QUANTUM FOODS

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

Summary audited consolidated financial statements

For the year ended 30 September 2021

Salient features

	2021	2020	% change
Revenue	**R5 401 million**	R5 095 million	6
Operating profit (before items of a capital nature)*	**R144 million**	R220 million	(34)
Operating profit	**R148 million**	R218 million	(32)
Headline earnings	**R102 million**	R156 million	(34)
Earnings per share	**53.9 cents**	80.1 cents	(33)
Headline earnings per share (**"HEPS"**)	**52.2 cents**	80.5 cents	(35)
Total dividend per share	**Nil**	16 cents	(100)

* *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 HEPS. The principal items excluded under this measurement are profits or losses on disposal of property, plant and equipment and on disposal of interest in associate.*

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Commentary

Quantum Foods' 2021 performance was below expectation. Trading conditions were challenged by higher feed costs, the South African outbreak of highly pathogenic avian influenza ("HPAI"), the business closure of a Western Cape broiler abattoir customer and muted consumer expenditure. In addition, lower production at certain operations and above-target cost per unit increases in key product categories weakened the Group's overall financial results. Quantum Foods was privileged to operate at full capacity, even during the strictest lockdown restrictions. We are therefore grateful that we did not suffer the same financial pressures that many participants in the South African economy endured.

Operating environment

Favourable events during the year included South Africa's 2020/2021 maize harvest of approximately 16.2 million tons, which is the second-largest crop on record. The Rand also strengthened by 8.6% against the US dollar when compared to the 2020 financial year. However, feed raw material costs increased in 2021 due to the sharp increase in global commodity prices and an increase in logistics costs.

The increase in global commodity prices resulted primarily from an expectation that less favourable weather conditions in the key planting areas of South America and North America would affect the 2021 harvest. The cost of key raw materials (including maize, bran, hominy chop and soybean meal) and the cost of other feed ingredients and additives increased.

The April 2021 outbreak of HPAI in South Africa affected many businesses in the poultry industry. These impacts were direct, through the loss of poultry stock, and/or indirect, through, *inter alia*, the loss of feed sales volumes and the inability to export livestock as customers' country borders were closed.

According to the South African Poultry Association, the layer flock decreased from 28.6 million in September 2020 to 26.5 million in September 2021. This decrease included approximately 2 million layer birds that producers destroyed to limit the spread of HPAI.

Egg prices increased in the second half of FY2021 on the back of the lower national egg supply. South Africa's broiler flock was impacted by HPAI particularly at breeder level. This resulted in lower production of broiler hatching eggs and, subsequently, a lower supply of broiler chicks and broiler meat to the market.

Incidents of civil unrest in South Africa in July 2021 impacted many of the Group's customers, particularly in the Gauteng and KwaZulu-Natal provinces. The Group was able to continue its operations throughout this period of the civil unrest and its customers managed to resume operations fairly quickly. The civil unrest did not result in significant financial losses for the Group.

Segmental review

Animal feeds

Nova Feeds' performance was satisfactory. Sales volumes declined by 6% due to, *inter alia*, a sharp increase and sustained high-level of raw material costs, aggressive competitor activity, the impact of HPAI on customers and certain customers investing in their own feed production facilities. However, since 2017, *Nova Feeds'* external sales volumes have increased by an average of 6.4% per year.

This is compared to a 1.1% increase per year in South Africa's feed volumes, as reported by the Animal Feed Manufacturers Association. Internal volumes transferred to the layer and broiler farming businesses also declined. This decline was due to the lower number of layer hens in production, which negatively affected cost recovery.

Margins per ton improved mainly due to improved operational efficiencies. The nominal increase in operating costs was well managed. However, the increase in per unit cost was disproportionate given the fixed cost element and lower total volumes. Load shedding remains a challenge. However, investments made to increase production capacity at the Pretoria and Malmesbury feed mills as well as to equip the Paterson feed mill with a generator resulted in factories keeping up with demand.

Commentary (continued)

Broiler farming

The financial and operational performance of the broiler farming businesses was below expectation.

The challenges at the broiler breeder level continued and the number of day-old chicks per parent hen produced declined in FY2021 due to lower egg production efficiencies and hatchability. This resulted in an increase in the cost per unit given the fixed cost element of this business.

The Company procured hatching eggs from third-party producers to meet its delivery obligations for day-old chicks. However, the HPAI outbreak at various third-party broiler breeder operations impacted available supply. The Company therefore reduced day-old chick production and sales volumes, which contributed to lower earnings.

In line with the Company's growth strategy, we made the decision to discontinue importing grandparent stock. The grandparent farm in the North West province (Bulhoek), will be repurposed to rear and breed with parent stock. This will enable the Group to produce additional day-old chick volumes. To further support the growth strategy, the board of directors ("Board") approved a project to increase production capacity at the Hartbeespoort broiler hatchery in FY2021. However, due to the scope of the project, the increased capacity is only expected to be available from FY2023.

The operational efficiency of commercial broiler farming remained high. Earnings were negatively impacted by end-customers requiring smaller and lighter products in response to ongoing economic pressure. This resulted in the Group selling a lower total weight to abattoir customers. Consequently, decreased margins arose from fixed cost production components. The acquisition and successful integration of the Western Cape Helderfontein broiler farm was a highlight. This transaction ensures an uninterrupted broiler supply chain in the Western Cape and provides a basis from which to increase future volumes.

Earnings were further negatively impacted by the business closure of a Western Cape abattoir customer that the Group supplied live birds and day-old broiler chicks to as well as feed via third-party contract producers.

Above-target operating cost increases in the broiler farming business were exacerbated by the lower volumes of livestock sold and further reduced earnings in this business.

Layer farming

The financial and operational performance of the layer farming business was below expectation, with the exception of the layer breeder business. The layer breeder business again performed well, with satisfactory efficiencies in egg production per hen housed and hatchability as well as an increase in sales of day-old chicks to external customers in the first half of FY2021. However, sales of livestock to neighbouring countries were interrupted in the second half of FY2021. This followed the outbreak of HPAI in South Africa, which resulted in the closure of customer country borders. This resulted in lower day-old pullet production volumes and an underrecovery of costs in this period.

The layer rearing business, which produces point-of-lay hens, performed better than in the previous year. FY2020 was significantly affected by customers either cancelling or delaying point-of-lay orders. Consequently, the Group experienced substantially higher feed costs and the late transfer of birds to layer farms, which negatively impacted earnings. The disrupted depopulation of point-of-lay hens was resolved in FY2021, resulting in improved efficiencies when compared to FY2020.

However, FY2021 earnings were negatively affected by lower volumes of point-of-lay hens sold to external customers and lower margins. Volumes were, *inter alia*, affected by the outbreak of HPAI. Margins were impacted by the higher cost of production resulting from higher feed costs not being fully recovered in the final product selling prices. The Company experienced an HPAI outbreak at its Fransrug layer rearing farm in the Western Cape and lost approximately 84 000 hens in May 2021 at a direct cost of R5 million.

Production efficiencies at commercial egg farms were lower when compared to FY2020. This was driven by an increase in the number of older and younger layer flocks in production, neither of which produced optimally when compared to FY2020. Consequently, fewer birds were in the peak production phase during FY2021. This cycle is a direct consequence of the disruption to the layer placement programme in FY2020, which was detailed earlier in this report. This cycle is temporary and will fully correct itself in FY2022.

Eggs

The egg business performed well. While operating efficiencies were slightly lower than the excellent FY2020 performance, they remained high. Efficiencies were negatively affected by the eggs produced by the relatively higher number of older birds in production for a period during the year, which generally resulted in a higher percentage of second-grade eggs.

Cost increases were well managed and increased below inflation. Volumes sold by the egg business reduced by 9.7%. This was due to the lower production on the Company's commercial egg farms. The outbreak of HPAI substantially reduced South Africa's layer flock and the ensuing reduction in the national egg supply supported higher egg selling prices during the second half of FY2021.

Other African countries

Despite the difficult economic circumstances experienced in Zambia during 2021, the Zambian business produced excellent financial results. Performance was supported by farm productivity, which remained satisfactory, the increase in demand and selling prices for day-old chicks and eggs, and excellent cost management.

The Ugandan business delivered an improved financial performance, supported by the higher demand for day-old chicks. The egg business produced higher volumes due to a higher number of hens in production. Egg selling prices declined year on year and were especially low during periods of strict COVID-19 lockdown. These periods of lockdown restricted the movement of people and the normal export of eggs to neighbouring countries, contributing to an imbalance in supply and demand. Farm productivity declined at the breeder business and Masindi egg farm due to, *inter alia*, disease challenges. Improving farm efficiencies is a focus area for the local management team, supported by management and veterinary expertise from South Africa.

COVID-19 related disruption in supply chains impacted the planned replenishment of parent stock in Uganda and Zambia. This contributed to lower efficiencies at breeder level, which impacted the volume and cost of day-old chick production.

Productivity and selling prices in Mozambique improved. However, this improvement was insufficient to recover the increase in production costs, which was driven by sharp increases in feed cost. The business remained profitable at an earnings before interest, taxes, depreciation and amortisation ("EBITDA") level.

There was no outbreak of HPAI within the other African countries.

Financial overview

Group revenue increased by 6.0% to R5.4 billion, with a 5.5% increase of R264 million in the South African operations and a 15.0% increase of R42 million in the operations of the other African countries. Revenue from other African countries contributed 5.9% of the Group's revenue for FY2021 (FY2020: 5.5%).

Revenue from South African operations:

- Increased by R203 million for the feeds segment. This increase of 9.1% is due to the adjustment of selling prices for higher input costs. External volumes sold decreased by 6.0%.
- Increased by R62 million for the farming segment. Broiler farming revenue increased due to higher selling prices, with selling prices adjusted for higher input costs, while volumes were lower. Layer farming revenue decreased by R18 million due to decreased volumes.
- Decreased by R1 million for the eggs segment, where an average price increase of 10.5% and a volume decrease of 9.7% was achieved.

Cost of sales increased by 7.9% to R4.3 billion. 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 2021 amounted to R87 million (2020: R100 million), with the decrease mostly reflective of the decreased margins in the egg business. Gross profit, excluding these fair value adjustments, decreased by R25 million to R1 149 million at a margin of 21.3% (2020: 23.0%).

Bergsig Breeders (Pty) Ltd (previously accounted for as an associate) repurchased the Company's 29.9% investment in its issued share capital for R14.2 million on 18 June 2021. A profit of R4.0 million was realised and included in other gains/(losses) – net in profit or loss.

Commentary (continued)

Cash operating expenses increased by 3.6% compared to FY2020. The increase in operating costs on a per unit basis was negatively impacted by lower volumes in key product categories.

Operating profit before items of a capital nature decreased by 34.3% to R144 million for the period under review. South African operations recorded a 42.7% decrease of R97 million to a profit of R130 million at a margin of 2.6% (FY2020: 4.7%). Feeds improved by R2 million, while eggs and farming weakened by R11 million and R87 million, respectively. Feeds profit benefited from the improvement in efficiencies. Farming profits were negatively affected by a combination of external and internal factors. External factors include, *inter alia*, the outbreak of HPAI, the business closure of a Western Cape abattoir customer, and the after effects of the disrupted layer placement cycle resulting from changes in demand in FY2020. Egg profitability was mostly affected by lower sales volumes. Other African countries recorded an increase in profits of R25 million, mainly due to increased profitability from the Zambian business.

Profit before tax decreased by 34.0% to R142 million. HEPS decreased to 52.2 cents from the 80.5 cents per share of FY2020.

Cash inflow from operating activities amounted to R24 million for the reporting period. This includes an increased investment of R259 million in working capital, primarily resulting from the increased cost of feed raw materials, higher selling prices and an increase in bird numbers on layer farms by the end of FY2021.

Capital expenditure for the period amounted to R109 million. Main projects and maintenance capital included the breeder farm expansion in Uganda, capacity expansion at the Malmesbury and Pretoria feed mills, refurbishment of layer farms, projects to ensure fire risk compliance and the installation of solar systems at three plants.

Cash flow from investing activities include R55 million for the acquisition of Helderfontein broiler farm in the Western Cape.

Cash and cash equivalents decreased from R252 million as at 30 September 2020 to R73 million at 30 September 2021.

Other non-current liabilities as at 30 September 2021 comprise deferred tax and a provision for long service bonuses. The balance increased from 30 September 2020 primarily due to increased investment in biological assets and taxation allowances for capital expenditure completed during the year.

The statement of income for the year ended 30 September 2020 was restated following discovery of a prior period error in the classification of expenses. The error resulted in a misclassification of cost of sales expenditure as administrative and other operating expenses. The restatement did not impact basic and diluted earnings and HEPS.

Dividend

The Board's decision to not declare a final dividend for FY2021 considered:

- The potential impact of further HPAI outbreaks on the Group's future earnings and cash flow position
- The Group's cash position as at 30 September 2021, including considering the approved capital programme and the expected continued high-level of investment in working capital due to the high raw material costs
- The concomitant pressure expected on margins, resulting from high raw material costs (especially impacting the egg business)
- Continued uncertainty about the extent of COVID-19's impact on the economy (specifically consumer expenditure)
- The requirement to preserve cash for any acquisitive growth opportunities that may become available

Outlook

The challenging trading conditions experienced by the poultry industry in 2021 are expected to continue in 2022.

We anticipate that feed raw material costs will remain high due to the expectation for international prices and cost of logistics remaining high. The cost of feed raw materials will further be influenced by any fluctuations in the value of the Rand, primarily against the US dollar. The Rand has been relatively strong in 2021. Any weakening in the currency will negatively impact the Group, despite optimal procurement performance.

The availability of feed raw materials is expected to be sufficient. South Africa's excellent 2021 maize crop should result in sufficient carry over of maize stock into the next season. Even if South Africa experiences average summer rainfall in maize-producing areas, South Africa's maize supply should be sufficient for the next year. Global supply of soybean meal is expected to be sufficient, despite relatively lower stock levels.

The potential further impact of HPAI remains uncertain. For Quantum Foods, the potential impact specifically relates to the supply of broiler hatching eggs and egg production. The geographical spread of Quantum Foods' operations and the third-party farms supplying the Group will reduce the potential impact. However, the Group has several large facilities at which an outbreak of HPAI, would have a significant effect. All reasonably possible measures are being taken to protect Quantum Foods' farms against this risk. The Group reduced the financial risk of HPAI in FY2021 by incorporating limited insurance against outbreaks for a period of 12 months in its risk management strategy. Insuring against HPAI will be considered annually going forward.

A further concern is South Africa's weak economic growth prospects. Reliable electricity supply and the ability of municipal infrastructure are key requirements for economic growth, which will drive future consumer expenditure.

Following elections in Zambia in August 2021, early indications are that the new ruling party is supportive of foreign investment and business in general. This would support the country's economic growth prospects and lead to increased demand for the Group's products. Trading conditions in Uganda are expected to improve. Less severe COVID-19 restrictions will result in a return to more normal domestic and export trading patterns. This will benefit the Group, as we have invested in expanded capacity. Dedicated management focus and the ability to reach operations were restricted in FY2021 due to COVID-19. Lifting of these restrictions should result in improved production efficiencies in Uganda and Mozambique. If realised, the improved production efficiencies will support increased earnings.

The Group's product portfolio comprises products that support efficient livestock production either in the form of animal feed or efficient converters of animal feed into protein. The resilience of this product portfolio was evident during the COVID-19 lockdown periods and in general, the Group's product portfolio has proved its resilience in a weaker consumer environment. The Group continually invests in improving efficiencies and growing volumes. Together with the strength of the business portfolio, improved operational efficiency and continued focus on cost management, this should ensure a successful year ahead.

By order of the Board

WA Hanekom
Chairman

HA Lourens
Chief Executive Officer

26 November 2021

Summary consolidated statement of financial position

	Audited As at 30 September 2021 R'000	Audited As at 30 September 2020 R'000
ASSETS		
Non-current assets	**1 360 639**	1 222 063
Property, plant and equipment	**1 243 120**	1 140 282
Right-of-use assets	**95 108**	57 909
Intangible assets	**7 098**	5 832
Investment in associates	**10 310**	13 679
Trade and other receivables	**4 033**	4 035
Deferred income tax	**970**	326
Current assets	**1 423 865**	1 422 723
Inventories	**383 450**	297 872
Biological assets	**403 308**	354 511
Trade and other receivables	**562 933**	518 043
Derivative financial instruments	**23**	–
Current income tax	**840**	516
Cash and cash equivalents	**73 311**	251 781
Total assets	**2 784 504**	2 644 786
EQUITY AND LIABILITIES		
Capital and reserves attributable to owners of the parent	**1 999 802**	1 885 642
Share capital	**1 465 069**	1 465 069
Treasury shares	**(8 315)**	(19 338)
Other reserves	**(65 769)**	(85 089)
Retained earnings	**608 817**	525 000
Total equity	**1 999 802**	1 885 642
Non-current liabilities	**360 101**	283 597
Lease liabilities	**85 155**	53 692
Deferred income tax	**266 590**	221 475
Provisions for other liabilities and charges	**8 356**	8 430
Current liabilities	**424 601**	475 547
Trade and other payables	**396 740**	444 384
Derivative financial instruments	**–**	6
Current income tax	**2 639**	12 989
Lease liabilities	**23 860**	18 168
Provisions for other liabilities and charges	**1 362**	–
Total liabilities	**784 702**	759 144
Total equity and liabilities	**2 784 504**	2 644 786

Summary consolidated statement of comprehensive income

	Notes	Audited Year ended 30 September 2021 R'000	Restated* Audited Year ended 30 September 2020 R'000
Revenue	3	**5 401 116**	5 095 085
Cost of sales		**(4 339 005)**	(4 021 182)
Gross profit		**1 062 111**	1 073 903
Other income		**10 201**	10 655
Other gains/(losses) – net	4	**72 304**	92 500
Sales and distribution costs		**(263 528)**	(263 434)
Marketing costs		**(15 065)**	(13 941)
Administrative expenses		**(143 972)**	(132 073)
Net impairment losses on trade and other receivables		**(9 050)**	–
Other operating expenses		**(565 412)**	(549 142)
Operating profit		**147 589**	218 468
Investment income		**4 747**	6 010
Finance costs		**(11 844)**	(8 579)
Share of profit/(loss) of associate companies		**1 767**	(432)
Profit before income tax		**142 259**	215 467
Income tax expense		**(36 464)**	(60 568)
Profit for the year		**105 795**	154 899
Other comprehensive income for the year			
Items that may subsequently be reclassified to profit or loss:			
Fair value adjustments to cash flow hedging reserve		**7 993**	(1 714)
For the year		**57 668**	41 349
Deferred income tax effect		**(6)**	1
Current income tax effect		**(16 141)**	(11 579)
Realised to profit or loss		**(46 567)**	(43 730)
Deferred income tax effect		**(1)**	1 427
Current income tax effect		**13 040**	10 818
Movement on foreign currency translation reserve			
Currency translation differences		**8 651**	(45 680)
Total comprehensive income for the year		**122 439**	107 505
Profit for the year attributable to owners of the parent		**105 795**	154 899
Total comprehensive income for the year attributable to owners of the parent		**122 439**	107 505
Earnings per ordinary share (cents)	5	**53.9**	80.1
Diluted earnings per ordinary share (cents)	5	**53.0**	77.6

* *Refer to note 10 for details regarding the restatement of prior period figures.*

Summary consolidated statement of changes in equity

	Audited Year ended 30 September 2021 R'000	Audited Year ended 30 September 2020 R'000
Share capital and treasury shares	**1 456 754**	1 445 731
Opening balance	**1 445 731**	1 441 122
Ordinary shares acquired by subsidiary	**–**	(4 296)
Ordinary shares transferred - share appreciation rights	**11 023**	8 905
Other reserves	**(65 769)**	(85 089)
Opening balance	**(85 089)**	(210 432)
Other comprehensive income for the year	**16 644**	(47 394)
Common control reserve reclassified to retained earnings	**–**	167 877
Recognition of share-based payments	**11 147**	14 746
Ordinary shares transferred – share appreciation rights	**(8 471)**	(9 886)
Retained earnings	**608 817**	525 000
Opening balance	**525 000**	606 722
Adjustment to opening retained earnings – IFRS 16 adoption	**–**	(9 864)
Profit for the year	**105 795**	154 899
Dividends paid	**(19 426)**	(59 861)
Common control reserve reclassified to retained earnings	**–**	(167 877)
Ordinary shares transferred - share appreciation rights	**(2 552)**	981
Total equity	**1 999 802**	1 885 642

Summary consolidated statement of cash flows

	Note	Audited Year ended 30 September 2021 R'000	Audited Year ended 30 September 2020 R'000
CASH FLOW FROM OPERATING ACTIVITIES		**24 348**	216 311
Cash profit from operating activities		**295 297**	332 548
Working capital changes		**(259 292)**	(70 312)
Cash effect of hedging activities		**11 076**	2 718
Cash generated from operations		**47 081**	264 954
Income tax paid		**(22 733)**	(48 643)
CASH FLOW FROM INVESTING ACTIVITIES		**(153 272)**	(85 413)
Additions to property, plant and equipment		**(107 095)**	(91 155)
Additions to intangible assets		**(1 507)**	–
Proceeds on disposal of property, plant and equipment		**1 277**	411
Interest in associate acquired		**(10 251)**	–
Business combination	8	**(54 682)**	–
Proceeds on disposal of investment in associate		**14 239**	–
Interest received		**4 747**	5 331
Cash (deficit)/surplus		**(128 924)**	130 898
CASH FLOW FROM FINANCING ACTIVITIES		**(51 031)**	(94 463)
Principal elements of lease payments		**(20 941)**	(22 441)
Treasury shares acquired by subsidiary		**–**	(4 296)
Interest paid		**(10 698)**	(7 909)
Dividends paid to ordinary shareholders		**(19 392)**	(59 817)
(Decrease)/increase in cash and cash equivalents		**(179 955)**	36 435
Effects of exchange rate changes		**1 485**	(4 248)
Cash and cash equivalents at beginning of year		**251 781**	219 594
Cash and cash equivalents at end of year		**73 311**	251 781

Segmental analysis

	Audited Year ended 30 September 2021 R'000	Audited Year ended 30 September 2020 R'000
SEGMENT INFORMATION		
Segment revenue	**5 409 490**	5 102 999
Eggs	**1 228 789**	1 229 592
Farming	**1 420 004**	1 357 957
Animal feeds	**2 440 511**	2 237 071
Other African countries	**320 186**	278 379
Less: Internal revenue	**(8 374)**	(7 914)
Farming	**(8 374)**	(7 914)
External revenue	**5 401 116**	5 095 085
Eggs	**1 228 789**	1 229 592
Farming	**1 411 630**	1 350 043
Animal feeds	**2 440 511**	2 237 071
Other African countries	**320 186**	278 379
Segment results – excluding items of a capital nature	**144 298**	219 556
Eggs	**(5 003)**	6 254
Farming	**34 275**	121 505
Animal feeds	**100 916**	99 288
Other African countries	**30 834**	5 899
Head office costs	**(16 724)**	(13 390)
Items of a capital nature per segment included in other gains/(losses) – net		
(Loss)/profit on disposal of property, plant and equipment before income tax	**(674)**	(1 088)
Eggs	**(13)**	(1)
Farming	**(778)**	(267)
Animal feeds	**(106)**	(989)
Other African countries	**223**	169
Profit on disposal of interest in associate before income tax	**3 965**	–
Head office costs	**3 965**	–
Segment results	**147 589**	218 468
Eggs	**(5 016)**	6 253
Farming	**33 497**	121 238
Animal feeds	**100 810**	98 299
Other African countries	**31 057**	6 068
Head office costs	**(12 759)**	(13 390)
A reconciliation of the segment results (operating profit) to profit before income tax is provided below:		
Segment results	**147 589**	218 468
Adjusted for:		
Investment income	**4 747**	6 010
Finance costs	**(11 844)**	(8 579)
Share of profit/(loss) of associate companies	**1 767**	(432)
Profit before income tax per statement of comprehensive income	**142 259**	215 467

Notes to the summary consolidated financial statements

1. Basis of preparation

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Ltd Listings Requirements ("Listings Requirements") for provisional reports, and the requirements of the Companies Act, No. 71 of 2008, applicable to summary financial statements. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the South African Institute of Chartered Accountants ("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.

The directors of the Company take full responsibility for the preparation of the summary consolidated financial statements and that the financial information has been correctly extracted from the underlying consolidated annual financial statements.

The impact of the COVID-19 pandemic was considered as part of the assessment of assumptions used in accounting estimates and judgements throughout the financial statements. The Group continued to operate at full capacity throughout the COVID-19 lockdown period. The COVID-19 pandemic therefore had a minimal impact on the Group's business and the consolidated annual financial statements.

2. Accounting policies

These summary consolidated financial statements incorporate accounting policies that are consistent with those applied in the Group's consolidated financial statements for the year ended 30 September 2021 and with those of previous financial years, except for the adoption of the following amendments to the published standards that became effective for the current reporting period beginning on 1 October 2020:

- Amendment to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – the definition of material
- Amendment to IFRS 3 – Business Combinations – definition of a business

The adoption of these amendments to the standards did not have any material impact on the Group's results and cash flows for the year ended 30 September 2021 and the financial position at 30 September 2021.

Notes to the summary consolidated financial statements (continued)

	Audited Year ended 30 September 2021 R'000	Audited Year ended 30 September 2020 R'000
3. Revenue		
Disaggregation of revenue from contracts with customers:		
Revenue		
Eggs	**1 435 398**	1 431 460
– included in eggs segment	**1 228 789**	1 229 592
– included in other African countries segment	**206 609**	201 868
Layer farming*	**256 165**	266 012
– included in farming segment	**219 597**	237 671
– included in other African countries segment	**36 568**	28 341
Broiler farming**	**1 225 492**	1 134 661
– included in farming segment	**1 192 033**	1 112 372
– included in other African countries segment	**33 459**	22 289
Animal feeds	**2 484 061**	2 262 952
– included in animal feeds segment	**2 440 511**	2 237 071
– included in other African countries segment	**43 550**	25 881
	5 401 116	5 095 085

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

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

	Audited 2021 R'000	Audited 2020 R'000
4. Other gains/(losses) – net		
Biological assets fair value adjustment	**29 663**	70 265
Unrealised – reflected in carrying amount of biological assets	**(18 894)**	(4 598)
Realised – reflected in cost of goods sold	**48 557**	74 863
Agricultural produce fair value adjustment	**38 195**	25 813
Unrealised – reflected in carrying amount of inventory	**(26)**	248
Realised – reflected in cost of goods sold	**38 221**	25 565
Foreign exchange differences	**(5 370)**	(64)
Financial instruments fair value adjustments	**(3)**	(33)
Foreign exchange contract cash flow hedging ineffective gain/(loss)	**6 528**	(2 393)
Loss on disposal of property, plant and equipment	**(674)**	(1 088)
Profit on disposal of interest in associate	**3 965**	–
	72 304	92 500

	Audited Year ended 30 September 2021 R'000	Audited Year ended 30 September 2020 R'000
5. Earnings per ordinary share		
Basic		
The calculation of basic earnings per share is based on profit for the year 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	**105 795**	154 899
Weighted average number of ordinary shares in issue ('000)	**196 126**	193 291
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 year attributable to owners of the parent divided by the diluted weighted average number of ordinary shares (net of treasury shares) in issue during the year:		
Profit for the year	**105 795**	154 899
Diluted weighted average number of ordinary shares in issue ('000)	**199 691**	199 653
Headline earnings is calculated in accordance with Circular 1/2021 (2020: Circular 1/2019) issued by the SAICA.		
Reconciliation between profit attributable to owners of the parent and headline earnings		
Profit for the year	**105 795**	154 899
Remeasurement of items of a capital nature		
Loss on disposal of property, plant and equipment	**453**	752
Gross	**674**	1 088
Tax effect	**(221)**	(336)
Profit on disposal of interest in associate	**(3 965)**	–
Gross	**(3 965)**	–
Tax effect	**–**	–
Headline earnings for the year	**102 283**	155 651
Earnings per share (cents)	**53.9**	80.1
Diluted earnings per share (cents)	**53.0**	77.6
Headline earnings per share (cents)	**52.2**	80.5
Diluted headline earnings per share (cents)	**51.2**	78.0

Notes to the summary consolidated financial statements (continued)

6. Contingent liabilities

No litigation matters with potential material consequences exist as at the reporting date.

7. Future capital commitments

Capital expenditure approved by the Board and contracted for amounts to R12.3 million (2020: R27.0 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R154.7 million (2020: R135.5 million).

8. Business combination

Helderfontein Broiler Farm

On 31 January 2021, 100% of the issued shares in LP Buhr Boerdery (Pty) Ltd was acquired. LP Buhr Boerdery (Pty) Ltd owns Helderfontein Broiler Farm, a broiler chickens rearing business based in the Western Cape. Helderfontein Broiler Farm has been a contract grower to the Group for the last 25 years.

The acquisition of LP Buhr Boerdery (Pty) Ltd is considered a business combination in terms of IFRS 3 – Business Combinations. The acquisition consists of the assets, employees (and related liabilities) for a total consideration of R54.7 million which does not include any settlement in respect of the pre-existing contract grower agreement. Details of the purchase consideration and the net assets acquired are as follows:

	Audited Year ended 30 September 2021 R'000
Fair value	
Property, plant and equipment	**73 124**
Inventory	**1 390**
Trade and other receivables	**287**
Trade and other payables	**(131)**
Deferred income tax liabilities	**(19 988)**
Purchase consideration – settled in cash	**54 682**

The acquisition ensures an uninterrupted broiler supply chain in the Western Cape, enables the Group to continue to serve its customer base and also provides a basis from which to increase volumes in future.

The acquired business contributed no material revenue and operating profit due to the business previously being a contract grower to the Group. Similarly, if the acquisition had occurred on 1 October 2020, the contribution to revenue and operating profit for the reporting period from the acquired business would not be material.

9. Events after the reporting period

Dividend

The Board has resolved not to declare a final dividend for the year ended 30 September 2021 (2020: 10 cents).

The Group considered the impact of the COVID-19 pandemic post 30 September 2021 and concluded that the significant accounting judgements, estimates and assumptions applied in the preparation of these summary consolidated financial statements remain appropriate.

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.

10. Restatement

In September 2021 a prior period error was discovered in the classification of expenses. The error resulted in costs directly related to manufactured products being classified as administrative expenses and other operating expenses. The classification error had no impact on the profit for the prior period or on the costing of inventory as these costs were correctly capitalised to inventory. The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

	2020 Previously reported R'000	(Increase)/ decrease R'000	2020 Restated R'000
Statement of comprehensive income extract			
Cost of sales	(3 945 221)	(75 961)	(4 021 182)
Other operating expenses	(616 566)	67 424	(549 142)
Administrative expenses	(140 610)	8 537	(132 073)
Profit before income tax	215 467	–	215 467

Basic and diluted earnings and headline earnings per share have not been impacted as a result of the restatement. The restatement did not affect any notes in the summary consolidated financial statements.

11. Preparation of financial statements

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

12. Audit

This summary report is extracted from audited information, but is not itself audited.

The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection on the Company's website, https://quantumfoods.co.za/financial-reports/ or at the Company's registered office.

The Group's auditor has not reviewed nor reported on any of the comments relating to prospects.

Directors

WA Hanekom (chairman)#, GG Fortuin (appointed 9 September 2021 as lead independent director)#, T Golden#, LW Riddle#, G Vaughan-Smith, HA Lourens (chief executive officer)*, AH Muller (chief financial officer)*

* *Executive* # *Independent*

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