Tongaat Hulett

HIPPO VALLEY ESTATES LIMITED

Preliminary Condensed Reviewed Results for the year ended 31 March 2019

PRELIMINARY CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31.03.19 RTGS$'000	Year ended 31.03.18 RTGS$'000 Restated
Revenue		**243 824**	**135 249**
Operating profit		67 662	9 465
Net finance charges	Note 1	(1 820)	(3 023)
		65 842	6 442
Share of profit of associated companies		1 587	971
Profit before tax		67 429	7 413
Income tax expense	Note 2	(23 139)	(1 944)
Profit for the year		**44 290**	**5 469**
Other comprehensive income, net of tax		493	31
Actuarial losses on post retirement provision		(2 613)	(151)
Exchange gain on translation of foreign investment		3 106	182
Total comprehensive income for the year		**44 783**	**5 500**
Number of shares in issue ('000 of shares)		193 021	193 021
Basic and diluted earnings per share (RTGS cents)		22.9	2.8
Headline Earnings per share (RTGS cents)		23.6	2.9

PRELIMINARY CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31.03.19 RTGS$'000	As at 31.03.18 RTGS$'000 Restated	As at 01.04.17 RTGS$'000 Restated
ASSETS				
Non-current assets		**202 517**	**206 758**	**199 830**
Property, plant and equipment		192 135	199 678	195 477
Intangible assets		3 289	3 259	1 133
Investments in associated companies		7 093	3 821	3 220
Current assets		**229 980**	**120 976**	**111 565**
Biological assets		97 968	43 809	38 532
Inventories		42 788	42 406	39 150
Trade and other receivables		69 754	25 266	23 719
Current tax asset		-	262	-
Cash and cash equivalents		19 470	9 233	10 164
Total assets		**432 497**	**327 734**	**311 395**
EQUITY AND LIABILITIES				
Capital and reserves		**241 749**	**200 826**	**195 326**
Issued share capital		15 442	15 442	15 442
Non-distributable reserves		130 941	127 835	127 653
Retained earnings		95 366	57 549	52 231
Non-current liabilities		**74 274**	**62 168**	**60 092**
Deferred tax liabilities		65 950	57 431	55 647
Provisions		8 324	4 737	4 445
Current liabilities		**116 474**	**64 740**	**55 977**
Trade and other payables		51 555	31 770	16 189
Trade finance		-	20 685	19 745
Borrowings		56 569	12 285	18 080
Dividend payable	Note 5	1 394	-	-
Current tax liability		6 956	-	1 963
Total equity and liabilities		**432 497**	**327 734**	**311 395**

PRELIMINARY CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Issued share capital RTGS$'000	Non-distributable reserves RTGS$'000	Retained earnings RTGS$'000	Total RTGS$'000
Balance at 31 March 2017 (as previously reported)		**15 442**	**127 653**	**82 671**	**225 766**
Restatement of opening balance		-	-	(30 440)	(30 440)
Initial adoption of IFRS 9	Note 8.2	-	-	(484)	(484)
Correction of prior period errors	Note 9	-	-	(29 956)	(29 956)
Balance at 1 April 2017 (Restated)		**15 442**	**127 653**	**52 231**	**195 326**
Total comprehensive income for the year (Restated)		-	182	5 318	5 500
Profit for the year (Restated)		-	-	5 469	5 469
Other comprehensive income /(loss) for the year		-	182	(151)	31
Balance at 31 March 2018 (Restated)		**15 442**	**127 835**	**57 549**	**200 826**
Total comprehensive income for the year		-	3 106	41 677	44 783
Profit for the year		-	-	44 290	44 290
Other comprehensive income/(loss) for the year		-	3 106	(2 613)	493
Dividend		-	-	(3 860)	(3 860)
Balance at 31 March 2019		**15 442**	**130 941**	**95 366**	**241 749**

PRELIMINARY CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31.03.19 RTGS$'000	Year ended 31.03.18 RTGS$'000 Restated
Cash flows from operating activities			
Operating profit		67 662	9 465
Depreciation and amortisation	Note 3	15 337	11 818
Exchange loss on foreign denominated dividend	Note 5	931	-
Net movements in provisions		68	89
- Gross movement in provisions		3 587	292
- Movement attributable to revenue reserves		(3 519)	(203)
Changes in biological assets		(54 159)	(5 277)
Loss on disposal of property, plant, equipment and intangible assets		1 817	185
Cash generated from operations		**31 656**	**16 280**
Changes in working capital		(25 085)	10 778
Net cash generated from operations		**6 571**	**27 058**
Tax paid		(7 017)	(2 419)
Net finance charges paid		(1 820)	(3 023)
Net cash (outflow)/ inflow from operating activities		**(2 266)**	**21 616**
Cash flows from investing activities			
Additions to property, plant, equipment and intangible assets		(9 676)	(18 330)
- Other property, plant, equipment and intangible assets		(4 866)	(7 097)
- Cane roots		(4 810)	(11 233)
Proceeds from disposal of property, plant, equipment and intangible assets		35	-
Dividends received from associated companies		1 942	638
Net cash outflow from investing activities		**(7 699)**	**(17 692)**
Net cash (outflow)/inflow before financing activities		**(9 965)**	**3 924**
Cash flow from financing activities			
Proceeds from trade finance		-	60 162
Repayment of trade finance		(20 685)	(59 222)
Proceeds from borrowings		76 376	36 142
Repayment of borrowings		(32 092)	(41 937)
Dividends paid	Note 5	(3 397)	-
Net cash inflow/(outflow) from financing activities		**20 202**	**(4 855)**
Net increase/(decrease) in cash and cash equivalents		**10 237**	**(931)**
Net cash balance at the beginning of the year		**9 233**	**10 164**
Net cash balance at the end of the year		**19 470**	**9 233**

DIRECTORS: D L Marokane (Chairman), A Mhere* (Acting Chief Executive Officer), J G Hudson, R D Aitken, L R Bruce, N Kudenga, J P Maposa, S G Nhari, J E Chibwe* *Executive

Tongaat Hulett

HIPPO VALLEY ESTATES LIMITED

Preliminary Condensed Reviewed Results for the year ended 31 March 2019

NOTES TO THE PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

		Year ended 31.03.19 RTGS$'000	Year ended 31.03.18 RTGS$'000 Restated
1.	**Net finance charges**		
	Interest paid	(3 032)	(3 039)
	Interest received	1 212	16
		(1 820)	**(3 023)**
2.	**Income tax expense**		
	Normal tax	(14 235)	(194)
	Deferred tax	(8 519)	(1 784)
	Transfer to non-distributable reserve	521	86
	Transfer from revenue reserve	(906)	(52)
	Charged to profit or loss	**(23 139)**	**(1 944)**
3.	**Depreciation and amortisation**		
	Depreciation of property, plant and equipment	7 351	5 493
	Amortisation of intangible assets	190	142
	Depreciation of roots	7 796	6 183
		15 337	**11 818**
4.	**Capital expenditure commitments**		
	Contracted and orders placed	1 452	3 908
	Authorized by Directors but not contracted	22	98
		1 474	**4 006**
5.	**Dividend**		
	Dividend declared	3 860	-
	Dividend paid	(3 397)	-
	Foreign dividend not yet paid	**463**	-
	Exchange loss on outstanding foreign denominated dividend	931	-
	Dividend payable	**1 394**	-

6. Basis of preparation and currency of reporting

The preliminary condensed financial results have been prepared in accordance with International Financial Reporting Standards, and applying the recognition and measurement criteria in accordance with International Financial Reporting Standards ("IFRS"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), except for certain aspects as noted in Note 11.

Following the free floating of the exchange rate and the simultaneous introduction of the RTGS dollar as the de-facto local currency forming part of the multi-currency basket on 22 February 2019, the Group has now adopted the RTGS dollar as its functional and reporting currency (replacing the US$) effective 1 March 2019. In compliance to Statutory Instrument 33 of 2019 ("SI 33/19"), the Directors effected this change in functional currency at the legislated rate of 1:1. Subsequent to this date all foreign currency transactions and balances were translated at the applicable official foreign currency rates on the interbank market in accordance with the provisions of IAS 21. Prior year comparatives have been translated from US dollars to RTGS dollars at the then prevailing exchange rate of 1:1.

7. Review Conclusion

These preliminary condensed consolidated financial results have been reviewed by Deloitte & Touche Chartered Accountants, in accordance with International Standard on Review Engagements (ISRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A disclaimed review conclusion has been issued thereon. The basis for the disclaimed review conclusion pertains primarily to the following matters:

1. The fact that there is possibility of adjustments and disclosures related to the ongoing strategic and financial review that is in progress at the Group's South African holding company, Tongaat Hulett Limited. As a result, the auditors were unable to conclude on the sufficiency and appropriateness of the review evidence obtained to confirm or verify that the preliminary consolidated financial statements are fairly presented.
2. These preliminary condensed consolidated financial statements do not provide full disclosure of financial information in compliance with the requirements of IAS 34. Certain disclosures mandated by this standard, which ordinarily would be incorporated and referenced to a set of interim financial statements, have been omitted. The main items include:
   - Non-disclosure of Segment information
   - Non-disclosure of events after Statement of Financial Position date
   - Expanded notes and detail supporting judgements and assumptions applied in:
     - ø the determination of the value of certain assets and liabilities;
     - ø the determination of the Change in Accounting policies; and
     - ø the recognition and measurement of Prior Period Errors
3. The condensed consolidated financial information incorporates material adjustments in respect of prior period errors, per Note 9, which does not provide complete disclosure in respect of the nature and details pertaining to the prior period errors as required in terms of IAS 34.

In addition:

1. There are uncertainties in respect of land ownership, the right to use land in the production of income and the renewal of the Group's milling license, and the effect that these have on going concern.
2. The Group is susceptible to the material impact of changes in functional currencies on the presentation of the preliminary condensed consolidated financial statements and is in non-compliance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates".

The auditor's review conclusion is available for inspection at the Company's registered office.

8. Adoption of new or revised accounting standards

Hippo Valley Estates Limited has adopted all the new and revised accounting pronouncements as issued by the IASB which were effective from 1 January 2018. The adoption of these standards had no recognition and measurement impact on the financial results, other than for the first time adoption of IFRS 9: Financial Instruments.

IFRS 9: Financial Instruments replaces IAS 39: Financial Instruments: Recognition and Measurement (IAS 39) and sets out the new requirements for the classification and measurement of financial instruments, introduces an expected credit loss model for the measurement of impairment losses and establishes a closer alignment between hedge accounting and risk management practices. In terms of IAS 39, financial assets (e.g. trade receivables, contract assets, lease receivables, loan commitments) were impaired using an incurred loss model when there was objective evidence of default. Under IFRS 9, impairment is based on an expected credit loss ("ECL") model which takes into account historical credit loss experience adjusted for current and future economic conditions. The ECL to be recognised is based on the expected losses that may arise within the next twelve months. If there is a significant increase in credit risk, or if the company elects to do so, the ECL is based on the lifetime of the financial asset. The financial impact is shown below.

The Group has elected to restate comparative information and, in terms of the transitional requirements of IFRS 9, has adopted the full retrospective approach whereby comparative information has been restated in accordance with the requirements of the new standards, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the adoption of IFRS 9 is detailed below.

8.1 Impact of first time adoption of IFRS 9 on the Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Increase in operating expenses	(1 026)
Decrease in profit before tax	**(1 026)**
Decrease in tax expense	264
Decrease in profit for the year	**(762)**

8.2 Impact of first time adoption of IFRS 9 on the Consolidated Statement of Financial Position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in trade and other receivables	(1 677)	(651)
Decrease in deferred tax liability	431	167
Decrease in net assets	**(1 246)**	**(484)**
Decrease in opening retained earnings	(484)	(484)
Decrease in retained earnings	(762)	-
Decrease in equity	**(1 246)**	**(484)**

The application of IFRS 9 has had no impact on the consolidated cash flows of the Group.

9. Correction of prior period errors

A comprehensive financial review of Tongaat Hulett Ltd ("THL"), the Group's ultimate parent company, has resulted in the Group and Company changing the accounting treatment of various elements of the financial statements, other than the change relating to land noted in the summary below, which did not result from the review by THL.

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HIPPO VALLEY ESTATES LIMITED

Preliminary Condensed Reviewed Results for the year ended 31 March 2019

NOTES TO THE PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

The impact of these adjustments has been applied retrospectively whereby comparative information has been restated in accordance with the requirements of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, and adjustments have been made against the opening balance of each affected component of equity for the earliest period presented, being 1 April 2017. Below is a summary of the prior period adjustments with their impact on the opening equity balances on 1 April 2017 and on profit for the year ended 31 March 2018.

	Restatement of profit for the year ended 31.03.18 RTGS$'000	Restatement of equity balance at 01.04.17 RTGS$'000
Revenue – Bulk sale of sugar	507	(5 743)
Property, plant and equipment – Land	-	(9 336)
Deferred plant maintenance costs	(3 088)	(6 662)
Sugar stock valuation	228	(374)
Cane roots valuation	(1 295)	(7 841)
Standing cane on occupied land	(1 155)	-
Total adjustment	**(4 803)**	**(29 956)**

Full details of all the restatements will be provided when the financial review is finalised and the audit completed by 31 October 2019.

10. Financial review at Holding Company

The Group's ultimate holding company, Tongaat Hulett Limited (in South Africa) undertook a strategic and financial review of the business that revealed certain practices that appear to have resulted in the issuance of financial statements that do not reflect Tongaat Hulett Limited's underlying business performance accurately. The financial review has incorporated a forensic investigation to establish any evidence of whether any of these past practices were deliberate. The forensic investigation is ongoing and is anticipated to be completed by 31 October 2019. As a result, there may be a requirement to adjust certain intercompany transactions or revise the accounting treatment of certain transactions across the Tongaat Hulett Limited group. To the extent that such adjustments impact Hippo Valley Estates Limited, these condensed review results may require further adjustments, in addition to the matters detailed in note 9. Until the investigation is substantially complete, the Directors are unsighted on whether or not further adjustments to the Hippo Valley Estates Limited financial statements will be required and accordingly the Directors urge the users of these condensed review results to exercise due caution.

11. Compliance with IAS 34: Interim Financial Reporting

In the absence of Zimbabwe Stock Exchange (ZSE) or Public Accountants and Auditors Board (PAAB) guidelines on preparation of preliminary financial statements as required by section 36 of the ZSE listing Rules (S.I. 134 of 2019), consideration has been given to the adoption of IAS 34 "Interim Financial Reporting" in the preparation of these preliminary condensed financial statements. This has however been considered inappropriate as these results are for a full financial year and not for an interim period. IAS 34 (paragraph 4) defines an interim period as "a financial reporting period shorter than a full financial year".

By Order of the Board
Hippo Valley Estates Limited

Registration No.371/1956
Registered Office: Hippo Valley Estates, Chiredzi

B Shava
Company Secretary

30 August 2019

Tongaat Hulett

HIPPO VALLEY ESTATES LIMITED

Preliminary Condensed Reviewed Results for the year ended 31 March 2019

COMMENTARY

Operating Environment

The results for the year ended 31 March 2019 were achieved in a very difficult environment, characterised by severe liquidity constraints compounded by, the introduction of the 2% Intermediated Money Transfer Tax (IMTT), increased arbitrage activities and the resultant cost push inflation, combined with landmark changes to the currency and exchange rate dynamics. These changes involved the separation and creation of distinct bank accounts for depositors, namely Nostro FCA and RTGS FCA in October 2018, and were immediately followed by a proliferation of increased arbitrage activities and the resultant price distortions, further compounded by the subsequent introduction of the Inter-bank foreign exchange market in February 2019 and the concurrent introduction of the RTGS dollar as a currency. The combination of these changes precipitated increases in the inflation rate, which reached a high of 67% by March 2019 on the back of a multiplicity of exchange rates to the US dollar, fuelled by the parallel market activities. Notwithstanding the post-election disturbances and the socio-economic dynamics, the operating environment remained relatively stable. The financial performance for the period under review is being evaluated in the context of these local macro-economic dynamics.

Summary

An operating profit of RTGS$67,7 million for the year ended 31 March 2019 was achieved, compared to RTGS$9,5 million (restated) in the prior year. This was mainly due to an improvement in the sales mix, an increase in sales volume for both local and export markets and timely adjustments of prices in response to inflationary pressures. The availability of irrigation water positively impacted cane yields, resulting in the increase in sugar production to 239 000 tons (2018: 197 000 tons).

Operations

A total of 1 862 000 tons (2018: 1 534 000 tons) of cane was crushed during the season, of which 1 068 000 tons (2018: 875 000 tons) was Company cane and 730 000 tons (2018: 659 000 tons) was delivered by private farmers. In addition, 35 000 tons and 29 000 tons were received from Green Fuel and Triangle Ltd, respectively. A total of 239 000 tons sugar was produced (2018: 197 000 tons), a 21% increase from the last season, on the back of improved cane yields. Cane plough out and replanting programmes continued during the year with a total of 1 670 hectares (2018: 2 841 hectares) being replanted for the year ended 31 March 2019, as part of the continued initiative to restore cane yields to optimal levels in the shortest time possible. The momentum established in previous years to reduce costs through operating efficiencies and conversion of fixed costs into variable was maintained throughout the current reporting period.

Marketing

Total industry sales of 371 000 tons (2018: 349 000 tons) were realised in the local market, an increase of 6% from the previous year. Total industry exports to Europe, the US and regional markets increased to 112 000 tons (2018: 58 000 tons), an increase of 54 000 tons due to increased production. The combination of a favourable sales mix and the price adjustments achieved in the domestic market resulted in an average mill door price for the season of RTGS$861 per ton (2018: RTGS$626 per ton), a 38% overall increase.

Financial Results

Due to the economic volatilities and the resultant price distortions, coupled with the introduction of the RTGS dollar in February 2019 at an unrealistic exchange rate (not reflective of the economic fundamentals), financial results for the year are not readily comparable to prior year. In this regard, the financial performance is being reviewed in the context of the inherent economic distortions, with particular reference to the implications of SI 33 of 2019 which introduced the RTGS dollar at an exchange rate of 1 : 1 to the US dollar.

Revenue for the year amounted to RTGS$243,8 million (2018: RTGS$135,2 million (restated)), an increase of 80% mainly due to the 21% increase in sugar production, combined with an increase in fair value adjustment on standing cane, as well as the impact of domestic market sugar price adjustments prompted by cost push inflation experienced in the period post October 2018. As a result, operating profit increased to RTGS$67,7 million (2018: RTGS$9,5 million (restated)).

Operating cash inflow (after working capital movements) was RTGS$6,6 million (2018: inflow of RTGS$27,1 million), a decrease of RTGS$20,5 million as a result of an increase in cash absorbed in working capital. Cash generated from operations amounted to RTGS$31,7 million (2018: RTGS$16,3 million), while working capital decreased by RTGS$25,1 million compared to a RTGS$10,8 million increase in the prior year. Overall, after taking into account capital expenditure and root replanting costs totalling RTGS$9,7 million (2018: RTGS$18,3 million), a total net cash outflow before financing activities of RTGS$10,0 million (2018: RTGS$3,9 million inflow) was realised.

The Company's net debt at 31 March 2019 amounted to RTGS$37,1 million compared to the prior year net debt level of RTGS$3,1 million. A total of RTGS$1,8 million (2018: RTGS$3,0 million) was incurred in finance costs, commensurate with the level of borrowings over the period under review, all of which were unsecured at an average interest rate of 6,43% (2018: 7,97%).

An attributable profit of 22,9 RTGS cents per share was achieved for the year compared to 2,8 RTGS cents per share realised in the prior year.

Cautionary Statement

Members will recall that in June 2019, the Company issued a cautionary statement in which it advised that the parent company, Tongaat Hulett Limited ("THL"), is conducting a strategic and financial review the outcome of which is likely to impact the Company's financial results, arising mainly from changes in accounting policies and estimates. This review by THL has resulted in the Group and Company changing the accounting treatment of various elements of the financial statements as indicated in Note 9 and 10 of the reviewed results. Full details of all the restatements will be provided when the financial review is finalised and the audit completed. The audit of the THL financials is still underway and is expected to have been completed by 31 October 2019. While the Directors do not expect any additional changes to arise out of the ongoing review at THL, any additional findings resulting therefrom and considered material, may result in the revision of the Company's financial results. As such, the Directors and management urge users of the financial statements to exercise due caution.

Dividends

Due to the persistent economic volatilities and the resultant price distortions, combined with the currency changes introduced in February 2019, the Directors have decided not to declare a dividend for the year ended 31 March 2019.

Sustainable Rural Communities

Private farmers continue to make a significant contribution towards the overall performance of the industry. During the 2018/19 season, private farmers replanted 1 908 hectares (2017/18: 1 226 hectares) of sugar cane following the improved availability of irrigation water. During the past season, total private farmer cane deliveries to the two sugar mills amounted to 1 067 112 tons (2018: 1 075 740 tons) from 872 active farmers who directly employ approximately 8 000 workers.

The Company continues to pro-actively engage with all its stakeholders with a view to creating successful communities on a sustainable basis. As part of the Company's ongoing community empowerment drive under its Socio Economic Development programme, a total of RTGS$5,0 million (2018: RTGS$2,7 million) was spent on various community development initiatives.

OUTLOOK

While the recent surge in inflation to 175,66% in June 2019 is cause for concern, the Company remains optimistic that the Transitional Stabilization initiatives by Government will yield positive results in restoring the economic fundamentals. As such the industry will continue to expand its sugar cane production (through both vertical and horizontal growth) and supply to the sugar mills, aimed at utilising available total milling capacity. Of note, under this initiative is the Kilimanjaro Project where a total of 3 362 hectares is targeted to be developed and work is already underway. As part of the Tongaat Hulett Group, the Company has embarked on a turnaround strategy, code-named "Project Crystal", focusing on three main areas of right-sizing and fixing the business fundamentals, leveraging the value chain and creating a platform for long-term growth.

Cost reduction will continue to be a focus area. Given the high fixed cost nature of sugar operations, unit costs of sugar production for the Company are expected to reduce further with the benefit of future volume increases thereby increasing the competitiveness of its sugar on both the domestic and export markets.

By Order of the Board

D L Marokane
Chairman

A Mhere
Acting Chief Executive Officer

30 August 2019

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