Quantum Foods Holdings Ltd
Incorporated in the Republic of South Africa
Registration number: 2013/208598/06
Tax registration number: 9095455193
Share code: QFH ISIN code: ZAE000193686
("Quantum Foods" or "the Group" or "the Company")

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 MARCH 2016

SALIENT FEATURES

	2016	2015	% Change
Revenue	**R1 808 million**	R1 675 million	8%
Operating profit	**R77 million**	R82 million	(7%)
Operating profit (before items of a capital nature)*	**R40 million**	R81 million	(50%)
Headline earnings	**R34 million**	R61 million	(44%)
Earnings per share	**26.0 cents**	26.7 cents	(2%)
Headline earnings per share	**14.8 cents**	26.3 cents	(44%)

* *Income or expenditure of a capital nature in the statement of comprehensive income, i.e. all profit or loss items that are excluded in the calculation of headline earnings per share. The principal items excluded under this measurement are profits or losses on disposal of property, plant and equipment.*

COMMENTARY

INTRODUCTION

The first six months of the 2016 financial year have been very challenging. Significant increases in raw material costs, due to the drought in South Africa and a rapid decline in the value of the rand, as well as a South African economy characterised by increased pressure on the consumer, created unfavourable trading conditions that severely tested the Quantum Foods business model. These headwinds were not restricted to South Africa. Tougher industry conditions, as well as currency volatility, also impacted the operations in the rest of Africa. Due to the repositioning of the Group, these headwinds had a limited effect on the broiler business during the period under review. Improved results from this segment and the feed segment offset, to some extent, the significant decline in profitability of the eggs and layer livestock and the other African operations of the Group in the period under review.

FINANCIAL OVERVIEW

Group revenue increased by 7.9% to R1.8 billion. Revenue from South African operations increased by R155.7 million (9.9%), mostly in the animal feed segment, due to increased selling prices and volumes following the acquisition of the Olifantskop feed mill on 1 February 2016. Revenue increased in the broiler, and eggs and layer livestock segments, where improved selling prices contributed more than the decreases in volumes of main product categories. Revenue from operations in the rest of Africa decreased by R22.9 million (24.2%), particularly in Zambia, following the exit of the distribution centre business in the previous period and contributed 4.0% to Group revenue for the six months.

Cost of sales increased by 7.1% to R1.5 billion. Cost of sales includes the biological assets (livestock) and agricultural produce (eggs) fair value adjustments that were realised and included in other gains and losses in the statement of comprehensive income. These fair value adjustments for the six-month period ended March 2016 amounted to R70.9 million (2015: R116.6 million). Gross profit, excluding these fair value adjustments, decreased by R12.0 million, resulting in a gross profit margin of 21.2% compared to 23.6% in 2015.

Cash operating expenses increased by 5.1% in 2016, with the decrease following the sale of the Hartbeespoort abattoir offset by inflationary increases and the cost of additional business units incorporated in this period. These include the Safe Eggs (pasteurised egg) business and the Olifantskop feed mill, as well as two farms rented and incorporated into the eggs and layer livestock business.

Operating profit decreased by R5.8 million to a profit of R76.5 million for the six-month period. The 2016 operating profit includes a profit on the sale of assets of R36.1 million. Operating profit (excluding profit on sale of assets) in the South African operations decreased by R28.8 million to R41.7 million at a margin of 2.4% (2015: 4.5%). Operating profit in the rest of Africa declined by R11.2 million to R3.0 million at a margin of 4.2%. Operating expenses not allocated to segments amounted to R4.3 million. Including those, an operating margin of 2.2% was achieved compared to 4.8% in the previous period.

Headline earnings per share ("HEPS") decreased to 15 cents from the 26 cents per share in 2015.

Cash outflow from operations amounted to R53.9 million in 2016. This includes an additional investment in working capital of R116.1 million of which the Olifantskop feed business contributed R23.5 million. Capital expenditure, excluding the acquisition of the Olifantskop feed mill, for the period amounted to R45.9 million, R40.7 million of which was incurred on the table egg expansion projects in Zambia and Uganda.

The Group had no interest-bearing debt at 31 March 2016.

OPERATIONAL OVERVIEW

The animal feed segment performed well in a volatile raw material market. Volumes sold to third parties continued to increase while margins were slightly lower. The acquisition of the Olifantskop feed mill on 1 February 2016 contributed positively to the financial result. Following this business combination, more than 50% of the Nova Feeds production is now sold to third parties.

The business re-engineering of the broiler segment was completed during October 2015, with the sale of the Hartbeespoort abattoir. Quantum Foods is now a pure livestock business within the South African broiler industry, supplying live birds to third-party abattoirs. The results of the broiler segment were in line with expectations. This segment now represents a more stable, less cyclical profit contributor to Quantum Foods.

The egg business did not perform well. High input costs, weak farm performance and below-standard packing station efficiencies led to a negative financial result. Structural changes were made in the business, but profitability is only expected once raw material prices return to normal levels.

In the layer livestock business, volumes increased, but margins shrank as price increases could not compensate for high raw material costs.

The financial performance from the rest of Africa was disappointing. The performance on operational level was, however, satisfactory. Exchange rate volatility as well as industry challenges played a negative role in the results. The table egg expansion projects, in both Zambia and Uganda, are progressing as planned.

PROSPECTS

The remainder of the 2016 financial year is expected to be characterised by continuing high raw material costs. We expect the feed and broiler businesses to remain stable contributors to the results of the Group. The egg business is expected to remain under severe pressure, due to both the current industry challenges as well as the lead time for significant improvement in the farm performances of the Group.

In the rest of Africa, conditions will remain difficult due to exchange rate volatility and the slowing of the Zambian economy, but we look forward to positive contributions from the completed expansions during the last three months of this financial year.

DIVIDEND

No dividend has been declared for the six months ended 31 March 2016. The Group does not yet have a formal dividend policy. The Board will assess the ability to declare and pay dividends on an annual basis.

By order of the Board

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer

Wellington
25 May 2016

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Investor presentation:

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 March 2016 R'000	Unaudited 31 March 2015 R'000	Audited 30 September 2015 R'000
ASSETS			
Non-current assets	**1 024 998**	1 034 293	945 625
Property, plant and equipment	**999 031**	1 015 126	923 322
Intangible assets	**17 049**	9 543	12 784
Investment in associate	**6 461**	6 226	6 731
Deferred income tax	**2 457**	3 398	2 788
Current assets	**1 130 772**	1 036 726	1 053 062
Inventories	**219 358**	189 924	234 566
Biological assets	**327 380**	285 974	288 775
Trade and other receivables	**414 678**	356 432	334 794
Derivative financial instruments	**13 707**	2 324	7 424
Current income tax	**6 932**	–	–
Cash and cash equivalents	**148 717**	202 072	187 503
Assets held for sale	**–**	–	83 399
Total assets	**2 155 770**	2 071 019	2 082 086
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent	**1 569 717**	1 504 073	1 514 567
Share capital	**1 585 386**	1 585 386	1 585 386
Other reserves	**(211 217)**	(174 758)	(228 968)
Retained earnings	**195 548**	93 445	158 149
Total equity	**1 569 717**	1 504 073	1 514 567
Non-current liabilities	**233 412**	216 923	220 747
Deferred income tax	**226 923**	210 578	214 258
Provisions for other liabilities and charges	**6 489**	6 345	6 489
Current liabilities	**352 641**	350 023	346 772
Trade and other payables	**346 568**	349 252	343 890
Derivative financial instruments	**4 294**	–	–
Current income tax	**1 779**	771	2 882
Total liabilities	**586 053**	566 946	567 519
Total equity and liabilities	**2 155 770**	2 071 019	2 082 086

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 31 March 2016 R'000	Unaudited Six months ended 31 March 2015 R'000	Audited Year ended 30 September 2015 R'000
Revenue		**1 807 555**	1 674 713	3 468 312
Cost of sales		**(1 495 112)**	(1 395 930)	(2 864 073)
Gross profit		**312 443**	278 783	604 239
Other income		**8 161**	5 815	11 639
Other gains/(losses) – net	3	**95 563**	121 027	238 482
Sales and distribution costs		**(91 764)**	(92 872)	(193 631)
Marketing costs		**(5 224)**	(5 045)	(11 287)
Administrative expenses		**(46 784)**	(47 160)	(96 168)
Other operating expenses		**(195 881)**	(178 229)	(389 212)
Operating profit		**76 514**	82 319	164 062
Investment income		**5 210**	4 175	9 886
Finance costs		**(48)**	(1 686)	(1 887)
Share of (loss)/profit of associate company		**(270)**	114	619
Profit before income tax		**81 406**	84 922	172 680
Income tax expense		**(20 682)**	(22 710)	(45 764)
Profit for the period		**60 724**	62 212	126 916
Other comprehensive income/(loss) for the period				
Items that may subsequently be reclassified to profit or loss:				
Fair value adjustments to cash flow hedging reserve		**(4 106)**	5 770	796
For the period		**1 636**	11 695	16 851
Deferred income tax effect		**1 130**	(2 337)	–
Current income tax effect		**(1 588)**	(938)	(4 718)
Realised to profit or loss		**(7 339)**	(3 681)	(15 747)
Deferred income tax effect		**–**	93	93
Current income tax effect		**2 055**	938	4 317
Movement on foreign currency translation reserve				
Currency translation differences		**20 812**	(25 300)	(75 513)
Total comprehensive income for the period		**77 430**	42 682	52 199
Profit for the period attributable to owners of the parent		**60 724**	62 212	126 916
Total comprehensive income for the period attributable to owners of the parent		**77 430**	42 682	52 199
Earnings per ordinary share (cents)	4	**26.0**	26.7	54.4
Diluted earnings per ordinary share (cents)	4	**26.0**	26.7	54.4

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 March 2016 R'000	Unaudited Six months ended 31 March 2015 R'000	Audited Year ended 30 September 2015 R'000
Share capital	**1 585 386**	1 585 386	1 585 386
Other reserves	**(211 217)**	(174 758)	(228 968)
Opening balance	**(228 968)**	(155 395)	(155 395)
Other comprehensive income/(loss) for the period	**16 706**	(19 530)	(74 717)
Recognition of share-based payments	**1 045**	167	1 144
Retained earnings	**195 548**	93 445	158 149
Opening balance	**158 149**	31 233	31 233
Profit for the period	**60 724**	62 212	126 916
Dividend declared	**(23 325)**	–	–
Total equity	**1 569 717**	1 504 073	1 514 567

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Unaudited Six months ended 31 March 2016 R'000	Unaudited Six months ended 31 March 2015 R'000	Audited Year ended 30 September 2015 R'000
NET CASH FLOW FROM OPERATING ACTIVITIES		**(53 909)**	113 997	163 819
Net cash profit from operating activities		**78 377**	110 830	232 127
Working capital changes		**(116 126)**	(1 174)	(53 630)
Cash effect of hedging activities		**(1 668)**	8 014	1 104
Net cash (utilised in)/generated from operations		**(39 417)**	117 670	179 601
Income tax paid		**(14 492)**	(3 673)	(15 782)
NET CASH FLOW FROM INVESTING ACTIVITIES		**28 405**	(9 615)	(62 031)
Additions to property, plant and equipment		**(45 879)**	(19 705)	(58 323)
Additions to intangible assets		**–**	(2 624)	(5 389)
Proceeds on disposal of property, plant and equipment		**119 275**	8 539	9 295
Business combination	7	**(50 201)**	–	(17 500)
Interest received		**5 210**	4 175	9 886
Net cash (deficit)/surplus		**(25 504)**	104 382	101 788
NET CASH FLOW FROM FINANCING ACTIVITIES		**(23 314)**	(1 686)	(1 370)
Interest paid		**(48)**	(1 686)	(1 370)
Dividend paid to ordinary shareholders		**(23 266)**	–	–
Net (decrease)/increase in cash and cash equivalents		**(48 818)**	102 696	100 418
Effects of exchange rate changes		**10 032**	(6 145)	(18 436)
Net cash and cash equivalents at beginning of the period		**187 503**	105 521	105 521
Net cash and cash equivalents at end of the period		**148 717**	202 072	187 503

CONDENSED CONSOLIDATED SEGMENT REPORT

	Unaudited Six months ended 31 March 2016 R'000	Unaudited Six months ended 31 March 2015 R'000	Audited Year ended 30 September 2015 R'000
Segment revenue	**1 807 555**	1 674 713	3 468 312
Eggs and layer livestock	**578 344**	548 848	1 154 315
Broilers	**526 408**	509 872	1 034 834
Animal feeds	**631 238**	521 555	1 099 905
Other African countries	**71 565**	94 438	179 258
Segment results	**76 514**	82 319	164 062
Eggs and layer livestock	**(19 777)**	27 651	40 571
Broilers	**66 213**	14 312	39 706
Animal feeds	**31 346**	30 032	65 493
Other African countries	**3 020**	14 201	25 286
Unallocated	**(4 288)**	(3 877)	(6 994)
A reconciliation of the segment results to operating profit/(loss) before income tax is provided below:			
Segment results	**76 514**	82 319	164 062
Adjusted for:			
Investment income	**5 210**	4 175	9 886
Finance costs	**(48)**	(1 686)	(1 887)
Share of (loss)/profit of associate company	**(270)**	114	619
Profit before income tax per statement of comprehensive income	**81 406**	84 922	172 680
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	**36 061**	1 520	1 580
Eggs and layer livestock	**(60)**	496	718
Broilers	**36 113**	1 024	894
Animal feeds	**8**	–	(35)
Other African countries	**–**	–	3

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

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

2. Accounting policies

These condensed consolidated interim financial statements incorporate accounting policies that are consistent with those applied in the Group's annual financial statements for the year ended 30 September 2015.

Critical accounting estimates and judgements

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2015.

	Unaudited Six months ended 31 March 2016 R'000	Unaudited Six months ended 31 March 2015 R'000	Audited Year ended 30 September 2015 R'000
3. Other gains/(losses) – net			
Biological assets fair value adjustment	**34 877**	65 926	111 882
Unrealised – reflected in carrying amount of biological assets	**(6 238)**	490	(4 489)
Realised – reflected in cost of goods sold	**41 115**	65 436	116 371
Agricultural produce fair value adjustment	**28 547**	50 243	121 128
Foreign exchange differences	**(2 923)**	2 202	4 000
Foreign exchange contract fair value adjustments	**(554)**	1 314	(108)
Foreign exchange contract cash flow hedging ineffective losses	**(445)**	–	–
Fair value hedging adjustment on futures	**–**	(178)	–
Profit on disposal of property, plant and equipment	**36 061**	1 520	1 580
	95 563	121 027	238 482

	Unaudited Six months ended 31 March 2016 R'000	Unaudited Six months ended 31 March 2015 R'000	Audited Year ended 30 September 2015 R'000
4. Earnings per ordinary share			
Basic and diluted			
The calculation of basic and diluted earnings per share is based on profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the period:			
Profit for the period attributable to owners of the parent	**60 724**	62 212	126 916
Headline earnings is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants.			
The Group has no dilutive potential ordinary shares.			
Reconciliation between profit for the period attributable to owners of the parent and headline earnings			
Profit for the period attributable to owners of the parent	**60 724**	62 212	126 916
Remeasurement of items of a capital nature			
Profit on disposal of property, plant and equipment	**(26 277)**	(956)	(1 000)
Gross	**(36 061)**	(1 520)	(1 580)
Tax effect	**9 784**	564	580
Headline earnings for the period	**34 447**	61 256	125 916
Weighted average number of ordinary shares in issue ('000)	**233 249**	233 249	233 249
Earnings per share (cents)			
Basic and diluted	**26.0**	26.7	54.4
Headline earnings per share (cents)			
Basic and diluted	**14.8**	26.3	54.0

5. Contingencies and future capital commitments

There have been no changes since the previous reporting period in the status of the litigation against the Group (Dispute with egg contract producer and early termination of contract).

Capital expenditure approved by the Board and contracted for amounts to R17.8 million (30 September 2015: R49.0 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R97.6 million (30 September 2015: R113.0 million).

6. Fair value measurement

All financial instruments measured at fair value are classified using a three-tiered fair value hierarchy that reflects the significance of the inputs used in determining the measurement. The hierarchy is as follows:

Level 1:
Fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2:
Fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3:
Fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at:

31 March 2016	Level 1 R'000	Level 2 R'000	Level 3 R'000
Assets measured at fair value			
Derivative financial instruments			
– Fair value hedges	–	**13 707**	–
Total assets measured at fair value	–	**13 707**	–
Liabilities measured at fair value			
Derivative financial instruments			
– Foreign exchange contracts – not earmarked for hedging	–	**371**	–
– Foreign exchange contracts – cash flow hedges	–	**3 923**	–
Total liabilities measured at fair value	–	**4 294**	–

There were no transfers between any levels during the period, nor were there any significant changes to the valuation techniques and inputs used to determine fair values.

7. Business combination

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

31 March 2016	2016 R'000
Olifantskop Feed Mill (on 1 February 2016)	
Fair value	
Property, plant and equipment	**37 887**
Intangible assets	**5 728**
Inventory	**6 844**
Trade and other payables	**(258)**
Purchase consideration – settled in cash	**50 201**

Reason for business combination:

To grow the external feeds sales volumes by entering into the Eastern Cape animal feed market.

Contribution since acquisition:	
Revenue	**35 906**
Operating profit before finance cost and income tax	**1 652**
Pro forma contribution assuming the acquisition was at the beginning of the period:	
Revenue	**107 718**
Operating profit before finance cost and income tax	**4 956**

8. Events after the reporting period

Business combination

The Group's shareholders were advised on SENS on 26 April 2016, that the Group has made an offer to purchase the Galavos egg business, located in Mozambique, as a going concern. The Galavos business produces and sells commercial eggs in the Mozambican market. The sale of business agreement has been concluded and signed, with specific conditions precedent to the agreement to still be fulfilled or waived. The conditions precedent have not yet been fulfilled.

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 condensed consolidated interim financial statements by the Board.

9. Preparation of financial statements

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

10. Audit

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

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