

Quantum Foods Holdings Limited

Incorporated in the Republic of South Africa

Registration number: 2013/208598/06

Tax registration number: 909 545 5193

Share code: QFH

ISIN code: ZAE000193686

("Quantum Foods" or "the Group" or "the Company")

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 31 March 2017

Salient features

	2017	2016	% Change
Revenue	R2 041 million	R1 808 million	13
Operating profit (before items of a capital nature)*	R39 million	R40 million	(5)
Operating profit	R42 million	R77 million	(45)
Headline earnings	R29 million	R34 million	(17)
Earnings per share	13.9 cents	26.0 cents	(47)
Headline earnings per share	12.4 cents	14.8 cents	(16)

* Income or expenditure of a capital nature on the statement of comprehensive income, i.e. all profit or loss items that are excluded in the calculation of headline earnings per share.

COMMENTARY

INTRODUCTION

The six months ended 31 March 2017 were very challenging for the poultry industry, both in South Africa as well as in the other African countries in which the Group operates. The prices of key raw materials increased significantly following the drought experienced in Southern Africa, and the constrained consumer environment continued to impact demand and the recoverability of increased production costs from the market. Despite this, the Group improved earnings from its South African operations. This improvement was supported by an increase in feed volumes sold to external customers and a strengthening of the Farming segment where earnings are determined by volumes and farming production efficiencies with very limited exposure to market prices. These factors could, however, not be negated in the Other African operations of the Group that were loss-making for the period.

FINANCIAL OVERVIEW

Group revenue increased by 12.9% to R2.0 billion, with an 11.5% increase of R200.0 million in South African operations, and a 46.6% increase of R33.3 million in Other African operations. Revenue from Other African operations contributed 5.1% of Group revenue for 2017 (2016: 4.0%).

Revenue from South African operations:

- increased by R131.6 million for the Feeds segment, mostly due to the Olifantskop feed mill acquired on 1 February 2016, for which the revenue is now included for the full period, but also as a result of the adjustment in selling prices in response to higher raw material costs.
- increased by R53.2 million for the Farming segment, mostly due to increased selling prices of live broilers and point-of-lay hens sold.
- increased by R15.2 million for the Eggs segment where an average price increase of 5.9% was achieved.

Revenue from Other African operations increased with the acquisition of the Galovos Eggs business in Mozambique in September 2016, increased egg volumes sold from the Mega Eggs farm in Zambia after completion of the expansion project, as well as sales from the commercial egg farm in Masindi, Uganda, which was not operational in the comparative period.

Cost of sales increased by 11.4% to R1.7 billion, which 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 six-month period ended 31 March 2017 amounted to R54.8 million (2016: R70.9 million). Gross profit, excluding these fair value adjustments, increased by R46.7 million to R430.1 million at a margin of 21.1% (2016 21.2%).

Cash operating expenses increased by 17.7% in 2017. Inflationary cost increases, as well as the cost of additional business units incorporated, contributed to this. These business units include the Olifantskop feed mill, the Galovos Eggs acquisition and further expansions outside of South Africa. The increase in cash operating expenses also incorporates the increased operational costs of the Western Cape broiler farms owned by the Group, following the exit of some contract producers during the period.

Operating profit, before items of a capital nature, decreased by 4.7% to R38.6 million for the period under review. South African operations recorded a 33.1% increase of R13.8 million to a profit of R55.5 million at a margin of 2.9% (2016: 2.4%). Feeds and Farming improved by R9.1 million and R5.9 million respectively, while Eggs weakened by R1.1 million to report a loss of R22.0 million. Other African operations recorded a decline in profits of R12.4 million, which resulted in a loss of R9.4 million.

Headline earnings per share ("HEPS") decreased to 12.4 cents from the 14.8 cents per share of 2016.

Cash inflow from operations amounted to R86.7 million for the reporting period. This includes a reduced investment in working capital of R50.1 million.

Capital expenditure for the period amounted to R26.9 million and included the capacity expansion of the Olifantskop feed mill, the biosecurity upgrade at the Opdiefontein layer farm in Gauteng, and the upgrade of the hatchery in Zambia.

Cash and cash equivalents increased from R79.5 million at 30 September 2016 to R129.0 million at 31 March 2017.

The Group had minimal borrowings at 31 March 2017, which comprised an arrangement to purchase electricity generated from solar panels capitalised as a finance lease in terms of IFRS.

During the period, Quantum Foods repurchased and cancelled a further 2 047 752 shares at a cost of R5.9 million. The strategy to repurchase shares will continue.

OPERATIONAL OVERVIEW

The Nova Feeds business continued to perform well. External sales volumes increased by 18%, largely as a result of the acquisition of the Olifantskop feeds business. Margins were maintained in a period of extremely tough trading conditions.

The Farming segment achieved pleasing results where the broiler farming business delivered results in line with expectations. Stable and adequate broiler farming production efficiencies, as well as a marginal improvement in live bird volumes supplied, supported the results. Operational performance in the layer farming business improved as average efficiencies from hens in production on the commercial layer farms increased. The profit contribution from layer farms was, however, negatively affected by lower overall egg production, which resulted in reduced cost recovery. This is mainly as a consequence of increased open time on the Opdiefontein layer farm in Gauteng where a planned biosecurity upgrade was completed, and a disease challenge that increased the mortality of flocks in the Eastern Cape. Margins in the layer livestock business remained thin as these were impacted negatively by the inability of that business to recover increased production cost from layer livestock customers in challenging industry conditions.

Volumes in the Eggs segment were 2% lower than the comparative period due to lower production on own farms as well as reduced volumes of eggs procured from contract producers. Operating efficiencies in the packing stations continues to improve. The replacement of the egg grader at the Sova packing station delivered the planned improvement in efficiency, and the structural changes made from a human capital perspective continue to impact the eggs business positively.

The financial performance of the Other African countries segment was disappointing. The Zambian business remained profitable, but losses were incurred in both Uganda and Mozambique. In Zambia, satisfactory operational performance was achieved while operational performance in Uganda was below expectations. The Galovos Eggs business in Mozambique performed considerably below expectation. Significant layer hen mortality that resulted from a period of extreme heat, combined with below-expected farm production efficiencies, negatively impacted the financial results.

PROSPECTS

The remainder of the 2017 financial year will be characterised by comparably lower raw material costs for the South African operations of the Group. This should benefit especially the Eggs segment where an increase in margins ought to result from the decline in feed costs. The Feeds and Farming segments are expected to remain stable profit contributors to the Group as the benefit of reduced input costs will not have a significant impact on profitability. For the Group's Other African operations, input cost relief is also expected following the anticipated improvement of crops harvested. In order to realise the benefit of these tailwinds, a relentless focus on efficiencies and cost management will remain a key focus area for the second half of the year.

DIVIDEND

No dividend has been declared for the six months ended 31 March 2017 (no dividend was declared for the six months ended 31 March 2016). The Board evaluates the Group's ability to declare and pay dividends on an annual basis.

By order of the Board



WA Hanekom
Chairman

Wellington
25 May 2017



HA Lourens
Chief Executive Officer

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An investor presentation will be available on the Company's website www.quantumfoods.co.za/investor-presentations.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 March 2017 R'000	Unaudited 31 March 2016 R'000	Audited 30 September 2016 R'000
ASSETS			
Non-current assets	1 061 961	1 024 998	1 071 729
Property, plant and equipment	1 037 110	999 031	1 048 280
Intangible assets	14 542	17 049	15 559
Investment in associate	7 364	6 461	6 988
Deferred income tax	2 945	2 457	902
Current assets	1 106 796	1 130 772	1 194 300
Inventories	220 328	219 358	307 424
Biological assets	322 982	327 380	323 950
Trade and other receivables	429 352	414 678	481 480
Derivative financial instruments	1 961	13 707	–
Current income tax	3 131	6 932	1 935
Cash and cash equivalents	129 042	148 717	79 511
Total assets	2 168 757	2 155 770	2 266 029
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent	1 595 971	1 569 717	1 596 148
Share capital	1 575 475	1 585 386	1 581 402
Other reserves	(223 930)	(211 217)	(211 432)
Retained earnings	244 426	195 548	226 178
Total equity	1 595 971	1 569 717	1 596 148
Non-current liabilities	244 755	233 412	242 372
Interest-bearing liability	6 279	–	6 318
Deferred income tax	231 300	226 923	228 878
Provisions for other liabilities and charges	7 176	6 489	7 176
Current liabilities	328 031	352 641	427 509
Trade and other payables	327 944	346 568	417 172
Derivative financial instruments	–	4 294	4 224
Current income tax	–	1 779	6 029
Interest-bearing liability	87	–	84
Total liabilities	572 786	586 053	669 881
Total equity and liabilities	2 168 757	2 155 770	2 266 029

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 31 March 2017 R'000	Unaudited Six months ended 31 March 2016 R'000	Audited Year ended 30 September 2016 R'000
Revenue		2 040 939	1 807 555	3 913 078
Cost of sales		(1 665 673)	(1 495 112)	(3 224 202)
Gross profit		375 266	312 443	688 876
Other income		8 477	8 161	16 603
Other gains – net	3	58 182	95 563	155 800
Sales and distribution costs		(105 805)	(91 764)	(194 904)
Marketing costs		(5 276)	(5 224)	(12 087)
Administrative expenses		(53 609)	(46 784)	(98 972)
Other operating expenses		(234 949)	(195 881)	(431 042)
Operating profit		42 286	76 514	124 274
Investment income		3 020	5 210	7 736
Finance costs		(477)	(48)	(922)
Share of profit/(loss) of associate company		376	(270)	257
Profit before income tax		45 205	81 406	131 345
Income tax expense		(13 128)	(20 682)	(39 991)
Profit for the period		32 077	60 724	91 354
Other comprehensive (loss)/income for the period				
<i>Items that may subsequently be reclassified to profit or loss:</i>				
Fair value adjustments to cash flow hedging reserve		(8 800)	(4 106)	(2 283)
For the period		(12 828)	1 636	4 737
Deferred income tax effect		(563)	1 130	47
Current income tax effect		4 154	(1 588)	(1 374)
Realised to profit or loss		607	(7 339)	(7 907)
Deferred income tax effect		(47)	–	–
Current income tax effect		(123)	2 055	2 214
Movement on foreign currency translation reserve				
Currency translation differences		(5 281)	20 812	25 026
Total comprehensive income for the period		17 996	77 430	114 097
Profit for the period attributable to owners of the parent		32 077	60 724	91 354
Total comprehensive income for the period attributable to owners of the parent		17 996	77 430	114 097
Earnings per ordinary share (cents)	4	13.9	26.0	39.2
Diluted earnings per ordinary share (cents)	4	13.9	26.0	39.2

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 March 2017 R'000	Unaudited Six months ended 31 March 2016 R'000	Audited Year ended 30 September 2016 R'000
Share capital	1 575 475	1 585 386	1 581 402
Opening balance	1 581 402	1 585 386	1 585 386
Shares repurchased and cancelled	(5 927)	–	(3 984)
	(223 930)	(211 217)	(211 432)
Other reserves	(211 432)	(228 968)	(228 968)
Opening balance	(14 081)	16 706	22 743
Other comprehensive (loss)/income for the period	1 583	1 045	2 492
Recognition of share-based payments	–	–	(7 699)
Adjustment to common control reserve*			
	244 426	195 548	226 178
Retained earnings	226 178	158 149	158 149
Opening balance	32 077	60 724	91 354
Profit for the period	(13 829)	(23 325)	(23 325)
Dividends paid			
	1 595 971	1 569 717	1 596 148
Total equity			

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 March 2017 R'000	Unaudited Six months ended 31 March 2016 R'000	Audited Year ended 30 September 2016 R'000
NET CASH FLOW FROM OPERATING ACTIVITIES	86 705	(53 909)	(42 061)
Net cash profit from operating activities	67 258	78 377	164 250
Working capital changes	50 063	(116 126)	(173 622)
Cash effect of hedging activities	(14 400)	(1 668)	(3 002)
Net cash generated from/(utilised in) operations	102 921	(39 417)	(12 374)
Income tax paid	(16 216)	(14 492)	(29 687)
	(16 818)	28 405	(48 762)
NET CASH FLOW FROM INVESTING ACTIVITIES	(26 377)	(45 879)	(98 759)
Additions to property, plant and equipment	(501)	–	–
Additions to intangible assets	7 040	119 275	122 080
Proceeds on disposal of property, plant and equipment	–	(50 201)	(79 819)
Business combinations	3 020	5 210	7 736
Interest received	69 887	(25 504)	(90 823)
Net cash surplus/(deficit)	(20 253)	(23 315)	(27 668)
NET CASH FLOW FROM FINANCING ACTIVITIES	(36)	–	(46)
Repayment of interest-bearing liability	(5 927)	–	(3 984)
Shares repurchased	(477)	(48)	(371)
Interest paid	(13 813)	(23 267)	(23 267)
Dividends paid to ordinary shareholders	49 634	(48 819)	(118 491)
Net increase/(decrease) in cash and cash equivalents	(103)	10 033	10 499
Effects of exchange rate changes	79 511	187 503	187 503
Net cash and cash equivalents at beginning of period	129 042	148 717	79 511
Net cash and cash equivalents at end of period	129 042	148 717	79 511

CONDENSED CONSOLIDATED SEGMENT REPORT

	Unaudited Six months ended 31 March 2017 R'000	Unaudited Six months ended 31 March 2016 Restated* R'000	Audited Year ended 30 September 2016 R'000
Segment revenue	2 040 939	1 807 555	3 913 078
Eggs	498 377	483 129	1 005 221
Farming	674 882	621 665	1 326 746
Animal feeds	762 777	631 196	1 420 758
Other African countries	104 903	71 565	160 353
Segment results – excluding items of a capital nature	38 555	40 453	89 327
Eggs	(22 044)	(20 900)	(26 881)
Farming	37 162	31 284	61 022
Animal feeds	40 427	31 337	72 532
Other African countries	(9 362)	3 020	(234)
Head office costs	(7 628)	(4 288)	(17 112)
Items of a capital nature per segment included in other gains – net			
Profit/(loss) on disposal of property, plant and equipment before income tax	3 731	36 061	34 947
Eggs	–	(55)	291
Farming	(91)	36 107	35 297
Animal feeds	3 822	9	(641)
Segment results	42 286	76 514	124 274
Eggs	(22 044)	(20 955)	(26 590)
Farming	37 071	67 391	96 319
Animal feeds	44 249	31 346	71 891
Other African countries	(9 362)	3 020	(234)
Head office costs	(7 628)	(4 288)	(17 112)
A reconciliation of the segment results to profit before income tax is provided below:			
Segment results	42 286	76 514	124 274
Adjusted for:			
Investment income	3 020	5 210	7 736
Finance costs	(477)	(48)	(922)
Share of profit/(loss) of associate company	376	(270)	257
Profit before income tax per statement of comprehensive income	45 205	81 406	131 345

The Farming segment's profit on disposal of property, plant and equipment in the previous period 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.

As a result of the Group exiting the broiler meat market at the start of the previous 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34 *Interim Financial Reporting*, the Listings Requirements of the JSE Ltd, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements.

2. ACCOUNTING POLICIES

These condensed consolidated interim financial statements incorporate accounting policies that are consistent with those applied in the Group's annual financial statements for the year ended 30 September 2016.

Critical accounting estimates and judgements

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2016.

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

	Unaudited Six months ended 31 March 2017 R'000	Unaudited Six months ended 31 March 2016 R'000	Audited Year ended 30 September 2016 R'000
	35 294	34 877	50 293
	5 914	(6 238)	(7 303)
	29 380	41 115	57 596
	25 423	28 547	86 475
	7	(1 245)	(1 012)
	25 416	29 792	87 487
	(655)	(2 923)	(6 212)
	(3 599)	(554)	(9 291)
	(2 012)	(445)	(412)
	3 731	36 061	34 947
	58 182	95 563	155 800

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 period:
Profit for the period

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 period

Items of a capital nature

Profit on disposal of property, plant and equipment

Gross

Tax effect

Headline earnings for the period

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

Earnings per share (cents)

Basic and diluted

Headline earnings per share (cents)

Basic and diluted

	Unaudited Six months ended 31 March 2017 R'000	Unaudited Six months ended 31 March 2016 R'000	Audited Year ended 30 September 2016 R'000
	32 077	60 724	91 354
	32 077	60 724	91 354
	(3 320)	(26 277)	(25 516)
	(3 731)	(36 061)	(34 947)
	411	9 784	9 431
	28 757	34 447	65 838
	231 163	233 249	233 128
	13.9	26.0	39.2
	12.4	14.8	28.2

5. CONTINGENCIES AND FUTURE CAPITAL COMMITMENTS

There have been no changes since the previous reporting period in the status of the litigation against the Group (Early termination of contract, customer claim and allegations of anti-competitive trade practices – Zambia).

Capital expenditure approved by the Board and contracted for amounts to R28.8 million (30 September 2016: R12.4 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R30.8 million (30 September 2016: R156.6 million).

6. EVENTS AFTER THE REPORTING PERIOD

There have been no 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 condensed consolidated interim financial statements by the Board.

7. PREPARATION OF FINANCIAL STATEMENTS

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

8. AUDIT

These results or any comments relating to the prospects of the Group have not been audited or reviewed by the Company's external auditors.

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N Celliers, HA Lourens (CEO)^{*}, AH Muller (CFO)^{*}
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