

Quantum Foods Integrated report 2019

www.quantumfoods.co.za





Quantum Foods

is the largest producer of eggs
in South Africa.



Shareholders' diary

Financial year-end
Annual general meeting

30 September 2020
21 February 2020

REPORTS

Interim report for the half-year ending 31 March 2020
Announcement of results for the year ending 30 September 2020
Integrated report for the year ending 30 September 2020

May 2020
November 2020
December 2020

DIVIDENDS

Interim

Announcement
Payment

May 2020
June 2020

Final

Announcement
Payment

November 2020
January 2021

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Our brands





Investment case

BALANCED AND OPTIMISED PORTFOLIO

- Quantum Foods reduced its exposure to the cyclical nature of the poultry industry by exiting the broiler meat market in 2016.
- The Group is the largest contract producer of live broilers, supplying its own day-old chicks and feed to the South African market.
- Continued focus on growing revenue from external feed sales, livestock and the Group's other African operations.
- Established egg business in South Africa, with *Nulaid* achieving the status of the best egg brand in the country for the seventh consecutive year.
- A strong market position with growth potential in animal feeds, livestock and eggs.

AFRICA GROWTH TRACTION AND PROSPECTS

- Proven track record of success in Africa – operating in Zambia and Uganda for over 20 years.
- Further expansion of the existing table egg businesses in Zambia, Uganda and Mozambique.
- Strategic opportunities in other African countries will be considered.

EFFICIENT COST BASE

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

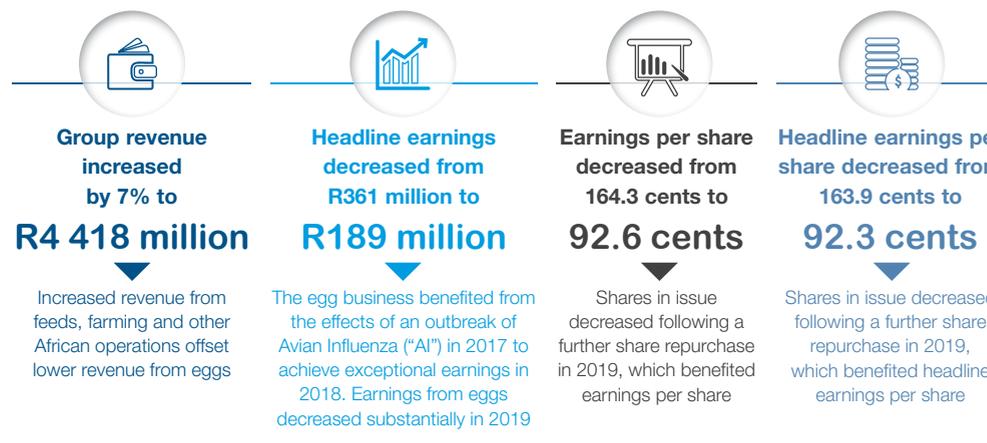
SOLID CASH-GENERATING ABILITY

- Quantum Foods has no material debt on its balance sheet 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, as well as drive egg and broiler sales, without significant further investment.

THE RIGHT PEOPLE

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

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



More information is provided in the business overview section on page 24.



About 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"). It is listed on the Johannesburg Stock Exchange Ltd ("JSE") main board in the "Farming and Fishing" sector under the share code QFH.

This report was compiled using the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV") and the International Integrated Reporting Council's ("IIRC's") Integrated Reporting <IR> Framework. It provides financial and non-financial performance data on the Group's business activities in all its operating geographies. This includes South Africa, Mozambique, Uganda and Zambia as well as all of the Group's subsidiaries.

More information is provided in the business overview section on page 24.

The scope of non-financial information provided in this report expands on that provided in the previous year, with a primary focus on the Group's South African business activities. Quantum Foods is committed to improving the level of integration of its reporting over time.

REPORT PRINCIPLES AND COMPARABILITY

The Group adjusted its broiler farming business model in May 2019. The change impacts the Group's operations in Gauteng and the North West, where grown broilers were previously reared and supplied to Sovereign Foods in terms of a long-term supply agreement. Going forward, the Group will supply day-old chicks and broiler feed to Sovereign Foods, which then takes over the rearing process. This reduces the Group's farming risk and creates improved supply chain optimisation opportunities for Sovereign Foods.

The summary consolidated financial statements provided in this integrated report are extracted from the full statutory financial statements available on the Group's website: <https://quantumfoods.co.za/financial-reports/>. 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. ("PwC").

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 at executive level. Quantum Foods' broad-based black economic empowerment ("B-BBEE") score was externally assured by AQRate. 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.

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.

COMMONLY USED TERMS

The following industry terms are commonly used throughout this report:

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

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Welcome to our 2019 integrated report

This is the integrated report for Quantum Foods Holdings Ltd and its subsidiaries (“Quantum Foods”, “the Group” or “the Company”).

It covers the financial period from 1 October 2018 to 30 September 2019.

This report is aimed primarily at the Group’s shareholders and other interested stakeholders. It provides a holistic overview of Quantum Foods’ strategy, performance and business activities, as well as a measure of the Group’s ability to ensure a sustainable business future.

FEEDBACK

Quantum Foods is committed to communicating meaningfully with its stakeholders. The Group would therefore appreciate feedback on the effectiveness of this report. Any feedback can be emailed to Quantum Foods’ company secretary, Marisha Gibbons, at Marisha.Gibbons@quantumfoods.co.za.



For more information about the scope and boundary of this report, go to page 6.
For more information on the terms commonly used in this report, go to page 7.



This report is available on the Company’s website: www.quantumfoods.co.za/annual-reports/.

BOARD APPROVAL

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

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer

NAVIGATIONAL ICONS



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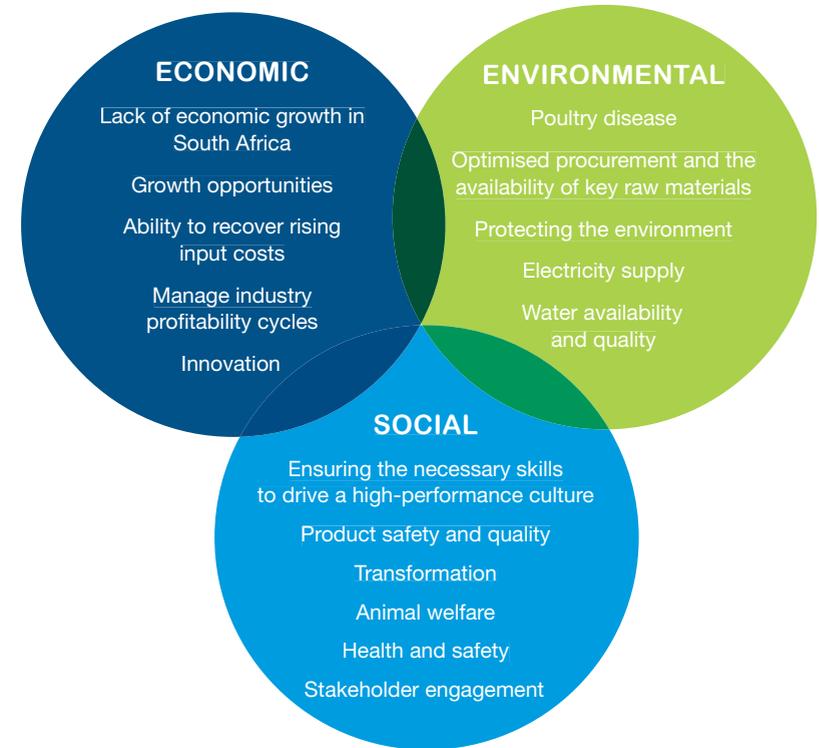


This icon refers to where additional information can be found on the Company’s website: www.quantumfoods.co.za.

Material matters

Quantum Foods has identified the matters that could significantly impact its value-creation abilities. Mitigating the risks and capitalising on the opportunities identified per material matter are integral to the execution of the Group’s strategy.

Senior decision-makers of the Group were involved in a structured process to identify and prioritise the following economic, environmental and social matters for inclusion in this report. These matters were presented to and approved by the Board and are linked to our strategic themes and the risks faced by the Group.



More information is available throughout this report, as referenced. Insight into our strategic themes and risks is available from page 30.



Material matter	Context	Business response and opportunities
ECONOMIC		
Lack of economic growth in South Africa	Poor economic growth in South Africa negatively impacts consumer demand and limits the Group's ability to grow.	Eggs and chicken remain the most affordable animal protein products for human consumption. While this presents growth opportunities for the Group, expansion of its South African production capacity must be balanced against the economic growth projections for the country.
Growth opportunities	The Group's experience, expertise and footprint in Africa enable it to identify and realise growth opportunities in the table eggs, livestock and feed value chains across the continent.  Read more on page 27.	Higher raw material prices can impact overall profitability. However, profitability is less cyclical in the Group's feed and livestock businesses as selling prices are more easily adjusted in line with changes in production costs. Increasing sales volumes in these businesses therefore supports the strategic theme to improve Group profitability through various industry cycles. This is achieved by expanding capacity at the Group's feed mills and hatcheries. Egg markets in other African countries are less concentrated and further investments were made in Zambia and Uganda during 2019 to expand the production capacity supplying these markets.  Read more on page 27.
Ability to recover rising input costs	A volatile Rand and fluctuations in the cost of local and international grain crops threaten the Group's profitability. The Group's main exposure to this matter is in the egg business, where the selling price of eggs is determined by supply and demand and, to a lesser extent, the cost of production (of which feed is the main contributor). These dynamics result in cyclical profitability due to varying margins and the risk of being unable to recover fluctuating raw material costs in final product prices.  Read more on page 24.	Quantum Foods recovers rises in input costs through a relentless focus on procurement, currency movement, efficiencies, and cost and margin management. For example, the Group continued its programme to upgrade older poultry houses to more modern, environmentally controlled facilities to improve efficiency. This supports the strategic theme of operational excellence, which reduces the cost of production and improves profitability.

Material matter	Context	Business response and opportunities
ECONOMIC		
Manage industry profitability cycles	Poultry companies are significantly exposed to changes in the cost of feed raw materials, which are impacted by: <ul style="list-style-type: none"> • crop growing conditions; • the value of the currency; and • product pricing in a market where supply and demand dynamics rather than production costs impact the prices that can be achieved. The Group's main exposure is in the egg business.	The Group has limited ability to mitigate this risk by monitoring industry trends for the production of day-old layer chicks and adjusting egg farm production planning accordingly. During the year, 75% of Group revenue (2018: 71%) was generated by the feeds, farming and other African operations. Historically, these businesses have been more resilient to industry cycles than the egg business. Growing these businesses therefore supports the strategic theme to grow Group profitability through the industry cycles – underpinned by operational excellence and cost management.
Innovation	For the Group to diversify, grow and sustain its margins, it should develop products that cater for customers and markets. Innovation and providing optimal feed solutions to customers are important to mitigate the risk of increased competition.	Feed formulation for optimal animal nutrition is a particularly technical field with many opportunities to innovate. In the Group's broiler and egg businesses, innovation is focused on enhancing farming practices to optimise livestock health and production efficiencies. These activities support the strategic themes of customer and product focus and operational excellence. The Group entered into an agreement with Nutreco that provides access to world-class research and will assist in ensuring optimal feed formulation.
ENVIRONMENTAL		
Poultry disease	Outbreaks of poultry disease can significantly impact the productivity, efficiency and financial performance of the Group's farming operations. The outbreak of highly pathogenic AI in South Africa in 2017 significantly increased this risk and has the potential to greatly reduce the national flock. While limited incidences of AI occurred in the national poultry flock during 2018 and none in 2019, the risk remains high.  Read more on page 24.	Vaccination and monitoring programmes are continually reviewed with the assistance of veterinary companies to improve the protection of the birds and ultimately improve farm production efficiencies. The Group has also invested in improved biosecurity at farms to specifically reduce AI risk. This supports the strategic theme of operational excellence.
Optimised procurement and the availability of key raw materials	The cost and availability of key raw materials required for animal feeds production are an ongoing concern. In particular, feed raw material costs are the largest contributor to overall poultry production costs for both broiler meat and eggs. Incorrect procurement decisions can therefore significantly impact business profitability.  Read more on page 24.	The Group's centralised procurement team, which sources and secures feed raw materials through agreements with dependable local and international suppliers, mitigates this risk. Judicious procurement of feed raw materials is key to achieving profitable growth through industry cycles.



Material matter	Context	Business response and opportunities
ENVIRONMENTAL		
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.	The Group has implemented various initiatives to reduce wastage of water and reduce electricity consumption generated from non-renewable sources. These initiatives not only assist in reducing the environmental impact of the Group's operations but also improve efficiencies in support of the strategic theme of operational excellence.
	Read more on page 46.	Read more on page 47.
Electricity supply	The Group depends on an adequate and stable supply of electricity throughout its operations. An interrupted electricity supply mostly impacts the Group's feed mills, which are not equipped with standby generators and therefore cannot manufacture feed during periods of interruption. It further affects the efficiency and operating costs of facilities equipped with standby generators during periods of load shedding.	To supplement electricity supplied by Eskom, the Group invested in several solar electricity projects at its egg packing stations – thereby reducing its demand on the national grid. The Group will consider equipping feed mills with backup generators in the 2020 financial year to maintain critical manufacturing capability and ensure a continued supply of feed to animals during periods of interruption.
Water availability and quality	To sustain a healthy agricultural business, the Group is dependent on continuous access to high-quality water across its operations, particularly in its poultry operations. Climate change has the potential to impact the business in the long term. Water availability, especially in the Western and Eastern Cape, remains a concern. This is despite the higher rainfall experienced in the Western Cape in the winter of 2019.	Water supply and quality are key to achieving optimal production efficiencies, without which operational excellence will not be possible. The Group therefore has water contingency plans in place that can be implemented if its current water supply is interrupted.
	Read more on page 47.	
SOCIAL		
Ensuring the necessary skills to drive a high-performance culture	The business requires rare skill sets. This is particularly relevant in the farming operations and egg business, where succession and the external appointment of suitably skilled candidates can be challenging. Attracting and retaining talented employees who can drive an optimal performance culture is therefore a priority for the Group.	The Group strengthened its management teams through further key appointments made in 2019. This will ensure the Group is able to deliver on its strategic theme to have optimal people capacity and culture. The Group continued its internship programme during the year.
	Read more on page 50.	Read more on page 50.

Material matter	Context	Business response and opportunities
SOCIAL		
Product safety and quality	The Group produces products for human and animal consumption. Quantum Foods must therefore adhere to strict food safety protocols to retain its licence to operate.	The Group has stringent quality control processes in place and a dedicated consumer feedback channel is actively monitored to ensure any issues that arise are attended to swiftly and professionally. Producing products according to required standards and any additional specifications from customers supports the Group's strategic theme to ensure it retains its customer and product focus.
	Read more on page 46.	
Transformation	Quantum Foods recognises its obligation to contribute towards improving the socio-economic status of historically disadvantaged South Africans ("HDSAs"). The Group also appreciates the benefit to stakeholders of introducing increased levels of diversity throughout its management structures.	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 ownership, management control, skills development, supplier and enterprise development and preferential procurement. On 10 December 2018, an additional female Board member, Tanya Golden, was appointed to enhance race and gender diversity at Board level. A strong focus on transformation was maintained to support our strategic theme to have optimal people capacity and culture.
	Read more on page 48.	
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.	The Group has a zero-tolerance approach to non-compliance with animal welfare regulations and requirements. The Group frequently engages with external parties on matters related to animal welfare in a transparent and open manner. Internal audits and regular employee training are conducted to ensure compliance to standards. Optimal livestock husbandry practices and facilities create an environment for improved farming production efficiencies. This supports the Group's strategic theme of operational excellence.
	Read more on page 52.	
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.	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 remain a priority. Improving health and safety for employees and animals supports the Group's strategic themes of operational excellence and retaining a strong customer and product focus.
	Read more on page 50.	
Stakeholder engagement	Quantum Foods recognises that thorough stakeholder engagement is a key requirement to ensure the sustainability of the business.	The Group considers the reasonable expectations of material stakeholders when conducting its business activities.
		Read more on page 64.



Quantum Foods at a glance

PROFILE

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



Animal feeds



Layer and broiler farming



Eggs



Related business on the African continent

The Group provides quality animal feeds and poultry products to selected South African and African markets and is the largest producer of eggs in South Africa.

5.4%

of Group revenue from other African operations
(2018: 5.4%)

693 000 tons

of feed supplied
(2018: 656 000 tons)

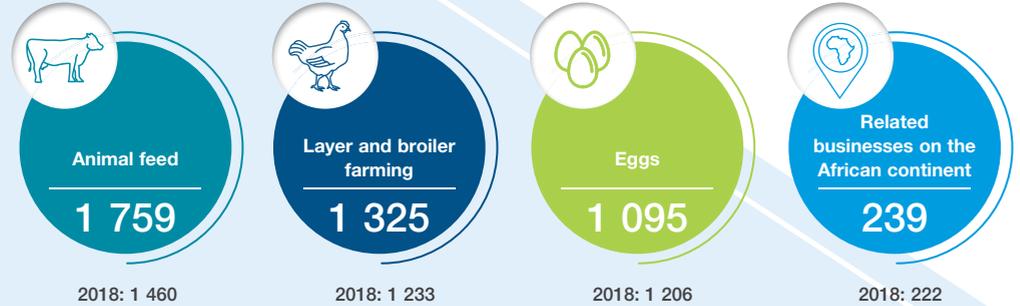
1 030 million

eggs and egg products sold
(2018: 974 million)

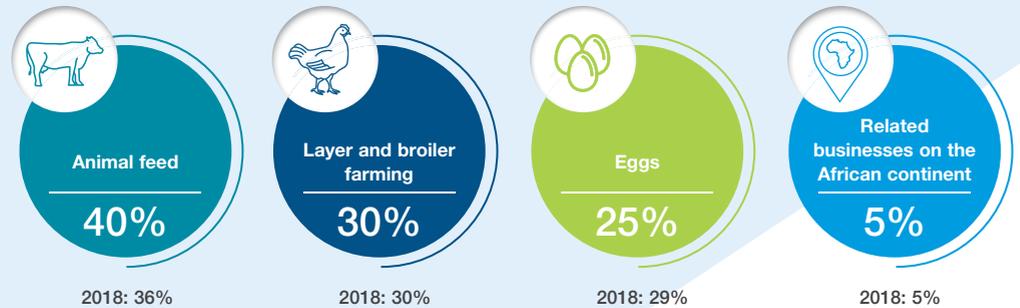
75 million

day-old chicks supplied
(2018: 70 million)

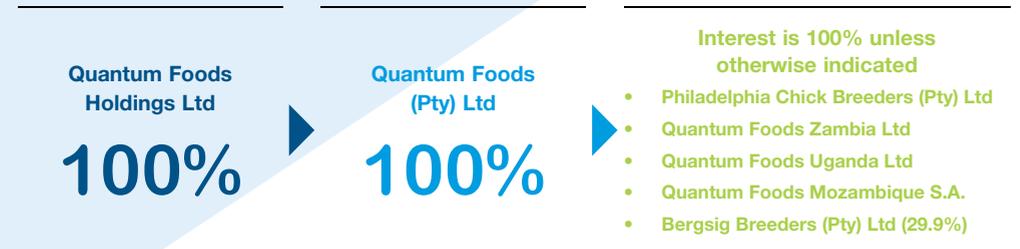
EXTERNAL REVENUE CONTRIBUTION (R'M)



REVENUE CONTRIBUTION PER BUSINESS



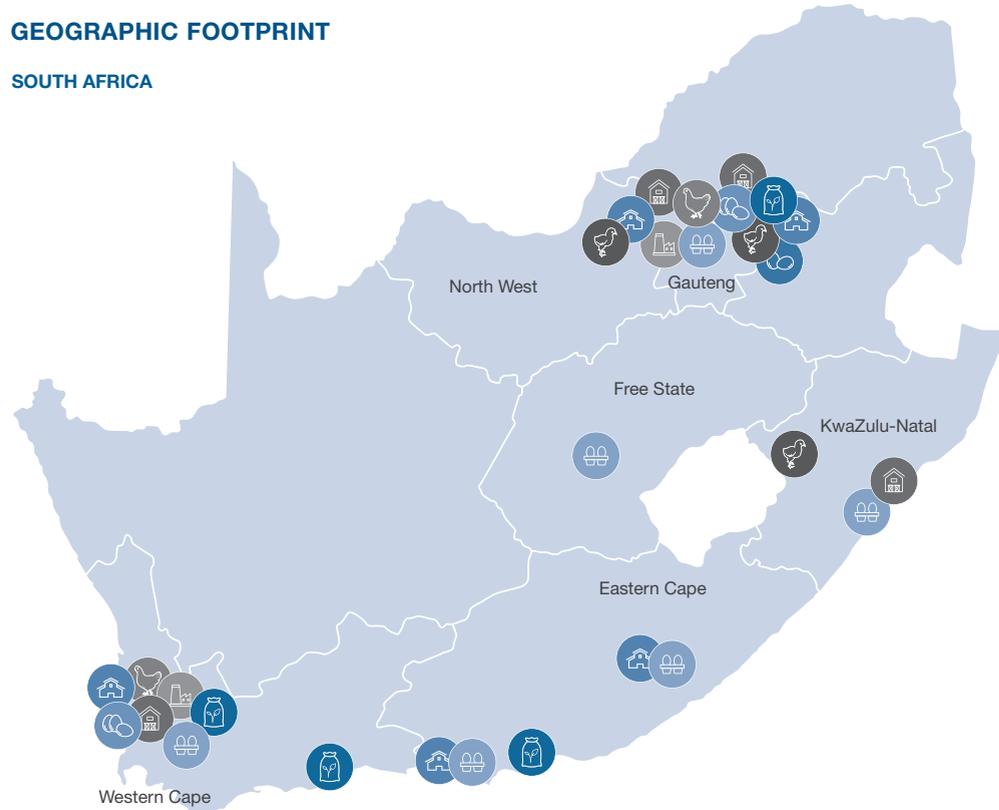
GROUP STRUCTURE





GEOGRAPHIC FOOTPRINT

SOUTH AFRICA



Animal feeds

Quantum Foods' feed mills are located in the Western Cape (Malmesbury and George), Eastern Cape (Paterson) and Gauteng (Pretoria). The majority of feed volumes produced are sold externally, with the balance being consumed internally by the Group's integrated layer and broiler poultry operations. The majority of external feed sales are to the dairy and poultry markets.



Table eggs

Table eggs are distributed from egg packing stations (located in the Western Cape, Eastern Cape, KwaZulu-Natal, Free State and Gauteng) or sold in ungraded form from egg farms. The majority of table eggs sales are to the retail sector. *Nulaid* also sells liquid egg products to the industrial market.



Layer livestock

Layer livestock constitutes day-old chicks and point-of-lay hens of the Lohmann breed.



Broiler livestock

Day-old broiler chicks of the Cobb500 breed are sold under the *Bellevue Chicks* brand from hatcheries located in the Western Cape and the North West. These chicks are either sold as day-old broiler chicks or as live broilers to third-party abattoirs under the *Tydstream* brand. Live broilers are produced on a combination of Company-owned and contracted broiler farms.



ZAMBIA

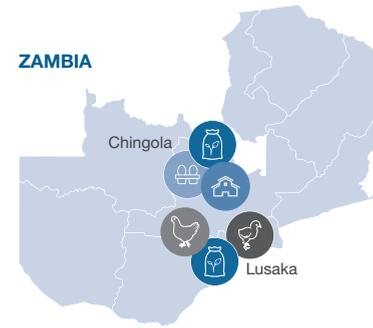


Table eggs

Quantum Foods operates a broiler and layer breeder business (selling day-old chicks) and a table egg business. Both of these facilities sell feed to the external market.

In Lusaka, there is a parent breeding facility, a hatchery and a feed mill. The breeding facility produces day-old pullets and day-old broiler chicks. Day-old pullets are supplied to the Chingola layer rearing farm as well as to the external market, while day-old broiler chicks are all sold. The feed mill supplies the breeding facility and the external market.



UGANDA

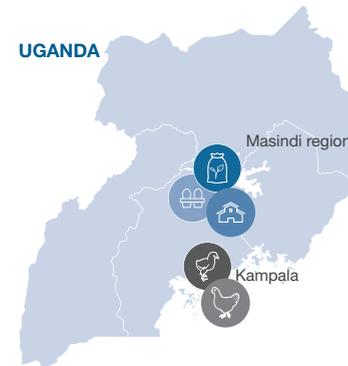


Table eggs

These operations comprise a broiler and layer breeder business, a feed business and a table egg business. The Kampala sites comprise parent breeding facilities and a hatchery. It produces day-old pullets and day-old broiler chicks. The day-old pullets are either transferred to the Masindi layer rearing farm or sold to external customers, while day-old broiler chicks are all sold.



MOZAMBIQUE



Table eggs

These operations comprise a table egg business that supplies both the retail and informal markets.



- Feed mills
- Layer breeders
- Layer hatcheries
- Layer rearing farms
- Layer farms
- Broiler breeders
- Broiler hatcheries
- Broiler farms
- Egg packing stations



Financial performance information

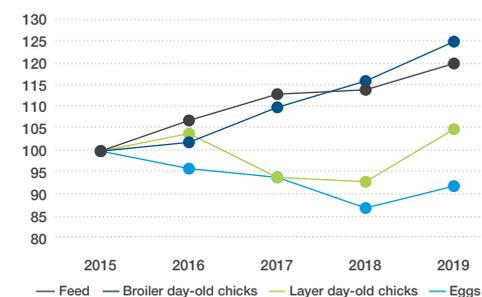
		2015	2016	2017	2018	2019
Earnings						
Revenue	R million	3 468	3 913	4 052	4 122	4 418
Operating profit (excluding items of a capital nature)	R million	162	89	149	472	245
Operating profit margin (excluding items of a capital nature)	%	4.7%	2.3%	3.7%	11.5%	5.5%
Earnings	R million	127	91	128	362	189
Headline earnings	R million	126	66	112	361	189
Segment operating profit (excluding items of a capital nature)						
Eggs	R million	32	(27)	46	287	38
Farming	R million	47	61	47	99	112
Animal feeds	R million	66	73	78	69	89
Other African countries	R million	25	0	(10)	31	14
Head office costs	R million	(7)	(17)	(12)	(13)	(9)
Financial position						
Total assets	R million	2 082	2 266	2 255	2 515	2 514
Total liabilities	R million	(568)	(670)	(563)	(660)	(677)
Total equity	R million	1 514	1 596	1 692	1 855	1 837
Net assets*	R million	1 541	1 755	1 658	1 656	1 859
Returns						
Return on net assets	%	11%	5%	9%	29%	14%
Shareholder returns						
Earnings per share	cents	54.0	39.2	55.7	164.3	92.6
Headline earnings per share	cents	54.0	28.2	49.0	163.9	92.3
Dividend per share	cents	10.0	6.0	12.0	41.0	23.0
Special dividend per share	cents	–	–	22.0	49.0	10.0
Dividend cover	cents	5.4	4.7	4.1	4.0	4.0
Total dividends declared for the year	R million	23	14	76	192	79
Share repurchases	R million	0	4	29	55	63
Dividends plus share repurchases as a percentage of headline earnings	%	19%	27%	93%	68%	75%
Share statistics (JSE)						
Market value per share at year-end	cents	360	261	300	425	365
Closing earnings yield – (headline earnings)	%	15%	11%	16%	39%	25%
Closing dividend yield	%	3%	2%	11%	21%	9%
Closings price/earnings ratio	times	6.7	9.3	6.1	2.6	4.0
Number of shares in issue	'000	233 249	231 803	222 315	210 530	200 025
Number of shares issued excluding treasury shares held	'000	233 249	231 803	222 315	210 195	192 917
Number of shares traded	'000	107 979	40 357	31 357	24 209	55 253
Number of shares traded as a percentage of shares in issue	%	46%	17%	14%	11%	28%

Definitions

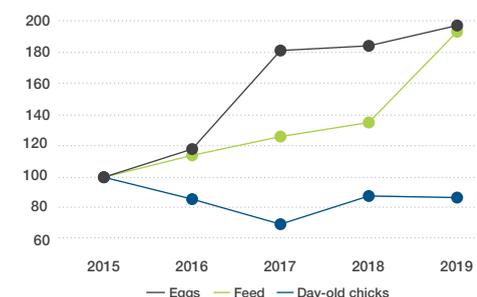
Net assets	Total assets less total liabilities excluding cash and cash equivalents, borrowings, normal and deferred tax.
Return on net assets	Operating profit as a percentage of average net assets
Earnings per share	Net profit for the year divided by the weighted average number of shares in issue during the year (excluding treasury shares)
Headline earnings per share	Headline earnings divided by the weighted average number of shares in issue during the year (excluding treasury shares)
Dividend cover	Headline earnings per share divided by the dividend per share
Closing dividend yield	Dividends per share as a percentage of market value per share at year-end
Closing earnings yield	Headline earnings per share as a percentage of market value per share at year-end
Closing price earnings ratio	Market value per share divided by headline earnings per share at year-end

Non-financial performance information

South African volumes



Other African countries volumes





VALUE CHAIN AND BUSINESS MODEL

Quantum Foods generates value by providing affordable access to poultry products for the full spectrum of 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 a need to mitigate the increasing risk of food and resource scarcity.

The Group creates value for customers and consumers by ensuring a consistent and fresh supply of:

- eggs and egg products for human consumption or further processing;
- day-old chicks or point-of-lay hens to livestock farmers;
- live broilers for processing by customers; and
- feed for animal consumption.

Products are competitively priced and sold under 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:



Financial

▶ The combination of a largely ungeared statement of financial position, sufficient debt capacity to enable growth, revenue generated, and investment by shareholders and financial institutions provides Quantum Foods with the financial capital it needs to grow.



Manufactured

▶ Strategically located packing stations, feed mills, commercial hatcheries and poultry farms support Quantum Foods' business activities and enable extensive distribution coverage, locally and into Africa.



Intellectual

▶ Leading brands, access to world-class poultry genetics and animal feed research, in-house expertise and feed and farming capabilities (particularly with regard to layers, broilers and feed formulation) provide Quantum Foods with intangible assets that support value creation.



Human

▶ The 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. The Group's involvement in education and food security projects further supports community upliftment.

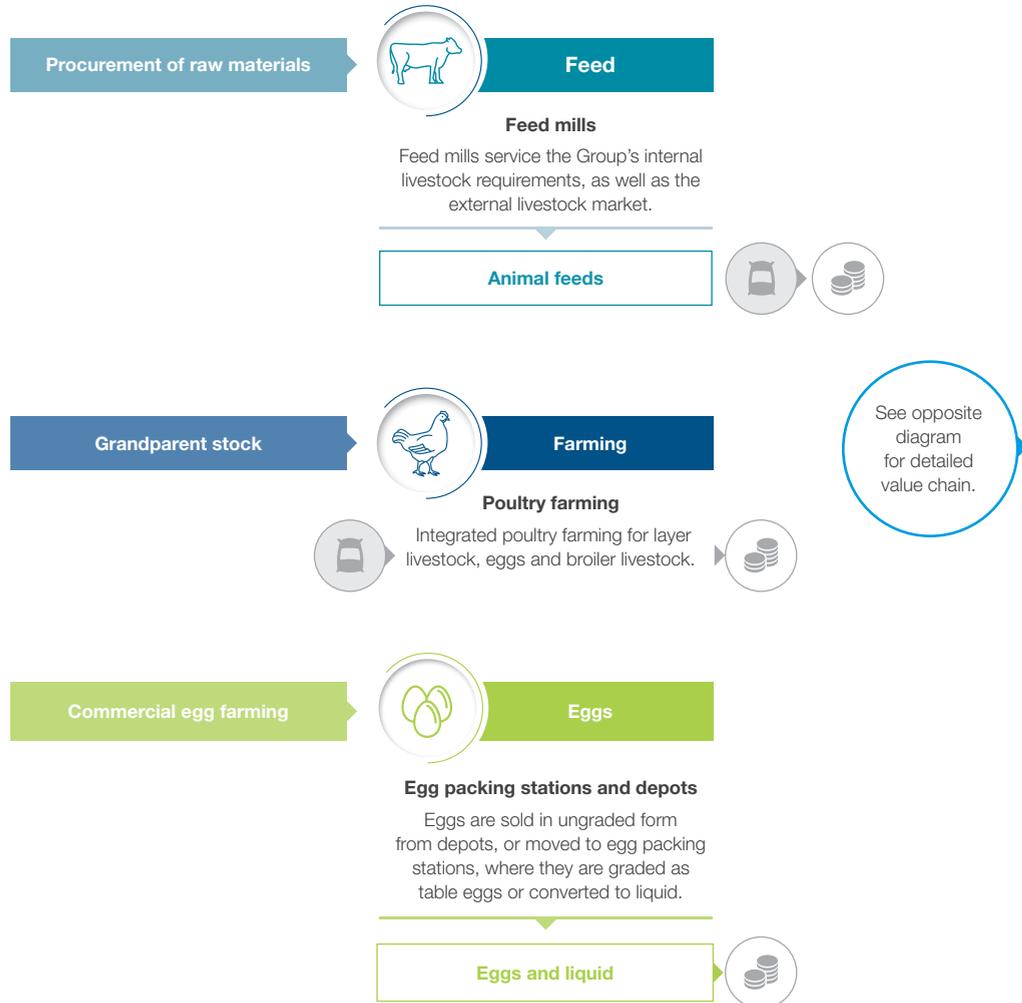


Natural

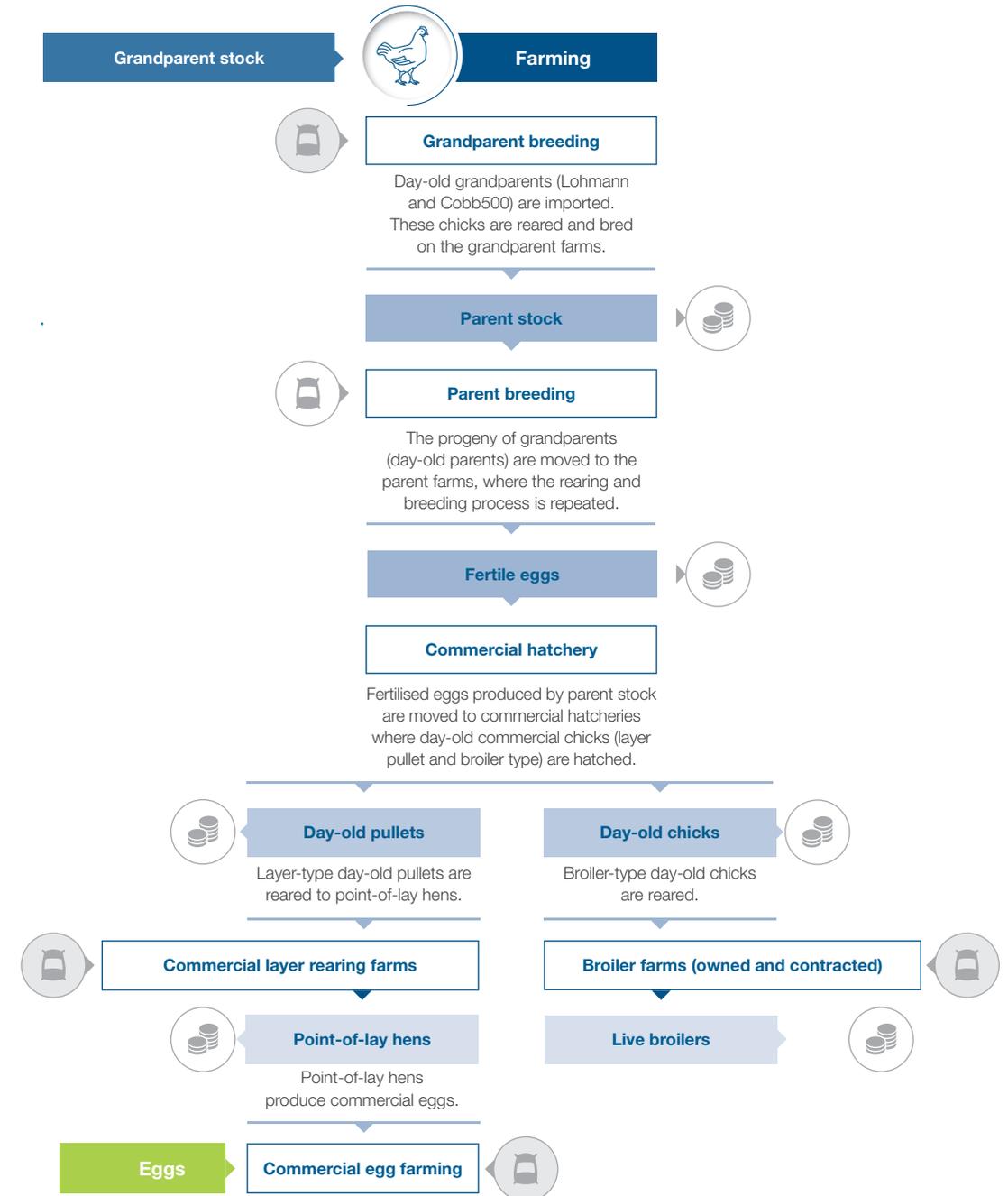
▶ The Group relies on a range of natural resources to enable its business activities. This includes, most importantly, grain, water, coal and gas.



The following diagrams illustrate Quantum Foods' business activities and value chain:



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





Business overview

INDUSTRY FEATURES

Companies operating in the feed and poultry industries in South Africa,

Mozambique, Uganda and Zambia experienced challenging trading conditions during the reporting period.

Higher production costs and selling price pressure

Eggs selling prices decreased substantially in South Africa and Mozambique. This can be attributed to increased egg production in South Africa, with the national flock reaching levels well above its size prior to the 2017 AI outbreak. These factors significantly reduced margins achieved by the egg industry.

Feed raw material costs were higher following the lower price levels of the previous year, which was assisted by strong crop yields. Global stock of key raw materials remained sufficient, and lower demand from China due to the mass culling of pigs infected with swine flu further supported relatively low international prices during the year.

Deteriorating electricity supply and poorly maintained municipal infrastructure, which particularly impacted the Group's South African operations, further increased production costs.

Certain industry issues continued

These include, for example, volatile currencies, muted consumer demand due to low levels of economic growth and continued pressure on the South African broiler industry due to dumping by international broiler exporters.

Rand vs US dollar exchange rate



Safex yellow maize Rand per ton



The risk of AI persists

While the devastating effects of AI did not repeat in the reporting period, the risk of outbreak persists in South Africa. AI results in substantial financial loss due to the immediate decimation of infected poultry, as well as lost production capacity as birds cannot be replaced immediately. Possible solutions include preventative vaccination, which is currently used in other parts of the world but not yet approved by the government for use in South Africa.

Pressure on broiler producers continues

To enable South Africa to remain a beneficiary of the African Growth and Opportunity Act ("AGOA"), the government entered into an agreement with the United States in 2016 that allows for chicken meat to be imported at lower duties. This, as well as the continued import of vast quantities of broiler meat from other countries, continues to 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, financial pressure experienced by the customers that are supplied by the Group could impact Quantum Foods.

Industry trends in the Group's other African operations

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. These markets were impacted by a slow-down in economic growth related to the international commodity cycle, as well as increased raw material costs.

The trading environment in Zambia was further challenged by several factors in 2019. This includes lower levels of political and fiscal stability that led to a substantial weakening of the Kwacha and import inflation. A new employment code was also introduced. While this code increased legislated benefits for employees it resulted in higher employment costs for companies operating in that jurisdiction. The Zambian broiler market remains highly competitive following the expansion of mostly South African broiler producers into the country.

Poultry remains a critical source of human nutrition

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 under strain, together with the expected increase in global demand for animal protein, poultry will remain a critical source of human nutrition.

SOUTH AFRICA

Animal feeds manufacturing

Quantum Foods' feed mills are located in Malmesbury, George, Paterson and Pretoria, where feed is sold under the *Nova Feeds* brand.

The 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. During 2019, *Nova Feeds* entered into a technology agreement with Nutreco, ensuring access to world-class research and feed formulation benchmarking.

Projects to increase production capacity at the Olifantskop feed mill in Paterson and Pretoria feed mill were completed in 2019. These projects increased the Group's total production capacity by approximately 16%.

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, pig, ostrich and sheep feed. *Nova Feeds* is the leading supplier of dairy feed in the Western Cape and Eastern Cape and supplies feed to several of the country's leading dairy farmers.

To unlock value for customers, the Group remains focused on providing customised feed solutions supported by high levels of technical service.



Farming

Layer farming

Quantum Foods owns the rights to import pedigree grandparent layer stock of the Lohmann breed and distribute next-generation parent stock exclusively in South Africa and non-exclusively to some southern African countries.

Day-old grandparent chicks are imported and placed on the Group's grandparent farm in the North West. Next generation parent day-old chicks are produced at this facility.

Day-old parent chicks are reared and placed on the Group's parent layer farm near Bronkhorstspuit, Gauteng, as well as on a rented facility in KwaZulu-Natal. Fertile hatching eggs are incubated at the Group's commercial hatchery in Bronkhorstspuit. This hatchery has capacity to produce 10.3 million day-old pullets per annum following the completion of an expansion project in 2019 that increased production capacity by approximately 24%. Female day-old chicks are either sold or placed on the Group's six commercial rearing farms.

Layer parent stock, hatching eggs, day-old pullets and point-of-lay hens are sold under the *Bergvlei Chicks* brand. The Group distributes nationally and into Angola, Botswana, Malawi, Mozambique and eSwatini – with strategically located commercial rearing farms ensuring extensive distribution coverage.

The Group owns 12 commercial layer farms. A rental farm agreement in the Free State was terminated during 2019. The Group now rents one commercial layer farm and an average of 5.8 million dozen eggs were produced per month on these 13 farms in 2019 (2018: 5.6 million). Production increased in 2019 due to the restocking of farms previously affected by AI as well as improved production efficiencies. The farms are located in the Western Cape, Eastern Cape, Gauteng and North West. Free-range eggs are produced on two of the farms. The Group procured approximately 0.4 million dozen eggs per month from contract farmers (2018: 0.4 million). This equates to a total of 900 million eggs per year (2018: 857 million).

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 grandparent chicks are imported and placed on the Group's grandparent farm in the North West. Next-generation parent day-old chicks are produced at this facility.

Day-old parent stock is placed on the three parent rearing farms in the Western Cape and, thereafter, on six parent layer farms. Of these six farms, four are owned by the Group and the remaining two are contracted farms that supply the Group with fertile hatching eggs.

Day-old commercial broiler chicks are produced at three hatcheries in the Western Cape and North West, with annual capacity of approximately 65 million day-old chicks. The day-old chicks are transferred to commercial Company-owned and contract-grower broiler farms, with the balance sold to the open market.

The Group supplied abattoirs in the Western Cape and Gauteng with approximately 785 000 live broilers per week (2018: 834 000), with the majority supplied to Astral and Sovereign Foods in terms of long-term supply agreements. The agreement with Sovereign Foods was changed in May 2019 to an agreement for the supply of day-old broiler chicks and broiler feed. This resulted in increased volumes of day-old chick sales and lower volumes of live broilers supplied per week.

The Group sells broiler hatching eggs and broiler day-old chicks to the market under the *Bellevue Chicks* brand to ensure that its broiler breeder production capacity is utilised efficiently and in support of the strategy of increasing livestock sales, while live broilers are sold under the *Tydstroom* brand.

Eggs

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

The eggs are distributed nationally as graded, ungraded or in liquid form. Graded eggs are sold under the *Nulaid*, *Safe Eggs* and retailer-own brands. Ungraded eggs are sold mainly under the *Quantum* brand.

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. Fresh and pasteurised liquid eggs are predominantly sold to industrial customers.

Quantum Foods' pasteurised eggs are produced at the grading and packing facility in Gauteng and distributed to other provinces through the Group's packing facilities.

OTHER AFRICAN COUNTRIES

Zambia

Quantum Foods Zambia commenced operations in 1997. Facility expansion was completed in 2019 and increased production capacity by 15%. *Mega* produced 89 million eggs in 2019 (2018: 84 million) and produces feed for consumption on the farm and for sale to external customers.

The distribution capacity of the Zambia business is enhanced by a network of over 30 small retail shops that sell eggs, day-old chicks and feed. The majority of eggs are sold through these shops which ensures easy access for the consumer.

Uganda

Quantum Foods Uganda commenced operations in 2000. The facility produced 17.5 million eggs in 2019 (2018: 17 million) Eggs are either sold directly from the Masindi farm or through a network of small retail shops.

Expansion of the Masindi egg farm from 60 000 to 100 000 layers was completed in 2019. However, due to recurring disease at the Kampala breeding facility, and to ensure sufficient eradication, the additional poultry houses at Masindi were used to temporarily relocate the Ugandan

breeder operation in 2019. Expected benefits of increased egg production capacity at Masindi were therefore postponed to the 2020 financial year.

Previously, broiler and layer parent stock were housed on the Kampala breeding facility. To reduce biosecurity risk going forward, land was acquired in 2019 to build a new layer breeder farm that will separate production from the broiler breeders.

Mozambique

Quantum Foods Mozambique acquired a layer farm in Maputo in September 2016. The farm produced 29 million eggs in the past year (2018: 25.7 million). The increase was due to improved production on the farm following increased management focus on farming practices and an increase in capacity utilisation. Feed is procured from a third party, and the farm is stocked with point-of-lay birds that are produced by the Group in South Africa. Eggs are sold under the *Galovos* brand with the majority of sales in the formal retail market.



FEEDBACK ON MANAGEMENT FOCUS AREAS IDENTIFIED FOR 2019

Business focus area	Management focus area	Key actions undertaken during the year	Achieved
Animal feeds	Successfully complete expansion projects at Olifantskop and Pretoria feed mills.	Both projects were completed successfully and commissioned in the last quarter of 2019.	✓
	Increase contribution from external sales.	External sales volumes increased by 7% from 2018. About half of this increase is due to the change in the Group's broiler farming business model. Read more on page 26.	✓
Farming	Improve layer farm productivity and contain non-feed cost per unit.	Layer farm productivity improved and non-feed cost per unit was lower than the previous year.	✓
	Ensure world-class broiler farm results at breeder and commercial broiler level.	Commercial broiler performance remained world class, especially in the Western Cape. However, performance at breeder level remained depressed. This was despite changes made to husbandry practices. Looking ahead, the Group does not foresee a return to targeted productivity levels in the short term.	Partial
	Increase broiler livestock volumes.	Volumes of day-old broiler chicks produced increased by 7.2% from 2018. Lower volumes are sold as live broilers following the change in the Group's broiler farming business model. Read more on page 26.	✓
Eggs	Remain the leading fully integrated egg business in South Africa.	<i>Nulaid</i> was again awarded the status as the best egg brand in South Africa.	✓
	Maintain the operational efficiencies achieved in 2018.	Operational efficiencies achieved in the egg packing stations improved from 2018 and were at world class levels in 2019.	✓
	Improve profitability through industry cycles.	Improved operational efficiencies and sales strategies resulted in more resilient earnings from eggs.	✓

Business focus area	Management focus area	Key actions undertaken during the year	Achieved
Africa	Pursue organic growth in all product categories.	Volumes in Zambia and Mozambique increased in all product categories. In Uganda, egg and feed sales increased. However, due to a temporary relocation of the Kampala Breeder farm that impacted productivity, day-old chick sales were lower than in 2018.	Partial
	Investigate additional territories to expand into through acquisitive growth opportunities	Additional territories are being investigated but not yet implemented.	In process
B-BBEE	Achieve B-BBEE compliance with the amended AgriBEE Sector Code	New supplier and enterprise development initiatives have been implemented. The Group places a continued focus on the transformation outcomes of its procurement and recruitment activities. Read more on page 51.	Achieved

2020 MANAGEMENT FOCUS AREAS

Business focus area	Management focus area
Animal feeds	<ul style="list-style-type: none"> Achieve targeted earnings from the expansion projects completed in 2019 at Olifantskop and Paterson. Increase contribution from external sales.
Farming	<ul style="list-style-type: none"> Improve broiler farm results at breeder level. Maintain commercial broiler farm production results in the Western Cape. Increase day-old broiler chick volumes. Achieve targeted earnings from the expansion of the day-old pullet hatchery at Bronkhortspruit. Improve commercial layer farm production results.
Eggs	<ul style="list-style-type: none"> Remain the leading fully integrated egg business in South Africa. Maintain the operational efficiencies achieved in 2019.
Africa	<ul style="list-style-type: none"> Improve operating margin.
Other	<ul style="list-style-type: none"> Improve B-BBEE compliance with the amended AgriBEE Sector Code. Maintain operating cost increases in South Africa below consumer price index ("CPI") on a per unit basis.



Strategic focus



Vision

Quantum Foods aims to be the leading feed and poultry business in Africa delivering sustainable returns.



Purpose

To build the best feed and poultry business.



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.

Quantum Foods has identified strategic themes that support the successful execution of its vision and purpose.

Quantum Foods has proved to be sustainable, with well-established business focus areas. The following strategic themes were developed in 2018 and will guide Quantum Foods' performance for a period of three to five years:

- Profitable growth through industry cycles
- Customer and product focus
- Operational excellence
- Optimal people capacity and culture

The strategic themes were reviewed in 2019. The fourth theme, which was previously 'enhance and maintain a performance culture', was subsequently amended to

ensure a wider focus on the contribution of human capital to achieve business objectives. The remaining three themes were unchanged.

Performance initiatives and targets are set per strategic theme. These initiatives and targets were approved at the annual Board strategy meeting. Actual performance against the targets set in the previous year was evaluated at this strategy meeting. These performance initiatives and targets cascade down the various management and employee levels of the Group and form the foundation of Quantum Foods' employee performance management system. This ensures that the execution of the strategy is aligned throughout the business.

QUANTUM FOODS' STRATEGIC FRAMEWORK

The following outlines the Group's strategic themes, which guided Quantum Foods' performance initiatives in 2019:

Performance initiative	Achieved in 2019	Going forward
Strategic theme: Profitable growth through industry cycles		
Achieve targeted additional profit from feed mill capacity expansion	Feed mill expansion projects commissioned in the last quarter of 2019.	Achieve targeted earnings from the capacity expansion to improve profitability from the less cyclical feeds business.
Achieve targeted additional profit from day-old pullet hatchery expansion (new)	Expansion project completed.	This performance initiative was added to ensure management focus on achieving targeted earnings from the capacity expansion to improve profitability from the less cyclical layer livestock business.
Maintain broiler livestock volumes supplied to customer abattoirs	In the Western Cape, broiler livestock volumes supplied to customer abattoirs increased by 3.0%. Broiler livestock volumes supplied in Gauteng and North West declined due to a change in the long-term supply agreement with Sovereign Foods.	Maintain profitability from the less cyclical broiler farming business conducted in the Western Cape.
Increase day-old broiler chick volumes (new)	Volumes increased by 7.2% from 2018.	This performance initiative was added following the change in the business model for Broilers North, whereby only day-old chicks are produced rather than day-old chicks and broilers. This will help improve profitability from the less cyclical broiler livestock business.
Judicious feed raw material procurement	Targeted feed raw material costs achieved.	Maintain cost competitiveness of key input costs – this includes the cost of maize and soybean meal, which are the largest contributors to total feed costs.
Achieve targeted operating margin in other African countries	Operating margin was below the target set for 2019. Performance was impacted by weaker trading conditions in Mozambique, Uganda and Zambia. Additional costs incurred and revenue lost in Uganda due to the temporary relocation of the breeder farm operations to the Masindi egg farm further impacted performance.	Improve Group operating margin by achieving targeted profitability from businesses outside South Africa, which traditionally achieve margins higher than in South Africa.
Read more on page 27.		



Performance initiative	Achieved in 2019	Going forward
Strategic theme: Customer and product focus		
Supply products within specification	Achieved throughout the year.	Maintain optimal product performance and ensure satisfied customers and consumers.
Contract additional customers with livestock and feed (removed for 2020)	Additional customers secured with a product offering that included livestock and feed.	This performance initiative was removed for 2020 as it is embedded within the business.
Implement customer days for layer livestock (removed for 2020)	Customers days were successfully implemented.	This performance initiative was removed for 2020 as it is embedded within the business.
Consider geographic distribution of egg sales (new)		This performance initiative was added for 2020 due to the anticipated increase in eggs available for sale. This will help the Group achieve optimal profitability from egg sales.
Strategic theme: Operational excellence		
Manage operational costs per unit below inflation	Achieved.	Ensure increases in operating costs are contained.
Improve layer farm production efficiency	Production efficiencies improved but not yet on target.	Pursue lower feed conversion costs and achieve more eggs available for sale.
Improve broiler breeder production efficiency	Not achieved, with number of eggs per hen housed and hatchability below target.	Increase the number of day-old chicks per parent hen to boost sales volumes and lower cost.
Maintain commercial broiler farm production efficiency	Achieved.	Maintain conversion costs and profitability.
Maintain operational efficiencies in egg packing stations	Targeted operational efficiencies achieved.	Control waste levels and ensure an optimal sales mix is achieved.
Strategic theme: Optimal people capacity and culture		
Continue to strengthen the Group's management team	Achieved, with all key vacancies filled.	Evaluate and improve the senior management succession plan.
Further roll out training to farming employees	Achieved, with e-learning successfully rolled out to farming employees.	Increase skills by improving farming employees' access to additional training materials. Evaluate and implement training requirements for non-farming employees.
Enhance Company values through recognition	Achieved, with an awards programme embedded in 2019.	Improve management's ability to effectively execute the Group's strategy.

Strategic risks

Proactive risk management is essential for the effective implementation of the Group's strategy and to ensure Quantum Foods remains a competitive and sustainable business.

Risk management improves operational effectiveness and enables improved value creation.

Quantum Foods' risk management process consists of the following steps:

Potential risks arise from the Group's business activities and operating environment – this includes economic, environmental and social risks.

Identify and evaluate the risks that may have a material impact on the Group's ability to achieve its strategy

A workshop is conducted by Quantum Foods' internal auditors and senior management team to identify and evaluate risks. To prioritise management focus and mitigating actions, identified risks are assessed for the likelihood of occurrence and potential financial impact. The scale used for assessment is outlined below. The product of the likelihood and impact assessment determines the risk score.

Likelihood		Impact	
1	Rare	1	Minor
2	Unlikely	2	Significant
3	Moderate	3	Serious
4	Likely	4	Critical
5	Common	5	Catastrophic

This workshop occurs at least every second year (last held in 2018 and scheduled for 2020). The results of the workshop are reported to and approved by the audit and risk committee ("ARC"), which oversees the Group's risk management framework.

In 2019, an internal review of risks impacting the Group was conducted and minor updates were made and presented to the ARC for approval.

Define mitigating controls for each risk

The risks and relevant mitigating controls form the Group's combined assurance framework. This framework is approved by the ARC and forms the basis for Quantum Foods' internal audit programme.

[Read more about the Group's combined assurance framework on page 62.](#)

Assess any residual risk if the Group's mitigating strategies are effective

Key residual risks are identified.

Ensure ongoing risk management

Day-to-day risk management is the responsibility of operational and senior management and the executive committee.

Report on risks that occurred

The executive committee has an ongoing responsibility to monitor risks and report back to the ARC and the Board. The Group's risk appetite framework sets out thresholds for material risks that cannot only be reported on at a planned meeting but that require immediate reporting to the ARC and Board. This assists the ARC and Board to continuously monitor the level of risk at which the Group is operating.

Update the Group's risk register and mitigating controls on an ongoing basis

Any new risks that are identified (including additional mitigation controls) are updated and included as part of the Group's combined assurance framework.



QUANTUM FOODS' TOP 10 RESIDUAL RISKS

1. Poultry diseases impacting the productivity of poultry
2. Inability to cope commercially with raw material price increases – particularly maize and soya meal
3. Declining consumer spend impacting sales
4. Supply and demand imbalances – oversupply resulting in pricing challenges (eggs)
5. New market entrants increasing competition
6. Key management exposure (leadership team)
7. Suboptimal corporate culture negatively impacting strategy execution
8. Non-compliance with animal welfare regulations and requirements
9. Inability to recruit suitably skilled candidates for specialised positions
10. Cyber security breach resulting in loss of information

Risk description	Mitigation to create opportunities	Residual risk score (likelihood times impact)
Poultry diseases impacting the productivity of poultry	<ul style="list-style-type: none"> The Group runs a comprehensive vaccination and flock health monitoring programme. The Group enforces strict biosecurity management. Specific additional monitoring and biosecurity measures were implemented due to the increased threat of AI. The geographical spread and number of Quantum Foods' farming operations provide the Group with some protection from the impact of poultry disease 	20
Inability to cope commercially with raw material price increases – particularly maize and soya meal	<ul style="list-style-type: none"> 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. Regular monitoring of the Group's raw material cost position informs margin management. The centralised raw material procurement department observes market trends daily. 	15
Declining consumer spend impacting sales	<ul style="list-style-type: none"> The Group supplies animal feeds and produces eggs and broilers that fulfil basic nutritional requirements. Poultry is an excellent, cost-effective converter of animal feeds to protein (eggs and broiler meat). The Group ensures a continuous focus on efficiencies and cost management. 	10
Supply and demand imbalances – oversupply resulting in pricing challenges (eggs)	<ul style="list-style-type: none"> The egg production plan is adjusted based on the monitoring of industry trends and available statistics to forecast potential egg supply and demand imbalances. 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. 	9

Risk description	Mitigation to create opportunities	Residual risk score (likelihood times impact)
New market entrants increasing competition	<ul style="list-style-type: none"> The Group maintains an awareness of new competitors entering the market through its market research initiatives. A relentless focus on production efficiencies and cost management enables the Group to remain competitive. 	9
Key management exposure (leadership team)	<ul style="list-style-type: none"> The Group maintains a formal succession plan, which includes a biannual talent planning review. A long-term and short-term incentive system is in place to retain senior management. 	9
Suboptimal corporate culture negatively impacting strategy execution	<ul style="list-style-type: none"> Quantum Foods' values are entrenched according to a formal roll-out plan, which includes rewarding exceptional adherence to the Group's values. This is a separate initiative that does not form part of Quantum Foods' remuneration policy. 	9
Non-compliance with animal welfare regulations and requirements	<ul style="list-style-type: none"> Formal training programmes are in place, assisted by third-party veterinary consultants. Internal and external audits are conducted regularly to monitor compliance. Formal meetings are held with the NSPCA to discuss relevant matters. 	9
Inability to recruit suitably skilled candidates for specialised positions	<ul style="list-style-type: none"> The Group builds relationships with universities and offers bursary programmes. Formalised development plans for internally identified talent are monitored. The annual intake of interns for animal production training helps build necessary skills. Partnerships with recruitment agencies are in place to facilitate and improve access to potential candidates. 	9
Cyber security breach resulting in loss of information	<ul style="list-style-type: none"> Information technology ("IT") security is outsourced to the Business Connexion Group, a third-party supplier that houses the Group's IT information in highly secure data warehouses. A formal cyber security risk management program is in place, which includes the continuous review of vulnerabilities, initiatives to increase employee awareness and action to maintain cyber risk insurance cover. 	9



HA Lourens
Chief Executive Officer

WA Hanekom
Chairman

Joint report of the chairman and CEO

Quantum Foods’ financial results were satisfactory considering the sluggish economy and challenging industry conditions. Limited economic growth put pressure on consumers and negatively impacted their ability to purchase eggs and chicken meat. Continuing electricity challenges further weighed heavily on the Group’s ability to provide affordable protein to consumers. In particular, load shedding impacted the production capacity of Quantum Foods’ feed mills. This made it necessary for the Group to buy feed from other suppliers during the year, which impacted cost recovery and the cost of feed.

OPERATING ENVIRONMENT

No further outbreaks of Avian Influenza (“AI”) were reported during fiscal 2019, positively impacting the South African layer population. According to the South African Poultry Association, the layer flock peaked at 24.4 million pre-AI and declined to 21 million following the outbreaks in 2017 and 2018. The latest expectation is that the South African layer flock will reach 28.6 million in December 2019. Egg prices followed an inverse trend and decreased to below pre-AI levels towards the end of 2019.

Raw material costs increased during the year. Maize production declined by c.10.5% (approximately 1.3 million tons) due to dry conditions in maize growing regions. Accordingly, the price of yellow maize on SAFEX increased by 25.5% compared to 2018. The price of other key feed raw material inputs, such as bran and hominy chop, followed maize prices. Bran and hominy chop prices increased by 19% and 31% respectively. The price of soybean meal increased marginally by 2% due to a decline in international prices. However, the full benefit of this was offset by a 10% weakening of the Rand against the US dollar.

SEGMENTAL OVERVIEW

Nova Feeds again performed well. Internal feed volumes lost due to the outbreak of AI were recovered in the second half of the year. External volumes grew by 3.8% on a comparative basis. Margins, however, remained under pressure and declined due to a less favourable product mix and the competitive environment. Costs were well managed and increases in cost per unit were maintained below inflation. The capital investment in the Pretoria and Paterson plants was well executed and the benefits from these two projects should commence in 2020.

The performance of the commercial broiler farms remained excellent. Efficiency challenges at breeder level are being addressed. However, given the nature of the biological and genetic selection process, it will take up to two years for real progress to be seen. In the interim, management changed certain farming practices to enhance performance. This resulted in a steady improvement in hatchability during the year. The broiler farming business continues to grow, supported by a 7.2% increase in broiler chicks produced in 2019. This increase was mainly driven by the expansion of the Hartbeespoort hatchery that was completed in 2018.

The layer farming business performed well, strengthening its profitability and improving commercial layer productivity by more than 6%. Layer breeders exceeded the Lohmann standard again. The sale of day-old layer chicks declined by 2.0% due to additional rearing placements on own farms. However, this resulted in point-of-lay sales increasing by 5.3%.

The eggs business delivered a strong operational and satisfactory financial performance, with volumes increasing by 5.5%. Supply in the egg market increased and egg prices declined by 14.3% due to South Africa’s layer stock being replenished. Most importantly, the business continued to improve its operational efficiency. Costs were well managed and increases on a nominal and per unit basis were maintained below inflation.

Quantum Foods’ other African businesses performed satisfactorily. Raw material prices increased in all jurisdictions. The maize harvest in Zambia was poor and prices reached record highs amid fears that maize might need to be imported for the first time since 2004. These high prices resulted in small farmers being unable to afford layer and broiler day-old chicks. The current capex cycle for Zambia was concluded following the completion of the Mega Eggs expansion.

Feed raw material prices in Uganda were higher than the previous year, and closer to the long-term average. The breeder farm was depopulated for maintenance and cleaning, with breeders housed at the Masindi farm. Against this backdrop, local management did well to maintain profitability and operational efficiency.

Mozambique delivered a satisfactory operational and financial performance. The dynamics of the South African egg market influenced the Mozambican market. Despite these challenges, the business remains cash positive.

FINANCIAL OVERVIEW

Group revenue increased by 7% to R4 418 million, with a 7.2% increase of R279 million in the South African operations and a 7.4% increase of R16 million in the other African operations. Revenue from the other African operations contributed 5.4% to Group revenue for 2019 (2018: 5.4%).

Revenue from the South African operations:

- Increased by R298 million for the feeds segment: This is a result of adjusted selling prices in response to higher average raw material costs and a 7.3% increase in volumes sold.
- Increased by R92 million for the farming segment: Similar to the feeds segment, broiler selling prices increased as a result of higher average feed costs being used to determine selling prices. Volumes increased in the layer and broiler farming businesses.
- Decreased by R111 million for the eggs segment, with an average price decrease of 14.3% and a volume increase of 5.5% achieved.

Cost of sales increased by 6.5% to R3 395 million. Cost of sales includes the fair value adjustments of biological assets (livestock) and agricultural produce (eggs) that were realised and included in other gains and losses in the statement of comprehensive income.



These fair value adjustments for the year ended 30 September 2019 amounted to R147 million (2018: R418 million). The decrease was mostly reflective of the decreased margins in the egg business. Excluding these fair value adjustments, gross profit decreased by R183 million to R1 170 million at a margin of 26.5% (2018: 32.8%).

Cash operating expenses were well managed and increased by 2.5% in 2019.

Operating profit, before items of a capital nature, decreased by 48% to R245 million for the year under review.

The Group's South African operations recorded a 47% decrease of R215 million to achieve a profit of R240 million at a margin of 5.7% (2018: 11.7%). The feeds and farming segments improved by R20 million and R14 million respectively, and the eggs segment weakened by R248 million. Feeds, profit benefited from higher volumes. This included external sales volumes and volumes required by the internal layer farming business. Farming profit benefited from higher volumes and there was no reoccurrence of the AI incidents that affected the Western Cape layer farm operations in 2018. Eggs profit was supported by an increase in sales volumes. However, the supply of eggs to the market increased, resulting in a decline in selling prices that negatively affected profit. The Group's other African operations recorded a decrease in profits of R17 million, which resulted in a profit of R14 million. Profit decreased in all three countries due to higher raw material costs than the previous year and more challenging operating conditions.

Headline earnings per share ("HEPS") decreased to 92.3 cents from 163.9 cents per share in 2018.

Cash inflow from operations amounted to R163 million for the reporting period. This includes an increased investment of R109 million in working capital.

Capital expenditure for the period amounted to R153 million. In addition to maintenance capital, other key items included:

- a project to increase capacity at the *Mega* layer farm in Zambia;
- expansion of the *Masindi* layer farm and *Kampala* hatchery in Uganda;
- expansion of the feed mills in Pretoria and Paterson;
- expansion of the layer hatchery in Bronkhorstspuit; and
- the upgrade of an egg grader at the Pinetown packing station.

Cash and cash equivalents decreased from R422 million at 30 September 2018 to R220 million at 30 September 2019. The decrease includes R163 million in dividends paid, R35 million in shares repurchased and cancelled and R27 million in treasury shares that were acquired.

The Group had minimal borrowings at 30 September 2019. This comprised an arrangement to purchase electricity generated from solar panels, which was capitalised as a finance lease in terms of International Financial Reporting Standards ("IFRS").

DIVIDEND AND SHARE REPURCHASE

The Group targets a HEPS cover of approximately four times for the declaration of dividends. However, in declaring a total gross final dividend of 25 cents per share, the Board further considered the cash generated by Quantum Foods and the healthy cash position of the Group at 30 September 2019.

Full year dividend at a HEPS cover of four times	23 cents
Special dividend due to 2019 cash generation (2018: 49 cents per share)	10 cents
Total dividend (2018: 90 cents per share)	33 cents
Less interim dividend declared	(8 cents)
Total final dividend	25 cents

At a rate of 20%, dividends tax will amount to 5 cents per share. Consequently, shareholders who are not exempt from dividends tax will receive a net dividend amount of 20 cents per share. Such tax will be withheld unless beneficial owners of the dividend provide the necessary documentation to the relevant regulated intermediary to indicate that they are exempt therefrom or entitled to a reduced rate as a result of the double tax agreement between South Africa and their country of domicile.

During the year under review, Quantum Foods bought back and cancelled 10 505 000 shares at a cost of R35.2 million, equating to an average price per share of R3.35. In addition, a subsidiary of Quantum Foods purchased 8 083 426 shares at a cost of R27.4 million, equating to an average price per share of R3.39. These shares are held as treasury shares. The issued share capital at 30 September 2019 is 200 024 716 shares. The Board intends to continue with the repurchase of shares.

The applicable dates are as follows:

Last date of trading <i>cum</i> dividend	Tuesday, 14 January 2020
Trading ex dividend commences	Wednesday, 15 January 2020
Record date	Friday, 17 January 2020
Dividend payable	Monday, 20 January 2020

Share certificates may not be dematerialised or materialised between Wednesday, 15 January 2020 and Friday, 17 January 2020, both days inclusive.

OUTLOOK

While the decline in egg prices was slower than anticipated, by the end of the financial year prices dropped to below the pre-AI levels of June 2017. We therefore expect severe pressure on the egg business for the next 24 to 36 months. The farming and feed businesses should continue to perform well, and both are less exposed to raw material price dynamics. Trading conditions for the other African businesses will be challenging in the upcoming period. Should raw material prices soften in the second half of 2020, these businesses are well positioned to benefit and deliver a solid performance.

We anticipate that South Africa's summer rainfall regions will receive normal levels of rainfall. This should result in sufficient maize to meet domestic demand. Globally, stock levels of maize and soybean remain sufficient. The Rand to US dollar exchange rate remains unpredictable and will influence all raw material prices. In particular, a weak Rand will lead to an increase in all major feed raw material prices.

The next period is expected to be more challenging than the past two financial years. However, Quantum Foods' investments made to increase production capacities in the less cyclical feeds, farming and other African businesses, as well as the investments made to improve efficiencies in the eggs business, have equipped the Group to navigate through the anticipated headwinds successfully.

APPRECIATION

In the past year, Quantum Foods delivered its second-best financial performance since 1997. Many people contributed to this success. We would like to extend our gratitude to the Board, the executive team and all employees as well as our customers and suppliers for their constructive contribution to the business.

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer



Board of directors and executive committee



1. Lesego Amos Selaledi | 2. Roelof Viljoen | 3. James Joseph Murray | 4. Norman Celliers |
 5. André Hugo Muller | 6. Wouter André Hanekom | 7. Prof. Abdus Salam Mohammad Karaan |
 8. Marthinus Petrus van Lill | 9. Geoffrey George Fortuin | 10. Tanya Golden | 11. Patrick Ernest Burton

12. Heather Elizabeth Pether | 13. Marisha Octavia Gibbons | 14. Hendrik Albertus Lourens |
 15. Jan Hendrik van Rhyn | 16. Adel Deidré van der Merwe



Board of directors



WOUTER ANDRÉ HANEKOM (60)	PATRICK ERNEST BURTON (66)	GEOFFREY GEORGE FORTUIN (52)	PROF. ABDUS SALAM MOHAMMAD KARAAAN (51)	TANYA GOLDEN (47)
Chairman	Lead independent non-executive director	Independent non-executive director	Independent non-executive director	Independent non-executive director
André was appointed to the Board on 1 October 2014 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; and social and ethics. 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.	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); and 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 holding companies. Patrick is a board member of various listed and unlisted companies.	Geoff was appointed to the Board on 28 April 2015. Qualifications CA(SA) Quantum Foods Board and committee membership Non-executive director; audit and risk Geoff is currently the financial director of Brimstone Investment Corporation Ltd. He was previously 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 of directors.	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; and 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.	Tanya was appointed to the Board on 10 December 2018. Qualifications LLB, LLM (UCT), LLM (AU, USA) Quantum Foods Board and committee membership Non-executive director Tanya is a senior counsel and has been a member of the Cape Bar for the past 20 years. She has served as Chairperson of the Cape Bar Council and is presently the Chairperson of the Cape Bar Transformation Committee and the National Transformation Chairperson for the General Council of the Bar. Tanya served as a member of the Financial Services Board Enforcement Tribunal. She was previously appointed by the MEC of Health to serve on one of the Department's Hospital Board's and as chairperson for three years.



NORMAN CELLIERS (46)	HENDRIK ALBERTUS LOURENS (56)	ANDRÉ HUGO MULLER (49)	MARISHA OCTAVIA GIBBONS (28)
Non-executive director	Chief executive officer	Chief financial officer	Company secretary and legal advisor
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. He is currently the chief executive officer of Zeder Investments Ltd.	Hennie was appointed as chief executive officer of Quantum Foods in 2007, while it was a division of Pioneer Foods and was appointed to the Board on 27 January 2014. Qualifications BCom (Hons), MCom, BProc Quantum Foods Board and committee membership Executive director – Group managing 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 over 21 years.	André was appointed to the Board on 27 January 2014. Qualifications CA(SA) Quantum Foods Board and committee membership Executive director – Group financial director André joined Quantum Foods in 2003, while it was still a division of Pioneer Foods. He started at <i>Nulaid</i> as a financial manager and was later appointed as the farming operations manager for <i>Nulaid</i> , a position he held for four years. André spent a year as national sales and marketing manager for <i>Tydstroom</i> before being appointed as head of finance for Quantum Foods in 2012.	Marisha was appointed on 17 May 2018. Qualifications LLB Company secretary Marisha joined Quantum Foods in May 2018 from Parmalat SA (Pty) Ltd, where she practised as a legal advisor for two years. She completed her articles at ENSAfrica (Stellenbosch) in the corporate commercial department. She has five years' experience in the legal and compliance environment.



Executive committee



HENDRIK ALBERTUS LOURENS (56)	ANDRÉ HUGO MULLER (49)	ROELOF VILJOEN (53)	MARTHINUS PETRUS VAN LILL (49)	ADEL DEIDRÉ VAN DER MERWE (48)
Chief executive officer	Chief financial officer	Executive: Supply chain	Executive: Feeds	Executive: Eggs
Hennie has been with Quantum Foods since 2007. Qualifications BCom (Hons), MCom, BProc 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 over 21 years.	André has been with Quantum Foods since 2003. Qualifications CA(SA) André joined Quantum Foods in 2003, while it was still a division of Pioneer Foods. He started at <i>Nulaid</i> as financial manager and was later appointed as the farming operations manager for <i>Nulaid</i> , a position he held for four years. André spent a year as national sales and marketing manager for <i>Tydstroom</i> before being appointed as head of finance for Quantum Foods in 2012.	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 18 years' experience in the food industry, of which 10 years were spent in the poultry industry. Roelof was appointed in his current role in 2016.	Thinus has been with Quantum Foods since 1997. Qualifications BCom (Acc), BCompt (Hons), SAIPA (PA) Thinus has been with <i>Nova Feeds</i> since 1997, while it was still a division of Pioneer Foods. He has since progressed from a financial manager to the executive responsible for Feeds. He has 22 years' experience in the animal feeds and poultry industry	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 and moved to central procurement where she spent the bulk of her time involved in raw materials and commodities procurement. In 2008, she joined <i>Nova Feeds</i> while it was still a division of Pioneer Foods. She joined the Eggs business during 2016. She has more than nine years' experience in the animal feeds and food industry



JAMES JOSEPH MURRAY (62)	HEATHER ELIZABETH PETHER (51)	JAN HENDRIK VAN RHYEN (54)	LESEGO AMOS SEALEDI (42)
Executive: Broiler farming	Executive: Human resources	Executive: Africa	Executive: Layer farming
Jimmy has been with Quantum Foods since 2013. Qualifications National Diploma in Agricultural Extension and Soil Conservation Jimmy has 38 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 Chicken Ltd, 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 has been with Quantum Foods since 2005. Qualifications National Diploma in Human Resources Heather has 23 years' experience in the human resources field. She spent seven years as the human resources manager of <i>Tydstroom</i> while it was a division of Pioneer Foods. She was appointed as the executive responsible for human resources at Quantum Foods in 2012.	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 startup internet and internet-related businesses in South Africa, China and a number of African countries. This includes Nigeria, where he was based for three years. Jannie was involved in projects, business development and operations in sub-Saharan Africa for 13 years. He joined Quantum Foods in November 2014 and is responsible for the business in the rest of Africa.	Amos has been with Quantum Foods since 1999. Qualifications BAgric, BInstAgrar (Hons), MPhil, BBA, MBA Amos joined Quantum Foods in 1999, while it was still a division of Pioneer Foods. He started at <i>Nulaid</i> in 2003 as a technical specialist and joined <i>Nulaid</i> in 2003 as a technical manager. He then became regional manager before being appointed as the executive for layer farming in January 2017. He has 20 years' experience in the poultry industry

The executive committee comprises a team of experienced senior managers with sound industry knowledge and who have been with the business at least since its listing on the JSE in 2014. This contributes positively to the execution of the business strategy and operational performance.



Ensuring responsible business

Quantum Foods' stakeholders contribute to the success of its business. The Group therefore takes stakeholder concerns seriously and strives to continuously improve its governance, transformation and sustainability initiatives.

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;
- attract and retain a diverse pool of talent; and
- provide shareholders with positive returns on their investment.

Read more about the Group's approach to stakeholder engagement on page 64.

PRODUCT SAFETY AND CUSTOMER COMPLAINTS

Feeds business

Quantum Foods aims to provide safe feed according to good manufacturing practices in the animal feeds industry and is a member of the Animal Feed Manufacturers Association ("AFMA"). Quality assurance is crucial and all feed mills have Integrated Management Systems ("IMS") in place that are subject to annual external audits and reviews to ensure adherence to industry, regulatory and product safety standards. Certain audits are conducted by internationally accredited certification bodies. This includes a complete re-certification audit done every three years. An internal audit programme enables continuous monitoring and improvement of the IMS.

Customer satisfaction is important and the Group has a formal customer complaint system in place. Furthermore, an independent customer satisfaction survey is conducted annually 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 IMS and enhance customer satisfaction.

Farming business

The Group's farming operations and the health of poultry flocks are important in the production of safe food. Stringent biosecurity measures are in place at all farms and are audited regularly by internal employees and external veterinarians contracted by the Group.

In addition to biosecurity measures, the Group implemented vaccination programmes and monitors serology, environmental and water quality results to maintain a healthy flock capable of producing safe food. At a minimum, internal health and safety audits are conducted annually at all layer farms, cull depots and broiler farms.

Egg business

It is important that Quantum Foods provides safe and reliable products to its customers and consumers. The Group's grading facilities are subject to regular external audits, which ensure compliance to food safety management systems, applicable laws and regulations. The Group's grading facilities are also subject to audits from national retail customers. An annual internal health and safety audit is conducted at all grading facilities.

As complaints in the egg business are generally more generic than those received in the feeds business the Group uses an external company to monitor complaints. A toll-free number is available to customers and consumers, and all calls are logged and managed. A weekly report is generated and monitored by senior management to identify trends and assist the Group develop 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. A conscious 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, with limited opportunities for reduction beyond ensuring that water is not wasted. The aim is to critically analyse waste production and ensure that all relevant aspects are managed responsibly.

The Group is acutely aware of the impact of its operations on the environment, particularly in terms of its carbon emissions. During 2019, a baseline assessment was done to evaluate the Group's carbon emissions. Going forward, performance will be reported to the social and ethics committee ("SEC") and will be a key consideration when evaluating new capital projects.

The table below outlines the Group's overall performance for 2019 and in comparison with the previous year. This enables stakeholders to monitor performance, and helps the Group identify improvement opportunities.

Environmental performance indicators

Consumption	2019	(Decrease)/ increase from 2018	Commentary to explain shifts in environmental performance indicators
Water (kℓ)	1 413 077	6%	Water consumption increased due to higher production on Western Cape layer farms that were empty in 2018 due to AI.
Electricity (kWh'000)	44 450	5%	Electricity consumption increased due to higher feed volumes produced and higher production on Western Cape layer farms that were empty in 2018 due to AI.
Coal (tons)	2 520	(16%)	This decreased due to the timing of broiler production cycles compared to the previous year (heating is only used at the start of the cycle).
Gas (kg)	1 427 225	2%	There was a higher production of point-of-lay birds in the layer farming business, with the Western Cape farm empty in 2018 due to AI.
Diesel/petrol/paraffin (ℓ)	1 022 507	11%	There was an increased use of generators during load shedding and higher production volumes in the feed and layer farming businesses.
Heavy fuel oil ("HFO") (ℓ)	1 042 513	2%	Feed volumes increased.
Packaging (tons)	12 390	(6%)	Large volumes of eggs were transported to the Western Cape in 2018 to supplement the production deficit caused by AI. This resulted in additional packaging material required in 2018.
Waste			
Litter/manure produced (tons)	144 078	6%	} Higher production on Western Cape layer farms that were empty in 2018 due to AI.
Mortalities to landfill/waste pit (tons)	743	4%	
Effluent water (kℓ)	204 993	5% ¹	

¹ 2018 figure restated – accuracy improved with the installation of additional water consumption meters.



Conservation

The relationship with the Western Cape Nature Conservation Board in respect of the perpetual biodiversity agreement at a portion of the Farm Zouterivier continues. 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 external service providers, energy-saving opportunities are continuously evaluated across the Group's integrated value chain. Quantum Foods' main energy-intensive activities relate to the boilers used in the preparation of animal feeds, the temperature control of hatching eggs, the rearing of layer and broiler chicks and the overall production of egg packing stations. Opportunities for energy efficiency and savings include process optimisation and the introduction of advanced technologies to reduce the burden of the Group's energy-intensive activities.

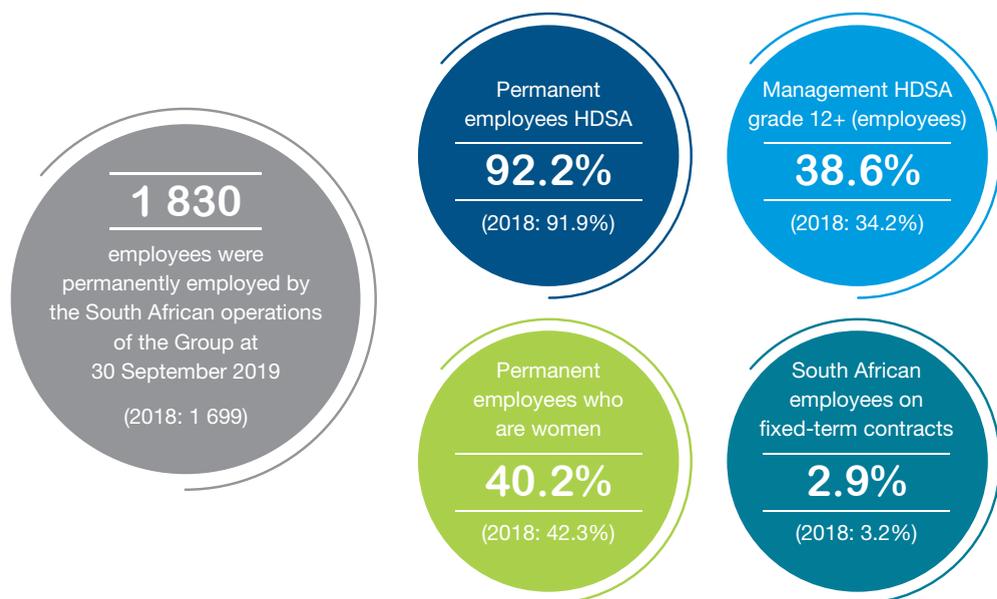
During 2019, a solar panel system was installed at the Brackenfell egg packing station. Three of the Group's egg packing stations are now equipped with these systems, which reduce Quantum Foods' dependency on electricity generated from non-renewable sources. The further implementation of energy-efficient lighting continued during the year. The performance of all initiatives is measured monthly and meets expectations. Further initiatives will be undertaken in future, with an emphasis on improving efficiencies at an optimal cost-benefit ratio.

HUMAN RESOURCES

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. Increasing the percentage of management deemed HDSA is a direct focus area in terms of the Group's employment equity strategy.

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



Employment equity statistics as at 30 September 2019

Occupational levels	African		Coloured		Indian		White		Foreigners		Total
	F	M	F	M	F	M	F	M	F	M	
Top management	0	1	2	0	0	0	1	6	0	0	10
Senior management	1	3	2	0	0	0	2	17	0	0	25
Professionally qualified, experienced specialists and mid-management	2	19	7	10	1	1	8	44	0	0	92
Skilled technical and qualified employees, junior management, supervisors, foremen and superintendents	32	112	46	52	4	4	28	33	0	0	311
Semi-skilled and discretionary decision-making employees	149	241	78	114	2	2	3	1	0	0	590
Unskilled and defined decision-making employees	329	408	38	25	0	0	0	0	0	2	802
Total permanent employees	513	784	173	201	7	7	42	101	0	2	1 830
Non-permanent employees	10	15	8	8	1	0	3	8	0	1	54
Total	523	799	181	209	8	7	45	109	0	3	1 884

Total number of employees as at 30 September 2019

The employee numbers for the South African operations are reflected in the table below:

	2019	2018
Salaried	504	480
Salaried contractors	40	38
Waged	1 326	1 219
Waged contractors	14	19
Total	1 884	1 756

During the year, the Group's South African employee complement increased by 7.3% as the business continued its efforts to shift from temporary to permanent labour. The increase can also be attributed to increased production at the Group's Western Cape layer farms and a previously dormant Western Cape broiler farm being utilised. Employees at a rented broiler farm in the North West were also permanently employed.

The Group employs 389 (2018: 371) individuals in Zambia, 112 (2018: 98) individuals in Uganda and 72 (2018: 70) individuals in Mozambique.

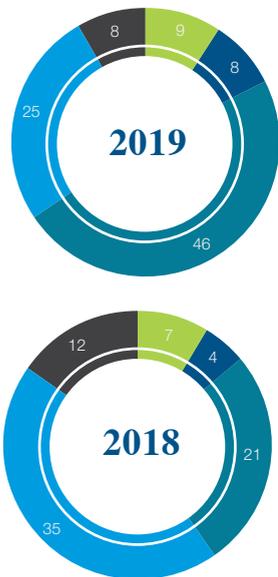
By ensuring a high percentage of permanent employees, the Group provides more individuals with access to the retirement and disability benefits provided by the Group. Permanent employees further provide the Group with a stable and experienced skills base that will increase the competence of the business over time.



Training

The Group invests in the development of its employees' skills, knowledge and capabilities. Several life skills development workshops were held for employees during the year. This will continue in the new year. Legislative training was completed and several workshops and seminars were attended by employees during the year. The number of participants in the Group's learnerships and skills development programmes increased substantially year-on-year. This is in line with Quantum Foods' focus on strengthening the capabilities of its junior management.

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



● Internships ● Apprenticeships ● Learnerships
● Bursaries ● Adult basic education and training ("ABET")

The below indicates the training spend for 2019:

Training spend	2019	2018
Total number of employees trained	701 ^{1,2}	318 ¹
Employee training spend	R5.04m	R3.20m
Employee training spend as a percentage of payroll	1.4%	1.0%

¹ Excludes the Group's value sessions, which formed part of the roll out of its employee engagement model.

² A large numbers of the Group's employees in the eggs business were involved in a life skills training programme.

The Group will continue with its scholarship programme by offering bursaries to HDSAs who are studying towards an agricultural qualification. Currently, the Group is supporting three students studying at the Elsenburg Agricultural College.

Occupational health and safety

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. Occupational health and safety training is conducted annually.

	2019	2018
Number of fatalities	0	0
Total number of recordable injuries	103	84
Number of lost days	551	658

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

	2019	2018
Total turnover	12.1%	19.2%
Management turnover (South African operations)	2.1%	2.9%
Not in management turnover (South African operations)	9.9%	16.3%

Quantum Foods supports its employees' rights to collective bargaining.

Employees are represented by nine trade unions.

Labour union management

	2019	2018
Percentage of employees who belong to a trade union	37.2%	48.9%

The Food and Allied Workers' Union ("FAWU") has the highest overall representation among Quantum Foods' employees. At 30 September 2019, 26% of the Group's wage employees in its South African operations belonged to FAWU (2018: 34%). The reduction in union membership is due to resignations from FAWU at two of the Group's Western Cape farms and lower enrollment from newly appointed employees. Wage negotiations were concluded between March and September 2019. The next round of negotiations will commence in January 2020 for implementation in March 2020.

B-BBEE

Quantum Foods recognises its obligation to contribute towards improving the socio-economic status of HDSAs. The introduction of the amended AgriBEE Sector Code in December 2017 significantly raised the bar for compliance, specifically with the introduction of subminimum requirements for ownership, skills development and enterprise and supplier development (including preferential procurement), which, if not achieved, immediately results in a lower B-BBEE score.

In addition to this, the cost to train HDSAs and achieve compliance has increased significantly.

This resulted in the level 8 achieved on the overall score for 2018 being discounted to a non-compliant status due to the subminimum on the ownership, preferential procurement and skills development elements not being achieved in 2018.

Achieving and maintaining a B-BBEE compliant status remains a key management focus area. During 2019, 18 091 661 shares were purchased from B-BBEE shareholders following the end of a lock-in period.



More details are available on page 57.

This resulted in a reduction in the score achieved for the ownership component of the 2019 AgriBEE scorecard. The 2019 audit was carried out by AQRate.



The 2019 scorecard is available at www.quantumfoods.co.za/company-documents.

The Group continues to contribute to enterprise and supplier development. Current initiatives include:

- the provision of an interest-free loan to a HDSA to expand his Western Cape egg farm;
- supplying HDSA farmers with discounted point-of-lay hens;
- feed and farm management assistance to HDSA farmers for improved egg production;
- the rental of a broiler farm in Bronkhorstspuit from a HDSA; and
- egg procurement from a HDSA egg producer in the Western Cape.

Benefits of R12.5 million (2018: R7.5 million) accrued for the year. Other projects to assist smaller HDSA suppliers continued during the year. This includes assisting suppliers with their administrative systems.

The Group considers B-BBEE when any external appointments are made, especially at the senior level to improve its management control and employment equity scores. On 10 December 2018, a black female was appointed as a non-executive Board member. In addition to achieving improved gender and race diversity, this appointment also benefited the Group's scorecard.



COMMUNITY PROJECTS

The Group's involvement in its "adopted" primary school, which is situated close to its head office in Wellington, continues. In 2019, Quantum Foods provided funding of R1.1 million to the school compared with R1.2 million in 2018. Through its Social Club, Quantum Foods' employees were specifically involved in the Santa Shoe box project at the school.

In 2019, employees also contributed towards gifts and made sandwiches for children at Soetendal Primary School in Wellington in support of Mandela Day.

As the Group is passionate about education, it provided R450 000 in funding to Khula Development – an organisation that supports out-of-school children in the Paarl East area. The organisation's mission is to integrate at-risk children back into the school system.

To improve food security and support this basic human requirement, Quantum Foods continued its support of FoodForward SA. FoodForward SA collects edible surplus food from manufacturers, wholesalers and retailers, and redistributes this food to verified non-profit organisations that collectively feed thousands of hungry people daily.

The Group contributed R450 000 to FoodForward SA in 2019.

Quantum Foods remains involved with 2nd Harvest, a non-profit organisation dedicated to providing meals to the hungry and skills development to youth across South Africa. In 2019, the Group contributed R500 000 to 2nd Harvest's Vita Kidz programme. This programme aims to ensure that junior school learners' nutritional requirements are met, thereby improving their ability to concentrate and learn while at school.

Corporate social investment spend	2019	2018
Total corporate social investment spend	R3 018 871	R3 304 745
Spend on feeding programmes	R950 000	R1 300 000
Product donations	R495 751	R304 745
Spend on education	R1 573 120	R1 700 000

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 and according to internationally proclaimed human rights standards. No incidents of human rights violations were reported during the year.

ANIMAL WELFARE

The welfare of the Group's birds remains a major focus area. Regular internal audits are conducted on all farms to ensure adherence to set internal standards. Quantum Foods regularly engages with and is audited by inspectors from the NSPCA to ensure compliance. Strict biosecurity measures are in place at all farms to protect chickens against diseases and illness. Ongoing animal welfare and biosecurity training is provided to farming employees.





Corporate governance

Quantum Foods is a JSE-listed entity and monitors its compliance
with the principles of good corporate governance.

King IV defines corporate governance as the exercise of ethical and effective leadership by the Board to achieve the following outcomes:

Outcome	How the Group's governance structures help achieve the outcome
Ethical culture	<p>The Board considers it a business imperative that all actions taken on behalf of Quantum Foods are executed ethically and professionally. The Board accepts collective responsibility for defining how ethics and ethical behaviour should be implemented in the Group. In line with the Group's code of conduct and ethics policies, the Board acts in good faith and in line with the best interest of the Company by:</p> <ul style="list-style-type: none"> ensuring the legitimate interests of stakeholders are considered when making decisions; declaring directorships in other companies at least once a year; completing the declaration of interest at every Board meeting; and setting out the conduct of individual Board members to ensure integrity, competence, responsibility, accountability, fairness and transparency – thereby setting the tone from the top to support an ethical culture within the Group. <p>Quantum Foods' social and ethics committee ("SEC") is tasked with governing and managing ethics. Management is further tasked with ensuring that the code of conduct and ethics policies are familiar to all employees and other stakeholders. For example, awareness initiatives are conducted to ensure that stakeholders are aware of the avenues available for reporting fraud or irregular conduct of employees. In addition, employees are encouraged to disclose unethical behaviour. All Group employees are required to declare any gifts received from stakeholders in a register that is monitored by the executive committee and the SEC.</p> <p>A competitor contact register is also monitored by the executive committee and the SEC. These matters are regulated in the code of ethics. Suppliers to the Group are required to be ethical in their conduct at all times and this is embedded in the supplier selection as well as the performance evaluation.</p> <p>To assist the Group in monitoring and managing its ethical performance, a Tip-offs Anonymous line is available. No tip-offs were reported during the year. In 2018, eight tip-offs were investigated and resolved appropriately. The tip-offs line is managed independently and tip-offs as well as the result of subsequent investigations are reported to the ARC, SEC and Board.</p> <p>The Board-approved insider trading policy regulates trading in Group shares by employees and directors during open and closed periods. In this regard, all executives and Board members must request permission to trade in shares from the duly authorised individuals.</p> <p>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 as well as the Criminal Procedure Act, Act 51 of 1977 for other criminal activities. The SEC, as well as the ARC, monitors these matters and reports to the Board on the overall ethical performance of Quantum Foods.</p>

Outcome	How the Group's governance structures help achieve the outcome
Good performance	<p>The Board strives to achieve performance across all the capitals to demonstrate the balance between the pursuit of financial capital with long-term sustainability by:</p> <ul style="list-style-type: none"> steering the business and setting its strategic direction by reviewing and approving the annual strategy presented by management; reviewing compliance, timelines and progress with the implementation of the strategy; considering the legitimate and reasonable needs, interests and expectations of material stakeholders when making strategic decisions; overseeing approved policies and operational plans delegated to management; continually assessing and responding in a responsible manner to the consequences of Quantum Foods' activities and outputs on the triple context in which it operates and the capitals which it uses and affects; and reviewing Quantum Foods' going concern status biannually (including the liquidity and solvency of the Company) before committing funds in accordance with the provisions of the Companies Act.
Effective control	<p>The Board ensures that it oversees and monitors the performance of the Company by:</p> <ul style="list-style-type: none"> remaining responsible for all internal and external audit reports; ensuring accountability for performance through reporting and disclosure to stakeholders; continuously being guided in its duties by the Board charter, which is reviewed annually; having unrestricted access to all Company information, records, documents and property; each director having access to external consultants to assist the Board member where required, subject to following a Board approval process; and holding at least four meetings per financial year. <p> Attendance at meetings is detailed on page 60 of this report.</p> <p>The ARC provides oversight of the governance, risk management, internal audit function and the external financial audit, while ensuring that an effective control system and environment is maintained.</p>
Legitimacy	<p>The Board ensures legitimacy and accountability by:</p> <ul style="list-style-type: none"> overseeing the organisation's core purpose and values and ensuring its strategy and conduct are congruent with it being a responsible corporate citizen; approving the materiality of matters that are reported on by management; having appointed an independent non-executive director as the chairman of the Board; having appointed an independent non-executive director as the lead independent director to act as chairman when the chairman is unable to do so, as well as evaluating the chairman's performance annually;



Outcome	How the Group's governance structures help achieve the outcome
Legitimacy (continued)	<ul style="list-style-type: none"> ensuring succession planning in its work plan – this includes a focus on diversity at Board level; ensuring that all members of committees are Board members or prescribed officers of Quantum Foods; ensuring that the ARC members collectively have the prerequisite knowledge, skills and experience to exercise their duties and are independent non-executive directors; ensuring that new directors are adequately inducted; providing an opportunity for the external and internal auditors to have a discussion without management present at each meeting of the ARC; and formally evaluating the performance of the governing body and its committees by means of a survey at least every second year.

The practices underpinning the principles espoused in King IV are entrenched in many of the Group's internal controls, policies and procedures that govern its corporate conduct, as described above. The Group is focused on strengthening its corporate governance and aspires to align itself with corporate governance best practice for a company of its nature and size.

GOVERNING STRUCTURES AND DELEGATIONS

The Board

Quantum Foods' Board acts as the focal point for, and custodian of, corporate governance. The key roles and responsibilities of the Board include:

- 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 and 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 ARC, remuneration and human capital committee ("RHCC") and SEC;
- ensuring that disputes are resolved effectively and efficiently; and
- appointing and evaluating the performance of the chief executive officer and the company secretary.



A disclosure register detailing the Group's adherence to King IV is available at www.quantumfoods.co.za/company-documents.

The Board's focus areas and activities during the year included the following:

Topic	Progress and actions arising
Specific repurchase of shares	<p>In 2014, pursuant to the unbundling of the Company from Pioneer Foods, Quantum Foods inherited 11 black economic empowerment ("BEE") parties from Pioneer Foods. This was the result of a B-BBEE ownership structure implemented by Pioneer Foods in 2012 whereby the BEE parties received shares in the Company by virtue of holding shares in Pioneer Foods. These shares were subject to a lock in period that expired in 2019.</p> <p>Quantum Foods offered to repurchase the shares held by these BEE parties in terms of a specific repurchase offer. 10 505 000 shares were repurchased by the Company and subsequently cancelled. An additional 7 586 661 shares were purchased by Quantum Foods (Pty) Ltd as treasury shares for corporate purposes.</p> <p>The specific repurchase offer was guided by the Board's view that a liquidity event should be provided to the shareholders who wished to sell their shares. It would also provide an effective method of returning surplus cash to these shareholders, while the repurchase would be enhancing to shareholders who did not participate.</p> <p>The specific repurchase was successfully executed on 27 May 2019 with 18 091 661 shares being purchased at a total consideration of R60.6 million.</p>
Group Strategy	<p>The Board reviewed and approved the Group strategy presented by management on 4 September 2019. This is a three-stage process:</p> <ol style="list-style-type: none"> The executive committee holds a working session with external facilitators who guide the team in the development of the Group strategy. The executive committee and senior management team identify and determine appropriate operational targets that support strategy implementation. The executive committee provides feedback to the Board on the previous strategy, the revised strategy and the relevant operational targets. The strategy is then discussed and amended as necessary before being approved by the Board. <p>As an outcome of this process, the Group resolved to retain its strategic themes and only revise the performance initiatives and operational targets per theme for 2020.</p> <p> More detail about this process is provided on page 30.</p>
Declaration dividend and special dividend	<p>The Board considered and declared an interim dividend of 8 cents per share in 2019 and a final dividend of 25 cents per share, consisting of a normal dividend of 15 cents per share and a special dividend of 10 cents per share. The Board was guided by the targeted dividend cover of four times announced in 2017 as well as the financial performance and cash position in 2019 in declaring a special dividend.</p>



Topic	Progress and actions arising
Approval of capital projects over R5 million	The Board reviewed and approved capital expenditure projects during the year. The Board evaluates projects in accordance with affordability, expected return, support of Group strategy, risk and environmental impact. Projects approved during 2019 included a further expansion of the breeder business in Uganda and a project to upgrade the fire risk protection at the Malmesbury Feed mill.
Zambia Competition Commission settlement	The Zambia Competition and Consumer Protection Commission found the Group to be in contravention of certain provisions of the Act. During 2018, a provision of R5.6 million was raised for the potential fine and an appeal was lodged with the Tribunal. The Board oversaw the process implemented by management to settle this matter, which was successfully concluded during 2019, and resulted in a reversal of the majority of the provision raised.
Change to Sovereign Foods supply agreement	The Board oversaw the change to the supply agreement whereby the previous agreement to supply live broilers was changed to an agreement to supply day-old chicks and feed from 10 May 2019. With this change, Sovereign Foods assumed responsibility for the broiler farming operations, which are mostly conducted by contract growers. Quantum Foods retained the chick and feed volumes required to produce live broilers.
Induction of Tanya Golden	The Board oversaw the induction of Tanya Golden, who was appointed as a non-executive director in December 2018.

In addition to the key focus areas outlined above, the Board:

- reviewed, discussed and approved the Group's interim and full financial results;
- reviewed and approved the Group's budget for the 2020 financial year;
- reviewed and approved the Group Governance Framework; and
- reviewed amendments to the decision-making framework, which sets out the balance of power and authority at Board level and ensures that no one director has unfettered powers of decision-making.

As an outcome of the annual review of the decision-making framework, the Board is satisfied that the delegation of authority framework contributes to role clarity and effective exercising of authority and responsibilities.

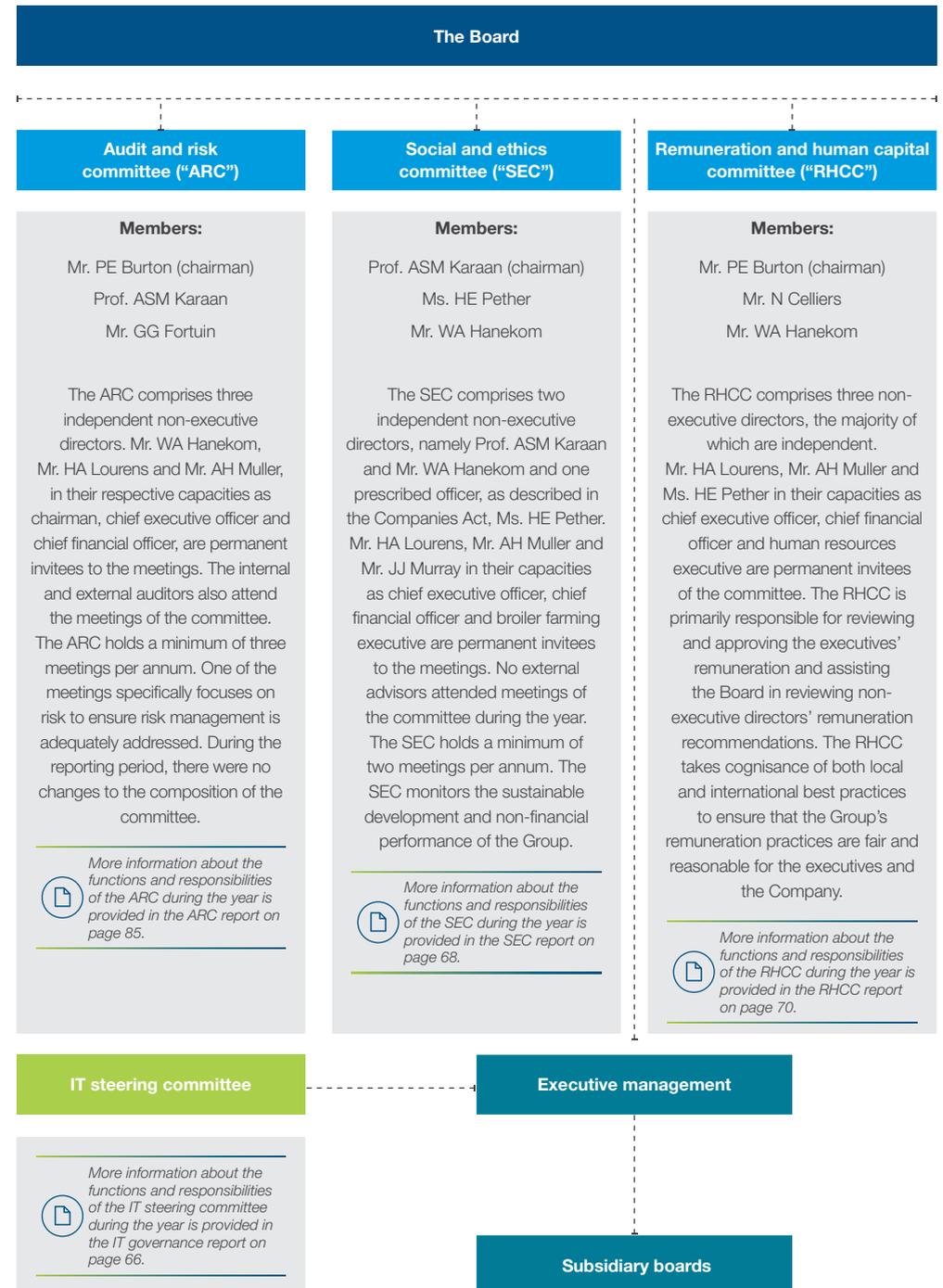
Members of the Board are regularly updated on industry matters and applicable laws, rules and codes. Opportunities are further made available to members of the Board to ensure their ongoing development. This includes visits to Quantum Foods' business operations. This is part of the Board's ongoing responsibility to take reasonably

diligent steps to become informed about matters requiring its oversight and direction. Overall, the Board is satisfied that it fulfilled its responsibilities in accordance with its charter and annual work plan.

The Board and all its committees are constituted in terms of approved charters, which are reviewed annually. The Board is assisted by three committees to fulfil its mandate, but ultimately remains responsible and accountable for all matters.

The Board assumes ultimate responsibility for strategy, performance and reporting. The Board delegates the daily management of the Company in accordance with the Group Governance Framework to the executive committee, under the leadership of the chief executive officer, and monitors performance through its various subcommittees. All subsidiaries have formally adopted the Group Governance Framework at their respective Board meetings.

The Board is satisfied that each committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively. The committees of the Board are as follows:





The Board assumes ultimate responsibility for strategy, performance and reporting.

The Board delegates the daily management of the Company to the executive committee, under the leadership of the chief executive officer, and monitors performance through its various subcommittees.

THE BOARD

The Board and all its committees are constituted in terms of approved charters, which are reviewed annually. The Board is assisted by three committees to fulfil its mandate, but ultimately remains responsible and accountable for all matters.

MEETING ATTENDANCE

The Board held five scheduled meetings during the reporting period. The Board members also attended a full-day session during which the 2020 strategy was approved. The SEC and RHCC had two scheduled meetings during the year while the ARC had three scheduled meetings. Members who could not attend a meeting excused themselves accordingly.

The Board is satisfied with the contribution by its directors as well as the attendance of meetings by the members of the Board and its committees.

	Status	AGM	Board	RHCC	ARC	SEC	Strategy session
WA Hanekom	Chairman, independent non-executive director	1/1	5/5	2/2	3/3 [^]	2/2	1/1
PE Burton	Lead independent non-executive director	0/1	4/5	2/2	3/3	n/a	0/1
N Celliers	Non-executive director	1/1	5/5	2/2	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	2/3	n/a	1/1
T Golden	Independent non-executive director	1/1	4/5 [*]	n/a	n/a	n/a	1/1
HA Lourens	Chief executive officer	1/1	5/5	2/2 [^]	3/3 [^]	2/2 [^]	1/1
AH Muller	Chief financial officer	1/1	4/5	2/2 [^]	3/3 [^]	2/2 [^]	1/1

* T Golden was appointed to the Board as an independent non-executive director on 10 December 2018.

[^] WA Hanekom attended the ARC meetings as an invitee and HA Lourens and AH Muller attended the RHCC, ARC and SEC meetings as invitees.

The members of the Board are experienced individuals who understand their duty to act with care, skill and diligence.

Composition and functions of the Board

The Board consists of eight directors, six of whom are non-executive directors. Five of the directors are independent non-executive directors. The chairman, Mr. André Hanekom, an independent non-executive director, presides over meetings of the Board.

Mr. Patrick Burton, an independent non-executive director, is the lead independent director of the Board. The duties and functions performed by Mr. André Hanekom as chairman and independent non-executive director are separate from those performed by the chief executive officer, Mr. Hennie Lourens, who is an executive director.

The chief executive officer is responsible for leading the implementation and execution of the strategy and for policy and operational planning and serves as the chief link between management and the Board. The RHCC annually oversees the succession planning of the chief executive officer and the executives and is satisfied that sufficient measures are in place to ensure continuity. The chief executive officer is not a member of any other governing body outside of Quantum Foods.

The Board appoints the chief executive officer 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.

The Board is diverse in terms of gender, race, business acumen and tenure. This diversity provides for challenging and robust discussion and views, leveraging an appropriate mix of knowledge, skills, experience, diversity and independence. The Board recognises that a gender gap exists, with only one female Board member currently appointed. The Board has therefore further adopted and approved a diversity policy, which specifically identifies gender diversity as a focus area and addresses diversity attributes generally.

When identifying suitable candidates for appointment to the Board, the Board will consider candidates on merit against objective criteria with due regard for the potential benefits of increased race and gender diversity at a Board level. Targets for race and gender diversity at Board level were considered in 2018, resulting in the decision to appoint a black female non-executive director to the Board. This

was concluded in the 2019 financial year. Going forward, gender and race diversity will be considered as part of the Board's succession planning. The Board will continue to discuss, and annually agree on, measurable targets for achieving race and gender diversity at Board level.

There were no other changes to the Board during the 2019 financial year. 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 brief professional profile of each candidate standing for election or re-election at the AGM is available in the Group's notice of AGM. The Board supports all candidates standing for election or re-election.

An internal appraisal of the Board and committees was done during the reporting period and no material issues were identified. The Board is satisfied that the evaluation process is improving its performance and effectiveness. The Board annually considers using an external provider to facilitate the appraisal process of the Board and its committees. This was deemed unnecessary in 2019.

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 corporate announcements, investor communications and unrestricted access to information about developments that may affect the Company and its operations. This includes access to company information, records, documents and property. Following a Board-approved procedure, Board members may also seek independent advice in connection with their duties at the cost of the Group. The company secretary may access external legal advice.

The performance of the company secretary is evaluated annually. 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. The company secretary reports directly to the Board on statutory matters and to the chief financial officer in relation to her other duties.



The Board believes effective arrangements for accessing professional corporate governance advice are in place.

LEGAL 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 responsibility for implementation and execution of effective compliance management is delegated to management, and management continually monitors the regulatory environment and identifies appropriate responses to changes and developments. Such changes are reported to the Board.

On an ongoing basis, the Company monitors key identified legislation for any changes and developments that could potentially impact the business. The company secretary reports to the Board and the Board reviews and monitors updates to legislation on a quarterly basis.

No regulatory penalties, sanctions or fines for contraventions or non-compliance with statutory obligations were imposed on the Company or any of its directors or officers during the 2019 financial year.



Read more about the settlement reached with the Zambia Competition and Consumer Protection Commission during the year on page 58.

In 2020, the Group will continue to monitor key identified legislation for any changes and developments.

COMBINED ASSURANCE

Quantum Foods has defined the Group's combined assurance model in line with King IV, which is updated alongside the risk profile of the Company and its subsidiaries. The objective of combined assurance is to enable effective control of the Group's risk environment. Assurance processes in the Group include management, various second line and external assurance providers such as health and safety, as well as internal and external audit. These various assurance role players oversee corporate governance at Quantum Foods and provide different types of assurance. They are differentiated by their levels of independence from the Group's operational activities and the Group itself.

Through the use of Quantum Foods' combined assurance model, the independence of assurance gradually increases over four lines.

Group external audit

The 2019 external audit services for the South African, Mozambican, Uganda and Zambian operations were provided by PwC. Feedback on the audits provided to the subsidiary boards is monitored by the ARC.



Read more about Group external audit in the ARC report on page 85.

Group internal audit

The Group's internal audit services for 2019 were provided by Deloitte & Touche. The internal audit service contract is valid for a further two years. The internal audit function is constituted in terms of the internal audit charter. Management and the ARC may identify additional risk areas to be included in the internal audit work plan that is developed by the internal audit function. Results and management actions undertaken by internal audit are reported to the ARC (and escalated to the Board if necessary). The ARC assesses the effectiveness of both the internal audit function and the head of internal audit on at least an annual basis.

During the year, the internal auditors monitored 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 pages 85 to 86. Read more about the Group's strategic risks on 33.

1 Management oversight

The senior and line management of each division and business unit are responsible for day-to-day risk management and for managing, measuring and mitigating operational risk.

2 Governance of risk and compliance

The ARC operates within written guidelines instituted by the Board and is responsible for reviewing and monitoring the Company's risk management performance and providing a high-level risk assessment to the Board on an ongoing basis.

3 Internal audit

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.

4 External audit and other independent third-party assurance providers

In line with the Group's Governance Framework, external assurance providers are appointed for the Group's operations. Feedback on the audits is monitored by the ARC. The external auditors are appointed by shareholders on recommendation of the ARC.



The ARC has reviewed and is satisfied with the effectiveness of the Group's combined assurance model



STAKEHOLDER RELATIONS

Quantum Foods adopts a stakeholder-inclusive approach and has an established stakeholder engagement process in place. These engagement mechanisms are designed for stakeholders and include Group discussions and one-on-one meetings. The following broad stakeholder groups have been identified. The table below provides details on the methods of engagement and key considerations per stakeholder category as well as the Group's response:

Stakeholder category	Method of engagement	Stakeholder consideration	Business response
Shareholders and investors	<ul style="list-style-type: none"> Website SENS Trading updates Results presentations every six months Face-to-face meetings Site visits 	<ul style="list-style-type: none"> Return on investment Capital allocation Business sustainability Ethical management 	<ul style="list-style-type: none"> Headline earnings per share is a key performance measurement for management New capital projects are evaluated against a Board-approved weighted average cost of capital The Group takes a zero tolerance approach to unethical conduct
Employees	<ul style="list-style-type: none"> Internal communication Management and union meetings Roadshows Confidential tip-offs hotline Training programmes 	<ul style="list-style-type: none"> Feedback on performance Job security Personal development (including training) Health and safety 	<ul style="list-style-type: none"> The Group conducts regular formal and informal performance discussions Formal health and safety audits are conducted annually at all sites (at a minimum) and training programmes are in place Various training initiatives are available to the Group's employees <p> <i>Read more on page 50.</i></p>
Customers and consumers	<ul style="list-style-type: none"> Regular meetings Consumer hotline Customer satisfaction surveys 	<ul style="list-style-type: none"> Products within specification Competitive pricing Reliable supply 	<ul style="list-style-type: none"> Ensure that products adhere to standards Supply products that are safe Ensure that stock is available

Stakeholder category	Method of engagement	Stakeholder consideration	Business response
Suppliers and contractors	<ul style="list-style-type: none"> A centralised procurement team manages communication for larger expenditure items The Group's decentralised procurement managers meet with suppliers and contractors 	<ul style="list-style-type: none"> Security of supply Commitment to B-BBEE Reasonable terms 	<ul style="list-style-type: none"> Policies and practices ensuring ethical procurement conduct are in place, with a focus on B-BBEE Quality management is in place for key procurement categories
Communities	<ul style="list-style-type: none"> Requests for assistance in the communities where we operate 	<ul style="list-style-type: none"> Basic human requirements (food, safety and education) Drought relief 	<ul style="list-style-type: none"> The Group implements various corporate social investment initiatives. <p> <i>Read more on page 52.</i></p>
Government and regulatory bodies	<ul style="list-style-type: none"> Independent audits Adherence to regulatory requirements Staff training on regulatory requirements 	<ul style="list-style-type: none"> Employees assume responsibility for compliance Independent assurance to measure compliance 	<ul style="list-style-type: none"> The Group trains staff responsible for compliance and takes immediate action in the event of adverse findings The Group participates in industry bodies The corporate office supports regional management
Industry bodies	<ul style="list-style-type: none"> Industry body meeting participation 	<ul style="list-style-type: none"> Active participation in industry body management Keeping abreast of new developments 	<ul style="list-style-type: none"> Executive committee members are involved at senior level in industry bodies such as the South African Poultry Association and Animal Feeds Manufacturers Association



In 2019, the Group's key areas of focus for stakeholder relations included:

Topic	Progress and actions arising
Ongoing engagement with the NSPCA	Continual engagement with the NSPCA remains a major focus for the Group to ensure best-in-class welfare standards for birds. This is critical to the success of the business.
Engagement with shareholders	Following the release of the interim and final 2019 financial results, shareholders were invited to a presentation where the results were discussed. The presentation is available as a broadcast for those shareholders unable to attend. Shareholders were invited to attend the AGM in February 2019 and the General Meeting in May 2019. Engagement with a shareholder in July 2019 resulted in a review of the Company's Remuneration Policy to incorporate the principles of malus and clawback. These changes will be presented to shareholders for approval at the February 2020 AGM.
The Group-wide roll-out of the values programme	A formal programme to entrench Company values was made available to employees in all of the Group's operating geographies during the year, including South Africa, Mozambique, Uganda and Zambia. The programme encouraged employees to portray and live out the Group's values.
Corporate social investment initiatives, and enterprise and supplier development assistance	 Read more on pages 51 and 52.

The Group's SEC is responsible for the governance and oversight of stakeholder relationships. Quantum Foods adopted a formal stakeholder engagement policy that outlines its approach to communicating and working with its stakeholders. Enquiries from shareholders are generally handled by the company secretary or directly by the chief executive officer or chief financial officer. The Company publishes information relevant to the application of King IV on its website. This includes any supporting documentation, Group policies or charters.

 The Group's stakeholder engagement policy is available on the Company's website: www.quantumfoods.co.za.

IT GOVERNANCE

IT is entrenched in the way that Quantum Foods does business and almost every business process is supported by IT. King IV recommends that the governing body should delegate to management the responsibility to implement and execute effective technology and information management. This delegation points to the establishment of an IT steering committee by the Board.

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. Management is responsible for the implementation of all the structures, processes and mechanisms for IT and information governance. Management delegates to the IT

steering committee, which is independent and tasked with identifying key projects as well as the implementation and monitoring of such projects. The IT steering committee also monitors information security, and any significant security incidents are reported to the ARC.

The IT steering committee is governed by Quantum Foods' IT charter, which outlines the decision-making rights and accountability framework to effectively govern the Group's IT service landscape. The committee has decision-making authority with respect to its duties and is accountable to the Board, the ARC and the executive committee across the following areas of responsibility:

- Strategy
- Investment
- Sourcing
- Risk management
- Information security
- Disaster recovery

Quantum Foods' IT charter is based on the principles of the Control Objectives for Information and Related Technologies ("COBIT") framework for IT governance. COBIT is an internationally recognised IT framework that guides the Board in discharging its IT responsibilities. COBIT is published by the Information Systems Audit and Control Association ("ISACA").

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. PwC, as external advisors, assist with ensuring that measures are put in place to ensure the security of IT.

The main focus areas during 2019 included:

- An ongoing process to improve cyber risk resilience, which included an update of IT policies, continued training of staff to increase awareness, the further relocation of IT data to the more secure Microsoft Cloud environment and regular vulnerability tests conducted by external consultants.
- An ongoing upgrade to the Group's network landscape to improve connectivity and replace fixed-line telephony with Voice over IP phones.
- Training of employees on key IT business processes.
- Enhancement of the business continuity programme.
- Employee training and awareness on the implementation of the Protection of Personal Information Act as well as the establishment of a document retention policy in line with the Act.

Going forward, the value delivered to the organisation through significant investments in IT will receive increased focus. Other planned areas of future focus include:

Topic	Areas of future focus
Improved cyber risk resilience	Cyber risk resilience will remain a focus area for 2020, mostly through continuous staff training to maintain awareness as well as ongoing vulnerability assessments performed by external consultants.
Evaluation of SAP Enterprise Resource Planning ("ERP") system and determination of the migration to SAP release S4/Hana	A process to evaluate different available ERP systems will be conducted in 2020. The SAP EC6 version currently utilised by Quantum Foods' South African operations will terminate in 2025. The IT team will therefore proactively decide on a roadmap to replace the current system with either SAP release S4/Hana or an alternative system.

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



Social and ethics committee report

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; and labour and employment.

The SEC monitors the sustainable development and non-financial performance of the Group 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 ("B-BBEE");

- 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 investment.

A focus on the above ensures that the SEC is equipped with adequate knowledge and insight to monitor Quantum Foods' role as a responsible corporate citizen. It further ensures that the SEC is positioned to measure this commitment and assist the Board where necessary with the appropriate steps and procedures to strengthen Quantum Foods' non-financial performance.

The SEC monitors the impact of the business on the environment and society and guides its actions to ensure its sustainability for the future.

During the year, the SEC's key focus areas were as follows:

Topic	Progress and actions arising
B-BBEE and targets	<p>The SEC monitored the strategy and targets of the Company to improve on the non-compliance score achieved in 2018. A key focus remains on improving the ownership score, which reduced in 2019 following the repurchase of shares previously held by black economic empowerment parties inherited from Pioneer Foods.</p> <p> More detail is available on page 51.</p> <p>The SEC specifically monitored the Group's enterprise and supplier development initiatives, with a focus on creating additional employment opportunities.</p> <p> Read more about the Group's B-BBEE strategy on page 51 of this report.</p>
Sponsorships and charitable donations	<p>The SEC monitored the various product donations and continues to monitor the Group's social responsibility initiatives.</p> <p> These are detailed on page 52.</p>
Water, energy and waste disposal management	<p>The committee monitored water, energy and waste disposal management and a report containing usage details is reviewed biannually. The short-term aim is to reduce wastage of these elements across the Group's operations by monitoring performance year on year.</p> <p> Read more on page 47.</p>

Topic	Progress and actions arising
Occupational compliance	The SEC noted progress in obtaining occupational certificates for various business premises. This is an ongoing process and R22.3 million (2018: R3 million) of capital was allocated to ensure progress on compliance.
Customer complaints and food safety	The SEC monitored customer complaints and food safety and is satisfied that such matters were adequately monitored and dealt with during the year.
Employment equity and training	<p>The SEC monitored employment equity and training.</p> <p> See pages 48 and 50.</p>
Animal welfare	The SEC monitored engagement with the NSPCA and other stakeholders to ensure that animal welfare remains a priority.
Ethics management	<p>The SEC monitors ethics management and adherence to the code of conduct, which is reviewed annually. Local tip-offs anonymous lines are available to stakeholders in each of Quantum Foods' operating jurisdictions (South Africa, Mozambique, Uganda and Zambia). The values programme continued across the Group, which further supports the business's commitment to ethical conduct by entrenching the value: we are truthful in everything we do.</p> <p> Read more about the Group's measures to ensure proper ethics management on page 54.</p>

The SEC evaluated and approved the non-financial information contained in this report. The SEC is satisfied that it has fulfilled its responsibilities in accordance with its charter and work plan for the reporting period.

The SEC has identified the following as the main area of future focus for 2020. This will be supported by ongoing monitoring of the various topics that form the committee's mandate.

Topic	Areas of future focus
B-BBEE and targets	The SEC will oversee the Group's action plan to improve compliance with the AgriBEE Sector Code. The Group will continue to invest in strengthening its existing business activities that support transformation and empowerment. This includes, for example, enterprise and supplier development.

Prof. ASM Karaan
Chairman

Wellington
16 November 2019



Remuneration report

LETTER FROM THE CHAIRMAN OF THE RHCC TO SHAREHOLDERS

Dear shareholders

This report summarises the remuneration policy that will apply to the employees of Quantum Foods and its subsidiaries in 2020. It highlights the activities of Quantum Foods' RHCC and addresses the outcomes of the implementation of the 2019 remuneration policy.

Group profitability achieved in 2019 was the second highest recorded in Quantum Foods' history despite profitability decreasing substantially from the record profit achieved in 2018. This was supported by improved profitability from the feed and farming businesses, which partially offset the significant decrease in profitability from the eggs business. The Group's feed business benefited from increased volumes, while profitability of the farming

business increased as a result of higher volumes and improved efficiencies. Stakeholders are reminded that during 2018, the egg business benefited from significantly higher egg selling prices. This was triggered by reduced supply following the 2017 outbreak of AI in South Africa that resulted in an exceptional profit.

Headline earnings per share achieved for 2018 resulted in a 100% vesting of the second tranche of Share Appreciation Rights ("SARs") allocated in 2015 and the first tranche of SARs allocated in 2016. In addition, the Group profit achieved in 2019 resulted in full vesting of the economic profit component of the Short Term Incentive ("STI") and 88.6% vesting of the Headline Earnings Before Tax per Share ("HEBTSPS") component of the STI for 2019.



Quantum Foods' financial performance is discussed in the joint report of the chairman and CEO on pages 36 to 39.

The RHCC made various key decisions in 2019. These included:

Topic	Progress and actions arising
National minimum wage and farming sectoral and non-sectoral employee salary	<p>The RHCC reviewed and considered the legislative implications of the national minimum wage and the salary increase for farming sectoral and non-sectoral employees. The Group subsequently reviewed and adjusted the wages of some employees, where relevant, to ensure that these are aligned with legislation.</p> <p>Employees at one of the Group's operating locations disputed the inclusion of certain cash-based employee benefits in the calculation of their hourly pay rate. The Commission for Conciliation, Mediation and Arbitration (CCMA) ruled in favour of the employees. The Company subsequently decided to take the ruling to the Labour Court for review. The RHCC will oversee this process during 2020.</p>
Short-term and long-term incentives and non-executive director fees	<p>The RHCC reviewed the STI and long-term incentive ("LTI") performance targets, as well as the proposed non-executive director ("NED") fees. The financial and operational performance targets included in the STI have been revised for the 2020 financial year. The Company's LTI is the Equity-Settled SAR Plan.</p> <p> <i>Read more about this on page 76 of this report.</i></p>
Equal pay for work of equal value	<p>The RHCC reviewed the results of an equal pay for work of equal value exercise and reviewed salary bands to ensure that these are market related. This will remain an area of focus for the RHCC to ensure employees are remunerated fairly and any differentiation is justified.</p>
Job evaluation and benchmarking	<p>The RHCC oversaw a job evaluation and benchmarking exercise, which was conducted with the assistance of PwC in the last quarter of 2019. This evaluation will conclude in 2020 and will guide the RHCC to ensure that job profiles within the Group are correctly graded.</p>

Topic	Progress and actions arising
Remuneration policy regarding malus and clawback	<p>In 2019, the RHCC was engaged by a shareholder who suggested the inclusion of malus and clawback provisions in the remuneration policy and SAR Plan rules. The RHCC and the Board reviewed and approved changes to the remuneration policy and SAR Plan. The changes detail the circumstances under which the benefit accruing to a participant of the STI or LTI can be forfeited or clawed back (if already transferred to participants). These changes will be presented to shareholders for approval at the February 2020 annual general meeting ("AGM").</p>

In implementing the remuneration policy, the RHCC considered the advice of remuneration consultants. These consultants satisfied the RHCC's requirements for independence and objectivity.

At the 2018 AGM held on 15 February 2019, 99.43% of shareholders voted in favour of the Group's remuneration policy versus 0.57% against (2018: 92.05% for and 7.95% against). In addition, 99.99% of shareholders voted in favour of the Group's remuneration implementation report and 0.01% against (2018: 97.22% for and 2.78% against). Furthermore, 99.99% of shareholders voted in favour of the changes to the SAR Plan Rules that were proposed to shareholders at this meeting.

The RHCC is of the view that the remuneration policy achieved its objectives in 2019. In addition to its standard activities listed on page 70, during 2020 the RHCC will focus on the further rollout of the job evaluation and benchmarking exercise embarked on in 2019. We look forward to receiving your support on the remuneration policy at the 2019 AGM, to be held on 21 February 2020.



PE Burton
Chairman

Wellington
13 November 2019



FY2020 REMUNERATION POLICY

Introduction

Part 2 of this report sets out the forward-looking remuneration policy, which will apply in 2020. Therefore, any changes to the policy which were made by the RHCC in 2019 are reflected in the relevant sections below. To the extent that some parts of the policy were not changed during 2019, these sections will remain the same.

 The remuneration policy applied in 2019 is set out in the 2018 remuneration report, which is available at www.quantumfoods.co.za/company-documents.

The implementation of this remuneration policy in 2019 is set out in part 3 of this report.

Remuneration governance

The RHCC is constituted as a committee of the Board and is responsible for the Group's remuneration policy. The RHCC consists of three non-executive directors ("NEDs"), the majority of whom are independent. The RHCC is chaired by an independent NED.

The duties and responsibilities of the RHCC primarily revolve around the organisation-wide remuneration policy, as well as monitoring the effectiveness of management and succession planning. The RHCC performs the following main functions:

- Maintaining and approving human resource policies
- Enabling and recommending succession planning of the CEO and executive committee
- 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 the executive committee
- Determining the performance targets for the STI
- Determining the number of awards to be made to participants under the SAR Plan
- Ensuring that all remuneration packages are fair, market-related and responsible
- Ensuring that the Group is able to attract, engage, reward 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 committee and directors
- Evaluating and approving the Group's remuneration philosophy, strategy and policy

A detailed list of the RHCC's duties and responsibilities is set out in its committee charter. These should be read together with the remuneration policy.

 The charter is available online at www.quantumfoods.co.za/company-documents and the policy is available online at www.quantumfoods.co.za/company-documents.

At a minimum, the RHCC meets twice every financial year. Selected individuals may attend these meetings by invitation from the RHCC.

 The membership and meeting attendance records of the RHCC are disclosed in the corporate governance report on page 60.

Remuneration philosophy incorporating fair and responsible remuneration

Quantum Foods' remuneration framework supports the delivery of the Company's business strategy. The RHCC's remuneration approach combines talent development, career growth opportunities, recognition of performance, and a corporate culture driven by performance and value creation. The remuneration philosophy is determined on an organisation-wide basis.

Quantum Foods aims to ensure that its remuneration policy (as part of its employee value proposition) is competitive enough to make it an employer of choice. Quantum Foods rewards individual, team and business performance, and encourages superior performance across the Group.

Fair and responsible remuneration

The RHCC observes the principle of fair and responsible remuneration. The RHCC continuously examines innovative methods to ensure that remuneration paid to executive directors is in line with the market and that it is justifiable in the context of overall employee remuneration.

In line with the provisions of the Employment Equity Act, Act 55 of 1998 as amended ("Employment Equity Act"), the RHCC oversees the results of the Company's TASK and ExecEval grading system. This system enables the RHCC to evaluate whether an employee's remuneration is in line with his or her peers within the same job category to identify and correct any unjustifiable differentials. This supports the principle of equal pay for work of equal value espoused in the Employment Equity Act.

Quantum Foods has a human resources strategy that supports career progression and the development of upcoming talent. Through its talent development programme (in partnership with certain institutions of higher education), students studying for qualifications in animal production participate in the Group's internship programme. Preference is given to students that will enhance the transformation profile of the Group.

Remuneration framework

The remuneration framework consists of total guaranteed package ("TGP") benefits and, depending on an employee's job category and seniority, variable remuneration. Profitability and efficient business processes are the key Group performance indicators for reward. Individual performance indicators are determined according

to the key measurable areas which contribute to overall Group performance and strategy execution.

The different components of remuneration, their link to Quantum Foods' business strategy and their positive outcomes within the economic, social and environmental context within which the Group operates, are summarised in the table below:

Component	Policy and link to business strategy
TGP (fixed; applicable to all employees) Social – ensuring the necessary skills for optimal people capacity and culture.	<p>Aimed at attracting and retaining talent and ensuring competitiveness.</p> <p>Quantum Foods participates in a reputable South African salary survey and benchmarks total remuneration packages against the market value applicable to various job categories every second year. TGP is generally referenced to the job family market median. The survey and benchmark used is PwC's REMChannel@ Survey. The RHCC is satisfied that this survey and benchmark is appropriate in the context of Quantum Foods and its business. Internal salary positioning is based on factors that include work experience, competence, performance, internal historical factors and market influences.</p> <p>Collective bargaining agreements for unionised employees are negotiated annually.</p> <p>The average salary for each job category is reviewed annually, bearing in mind the affordability restraints of the Company.</p>
Benefits (fixed) Social – allowing employees the flexibility of structuring benefits according to individual requirements.	<p>Benefits form part of TGP and include medical aid, retirement fund contributions, disability and life insurance, as well as additional benefits such as travel and cellphone allowances. Contributions are made according to statutory requirements and fund-specific rules. Employees receive a long-service bonus equal to one month's TGP for every completed 10 years of service. Employees receive a 13th cheque as part of their TGP. They can either elect to receive the 13th cheque on a once-off basis in December of every year, or have it paid to them in equal instalments over a 12-month period.</p>



Component	Policy and link to business strategy																				
<p>STIs (variable)</p> <p>Economic – drives sound operational efficiency that assist the Group's ability to recover rising input costs and improved returns on the asset base. This enables the creation of shareholder value.</p>	<p>The short-term incentive ("STI") constitutes a performance bonus. This bonus is designed to motivate and reward senior management for its contribution to the achievement of targets related to main business drivers, ultimately increasing shareholder value.</p> <p>Performance conditions:</p> <ul style="list-style-type: none"> Headline earnings before tax per share ("HEBTPS") target – the calculation for the achievement of the target is based on an audited and agreed comparative base for the previous financial year. Growth in economic profit ("EP") – the growth 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. Operational efficiency – the efficiency calculation is based on targets set for the percentage of second-grade eggs sold at egg packing stations, day-old chicks produced per broiler-type breeder hen placed at the start of the laying cycle, and the feed conversion ratio and egg production efficiency for layer-type hens. Each of the three operational efficiency measures contribute one third to the STI. The operational efficiency targets have been amended for the 2020 financial year as follows: <ul style="list-style-type: none"> they will include a target for increases in operating costs per unit produced; and the measurement target for layer farming efficiency has been amended. <p>Details are set out in the STI section below and are also available in annexure 5 of the Notice to the February 2020 AGM.</p> <ul style="list-style-type: none"> Separate targets for HEBTPS and operational efficiency are set for STI participants employed in the Group's other African operations to align the earnings achieved in each region. Growth in EP is also measured by country. Executive management determine the HEBTPS, EP and operational efficiency targets for the operations in Mozambique, Zambia and Uganda. <p>The table below provides more detail on the measurement of STI achievements for the Group:</p> <table border="1"> <thead> <tr> <th></th> <th>HEBTPS</th> <th>EP</th> <th>Operational efficiency</th> </tr> </thead> <tbody> <tr> <td>CEO, CFO and executives</td> <td>Group target</td> <td>Group target</td> <td>RSA target</td> </tr> <tr> <td>Other RSA participants</td> <td>Group target</td> <td>Group target</td> <td>RSA target</td> </tr> <tr> <td>African country manager</td> <td>Group target</td> <td>Group target</td> <td>Country target</td> </tr> <tr> <td>Other African participants</td> <td>Country target</td> <td>Country target</td> <td>Country target</td> </tr> </tbody> </table>		HEBTPS	EP	Operational efficiency	CEO, CFO and executives	Group target	Group target	RSA target	Other RSA participants	Group target	Group target	RSA target	African country manager	Group target	Group target	Country target	Other African participants	Country target	Country target	Country target
	HEBTPS	EP	Operational efficiency																		
CEO, CFO and executives	Group target	Group target	RSA target																		
Other RSA participants	Group target	Group target	RSA target																		
African country manager	Group target	Group target	Country target																		
Other African participants	Country target	Country target	Country target																		

Component	Policy and link to business strategy
<p>LTI (variable)</p> <p>Economic – drives share price growth and by extension, the creation of shareholder value.</p>	<p>The long-term incentives ("LTI") consists of a Share Appreciation Rights ("SAR") Plan designed to attract and retain talent over the long term, as well as align the interests of employees with that of shareholders. Participation in the LTI is restricted to the CEO, CFO, executive committee and a small percentage of the Group's senior management.</p> <p>50% of the SAR award is subject to performance conditions set out below. The remaining 50% is subject to continued employment. As the SAR Plan includes an inherent hurdle based on share price growth, no value will accrue to participants regardless of the performance condition being met, should the share price not grow over a three to five-year period from the grant date.</p> <p>Performance condition:</p> <ul style="list-style-type: none"> Growth in Group headline earnings per share ("HEPS") – the hurdle for vesting is compound average growth ("CAGR") in HEPS equal to the consumer price index ("CPI"), plus 1% growth with full vesting at CPI plus 5% growth. <p>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.</p>

PAY MIX

The pay mix for senior executives comprises a combination of TGP and variable pay. A sufficient portion of the pay mix is "at risk" to incentivise executives to meet financial performance targets and realise the Company's business strategy. The STI portion drives the achievement of share price growth in the short term, while the LTI portion incentivises long-term share price growth and alignment with shareholders. At lower levels, the on-target pay mix is weighted towards TGP.

TGP

The TGP and benefits offered by Quantum Foods are summarised in the remuneration framework above. Several employees fall within collective bargaining units. Therefore, their remuneration is determined outside of the remuneration policy and is subject to the applicable collective bargaining agreement. All South African employees participate in a retirement scheme and a voluntary medical aid scheme.

Annual reviews and TGP increases

Annual reviews of TGP consider inflation, current market conditions, an employee's financial and non-financial individual performance against pre-set goals, as well as the performance of the Group. Increases are limited to an approved budget, and executive increases are considered within the context of average increases for employees throughout the Group. Employees whose individual performance falls below an acceptable standard will not be eligible for an increase. This is determined through the Company's performance management process.

STIs

Based on business and individual performance, executives and selected senior managers may participate in the STI. A maximum bonus pool is calculated annually to govern the total amount of the STIs payable to participants. The bonus pool for the HEBTPS and EP components is self-funding, meaning that the achievement of targets is calculated after taking the bonus pool into account. The portion of the bonus dependent on operational efficiency targets, however, is not dependent on the achievement of HEBTPS targets.

Earning potential for STI

The table below sets out the earning potential (as a % of TGP) of employees:

Position	Maximum earnings potential for STI (as a % of TGP)*
CEO	100%
CFO and executives	75%
Senior management	15% or 35%

* The percentage of TGP that will be earned as STI should stretch performance be achieved for all three elements in the table on page 76. Linear vesting from 0% applies for partial achievement of performance measures.



Senior management with significant responsibility have an STI earning potential of 35% of TGP. Selected other senior management have an STI earning potential of 15% of TGP.

The aggregate payment is determined by the bonus pool cap. The bonus pool cap is calculated based on the participant's cost to company, as well as the maximum earning potential depending on the participant's level.

Performance measure	Weighting %	On-target performance	Stretch performance
Achievement of the Group's HEBTPS target	50	110.0* cents per share	123.3* cents per share
Growth in the Group's EP	25	25% of the three-year rolling average improvement in EP is included in the bonus pool.	
Achievement of operational efficiency targets	25	Based on breed standards for day-old broiler chick production, as well as targets for the percentage of second-grade eggs sold at the egg packing stations, layer-type hen production efficiency and operating cost management. See further details in section below.	

* Targets for 2020. At performance of HEBTPS of 110.0 cents per share or lower, the bonus will be 0%. The measurement of HEBTPS is impacted by the actual weighted average number of shares (excluding treasury shares held) in issue. During 2019 the Group repurchased and cancelled 10 505 000 and purchased 8 083 426 shares as treasury shares. The Board intends to continue with the repurchase of shares.

An employee's individual performance score, which is measured in line with his or her individual performance contract, must be at least satisfactory to participate in any STI pay-out. Individual performance targets are determined and evaluated by the employee's manager on a six-monthly basis. These targets are the basis of the performance contract of a specific employee. A percentage achievement of at least 65% is required for a satisfactory performance score and participation in any STI pay-out. These performance conditions are considered to be sufficiently stretching and appropriate to Quantum Foods' business model.

HEBTPS targets

In determining the HEBTPS target for 2020, the RHCC considered the expected pressure on earnings from the eggs business, where egg selling prices are expected to be under increased pressure due to the projected imbalance in the supply and demand of eggs during the next financial year. Based on the historical performance of the Group, the RHCC considers the HEBTPS target set for 2020 to be sufficiently stretching.

The hurdle rates for HEBTPS, the percentage of growth in EP included in the bonus pool and operational efficiency targets are determined annually by the RHCC to establish minimum and maximum potential bonus pay-outs.

2020 STI performance measures

The RHCC has changed the measurement for the achievement of financial and operational targets for the STI for 2020.

The STI is based on three performance measures that are applicable to all eligible employees, as set out in the table below:

Operational targets

The 2019 targets were for farming production and egg packing station efficiency only, with targets set for feed conversion ratios and egg production efficiency for layer-type chickens, breeder performance of broiler-type hens and egg packing station efficiencies. None of these targets incorporated the importance of managing operating cost increases to ensure margin optimisation.

To determine operational targets for 2020, the RHCC considered a new methodology to calculate the production efficiency of layer-type hens as well as the importance of managing operating costs across the Group's operations. Measurements for the breeding efficiency of broiler-type hens and egg packing station efficiency were retained. However, the weighting was reduced to one quarter each from one third each in 2019.

The measurement for the egg production efficiency of layer-type hens was aligned with the internationally recognised performance efficiency factor ("PEF") calculation used to measure the production efficiency of broiler-type birds. The measurement for 2020 will incorporate the actual number of eggs produced per hen housed at the start of the laying cycle ("Eggs/HH"), the feed conversion ratio ("FCR") achieved during the laying cycle and the livability ("LIVE") achieved during the laying cycle. These three factors will be included in a calculation and expressed as a target for the Layer Productivity Index ("LPI").

The target for operating cost increases per unit is based on a weighted average increase per unit produced by the Group's different South African operations.

Targets are commercially sensitive and therefore not disclosed. The RHCC considers the targets to be sufficiently stretching to ensure that, if achieved, they would optimise Group profitability.

The 2020 weighting of the operational targets will be:

Target	Weighting %
LPI	25
Egg packing station efficiency	25
Broiler breeder hen efficiency	25
Operating cost management	25

The RHCC considers these measurements as the most important in each of the businesses to increase earnings and realise the Company's business strategy.

RHCC discretion

The RHCC has the discretion to review STI payments in the interest of all stakeholders. This decision may be guided by contextual realities that may have impacted the performance of the Group in the year under review and will be justifiably applied in exceptional circumstances.

Malus and clawback

STI payments will either be forfeited or the after-tax benefit clawed back should STI payments have been made for a period of twenty-four months after a trigger event.

A trigger event, at the absolute discretion of the RHCC, means any event to which the participant contributed and that resulted in:

- a willful material misstatement of the financial results of the Company and/or any subsidiary;
- a material failure in the risk management of the Company and/or any subsidiary; and/or
- fraudulent or dishonest conduct.

LTIs

Selected employees, including executives, are given the opportunity to participate in the SAR Plan at the sole discretion of the Board.

SAR

Shareholders approved the rules of the SAR Plan, in compliance with the JSE Listings Requirements. In terms of the SAR Plan, selected employees are granted the opportunity to receive shares in the Company. The quantum of their awards is based on the future increase in the value from the strike price at the award date to the share price at the exercise date. Special dividends declared

between the award date and vesting date are added to the share price at the exercise date to determine the quantum of an award. The SAR Plan is intended to promote the continued financial growth of the Group. The RHCC determines the allocation to qualifying employees on an annual basis.

Rule changes approved at the 2019 AGM

In 2019, shareholders approved amendments to the rules of the SAR Plan that:

- Changed the calculation of the monetary value of share appreciation rights to include special dividends declared between the date of allocation and the date of vesting in the exercise price;
- Changed the definition of market value of a QFH share from a daily closing price to a volume weighted average price over a period of 3 days;
- Changed the maximum share threshold that may be allocated to a participant from 1 million to 4.5 million shares; and
- Introduced specific rules for early retirement that clarified the application of rules relating to retirement and early retirement.

LTI allocation methodology

The SAR allocation levels are set out below:

Position	SAR allocation level (as a multiple of TGP)
CEO	7
CFO and executives	3
Senior management	1

Multiples of annual TGP are used to determine the annual allocation of SARs to qualifying employees. Employees are "topped up" each year to ensure that their unvested SARs are equal in face value to the multiple. In determining annual top-up allocations, only unvested past allocations and their face value when allocated are considered. Top-up awards are made annually.

Settlement

Quantum Foods may settle SAR awards on the exercise date by issuing additional shares or purchasing shares in the market for transfer to qualifying employees.



Performance conditions for vesting

The performance conditions for the 2020 grant of SARs are illustrated below:



For more detail regarding the calculation of the SAR allocation levels, please refer to the SAR Plan Rules, which are accessible at www.quantumfoods.co.za/company-documents.



- SARs vest in 3 equal tranches on 3rd, 4th and 5th anniversary of award date.
- Twelve-month exercise period.
- No resetting of performance conditions is allowed and the relevant tranche will lapse if the applicable performance conditions are not met.

Dilution limit

The total number of ordinary shares that may be transferred to qualifying employees under the SAR Plan is limited to 14.5 million shares, which amounts to 7.25% of Quantum Foods' issued share capital at 30 September 2019. The individual employee limit is 4.5 million shares, which amounts to 2.25% of the Company's issued share capital.

Early termination

For fault leavers as defined in the SAR Plan Rules, vested but unexercised SARs may be exercised within 30 days of termination of employment. All SARs (vested and unvested) will lapse thereafter. For no fault leavers as defined in the SAR Plan, the participant will be entitled to the same rights, and subject to the same conditions, as they would have been if they remained employed by the Company.

Amendment to the SAR Plan Rules

A rule change incorporating malus and clawback into the SAR Plan will be proposed to shareholders at the 2020 AGM. After approval, a summary of the malus and clawback provisions will be included in our future remuneration reports.

Executive directors' service agreements

Executive directors' service agreements are prepared with input from the RHCC. These service agreements are similar to employment agreements for most other employees, apart from having a longer notice period of three months versus one month for most other employees.

The three-month period applies to executive directors (including the CEO), as well as all senior managers.

Executive directors' service agreements do not contain restraint of trade provisions – this includes the service agreement for the CEO. Sign-on awards will only be made in exceptional circumstances to attract extraordinary talent. No such awards have been made to date. Executive contracts do not contain provisions that require the RHCC to make severance or balloon payments on termination of employment. Executives may serve on the boards of other companies as NEDs with the approval of the CEO. This approval will only be given in limited instances that will not impact the execution of executive responsibilities.

The survey and benchmark that is used in determining executive directors' remuneration is PwC's executive directors' remuneration practices and trends report which they publish on their website during June/July of each year. The RHCC is satisfied that the use of this report is appropriate in the context of Quantum Foods and its business.

Non-executive directors' fees

NEDs are paid a quarterly retainer fee in cash. The fee reflects the NEDs' assigned responsibilities. The fee is evaluated annually, and every two years movements are informed using PwC's NEDs' fees practices and trends report which they publish on their website during January of each year. The RHCC is satisfied that the use of this report is appropriate in the context of Quantum Foods and its business. NEDs are paid an all-inclusive retainer fee and are not paid per meeting. NEDs do not receive supplementary fees for an increased workload or *ad hoc* meeting attendance; however, NEDs are re-imbursed for any related disbursements.

Shareholder engagement methods

In line with the King IV Report on Corporate Governance™ for South Africa, 2016 and the JSE Listings Requirements, the remuneration policy and implementation report will be placed before shareholders for two separate non-binding advisory votes. In the event that 25% or more of shareholders vote against either of or both the remuneration policy and implementation report, the RHCC will initiate communication with shareholders via a SENS announcement following the AGM. This communication will aim to determine and address shareholders' concerns, including the manner and timing of the engagement. The RHCC may, *inter alia*, schedule a meeting with dissenting shareholders to discuss their concerns, if it is practical to do so.

Considering feedback from shareholders, the RHCC reserves the right to modify aspects of the remuneration framework in line with best practice and shareholders' interests.

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2019

TGP

The RHCC approved a salary increase mandate of 6% (2018: 6.5%) of total cost to company for non-sectoral employees and executives, and a 6% (2018: 6.5%) basic pay increase for sectoral employees.

STI outcomes

R19.9 million of the R24.2 million bonus pool cap accrued to participants of the STI in 2019.

The R19.9 million comprised an amount of R19.5 million for participants measured against the Group's and South Africa's operational performance as well as an amount of R0.4 million for participants measured against the Group's Other African businesses' performance.

The table below sets out the STI performance outcomes for 2019:

	Weighting %	Target performance	Stretch performance	Actual performance	Actual achievement (% of measure)	STI outcome (% of STI)
Group and SA operations						
HEBTPS	50	118.7 cents	133.0 cents	131.4 cents	88.6	44.3
EP	25	Three year rolling average improvement is R42.4 million			100	25.0
Operational efficiency	25	See below			61.7	15.4
Total	100					84.7

The table below sets out further details on the achievement of operational efficiency targets:

Performance measure	Weighting	Actual achievement %
Chicks per hen housed – broiler breeders	1/3	0
Eggs per hen housed and feed conversion rate – layer hens	1/3	85.0
Egg packing station efficiencies	1/3	100.0
Weighted average achievement	100%	61.7



Different targets are set for each Other African business and the table below provides a summary of the STI outcome of 2019.

Performance measure	Weighting %	Actual achievement %	STI outcome %
HEBTPS	50	0	0
EP	25	56.7	14.2
Operational efficiency	25	50.3	12.6
Total	100		26.8

The table below sets out the STIs of executive directors and prescribed officers in 2019, based on the achievement of performance targets:

Participant	STI earning potential (as a % of TGP)*	Achievement of performance conditions %	Actual STI (as % of TGP)	2019 STI amount included in single figure table R'000
HA Lourens	100	84.7	84.7	3 143
AH Muller	75	84.7	63.5	1 502
HE Pether	75	84.7	63.5	928

LTI outcomes

The first tranche of SARs granted in 2016 and the second tranche of SARs granted in 2015 vested in 2019. The tables below set out the achievement of the performance conditions for the SAR awards that vested during 2019.

2016 grant	Threshold	Stretch	Actual
Performance measure = Compound annual growth in adjusted HEPS	CPI plus 1% growth	CPI plus 5% growth	CPI plus 39.4% growth
2016 SAR allocation*	65.0 cents	72.6 cents	163.9 cents**
Vesting (%)	0	100	100
Vesting date			18 February 2019
Performance period			1 October 2015 – 30 September 2018
Employment period			18 February 2016 – 18 February 2019

* 2016 adjusted HEPS was 54.0 cents per share.
** 2018 HEPS

2015 grant	Threshold	Stretch	Actual
Performance measure = Compound annual growth in adjusted HEPS	CPI plus 1% growth	CPI plus 5% growth	CPI plus 50.2% growth
2015 SAR allocation*	35.7 cents	41.4 cents	163.9 cents**
Vesting (%)	0	100	100
Vesting date			27 February 2019
Performance period			1 October 2014 – 30 September 2018
Employment period			27 February 2015 – 27 February 2019

* 2015 adjusted HEPS was 28.1 cents per share.
** 2018 HEPS

LTIs granted during 2019

During the year under review, 6 049 032 SARs, at a strike price of R4.25 per share, were granted. The baseline HEPS of 163.90 cents per share for the 2019 allocation is the actual HEPS recorded for 2018. The Board did not increase the baseline HEPS for the 2019 allocation. Therefore, the total 100% vesting for the performance component of the 2019 allocation will be realisable at CAGR in HEPS of CPI plus 5% from the baseline of 163.90 cents per share.

Unvested LTIs

The table below discloses the number of each executive director and prescribed officer's LTIs at 30 September 2019, whether allocated, settled, or forfeited, as well as the value of SARs exercised during the year and an indicative value of SARs not yet settled. The indicative value of the closing number of SARs was calculated based on the number of SARs at the Company's year-end share price, less the grant price of the particular SARs granted. Special dividends of 22 cents per share for 2017 and special dividends of 49 cents per share for 2018 are included in the indicative value calculated.

Date awarded	Opening number	Granted during the year	Grant/strike price Cents	Forfeited during the year	Vested during the year	Number exercised during the year	Exercise price	Cash value of instruments on exercise R'000	Closing number	Indicative value R'000	
HA Lourens											
2015/02/27	Note 1	516 250	–	315	–	258 126	258 126	436	313	258 124	312
2016/02/18	Note 2	634 240	–	266	–	211 412	211 412	421	327	422 828	719
2017/02/23	Note 3	2 280 786	–	309	–	–	–	–	–	2 280 786	2 897
2018/02/22	Note 4	2 267 972	–	391	–	–	–	–	–	2 267 972	522
2019/02/11	Note 5	–	1 912 728	425	–	–	–	–	–	1 912 728	Nil
AH Muller											
2015/02/27	Note 1	318 570	–	315	–	159 284	159 284	436	193	159 286	193
2016/02/18	Note 2	187 902	–	266	–	62 634	62 634	423	98	125 268	213
2017/02/23	Note 3	510 736	–	309	–	–	–	–	–	510 736	649
2018/02/22	Note 4	656 978	–	391	–	–	–	–	–	656 978	151
2019/02/11	Note 5	–	497 266	425	–	–	–	–	–	497 266	Nil
HE Pether											
2015/02/27	Note 1	224 410	–	315	–	74 804	149 608	441	188	74 802	91
2016/02/18	Note 2	122 190	–	266	–	40 730	40 730	423	64	81 460	138
2017/02/23	Note 3	402 570	–	309	–	–	–	–	–	402 570	511
2018/02/22	Note 4	345 174	–	391	–	–	–	–	–	345 174	79
2019/02/11	Note 5	–	315 264	425	–	–	–	–	–	315 264	Nil

Note 1: Vesting in three equal tranches on 27/02/2018, 27/02/2019 and 27/02/2020. Awards must be exercised within 12 months of vesting.
Note 2: Vesting in three equal tranches on 18/02/2019, 18/02/2020 and 18/02/2021. Awards must be exercised within 12 months of vesting.
Note 3: Vesting in three equal tranches on 23/02/2020, 23/02/2021 and 23/02/2022. Awards must be exercised within 12 months of vesting.
Note 4: Vesting in three equal tranches on 22/02/2021, 22/02/2022 and 22/02/2023. Awards must be exercised within 12 months of vesting.
Note 5: Vesting in three equal tranches on 11/02/2022, 11/02/2023 and 11/02/2024. Awards must be exercised within 12 months of vesting.



The table below discloses the number of each executive director and prescribed officer's LTIs at 30 September 2018, whether allocated, settled or forfeited, as well as the value of SARs exercised during the year and an indicative value of SARs not yet settled. The indicative value of the closing number of SARs was calculated based on the number of SARs at the Company's year-end share price, less the grant price of the particular SARs granted.

Date awarded	Opening number	Granted during the year	Grant/strike price Cents	Forfeited during the year	Vested during the year	Number exercised during the year	Exercise price	Cash value of instruments on exercise R'000	Closing number	Indicative value R'000
HA Lourens										
2015/02/27 Note 1	774 376	-	315	-	258 126	258 126	460	375	516 250	569
2016/02/18 Note 2	634 240	-	266	-	-	-	-	-	634 240	1 008
2017/02/23 Note 3	2 280 786	-	309	-	-	-	-	-	2 280 786	2 639
2018/02/22 Note 4	-	2 267 972	391	-	-	-	-	-	2 267 972	780
AH Muller										
2015/02/27 Note 1	477 854	-	315	-	159 284	159 284	474	254	318 570	351
2016/02/18 Note 2	187 902	-	266	-	-	-	-	-	187 902	299
2017/02/23 Note 3	510 736	-	309	-	-	-	-	-	510 736	591
2018/02/22 Note 4	-	656 978	391	-	-	-	-	-	656 978	226
HE Pether										
2015/02/27 Note 1	224 410	-	315	-	-	-	-	-	224 410	247
2016/02/18 Note 2	122 190	-	266	-	-	-	-	-	122 190	194
2017/02/23 Note 3	402 570	-	309	-	-	-	-	-	402 570	466
2018/02/22 Note 4	-	345 174	391	-	-	-	-	-	345 174	119

Note 1: Vesting in three equal tranches on 27/02/2018, 27/02/2019 and 27/02/2020. Awards must be exercised within 12 months of vesting.
 Note 2: Vesting in three equal tranches on 18/02/2019, 18/02/2020 and 18/02/2021. Awards must be exercised within 12 months of vesting.
 Note 3: Vesting in three equal tranches on 23/02/2020, 23/02/2021 and 23/02/2022. Awards must be exercised within 12 months of vesting.
 Note 4: Vesting in three equal tranches on 22/02/2021, 22/02/2022 and 22/02/2023. Awards must be exercised within 12 months of vesting.

Reconciliation of LTI

The table below details the number of shares transferred to participants to settle the LTI and the remaining number of shares available for transfer to participants:

Total number of shares that may be transferred to settle the LTI	14 500 000
Number of shares transferred in 2018	(212 396)
Number of shares transferred in 2019	(1 309 899)
Remaining number of shares that may be transferred to settle the LTI	12 977 705

Remuneration outcomes for 2019

The table below sets out the single figure remuneration (i.e. TGP (basic salary and benefits), STI and LTI) received by executive directors and prescribed officers in 2019 and 2018, respectively:

30 September 2019	Basic salary R'000	Benefits R'000	STI R'000	LTI R'000	Directors' fees R'000	Total R'000
HA Lourens	3 234	413	3 143	640	-	7 430
AH Muller	2 019	311	1 502	292	-	4 125
HE Pether	1 149	289	928	252	-	2 618
Total	6 402	1 013	5 573	1 184	-	14 173

30 September 2018	Basic salary R'000	Benefits R'000	STI R'000	LTI R'000	Directors' fees R'000	Total R'000
HA Lourens	2 995	389	3 121	375	-	6 880
AH Muller	1 862	295	1 491	254	-	3 902
HE Pether	1 092	263	922	-	-	2 277
Total	5 949	947	5 534	629	-	13 059

NED fees

The table below sets out the fees paid to NEDs.

Name	2019 R'000	2018 R'000
WA Hanekom	428	402
N Celliers	282	266
Prof. ASM Karaan	338	318
PE Burton	390	344
GG Fortuin	282	266
T Golden	175	-

APPROVAL

The RHCC is satisfied that there were no material deviations from the remuneration policy during 2019.

This remuneration report was approved by the RHCC on 13 November 2019.



Directors' 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 2019, 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 27 November 2019 and are signed on its behalf by:

WA Hanekom
Chairman

27 November 2019

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 2019. 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/financial-reports/

COMPANY SECRETARY CERTIFICATE

In accordance with section 88 of the Companies Act, for the year ended 30 September 2019, 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.

MO Gibbons
Company Secretary

27 November 2019



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 the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV")*.

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 IV.

MEMBERS OF THE AUDIT AND RISK COMMITTEE

As at 30 September 2019, the committee comprised three independent non-executive directors namely, Prof. ASM Karaan and Mr. GG Fortuin and is chaired by Mr. PE Burton.

These members will retire and avail themselves for re-election at the sixth annual general meeting ("AGM") of the Company 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 IV.

The chairman, Group chief executive officer and the chief financial officer are permanent invitees to the committee meetings. 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 internal and external auditors frequently attend the meetings of the committee.

MEETINGS

The committee held three meetings during the year. Attendance of the meetings is shown on page 60 of this integrated report. The internal and external auditors attended the committee meetings in their capacity as assurance providers.

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 IV:

- Reviewed the interim, preliminary and summary results as well as the year-end financial statements, culminating in a recommendation to the board of directors ("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 International Financial Reporting Standards ("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.
- 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 this integrated report and has assessed its consistency with operational and other information known to committee members, and for consistency with the annual financial statements.
- Reviewed and confirmed that the non-audit services provided by the external auditors were not material. Any non-audit services to be performed above R500 000 must be approved by the Board
- Reviewed and confirmed the suitability and independence of PricewaterhouseCoopers Inc. ("PwC") as audit firm and Mr. RJ Jacobs as the designated auditor of the Group as stated in paragraph 22.15(h) of the JSE Listings Requirements
- Recommended the re-appointment of PwC as the external auditor and Mr. RJ Jacobs as the designated auditor, after satisfying itself through enquiry that PwC is independent as defined in section 49(8) of the Companies Act. 2020 will be Mr. RJ Jacobs' second year as designated auditor of the Company. The re-appointment of PwC as the recommended

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Audit and risk committee report

external auditor will be formally proposed to the shareholders at the AGM

- Confirmed that PwC and the designated auditor are accredited by the JSE
- Confirmed and approved the internal audit charter and annual risk-based 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
- Provided oversight over the combined assurance arrangements, including the external and internal auditors and satisfied itself of the effectiveness of the combined assurance model implemented by the Group
- Reviewed the effectiveness of the internal audit function and the head of internal audit

The committee is satisfied that sufficient time was dedicated to risk governance and that it discharged its responsibilities as set out in the charter and work plan for the period under review.

The committee is satisfied with the assurance of the internal and external auditors, with the effectiveness of the design and implementation of internal financial controls. There were no significant weaknesses noted which resulted in material financial loss, fraud, corruption or error.

INTERNAL AUDIT

The internal audit function is a key element of the combined assurance structure. The Group outsourced its internal audit function to Deloitte & Touche. The committee was satisfied that the internal auditor fulfilled its roles and responsibilities, as outlined in the charter and the assessment of the internal control environment.

CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION

The committee considered and satisfied itself in terms of paragraph 3.84(g)(i) of the JSE Listings Requirements with the appropriateness of the expertise and experience of Mr. AH Muller as chief financial officer.

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

The committee has ensured that the Company has established appropriate financial reporting procedures and that those procedures are satisfactory.

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 accordingly.

 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 84.

SIGNIFICANT AUDIT MATTERS AND QUALITY OF EXTERNAL AUDIT

The committee considered and resolved that the key audit matters reported on by the external auditors are the only significant matters required for consideration of the annual financial statements. The committee is satisfied with the appropriateness of the key audit matters reported on by the external auditors. The committee was satisfied with the quality of the external audit.

PE Burton
Chairman: Audit and risk committee

Wellington
27 November 2019



Independent auditor's report on the summary consolidated financial statements

To the Shareholders of Quantum Foods Holdings Limited

OPINION

 The summary consolidated financial statements of Quantum Foods Holdings Limited, set out on pages 88 to 98 of this integrated report, which comprise the summary consolidated statement of financial position as at 30 September 2019, 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 Limited for the year ended 30 September 2019.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's ("JSE") requirements for summary financial statements, as 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.

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The summary consolidated financial statements do not contain all the disclosures required by IFRS and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 27 November 2019. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

DIRECTOR'S RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: R Jacobs
Registered Auditor

Stellenbosch
27 November 2019



Summary consolidated statement of financial position

as at 30 September 2019

	2019 R'000	2018 R'000
ASSETS		
Non-current assets	1 181 521	1 091 867
Property, plant and equipment	1 160 768	1 071 869
Intangible assets	7 722	10 637
Investment in associate	8 998	8 789
Trade and other receivables	3 356	–
Deferred income tax	677	572
Current assets	1 332 808	1 422 816
Inventories	288 029	240 396
Biological assets	379 596	332 058
Trade and other receivables	433 280	425 424
Derivative financial instruments	4 658	–
Current income tax	7 651	2 477
Cash and cash equivalents	219 594	422 461
Total assets	2 514 329	2 514 683
EQUITY AND LIABILITIES		
Capital and reserves attributable to owners of the parent	1 837 412	1 854 391
Share capital	1 465 069	1 500 248
Treasury shares	(23 947)	(1 541)
Other reserves	(210 432)	(226 402)
Retained earnings	606 722	582 086
Total equity	1 837 412	1 854 391
Non-current liabilities	256 790	234 405
Interest-bearing liability	6 021	6 128
Deferred income tax	242 843	220 559
Provisions for other liabilities and charges	7 926	7 718
Current liabilities	420 127	425 887
Trade and other payables	420 019	424 661
Derivative financial instruments	–	1 127
Interest-bearing liability	108	99
Total liabilities	676 917	660 292
Total equity and liabilities	2 514 329	2 514 683



Summary consolidated statement of comprehensive income

for the year ended 30 September 2019

	Notes	2019 R'000	2018 R'000
Revenue	3	4 417 674	4 121 901
Cost of sales		(3 395 377)	(3 187 855)
Gross profit		1 022 297	934 046
Other income		9 915	33 148
Other gains/(losses) – net	4	149 517	420 072
Sales and distribution costs		(251 995)	(232 391)
Marketing costs		(13 278)	(15 205)
Administrative expenses		(126 517)	(118 196)
Other operating expenses		(544 706)	(548 195)
Operating profit		245 233	473 279
Investment income		15 102	24 919
Finance costs		(3 959)	(1 116)
Share of profit of associate company		209	706
Profit before income tax		256 585	497 788
Income tax expense		(67 390)	(135 561)
Profit for the year		189 195	362 227
Other comprehensive income for the year			
<i>Items that may subsequently be reclassified to profit or loss:</i>			
Fair value adjustments to cash flow hedging reserve		(1 227)	4 982
For the year		26 178	23 627
Deferred income tax effect		(1 426)	(18)
Current income tax effect		(5 903)	(6 598)
Realised to profit or loss		(27 883)	(16 707)
Deferred income tax effect		18	568
Current income tax effect		7 789	4 110
Movement on foreign currency translation reserve			
Currency translation differences		13 080	(36 299)
Total comprehensive income for the year		201 048	330 910
Profit for the year attributable to owners of the parent		189 195	362 227
Total comprehensive income for the year attributable to owners of the parent		201 048	330 910
Earnings per ordinary share (cents)	5	93	164
Diluted earnings per ordinary share (cents)	5	91	163



Summary consolidated statement of changes in equity

for the year ended 30 September 2019

	2019 R'000	2018 R'000
Share capital and treasury shares	1 441 122	1 498 707
Opening balance	1 498 707	1 552 670
Shares repurchased and cancelled	(35 179)	(52 422)
Ordinary shares acquired by subsidiary	(27 368)	(2 520)
Ordinary shares transferred – share appreciation rights	4 962	979
Other reserves	(210 432)	(226 402)
Opening balance	(226 402)	(200 991)
Other comprehensive income for the year	11 853	(31 317)
Recognition of share-based payments	8 090	6 633
Ordinary shares transferred – share appreciation rights	(3 973)	(727)
Retained earnings	606 722	582 086
Opening balance	582 086	339 966
Adjustment to opening retained earnings*	(795)	–
Profit for the year	189 195	362 227
Dividends paid	(162 775)	(119 855)
Ordinary shares transferred – share appreciation rights	(989)	(252)
Total equity	1 837 412	1 854 391

* Refer to note 2 for details regarding the restatement of the opening balance of retained earnings on 1 October 2018.



Summary consolidated statement of cash flows

for the year ended 30 September 2019

	2019 R'000	2018 R'000
CASH FLOW FROM OPERATING ACTIVITIES	162 706	431 555
Cash profit from operating activities	329 847	547 802
Working capital changes	(109 244)	12 889
Cash effect of hedging activities	(6 736)	8 884
Cash generated from operations	213 867	569 575
Income tax paid	(51 161)	(138 020)
CASH FLOW FROM INVESTING ACTIVITIES	(140 946)	(87 355)
Additions to property, plant and equipment	(152 587)	(115 749)
Additions to intangible assets	(4)	(283)
Proceeds on disposal of property, plant and equipment	3 271	3 758
Advance of non-interest-bearing loan	(6 728)	–
Interest received	15 102	24 919
Cash surplus	21 760	344 200
CASH FLOW FROM FINANCING ACTIVITIES	(225 941)	(175 320)
Repayment of interest-bearing liability	(98)	(91)
Shares repurchased	(35 179)	(52 422)
Treasury shares acquired by subsidiary	(27 368)	(2 520)
Interest paid	(724)	(554)
Dividends paid to ordinary shareholders	(162 572)	(119 733)
(Decrease)/increase in cash and cash equivalents	(204 181)	168 880
Effects of exchange rate changes	1 314	(7 888)
Cash and cash equivalents at beginning of year	422 461	261 469
Cash and cash equivalents at end of year	219 594	422 461



Notes to the summary consolidated financial statements

for the year ended 30 September 2019

	2019 R'000	2018 R'000
SEGMENT INFORMATION		
Segment revenue	4 417 674	4 121 901
Eggs	1 095 195	1 206 489
Farming	1 325 152	1 232 798
Animal feeds	1 758 627	1 460 387
Other African countries	238 700	222 227
Segment results – excluding items of a capital nature	244 611	472 350
Eggs	38 341	286 669
Farming	112 087	98 464
Animal feeds	89 100	69 413
Other African countries	14 226	31 036
Head office costs	(9 143)	(13 232)
Items of a capital nature per segment included in other gains/(losses) – net		
Profit/(loss) on disposal of property, plant and equipment before income tax	622	929
Eggs	(96)	1 943
Farming	1 053	(504)
Animal feeds	(426)	(510)
Other African countries	91	–
Segment results	245 233	473 279
Eggs	38 245	288 612
Farming	113 140	97 960
Animal feeds	88 674	68 903
Other African countries	14 317	31 036
Head office costs	(9 143)	(13 232)
A reconciliation of the segment results to operating profit before income tax is provided below:		
Segment results	245 233	473 279
<i>Adjusted for:</i>		
Investment income	15 102	24 919
Finance costs	(3 959)	(1 116)
Share of profit of associate company	209	706
Profit before income tax per statement of comprehensive income	256 585	497 788



1. BASIS OF PREPARATION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Ltd 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, apart from the adoption of the new and amended standards, as set out below.

1.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- IFRS 9 – Financial Instruments; and
- IFRS 15 – Revenue from Contracts with Customers.

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

1.2 Impact of standards issued but not yet effective

IFRS 16 – Leases was issued in January 2016. It will result in almost all leases being recognised in the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The standard will affect primarily the Group's operating leases. The Group leases various poultry houses, warehouses, machinery, equipment and vehicles under operating lease agreements. As at the reporting date, the Group has non-cancellable operating lease commitments of R52.5 million.

The Group expects to recognise right-of-use assets of approximately R62.5 million on 1 October 2019, and lease liabilities of R77.0 million.

The Group expects that net profit after tax will increase by approximately R0.5 million for 2020 as a result of adopting the new rules. Earnings before interest, taxation, depreciation and amortisation (EBITDA) is expected to increase by approximately R27.6 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.



Notes to the summary consolidated financial statements (continued)

for the year ended 30 September 2019

1. BASIS OF PREPARATION (continued)

1.2 Impact of standards issued but not yet effective (continued)

The difference between the non-cancellable operating lease commitments and lease liability on 1 October mainly relates to leases which have extension clauses where management has determined it highly probable that extensions will be done.

The Group intends to apply the modified retrospective transition approach and will not restate comparative information.

2. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers on the Group's annual financial statements. It also discloses the new accounting policies that have been applied from 1 October 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As explained below, IFRS 9 and IFRS 15 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 30 September 2018 but are recognised in the opening statement of financial position on 1 October 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EXTRACT)	30 September 2018		1 October 2018
	As originally presented	IFRS 9 impact	
	R'000	R'000	R'000
ASSETS			
Non-current assets			1 091 878
Deferred income tax	572	11	583
Current assets			1 421 807
Trade and other receivables	425 424	(1 009)	424 415
Total assets	2 514 683	(998)	2 513 685
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent			1 853 596
Retained earnings	582 086	(795)	581 291
Non-current liabilities			234 202
Deferred income tax	220 559	(203)	220 356
	660 292	(203)	660 089
Total liabilities			660 089
Total equity and liabilities	2 514 683	(998)	2 513 685

There was no impact on the statement of comprehensive income.



(b) IFRS 9 – Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 – Financial Instruments from 1 October 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements (refer to note 2(a) adjacent). In accordance with the transitional provisions in IFRS 9(7.2.15), comparative figures have not been restated.

There has been no change to the classification and measurement of financial assets and financial liabilities of the Group, except for the impact of the new impairment requirements. IFRS 9 did not result in significant changes to accounting policies.

(i) Derivatives and hedging activities

The foreign currency forwards in place as at 30 September 2018 qualified as cash flow hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

For foreign currency forwards, the Group only designates the spot component of the change in fair value in cash flow hedge relationships. The spot component is determined with reference to the relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as forward points. It is discounted, where material. Changes in the fair value related to forward points were recognised in the statement of profit or loss prior to 1 October 2017. The Group continues to recognise this cost of hedging (forward points) immediately in profit and loss.

(ii) Impairment of financial assets

The Group has the following types of financial assets that are subject to IFRS 9's new expected credit loss ("ECL") model:

- trade receivables for sales of inventory;
- other receivables; and
- cash and cash equivalents.

The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table alongside. While cash and cash equivalents and other receivables are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group applies the IFRS 9 simplified approach to measuring ECL, which uses a lifetime expected loss allowance for all trade receivables. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to such trade receivable and the economic environment. Forward-looking information includes expected economic growth and employment rates and the potential impact thereof on our customers. Trade receivables have been grouped together based on shared characteristics and the days past due. Shared characteristics refer to type of product sold to the customer. The calculation of the ECL takes into account the insurance cover in place.

The Group has a history of minimal bad debt write-offs and has credit insurance in place over a large portion of its trade debtors.



Notes to the summary consolidated financial statements (continued)

for the year ended 30 September 2019

2. CHANGES IN ACCOUNTING POLICIES (continued)

The loss allowances for trade receivables as at 30 September 2018 reconcile to the opening loss allowances on 1 October 2018 as follows:

	Trade receivable – impairment provision R'000
At 30 September 2018 – calculated under IAS 39	21 873
Amount restated through opening retained earnings	1 009
Opening loss allowance as at 1 October 2018 – calculated under IFRS 9	22 882

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due and/or when the legal process has not enabled recovery.

(c) IFRS 15 – Revenue from Contracts with Customers – Impact of adoption

The new standard is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a customer. IFRS 15 establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Group's revenue consists mostly of the sale of eggs, animal feed and live birds, delivered to customers at the customers' premises. There are no material changes to the revenue recognition for revenue from sale of goods under IFRS 15.

	2019 R'000	2018 R'000
3. REVENUE		
Disaggregation of revenue from contracts with customers:		
Revenue		
Eggs	1 095 195	1 206 489
Layer farming*	197 058	183 901
Broiler farming**	1 128 094	1 048 897
Animal feeds	1 758 627	1 460 387
Zambia***	144 538	128 522
Uganda***	48 966	49 263
Mozambique****	45 196	44 442
	4 417 674	4 121 901

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

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

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

**** Includes the sale of commercial eggs.



4. OTHER GAINS/(LOSSES) – NET

	2019 R'000	2018 R'000
Biological assets fair value adjustment	105 091	74 063
Unrealised – reflected in carrying amount of biological assets	790	(775)
Realised – reflected in cost of goods sold	104 301	74 838
Agricultural produce fair value adjustment	40 015	344 783
Unrealised – reflected in carrying amount of inventory	(2 891)	1 142
Realised – reflected in cost of goods sold	42 906	343 641
Foreign exchange differences	339	4 413
Financial instruments fair value adjustments	3 003	(1 243)
Foreign exchange contract cash flow hedging ineffective losses	447	(2 873)
Profit on disposal of property, plant and equipment	622	929
	149 517	420 072

5. 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 (net of treasury shares) in issue during the year:

Profit for the year	189 195	362 227
Weighted average number of ordinary shares in issue ('000)	204 298	220 468

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 (net of treasury shares) in issue during the period:

Profit for the year	189 195	362 227
Diluted weighted average number of ordinary shares in issue ('000)	207 185	222 821

Headline earnings is calculated in accordance with Circular 4/2018 issued by the South African Institute of Chartered Accountants.



Notes to the summary consolidated financial statements (continued)

for the year ended 30 September 2019

	2019 R'000	2018 R'000
5. EARNINGS PER ORDINARY SHARE (continued)		
<i>Reconciliation between profit for the period attributable to owners of the parent and headline earnings</i>		
Profit for the year	189 195	362 227
Remeasurement of items of a capital nature		
Profit on disposal of property, plant and equipment	(554)	(782)
Gross	(622)	(929)
Tax effect	68	147
Headline earnings for the year	188 641	361 445
Earnings per share (cents)	93	164
Diluted earnings per share (cents)	91	163
Headline earnings per share (cents)	92	164
Diluted headline earnings per share (cents)	91	162
6. CONTINGENT LIABILITIES		
Guarantees in terms of loans by third parties to contracted service providers	23 861	29 550

Litigation

Customer claim

The Group received a summons in the 2016 reporting period in respect of a claim for performance of day-old pullets delivered to the customer. The claim was withdrawn as part of a settlement agreement. The settlement had no adverse financial impact on the Group.

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 ("ZCCPC") regarding alleged violation of the Competition and Consumer Protection Act ("CCPA"). The investigation was finalised in March 2018, and Quantum Foods Zambia Ltd was found to be in contravention with certain provisions of the CCPA. An appeal was lodged at the Competition and Consumer Protection Tribunal for Zambia. The matter was settled with the ZCCPC within the reporting period and the provision previously recognised was reversed. The settlement had no adverse financial impact on the Group.

Dispute with egg contract producer

The Group has an outstanding trade receivable from a previous egg contract producer. The producer had filed a counterclaim against the Group for alleged breach of the terms of the terminated agreement. The claim was withdrawn as part of a settlement agreement. The settlement had no adverse financial impact on the Group.

7. FUTURE CAPITAL COMMITMENTS

Capital expenditure approved by the Board and contracted for amounts to R14.6 million (2018: R50.0 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R86.0 million (2018: R95.3 million).



8. EVENTS AFTER THE REPORTING PERIOD

Dividend

A final dividend of 25 cents per ordinary share has been approved and declared by the Board for the year ended 30 September 2019, on 28 November 2019. 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 20%, to be withheld and paid to the South African Revenue Service by the Company. Such tax must be withheld unless beneficial owners of the dividend have provided the necessary documentary proof to the relevant regulated intermediary that they are exempt therefrom, or entitled to a reduced rate as result of the double taxation agreement between South Africa and the country of domicile of such owner.

The net dividend amounts to 20 cents per ordinary share for shareholders liable to pay dividends tax. The dividend amounts to 25 cents per ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares is 200 024 716 as at the date of this declaration.

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

9. PREPARATION OF FINANCIAL STATEMENTS

This summary consolidated financial statements have been prepared under the supervision of AH Muller, CA(SA), chief financial officer.

10. AUDIT

The consolidated annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditors' report thereon are available for inspection at the Company's registered office.



Corporate information

QUANTUM FOODS HOLDINGS LTD

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

DIRECTORS

WA Hanekom (chairman)
PE Burton (lead independent)
GG Fortuin
Prof. ASM Karaan
N Celliers
T Golden (appointed 10 December 2018)
HA Lourens (chief executive officer)*
AH Muller (chief financial officer)*
* *Executive.*

COMPANY SECRETARY

MO Gibbons
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AUDITOR

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