Incorporated in the Republic of South Africa
Registration number: 2013/208598/06
Tax registration number: 9095455193
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 2018

Highlights	2018	2017	% change
Revenue	**R2 035 million**	R2 041 million	–
Operating profit (before items of a capital nature)*	**R244 million**	R39 million	534
Operating profit	**R244 million**	R42 million	477
Headline earnings	**R183 million**	R29 million	538
Earnings per share	**82.4 cents**	13.9 cents	494
Headline earnings per share	**82.5 cents**	12.4 cents	563
Interim dividend per share	**20 cents**	–	

* *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.*

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COMMENTARY

Introduction

The operating environment during the first six months of the 2018 financial year again proved how quickly agricultural cycles can change. Two main factors influenced the macro environment during the reporting period; firstly, the consequences of the Highly Pathogenic Avian Influenza ("HPAI") outbreak of 2017 and, secondly, the lower raw material costs following the decline in maize and soybean meal prices due to the record maize harvest in the previous season and a stronger Rand.

The prices of yellow maize on the South African Futures Exchange ("SAFEX") and the landed cost of soybean meal declined by 33% and 6% respectively, compared to the same period of the previous financial year. This price decrease, in combination with the congruent decline in bran and hominy chop prices, resulted in a material decline in the feed input costs of the business, which was significantly lower than the comparative period. This decline in feed input costs had very little effect on the farming and feed businesses, as final product prices follow the input prices. However, in the egg business, this assisted in opening up the margin.

The full effect of the 2017 HPAI outbreak on the egg business was experienced during this reporting period. Since August 2017, Quantum Foods lost *c*. 20% of its layer rearing and commercial layer flocks due to this viral disease. Included in the results for the reporting period is a loss of 242 000 birds and a subsequent monetary loss of *c*. R9 million due to HPAI culling at a Western Cape layer rearing farm. Mitigating measures implemented – such as the restocking of previously dormant facilities and an increase in the commercial layer cycle – resulted in egg volumes declining by only 7%. Egg prices, however, increased by over 30% and the net effect was that the egg business produced a record profit.

Financial overview

Group revenue decreased by 0.3% to R2 billion, with a 0.5% decrease of R10 million in South African operations, and a 4.6% increase of R5 million in Other African operations. Revenue from Other African operations contributed 5.4% to Group revenue for 2018 (2017: 5.1%).

Revenue from South African operations:

- decreased by R31 million for the Feeds segment. This is a result of the adjustment to selling prices in response to lower average raw material costs and volumes sold increasing by 13.3%.
- decreased by R88 million for the Farming segment. Similar to the Feeds segment, broiler selling prices were reduced as a result of using a lower average feed cost to determine selling prices.
- increased by R109 million for the Eggs segment, where an average price increase of 30.9% and a volume decline of 7.0% was achieved.

Cost of sales decreased by 5.0% to R1.6 billion. Cost of sales include the fair value adjustments of biological assets (livestock) and agricultural produce (eggs) that were realised and included in other gains and losses in the statement of comprehensive income. These fair value adjustments for the six-month period ended 31 March 2018 amounted to R225 million (2017: R55 million), with the increase mostly reflective of the improved margins in the layer farming and egg businesses. Gross profit, excluding these fair value adjustments, increased by R248 million to R678 million at a margin of 33.3% (2017: 21.1%).

Cash operating expenses increased by 10.3% in 2018. Factors contributing to this increase ahead of inflation include additional HPAI risk mitigation measures that were implemented, as well as the increased operational costs of the Western Cape broiler farms owned by the Group, following the exit of some contract producers during the previous period.

Operating profit, before items of a capital nature, increased by 534% to R244 million for the period under review. South African operations recorded a 330% increase of R183 million to a profit of R239 million at a margin of 12.4% (2017: 2.9%). Eggs and Farming improved by R178 million and R7 million respectively, while Feeds weakened by R1 million. Feeds profit benefited from the increase in sales volumes to the external market, but was negatively affected by the decline in volumes required by the internal layer farming business. Other African operations recorded an increase in profits of R20 million, which resulted in a profit of R11 million.

Headline earnings per share ("HEPS") increased to 82.5 cents from the 12.4 cents per share of 2017.

Cash inflow from operations amounted to R204 million for the reporting period. This includes an increased investment of R20 million in working capital.

Capital expenditure for the period amounted to R32 million, with the main items being a project to increase capacity at the broiler hatchery in Hartbeespoort, and expenditure to renovate previously dormant commercial layer houses.

Cash and cash equivalents increased from R261 million at 30 September 2017 to R359 million at 31 March 2018.

The Group had minimal borrowings at 31 March 2018, which comprised an arrangement to purchase electricity generated from solar panels, capitalised as a finance lease in terms of International Financial Reporting Standards ("IFRS").

Operational overview

The animal feeds business lost some internal volumes due to the HPAI effect, but external volumes increased. Margins in this business remained stable and costs were well managed. The first phase of the expansion of the Olifantskop feed mill was successfully completed.

The layer breeding operations remained very efficient and, despite the effect of HPAI, continued to have a positive effect on overall profitability. The production efficiency on commercial layer farms that was not impacted by HPAI continued to improve. The quality of hens produced on the layer rearing farms improved following an increased and revised management focus and feeding regime approach. Within the next six months, all the birds in laying would have been reared under the new approach, which should benefit production efficiencies on the commercial layer farms going forward.

The broiler breeder efficiencies declined from a very high level and the results were below expectation. This followed the introduction of a change in the genetics to which business did not adapt adequately. Revised farming management procedures have been introduced to address this and the breeder efficiencies are expected to improve going forward. Production efficiencies at commercial broiler level remained very good.

The egg business produced excellent financial results, with egg prices increasing by over 30%, and the cost of production declining. Most pleasing, however, was the further improvement in operational efficiencies. The improvement in operational efficiencies can largely be attributed to a stronger and more focused management team.

The Other African businesses performed in line with expectations. Raw material prices declined in all three countries; this in turn had a positive effect on margins and profitability. In Uganda, the commercial egg business performed very well with the farm placed at full capacity and efficiencies improving. In Zambia, the breeder farm had a setback owing to a disease challenge, but Mega Eggs performed very well, and the business experienced very good margins. The Mozambique business performed much better than in the comparative period. The higher South African egg prices had a positive effect on egg pricing in Mozambique and efficiencies are slowly improving.

Dividend and share repurchase

Historically, the Group has never declared an interim dividend. However, due to the healthy cash generation in the first half of 2018 and the cash position of the Group at 31 March 2018, a gross interim dividend of 20 cents per share at a HEPS cover of approximately four times has been approved and declared by the Board for the six months ended 31 March 2018 from income reserves.

Dividend tax, at a rate of 20%, will amount to 4 cents per share; consequently, shareholders who are not exempt from dividend tax will receive a net dividend amount of 16 cents per share. Such tax must be withheld unless beneficial owners of the dividend have provided the necessary documentary proof to the relevant regulated intermediary that they are exempt therefrom, or entitled to a reduced rate as a result of the double-tax agreement between South Africa and the country of domicile of such owner.

During the period, Quantum Foods repurchased and cancelled a further 704 582 shares at a cost of R2.7 million. The issued share capital as at 31 March 2018 is 221 610 075 shares.

The applicable dates are as follows:

Last date of trading cum dividend	Tuesday, 19 June 2018
Trading ex dividend commences	Wednesday, 20 June 2018
Record date	Friday, 22 June 2018
Dividend payable	Monday, 25 June 2018

Share certificates may not be dematerialised or materialised between Wednesday, 20 June 2018 and Friday, 22 June 2018, both days inclusive.

Prospects

Egg prices, although still higher compared to price levels prior to HPAI, have started to decline towards the end of the reporting period. This is attributable to increased egg supply following the restocking of the national flock. The full restocking process is, however, not expected to be completed in this financial year and although the expectation is therefore that egg prices will remain firm during the second half of the year, prices are expected to be lower than those achieved during the reporting period.

Maize, and in particular soybean meal prices, have bottomed out and have started to increase. The impact of these raw material price increases will be experienced during the remainder of the financial year, particularly in the egg business.

The main factor that could affect the poultry industry in South Africa remains the possibility of further HPAI outbreaks. The geographical spread of the Quantum Foods farms mitigates the potential impact, but the Group has some large facilities that house a significant number of birds. Recent history has shown that an HPAI outbreak has devastating effects on the affected farms.

By order of the Board

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer

24 May 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 March 2018 R'000	Unaudited 31 March 2017 R'000	Audited 30 September 2017 R'000
Assets			
Non-current assets	**1 045 890**	1 061 961	1 076 838
Property, plant and equipment	**1 023 208**	1 037 110	1 051 259
Intangible assets	**12 124**	14 542	13 304
Investment in associate	**8 582**	7 364	8 083
Deferred income tax	**1 976**	2 945	4 192
Current assets	**1 284 885**	1 106 796	1 177 817
Inventories	**199 532**	220 328	201 789
Biological assets	**295 437**	322 982	299 345
Trade and other receivables	**430 827**	429 352	411 395
Derivative financial instruments	**–**	1 961	1 876
Current income tax	**–**	3 131	1 943
Cash and cash equivalents	**359 089**	129 042	261 469
Total assets	**2 330 775**	2 168 757	2 254 655
Equity and liabilities			
Capital and reserves attributable to owners of the parent	**1 755 328**	1 595 971	1 691 645
Share capital	**1 549 972**	1 575 475	1 552 670
Other reserves	**(242 213)**	(223 930)	(200 991)
Retained earnings	**447 569**	244 426	339 966
Total equity	**1 755 328**	1 595 971	1 691 645
Non-current liabilities	**234 703**	244 755	237 034
Interest-bearing liability	**6 181**	6 279	6 227
Deferred income tax	**220 914**	231 300	223 199
Provisions for other liabilities and charges	**7 608**	7 176	7 608
Current liabilities	**340 744**	328 031	325 976
Trade and other payables	**319 926**	327 944	321 549
Derivative financial instruments	**1 096**	–	–
Current income tax	**19 631**	–	4 336
Interest-bearing liability	**91**	87	91
Total liabilities	**575 447**	572 786	563 010
Total equity and liabilities	**2 330 775**	2 168 757	2 254 655

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 31 March 2018 R'000	Unaudited Six months ended 31 March 2017 R'000	Audited Year ended 30 September 2017 R'000
Revenue		2 035 426	2 040 939	4 051 890
Cost of sales		(1 582 390)	(1 665 673)	(3 257 803)
Gross profit		453 036	375 266	794 087
Other income		8 247	8 477	19 775
Other gains/(losses) – net	3	223 683	58 182	199 910
Sales and distribution costs		(114 691)	(105 805)	(215 953)
Marketing costs		(6 282)	(5 276)	(12 056)
Administrative expenses		(54 936)	(53 609)	(108 643)
Other operating expenses		(264 872)	(234 949)	(507 005)
Operating profit		244 185	42 286	170 115
Investment income		10 271	3 020	8 066
Finance costs		(277)	(477)	(1 665)
Share of profit of associate company		498	376	1 095
Profit before income tax		254 677	45 205	177 611
Income tax expense		(71 487)	(13 128)	(49 994)
Profit for the period		183 190	32 077	127 617
Other comprehensive income for the period				
Items that may subsequently be reclassified to profit or loss:				
Fair value adjustments to cash flow hedging reserve		(4 589)	(8 800)	4 039
For the period		(4 268)	(12 828)	(12 096)
Deferred income tax effect		145	(563)	(568)
Current income tax effect		1 050	4 154	3 955
Realised to profit or loss		(2 106)	607	17 706
Deferred income tax effect		568	(47)	(47)
Current income tax effect		22	(123)	(4 911)
Movement on foreign currency translation reserve				
Currency translation differences		(39 179)	(5 281)	2 340
Total comprehensive income for the period		139 422	17 996	133 996
Profit for the period attributable to owners of the parent		183 190	32 077	127 617
Total comprehensive income for the period attributable to owners of the parent		139 422	17 996	133 996
Earnings per ordinary share (cents)	4	82.4	13.9	55.7
Diluted earnings per ordinary share (cents)	4	81.6	13.9	55.7

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 March 2018 R'000	Unaudited Six months ended 31 March 2017 R'000	Audited Year ended 30 September 2017 R'000
Share capital	**1 549 972**	1 575 475	1 552 670
Opening balance	**1 552 670**	1 581 402	1 581 402
Shares repurchased and cancelled	**(2 698)**	(5 927)	(28 732)
Other reserves	**(242 213)**	(223 930)	(200 991)
Opening balance	**(200 991)**	(211 432)	(211 432)
Other comprehensive income for the period	**(43 768)**	(14 081)	6 379
Recognition of share-based payments	**2 546**	1 583	4 062
Retained earnings	**447 569**	244 426	339 966
Opening balance	**339 966**	226 178	226 178
Profit for the period	**183 190**	32 077	127 617
Dividends paid	**(75 587)**	(13 829)	(13 829)
Total equity	**1 755 328**	1 595 971	1 691 645

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 March 2018 R'000	Unaudited Six months ended 31 March 2017 R'000	Audited Year ended 30 September 2017 R'000
Net cash flow from operating activities	**203 949**	86 705	257 688
Net cash profit from operating activities	**279 278**	67 258	200 373
Working capital changes	**(20 375)**	50 063	115 232
Cash effect of hedging activities	**(3 828)**	(14 400)	3 413
Net cash generated from operations	**255 075**	102 921	319 018
Income tax paid	**(51 126)**	(16 216)	(61 330)
Net cash flow from investing activities	**(21 606)**	(16 818)	(32 745)
Additions to property, plant and equipment	**(32 101)**	(26 377)	(72 227)
Additions to intangible assets	**(282)**	(501)	(812)
Proceeds on disposal of property, plant and equipment	**506**	7 040	32 228
Interest received	**10 271**	3 020	8 066
Net cash surplus	**182 343**	69 887	224 943
Net cash flow from financing activities	**(78 516)**	(20 253)	(43 709)
Repayment of interest-bearing liability	**(46)**	(36)	(84)
Shares repurchased	**(2 698)**	(5 927)	(28 732)
Interest paid	**(277)**	(477)	(1 073)
Dividends paid to ordinary shareholders	**(75 495)**	(13 813)	(13 820)
Net increase in cash and cash equivalents	**103 827**	49 634	181 234
Effects of exchange rate changes	**(6 207)**	(103)	724
Net cash and cash equivalents at beginning of period	**261 469**	79 511	79 511
Net cash and cash equivalents at end of period	**359 089**	129 042	261 469

SEGMENTAL ANALYSIS

	Unaudited Six months ended 31 March 2018 R'000	Unaudited Six months ended 31 March 2017 R'000	Audited Year ended 30 September 2017 R'000
Segment revenue	**2 035 426**	2 040 939	4 051 890
Eggs	**607 001**	498 377	1 051 375
Farming	**587 047**	674 882	1 310 907
Animal feeds	**731 634**	762 777	1 485 255
Other African countries	**109 744**	104 903	204 353
Segment results – excluding items of a capital nature	**244 420**	38 555	149 496
Eggs	**156 109**	(22 044)	46 460
Farming	**43 715**	37 162	47 285
Animal feeds	**39 033**	40 427	77 786
Other African countries	**10 793**	(9 362)	(9 655)
Head office costs	**(5 230)**	(7 628)	(12 380)
Items of a capital nature per segment included in other gains – net			
(Loss)/profit on disposal of property, plant and equipment before income tax	**(235)**	3 731	20 619
Eggs	**(172)**	–	(1 457)
Farming	**(51)**	(91)	18 422
Animal feeds	**(12)**	3 822	3 441
Other African countries	**–**	–	213
Segment results	**244 185**	42 286	170 115
Eggs	**155 937**	(22 044)	45 003
Farming	**43 664**	37 071	65 707
Animal feeds	**39 021**	44 249	81 227
Other African countries	**10 793**	(9 362)	(9 442)
Head office costs	**(5 230)**	(7 628)	(12 380)
A reconciliation of the segment results to profit before income tax is provided below:			
Segment results	**244 185**	42 286	170 115
Adjusted for:			
Investment income	**10 271**	3 020	8 066
Finance costs	**(277)**	(477)	(1 665)
Share of profit of associate company	**498**	376	1 095
Profit before income tax per statement of comprehensive income	**254 677**	45 205	177 611

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with IFRS, 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 IFRS and are consistent with those applied in the previous consolidated annual financial statements.

2. ACCOUNTING POLICIES

These unaudited 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 2017, apart from the adoption of the amendments to IAS 7 and IAS 12 which have not had an impact on the results.

Critical accounting estimates and judgements

In preparing these unaudited 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 2017.

	Unaudited Six months ended 31 March 2018 R'000	Unaudited Six months ended 31 March 2017 R'000	Audited Year ended 30 September 2017 R'000
3. OTHER GAINS/(LOSSES) – NET			
Biological assets fair value adjustment	**35 627**	35 294	40 810
Unrealised – reflected in carrying amount of biological assets	**726**	5 914	17 425
Realised – reflected in cost of goods sold	**34 901**	29 380	23 385
Agricultural produce fair value adjustment	**191 387**	25 423	143 754
Unrealised – reflected in carrying amount of inventory	**993**	7	2 325
Realised – reflected in cost of goods sold	**190 394**	25 416	141 429
Foreign exchange differences	**(1 028)**	(655)	1 891
Foreign exchange contract fair value adjustments	**(138)**	(3 599)	(3 563)
Foreign exchange contract cash flow hedging ineffective losses	**(1 930)**	(2 012)	(3 601)
(Loss)/profit on disposal of property, plant and equipment	**(235)**	3 731	20 619
	223 683	58 182	199 910

	Unaudited Six months ended 31 March 2018 R'000	Unaudited Six months ended 31 March 2017 R'000	Audited Year ended 30 September 2017 R'000
4. EARNINGS PER ORDINARY SHARE			
Basic			
The calculation of basic earnings per share is based on profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the period:			
Profit for the period	**183 190**	32 077	127 617
Weighted average number of ordinary shares in issue ('000)	**222 211**	231 163	229 124
Diluted			
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive contingent ordinary shares. Share appreciation rights issued in terms of the share incentive scheme have a potential dilutive effect on earnings per ordinary share.			
The calculation of diluted earnings per share is based on profit for the period attributable to owners of the parent divided by the diluted weighted average number of ordinary shares in issue during the period:			
Profit for the period	**183 190**	32 077	127 617
Diluted weighted average number of ordinary shares in issue ('000)	**224 578**	231 163	229 124
Headline earnings are calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants.			

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

	Unaudited Six months ended 31 March 2018 R'000	Unaudited Six months ended 31 March 2017 R'000	Audited Year ended 30 September 2017 R'000
4. EARNINGS PER ORDINARY SHARE (continued)			
Reconciliation between profit for the period attributable to owners of the parent and headline earnings			
Profit for the period	**183 190**	32 077	127 617
Items of a capital nature			
Loss/(profit) on disposal of property, plant and equipment	**169**	(3 320)	(15 314)
Gross	**235**	(3 731)	(20 619)
Tax effect	**(66)**	411	5 305
Headline earnings for the period	**183 359**	28 757	112 303
Earnings per share (cents)	**82.4**	13.9	55.7
Diluted earnings per share (cents)	**81.6**	13.9	55.7
Headline earnings per share (cents)	**82.5**	12.4	49.0
Diluted headline earnings per share (cents)	**81.6**	12.4	49.0

5. CONTINGENCIES AND FUTURE CAPITAL COMMITMENTS

Allegations of anti-competitive trade practices – Zambia

The Group received a notice of investigation in the 2016 reporting period from the Zambian Competition and Consumer Protection Commission regarding alleged violation of the Competition and Consumer Protection Act ("the Act"). The investigation was finalised in March 2018, and Quantum Foods Zambia Ltd was found to be in contravention with certain provisions of the Act. An appeal has been lodged at the Competition and Consumer Protection Tribunal for Zambia. This previously disclosed contingent liability now meets the provision recognition criteria as per IAS 37. In accordance with IAS 37, a provision of R5.5 million was raised in the period ended 31 March 2018.

There have been no changes since the previous reporting period in the status of the other litigation against the Group (customer claim).

Capital expenditure approved by the Board and contracted for amounts to R27.8 million (30 September 2017: R23.9 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R35.1 million (30 September 2017: R42.5 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.

Directors: WA Hanekom (Chairman)#, PE Burton (Lead independent director)#, GG Fortuin#, Prof. ASM Karaan#, N Celliers, HA Lourens (CEO)*, AH Muller (CFO)*
*Executive #Independent

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