 Profit on disposal of property, plant and equipment

	2016 R'000	2015 R'000
	50 293	111 882
	(7 303)	(4 489)
	57 596	116 371
	86 475	121 128
	(1 012)	(524)
	87 487	121 652
	(6 212)	4 000
	(9 291)	(108)
	(412)	–
	34 947	1 580
	<b>155 800</b>	<b>238 482</b>

## Notes to the summary consolidated financial statements (continued)

for the year ended 30 September 2016

### 4. EARNINGS PER ORDINARY SHARE

#### *Basic and diluted*

The calculation of basic and diluted earnings per share is based on profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the year:

Profit for the year

	2016 R'000	2015 R'000
Profit for the year	91 354	126 916
Headline earnings is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants.		
The Group has no dilutive potential ordinary shares.		
<i>Reconciliation between profit for the period attributable to owners of the parent and headline earnings</i>		
Profit for the year	91 354	126 916
Remeasurement of items of a capital nature		
Profit on disposal of property, plant and equipment	(25 516)	(1 000)
Gross	(34 947)	(1 580)
Tax effect	9 431	580
Headline earnings for the year	65 838	125 916
Weighted average number of ordinary shares in issue ('000)	233 128	233 249
<b>Earnings per share (cents)</b>		
Basic and diluted	39	54
<b>Headline earnings per share (cents)</b>		
Basic and diluted	28	54

Headline earnings is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants.

The Group has no dilutive potential ordinary shares.

*Reconciliation between profit for the period attributable to owners of the parent and headline earnings*

Profit for the year

Remeasurement of items of a capital nature

Profit on disposal of property, plant and equipment

Gross

Tax effect

Headline earnings for the year

Weighted average number of ordinary shares in issue ('000)

#### **Earnings per share (cents)**

Basic and diluted

#### **Headline earnings per share (cents)**

Basic and diluted

## 5. CONTINGENT LIABILITIES

Guarantees in terms of loans by third parties to contracted service providers

	2016 R'000	2015 R'000
	28 872	42 300

### Litigation

#### *Dispute with egg contract producers*

The remaining claim, as previously reported, has been settled. The settlement had no adverse financial impact on the Group.

#### *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.

#### *Customer claim*

The Group received a summons in respect of a claim for performance of day-old pullets delivered to the customer. The matter will be defended in the High Court.

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

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

The Group received a notice of investigation from the Zambian Competition and Consumer Protection Commission regarding alleged breach of the Competition and Consumer Protection Act. The investigation is currently still underway and no formal feedback has been received.

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

## 6. FUTURE CAPITAL COMMITMENTS

Capital expenditure approved by the Board and contracted for amounts to R12.4 million (2015: R49.0 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R156.6 million (2015: R113.0 million).

## Notes to the summary consolidated financial statements (continued)

for the year ended 30 September 2016

### 7. BUSINESS COMBINATIONS

During the year under review the following businesses were acquired and all assets and liabilities relating to these acquisitions have been accounted for on an acquisition basis:

	2016 R'000
<b>Olifantskop Feed Mill (on 1 February 2016)</b>	
<i>Fair value</i>	
Property, plant and equipment	37 857
Intangible assets	5 758
Inventory	6 844
Trade and other payables	(258)
<b>Purchase consideration – settled in cash</b>	<b>50 201</b>
<b>Reason for business combination:</b>	
To grow the external feeds sales volumes by entering into the Eastern Cape animal feed market.	
<i>Contribution since acquisition:</i>	
Revenue	157 738
Operating profit before finance cost and income tax	6 215
<i>Pro forma contribution assuming the acquisition was at the beginning of the year:</i>	
Revenue	236 607
Operating profit before finance cost and income tax	9 323
<b>Galovos Egg business – Mozambique (on 19 September 2016)</b>	
<i>Fair value</i>	
Plant and equipment	24 600
Current biological assets	4 185
Inventory	913
Trade and other payables	(80)
<b>Purchase consideration – settled in cash</b>	<b>29 618</b>

#### **Reason for business combination:**

The acquisition supports the strategic objective of Quantum Foods to expand into selected new markets in Africa. The business in Mozambique relates to the producing and selling of commercial eggs in the Mozambican market.

The operating results from this business combination has not been accounted for due to the effective date and the contribution of the transactions being minimal.

## 8. EVENTS AFTER THE REPORTING PERIOD

### *Dividend*

A final dividend of 6 cents per ordinary share has been declared for the year ended 30 September 2016, on 22 November 2016. 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 result of the double taxation agreement between South Africa and the country of domicile of such owner.

The net dividend amounts to 5.1 cents per ordinary share for shareholders liable to pay dividends tax.

The dividend amounts to 6.0 cents per ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares is 231 803 316 as at the date of this declaration.

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

## 9. PREPARATION OF FINANCIAL STATEMENTS

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

## 10. 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

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## QUANTUM FOODS HOLDINGS LTD

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

## DIRECTORS

WA Hanekom (Chairman)  
PE Burton  
GG Fortuin  
Prof. ASM Karaan  
N Celliers  
HA Lourens (CEO)\*  
AH Muller (CFO)\*

\* Executive

## COMPANY SECRETARY

INT Ndlovu  
Email: [Ntokozi.Ndlovu@quantumfoods.co.za](mailto:Ntokozi.Ndlovu@quantumfoods.co.za)

## COMPANY DETAILS

11 Main Road  
Wellington  
7655  
PO Box 1183  
Wellington  
7654  
South Africa  
Tel: 021 864 8600  
Fax: 021 873 5619  
Email: [info@quantumfoods.co.za](mailto:info@quantumfoods.co.za)

## TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd  
PO Box 61051  
Marshalltown  
2107  
South Africa  
Tel: 011 370 5000  
Fax: 011 688 5209

## SPONSOR

PSG Capital (Pty) Ltd  
(Registration number 2006/015817/07)  
1st Floor, Ou Kollege  
35 Kerk Street  
Stellenbosch, 7600  
PO Box 7403  
Stellenbosch  
7599  
Tel: 021 887 9602  
Fax: 021 887 9624

And

1st Floor, Building 8  
Inanda Greens Business Park  
54 Wierda Road West  
Wierda Valley  
Sandton  
2196  
PO Box 650957  
Benmore  
2010

**SHAREHOLDERS' DIARY**

Financial year-end:	30 September 2017
Annual general meeting:	24 February 2017

**Reports**

Interim report for the half-year ending 31 March 2017	May 2017
Announcement of results for the year ending 30 September 2017	November 2017
Integrated report for the year ending 30 September 2017	December 2017

**Dividends**

Interim	Announcement	May 2017
	Payment	July 2017
Final	Announcement	November 2017
	Payment	February 2018



[www.quantumfoods.co.za](http://www.quantumfoods.co.za)