Tongaat Hulett

HIPPO VALLEY ESTATES LIMITED

Abridged Audited 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 distortion, 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 inflation rate, which reached a high of 67% by March 2019 on the back of a multiplicity of exchange rates to the US dollar, fueled 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$113,6 million for the year ended 31 March 2019 was achieved, compared to RTGS$11,1 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 Limited, respectively. A total of 239 000 tons sugar was produced (2018: 197 000), 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), 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$244,9 million (2018: RTGS$159,0 million), an increase of 54% mainly due to the 21% increase in sugar production, combined with 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$113,6 million (2018: RTGS$11,1 million).

Operating cash inflow (after working capital movements) was RTGS$21,1 million (2018: inflow of RTGS$29,6 million), a decrease of RTGS$8,5 million as a result of an increase in cash absorbed in working capital. Cash generated from operations amounted to RTGS$37,2 million (2018: RTGS$16,6 million), while working capital decreased by RTGS$16,1 million compared to a RTGS$13,0 million increase in the prior year. Overall, after taking into account capital expenditure and root replanting costs totalling RTGS$9,8 million (2018: RTGS$17,8 million), a total net cash outflow before financing activities of RTGS$0,5 million (2018: RTGS$5,3 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$33,2 million. A total of RTGS$6,7 million (2018: RTGS$4,7 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 38,2 RTGS cents per share was achieved for the year compared to 2,8 RTGS cents per share realised in the prior year.

Land and Milling License

The attention of members is drawn to note 9.8 of the financial statements on the de-recognition of land measuring 54 205 hectares whose ownership effectively transferred to the Government of Zimbabwe ("Government") in July 2005, in terms of the Land Acquisition Act (Chapter 20:10) and the Constitution of Zimbabwe Amendment No. 17.

The Directors believe that the adoption of industry practice in the past in recognising the land in the statement of financial position of the Group and Company, which was not consistent with the substance and legal form of land dynamics in the country after considering the terms of the Constitution of Zimbabwe Amendment No. 17 and the Land Acquisition Act (Chapter 20:10) together with the gazetting for acquisition of 70% of the land by Government in August 2003. In coming to this conclusion, the Directors obtained legal opinion.

In order to secure its assets and provide certainty of tenure, in February 2019, the Group and Company formally applied to the Government of Zimbabwe for a 99-year lease, on the agricultural land under their use, which lease is still to be formalised and finalised.

The Group's milling licence expired in prior years. Applications to renew the licence were lodged with the relevant authorities and their response is still awaited.

Notwithstanding the land dynamics in Zimbabwe and the absence of a milling license, the Directors are satisfied that the Group and Company will continue to operate as a going concern into the foreseeable future.

Financial Reviews

Members will recall that in June 2019 and in November 2019, the Company issued cautionary statements in which it advised that the parent company, Tongaat Hulett Limited ("THL"), was conducting a strategic and financial review the outcome of which was likely to impact the Company's financial results, arising mainly from changes in accounting policies, estimates and correction of prior period errors. This review by THL has resulted in the Group and Company changing the accounting treatment of various elements of the financial statements. The impact of these changes in treatment, which resulted in prior period errors in respect of the respective elements, are detailed in the notes to the financial statements. The review of the THL financials is complete and key findings are available on the THL website.

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) under 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, leading to the re-emergence of a hyperinflationary economy, 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 4 000 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
Chief Executive Officer

13 December 2019

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Tongaat Hulett

HIPPO VALLEY ESTATES LIMITED

Abridged Audited Results for the year ended 31 March 2019

ABRIDGED GROUP 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		**244 890**	**159 017**
Operating profit		113 612	11 123
Net finance charges	Note 1	(6 708)	(4 690)
		106 904	6 433
Share of profit of associated companies		1 587	970
Profit before tax		**108 491**	**7 403**
Income tax expense	Note 2	(34 715)	(1 941)
Profit for the year		**73 776**	**5 462**
Other comprehensive income, net of tax		579	31
Actuarial losses on post retirement provision		(2 526)	(151)
Exchange gain on translation of foreign investment		3 105	182
Total comprehensive income for the year		**74 355**	**5 493**
Number of shares in issue ('000 of shares)		193 021	193 021
Basic and diluted earnings per share (RTGS cents)		38.2	2.8
Headline earnings per share (RTGS cents)		22.1	3.0

ABRIDGED GROUP 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		**142 173**	**107 511**	**98 461**
Property, plant and equipment		126 517	95 016	88 506
Intangible assets		2 874	2 985	1 045
Investments in associated companies		7 092	3 820	3 220
Long term receivables		5 690	5 690	5 690
Current assets		**216 115**	**109 784**	**105 536**
Biological assets		92 673	36 826	32 912
Inventories		41 847	42 208	42 738
Trade and other receivables		62 125	21 255	19 722
Current tax asset		-	262	-
Cash and cash equivalents		19 470	9 233	10 164
Total assets		**358 288**	**217 295**	**203 997**
EQUITY AND LIABILITIES				
Capital and reserves		**184 910**	**114 415**	**108 922**
Issued share capital		15 442	15 442	15 442
Non-distributable reserves		53 511	50 406	50 224
Retained earnings		115 957	48 567	43 256
Non-current liabilities		**56 713**	**33 233**	**31 160**
Deferred tax liabilities		48 451	28 496	26 715
Provisions		8 262	4 737	4 445
Current liabilities		**116 665**	**69 647**	**63 915**
Trade and other payables		51 576	27 212	13 257
Trade finance		-	30 150	30 616
Borrowings		56 569	12 285	18 080
Dividend payable	Note 5	1 394	-	-
Current tax liability		7 126	-	1 962
Total equity and liabilities		**358 288**	**217 295**	**203 997**

ABRIDGED GROUP 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		-	(77 429)	(39 415)	(116 844)
Initial adoption for IFRS 9	Note 8.2	-	-	(346)	(346)
Correction of prior period errors	Note 9	-	(77 429)	(39 069)	(116 498)
Balance at 1 April 2017 (Restated)		**15 442**	**50 224**	**43 256**	**108 922**
Total comprehensive income for the year (Restated)		-	182	5 311	5 493
Profit for the year (Restated)		-	-	5 462	5 462
Other comprehensive income /(loss) for the year		-	182	(151)	31
Balance at 31 March 2018 (Restated)		**15 442**	**50 406**	**48 567**	**114 415**
Total comprehensive income for the year		-	3 105	71 250	74 355
Profit for the year		-	-	73 776	73 776
Other comprehensive income/(loss) for the year		-	3 105	(2 526)	579
Dividend	Note 5	-	-	(3 860)	(3 860)
Balance at 31 March 2019		**15 442**	**53 511**	**115 957**	**184 910**

ABRIDGED GROUP 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		113 612	11 123
Depreciation and amortisation	Note 3	9 489	8 963
Reversal of impairment on property, plant and equipment		(35 113)	-
Exchange loss on foreign denominated dividend	Note 5	931	-
Net movements in provisions		122	89
- Gross movement in provisions		3 525	292
- Movement attributable to revenue reserves		(3 403)	(203)
Changes in biological assets		(55 847)	(3 914)
Loss on disposal of property, plant, equipment and intangible assets		4 017	370
Cash generated from operations		**37 211**	**16 631**
Changes in working capital		(16 145)	12 952
Net cash generated from operations		**21 066**	**29 583**
Tax paid		(7 017)	(2 418)
Net finance charges paid		(6 708)	(4 690)
Net cash inflow from operating activities		**7 341**	**22 475**
Cash flows from investing activities			
Additions to property, plant, equipment and intangible assets		(9 818)	(17 783)
- Other property, plant, equipment and intangible assets		(5 101)	(6 809)
- Cane roots		(4 717)	(10 974)
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		**(7 841)**	**(17 145)**
Net cash (outflow)/inflow before financing activities		**(500)**	**5 330**
Cash flow from financing activities			
Proceeds from trade finance		-	30 150
Repayment of trade finance		(30 150)	(30 616)
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		**10 737**	**(6 261)**
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**

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DIRECTORS: DL Marokane (Chairman), A Mhere* (Chief Executive Officer), S Harvey, RD Aitken, LR Bruce, N Kudenga, JP Maposa, SG Nhari, JE Chibwe* *Executive

Abridged Audited Results for the year ended 31 March 2019

NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS

		Year ended 31.03.19 RTGS$'000	Year ended 31.03.18 RTGS$'000 Restated
1.	**Net finance charges**		
	Interest paid	(7 793)	(4 706)
	Interest received	1 085	16
		(6 708)	**(4 690)**
2.	**Income tax expense**		
	Normal tax	(14 405)	(194)
	Deferred tax	(19 955)	(1 781)
	Transfer to non-distributable reserve	521	86
	Transfer from revenue reserve	(876)	(52)
	Charged to profit or loss	**(34 715)**	**(1 941)**
3.	**Depreciation and amortisation**		
	Depreciation of property, plant and equipment	4 493	3 146
	Amortisation of intangible assets	332	142
	Depreciation of roots	4 664	5 675
		9 489	**8 963**
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 annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and the International Financial Reporting Interpretations Committee (IFRIC), except for IAS 21: The Effects of Changes in Foreign Exchange Rates, as noted below.

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 Company 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 dollar to RTGS dollar at the then prevailing exchange rate of 1:1.

7. Audit Opinion

These abridged financial results should be read in conjunction with the complete set of financial statements for the financial year ended 31 March 2019, which have been audited by Deloitte & Touche Chartered Accountants, in accordance with International Standards on Auditing. An adverse opinion has been issued thereon. The basis for the adverse opinion pertains to non-compliance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates". Furthermore, the auditor's report includes Key Audit Matters ("KAMs") outlining areas of the audit process that required significant attention of the auditor. The KAMs were in respect to the valuation of biological assets – standing cane, capitalisation of overheads to cane roots, revenue recognition, capitalisation of overheads to sugar inventory, accounting for land and land improvements, valuation of game and wildlife, and valuation of cash generating units.

A material uncertainty relating to going concern has also been included pertaining to the uncertainties in respect of 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.

The auditor's report is available for inspection at the Company's registered address.

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 Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Increase in operating expenses	(295)
Decrease in profit before tax	**(295)**
Decrease in tax expense	76
Decrease in profit for the year	**(219)**
Decrease in basic and diluted earnings per share (RTGS cents)	(0.1)

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

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in trade and other receivables	(761)	(466)
Decrease in deferred tax liability	196	120
Decrease in net assets	**(565)**	**(346)**
Decrease in retained earnings	(565)	(346)
Decrease in equity	**(565)**	**(346)**

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.

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 together with their impact on the opening equity balance as at 1 April 2017 and on profit for the year ended 31 March 2018.

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NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS (Continued)

Summary of prior period error adjustments

	Note	Restatement of profit for the year ended 31.03.18 RTGS$'000	Restatement of equity balance at 01.04.17 RTGS$'000
Revenue recognition			
Revenue – Bulk sale of sugar	9.1	447	(5 596)
Export Sales	9.2	-	-
Cost classification			
Property, plant and equipment - cane roots valuation	9.3	(1 110)	(8 302)
Deferred plant maintenance costs	9.4	(3 087)	(6 662)
Sugar stock valuation	9.5	197	(334)
Property, plant and equipment - critical spares	9.6	-	-
Capitalisation of labour costs	9.7	(352)	(66)
Asset recoverability			
Property, plant and equipment – Land	9.8	603	(35 248)
Property, plant and equipment – valuation adjustment	9.9	524	(21 840)
Impairment of agriculture and milling assets	9.10	1 226	(28 560)
Sugar factory depreciation	9.11	(609)	(3 664)
Standing cane valuation	9.12	(588)	(1 155)
Standing cane valuation on occupied land	9.13	(1 155)	-
Game valuation	9.14	(424)	(3 017)
Impairment of receivables	9.15	(1 024)	(2 054)
Sale of receivables	9.16	-	-
Reclassification of receivables	9.17	-	-
Total adjustments		**(5 352)**	**(116 498)**

9.1 IAS 18: Revenue – Bulk sale of sugar

The Group markets and distributes all its sugar through Zimbabwe Sugar sales (Private) Limited ("ZSS"), its joint operation with its fellow subsidiary Triangle Limited ("Triangle").

At the financial half year and year-ends, ZSS entered into a sales arrangement with a single counterparty to purchase the balance of the Group's sugar held in stock (c. 60 000 tons per transaction). The finance for transaction was provided by a financial institution and ZSS was directly involved in negotiating the key terms. The arrangement was priced at local market selling prices even though a substantial portion of the sugar at year-end was not of sufficient quality for sale into the local market and was ultimately sold at lower prices to local and export refiners for reprocessing. There is no physical movement of the sugar stocks and as part of the arrangement, ZSS was appointed as agent to sell the sugar on behalf of the counterparty. Furthermore, the Group only ever received 80% of the sales proceeds from the counterparty, owing to a restriction by the Reserve Bank of Zimbabwe on the level of security required for trade financing arrangements. In substance, the transaction was concluded to be a financing arrangement secured by the sugar stocks.

The Group has therefore restated comparative information and, in terms of the requirements of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, applied this correction retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below.

9.1.1 Impact of reversal of bulk sugar sale on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Decrease in revenue	(1 745)
Decrease in operating expenses	2 347
Increase in profit before tax	**602**
Increase in tax expense	(155)
Increase in profit for the year	**447**
Increase in basic and diluted earnings per share (RTGS cents)	0.2

9.1.2 Impact of reversal of bulk sugar sale on the Group Statement of Financial Position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in trade and other receivables	(6 128)	(5 820)
Increase in sugar inventories	19 878	18 028
Increase in trade finance	(20 685)	(19 745)
Decrease in deferred tax liability	1 786	1 941
Decrease in net assets	**(5 149)**	**(5 596)**
Decrease in retained earnings	(5 149)	(5 596)
Decrease in equity	**(5 149)**	**(5 596)**

9.2 IAS 18 Revenue - Pre-shipment export sales

The Group, through ZSS, entered into an arrangement with an export customer where the delivery of the sugar was deemed to take place inside the Group's warehouse. On this deemed date, the Group received the sales proceeds and recognised the export revenue. However, in terms of the agreement the Group retained the risks of ownership up to the point that the sugar was delivered to port. The agreement also had a two-tier discount, with one discount being variable with time and which was in effect a financing cost. Consequently, the transaction was concluded to be a financing arrangement secured by the sugar stocks. The recognition of revenue has been delayed until the point of delivery to the customer at the port and the sales proceeds received prior to the financial year-end have been reclassified to a trade finance liability. As export sugar stock was reflected at net realisable value, there is no impact on profits. The reclassification has been adjusted retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below.

9.2.1 Impact of reclassification of pre-shipment export sales on the Group Statement of Profit or Loss and Other Comprehensive Income

The reclassification of pre-shipment export sales has had no impact on the Group Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2018.

9.2.2 Impact of reclassification of pre-shipment export sales on the Group Statement of Financial position

	As at 01.04.17 RTGS$'000
Increase in inventories	3 665
Decrease in trade and other receivables	(261)
Increase in borrowings	(3 404)
Impact on net assets	**-**

9.3 IAS 16: Property, plant and equipment - Cane roots valuation

Cane roots being bearer plants are valued at cost less accumulated depreciation in accordance with the requirements of IAS 16: Property, plant and equipment. The cost of planting cane roots requires a degree of management judgement to determine the point to which costs are capitalised and what costs can be directly attributed to planting activities. The internal review of the policy identified the following:

- Certain of the agricultural overheads allocated and capitalised to cane roots were not directly attributable to getting the asset ready for its intended use, particularly as the overheads would be incurred irrespective of whether planting activities took place or not. The basis of allocating costs to planting activities was also found to be broad. Examples of such allocated overheads include: road maintenance, vehicle maintenance (particularly as the vehicle intensive land preparation activities are outsourced), depreciation of all agricultural assets, water treatment and village maintenance costs.

- Generally, the Group capitalised costs up to the first watering of the roots. However, an inconsistent cut-off point for capitalising costs was applied for certain activities. For example, all agrochemicals required for farming the sugarcane for the season were included in the cost of planting cane roots and not just the agrichemicals necessary for replanting.

The Group has aligned with the ultimate parent company's policy of capitalising costs up until the point that the root in the furrow is covered. As a result, all post emergent agrochemicals have been excluded and a reduced quantum of agricultural overheads has been allocated to the planting activity. This has been adjusted by applying the correction retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below.

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Abridged Audited Results for the year ended 31 March 2019

NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS (Continued)

9.3.1 Impact of correction of error on cane roots valuation on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Increase in roots depreciation	(1 495)
Decrease in profit before tax	**(1 495)**
Decrease in tax expense	385
Decrease in profit for the year	**(1 110)**
Decrease in basic and diluted earnings per share (RTGS cents)	(0.6)

9.3.2 Impact of correction of error on cane roots valuation on the Group Statement of Financial Position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in roots costs	(21 273)	(16 756)
Decrease in roots accumulated depreciation	8 597	5 575
Decrease in deferred tax liability	3 264	2 879
Decrease in net assets	**(9 412)**	**(8 302)**
Decrease in retained earnings	(9 412)	(8 302)
Decrease in equity	**(9 412)**	**(8 302)**

9.4 Conceptual framework for financial reporting and IAS 16 - Deferred plant maintenance costs

While the agricultural operations occur year-round, the sugar milling season is split into two periods the first being a production period between April and December where sugarcane is harvested and milled. During the off-crop period between January and March, key plant and cane haulage vehicles undergo significant refurbishments to prepare them for the subsequent harvesting and milling season. The Group's accounting policy has been to defer these major plant overhaul costs as a current asset until the next financial year, after which the costs are amortised to profit or loss during the course of the subsequent production period. In implementing the policy, it was noted that all costs allocated to the milling activity incurred during the off-crop period were capitalised regardless of whether these were directly related to the maintenance of the key plant.

Although the Conceptual Framework ("the Framework") for financial reporting does allow matching of costs with revenues (e.g. revenue received for the sale of goods is matched with the cost of the inventory), the matching concept is not an objective of the Framework. The Framework does not allow the recognition in the balance sheet of items that don't meet the definition of an asset. As major plant overhaul costs are not expected to be used for more than one period and do not increase the future economic benefits originally expected, their capitalisation is not in compliance with IAS 16: Property, plant and equipment. Major plant maintenance costs are now charged directly to the statement of profit or loss in the financial period in which these costs are incurred.

Pursuant to the foregoing, the Group and Company have adjusted for this accounting treatment by applying the correction retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below.

9.4.1 Impact of deferred plant maintenance costs reversal on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Increase in operating expenses	(4 158)
Decrease in profit before tax	**(4 158)**
Decrease in tax expense	1 071
Decrease in profit for the year	**(3 087)**
Decrease in basic and diluted earnings per share (RTGS cents)	(1.6)

9.4.2 Impact of deferred plant maintenance costs reversal on the Group Statement of Financial Position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in deferred plant maintenance costs	(13 131)	(8 973)
Decrease in deferred tax liability	3 382	2 311
Decrease in net assets	**(9 749)**	**(6 662)**
Decrease in retained earnings	(9 749)	(6 662)
Decrease in equity	**(9 749)**	**(6 662)**

9.5 IAS 2: Inventories - Sugar stock valuation

The Group values sugar stocks at the lower of cost or net realisable value in accordance with the requirements of IAS 2: Inventories. In prior financial periods the Group allocated an attributable portion of support services overhead costs "attracted by" the milling operations. At the time, it was management's view that these overheads were relevant to bringing the inventory to its intended location and condition, in determining the cost of sugar stocks. As a result of the financial review, the Group has reduced the allocation of overheads used in determining the cost of sugar stocks. Furthermore, major plant overhaul costs previously capitalised are considered part of the sugar mills normal operating capacity and are included in the cost of the sugar stocks. This has been corrected retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below

9.5.1 Impact of correction of error on sugar stocks on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Decrease in cost of sales	265
Increase in profit before tax	**265**
Increase in tax expense	(68)
Increase in profit for the year	**197**
Increase in basic and diluted earnings per share (RTGS cents)	0.1

9.5.2 Impact of correction of error on sugar stocks on the Group Statement of Financial Position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in sugar inventories	(184)	(450)
Decrease in deferred tax liability	47	116
Decrease in net assets	**(137)**	**(334)**
Decrease in retained earnings	(137)	(334)
Decrease in equity	**(137)**	**(334)**

9.6 IAS 16: Property, plant and equipment - Critical spares

In terms of IAS 16: Property, plant and equipment, major spare parts, stand-by equipment and servicing equipment must be recognised as property, plant and equipment when they: are held for use in the production or supply or for administrative purposes; can be used only in connection with an item of property, plant and equipment; and are expected to be used during more than one period. Management makes use of judgement in this determination including the supposed purpose of the items, the estimated period of use, materiality and significance. The reclassification has been adjusted retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed as follows.

9.6.1 Impact of critical spares on the Group Statement of Profit or Loss and Other Comprehensive Income

The reclassification of critical spares has had no impact on the Group Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2018.

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NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS (Continued)

9.6.2 Impact of reclassification of critical spares on the Group Statement of Financial position

	As at 01.04.17 RTGS$'000
Increase in property, plant and equipment	329
Decrease in inventories	(329)
Impact on net assets	-

9.7 IAS 16 and 38: Capitalisation of labour costs

The Group implemented various capital projects where internal human resources were utilised in varying levels. Internal labour costs were capitalised to the assets associated to these projects which included both tangible and intangible assets. In terms of IAS 16 and IAS 38, only costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management should be capitalised. A review of the internal labour costs capitalised identified certain labour costs that were not directly attributable to the projects as the level of involvement of related personnel was not significant enough to warrant such capitalisation. The capitalisation of such labour costs has been reversed retrospectively effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed as below.

9.7.1 Impact of correction of prior period error on labour costs capitalised on the Group Statement of Profit or Loss and Other Comprehensive Income.

	Year ended 31.03.18 RTGS$'000
Increase in operating expenses	(474)
Decrease in profit before tax	**(474)**
Decrease in tax expense	122
Decrease in profit for the year	**(352)**
Decrease in basic and diluted earnings per share (RTGS cents)	(0.2)

9.7.2 Impact of correction of prior period error on labour costs capitalised on the Group Statement of Financial Position.

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in intangible asset	(287)	(89)
Decrease in intangible asset accumulated depreciation	12	-
Decrease in property, plant and equipment	(288)	-
Decrease in deferred tax liability	145	23
Decrease in net assets	**(418)**	**(66)**
Decrease in retained earnings	(418)	(66)
Decrease in equity	**(418)**	**(66)**

9.8 IAS 16: Property, plant and equipment – Land

The Group owned 54 205 hectares of land under two title deeds, namely Hippo Valley North ("HVN") measuring 37 772 hectares and Hippo Valley South ("HVS") measuring 16 433 hectares. The carrying amount of the land of RTGS$13,5 million was determined with reference to it being grazing land. A further land-related asset (referred to as a cane development asset) totalling RTGS$30.1 million was recognised for the estimated difference in value between agricultural and grazing land. At 31 March 2017, the total carrying amount of land assets on Group's statement of financial position was RTGS$43,6 million. The Group holds the cost of all improvements on the land such as dams, canals, roads, irrigation equipment, fences, buildings as well as sugarcane roots as separate assets in terms of IAS 16.

In August 2003, notice of the Government's intention to acquire the HVN land in terms of the Land Acquisition Act (Chapter 20:10) ("the Act") was gazetted. Following the implementation of the Constitution of Zimbabwe Amendment No. 17 of 2005 ("the Constitution") and effective 8 July 2005, ownership of the HVN land measuring 37 772 hectares vested with the Government. Although the HVN land had effectively been disposed of, the Group continued to recognise the full carrying amount in the statement of financial position. While the continued recognition of the HVN land was based on the Directors' best judgement at the time and was aligned with the practice of other agricultural entities whose land had been similarly acquired, it was not consistent with the requirements of IAS 16 (paragraph 67). While the HVS land was never gazetted and the Group retained legal title, in terms of the constitution and the related land dynamics within the country, the HVS land should have been impaired in 2005.

Following a comprehensive review of the Group's financials, in the context of Tongaat Hulett Limited's financial review, and after obtaining a legal opinion on the implications of the Act and Constitution on the ownership of agricultural land, together with any entitlement to compensation, the Directors concluded that HVN and HVS land (and the related cane land development asset) do not meet the recognition criteria in terms of IAS 16. The Group have therefore corrected the accounting treatment of land by restating comparative information as a prior period error, consistent with the requirements of IAS 8, to comply with the requirements of IAS 16, effective the beginning of the earliest period presented, being 1 April 2017.

In February 2019, following an engagement with the Government over security of land tenure, the Group applied for 99-year leases over the 54 205 hectares on which it operates.

9.8.1 Impact of correction of prior period error on land on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Decrease in depreciation	812
Increase in profit before tax	**812**
Increase in tax expense	(209)
Increase in profit for the year	**603**
Increase in basic and diluted earnings per share (RTGS cents)	0.3

9.8.2 Impact of correction of prior period error on land on the Group Statement of Financial Position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in land asset	(13 524)	(13 524)
Decrease in cane land development asset	(37 279)	(37 279)
Increase in accumulated depreciation	7 922	7 110
Decrease in deferred tax liability	8 236	8 445
Decrease in net assets	**(34 645)**	**(35 248)**
Increase in retained earnings	(40 527)	(40 527)
Decrease in non-distributable reserves	5 882	5 279
Decrease in equity	**(34 645)**	**(35 248)**

9.9 IAS 16: Property, plant and equipment - 2009 Valuation adjustment

In January 2009, following the adoption of the United States Dollar as the Group's functional currency, all items of property, plant and equipment were revalued to depreciated replacement cost. The revaluation was done with reference to the then latest independent market valuation carried out by the Group in January 2006. This valuation was rolled forward to January 2009 taking into account the impact of the devaluation of the Zimbabwe Dollar as well as any additions and disposals of assets. The Group's assets were further adjusted for certain assumptions arising from a 2009 valuation done by Triangle. The carrying amount post these adjustments became the deemed cost, subsequent to which all property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses. Following a review of the valuation process done at change in functional currency in 2009, the take on balances have been corrected to disregard the adjustments noted above as the Directors believe they resulted in an over valuation of the affected assets. The correction has been adjusted retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed as below.

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NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS (Continued)

9.9.1 Impact of correction of assets valuation adjustment on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Decrease in depreciation	705
Increase in profit before tax	**705**
Increase in tax expense	(181)
Increase in profit for the year	**524**
Increase in basic and diluted earnings per share (RTGS cents)	0.3

9.9.2 Impact of correction of asset valuation on the Group Statement of Financial position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in cost of property, plant and equipment	(49 700)	(49 700)
Decrease in accumulated depreciation	20 990	20 285
Decrease in deferred tax liability	7 394	7 575
Decrease in net assets	**(21 316)**	**(21 840)**
Decrease in non-distributable reserves	(36 902)	(36 902)
Increase in retained earnings	15 586	15 062
Decrease in equity	**(21 316)**	**(21 840)**

9.10 IAS 36: Impairment of agriculture and milling assets

At each reporting period, the Group tests whether its assets have suffered any impairment. The calculations use cash flow projections based on financial budgets approved by management and Directors covering a four-year period. As part of the financial review, errors were identified in the 2017 impairment test and a revised impairment test was performed as at 31 March 2017. The revised impairment test revealed an impairment loss that had not previously been identified at the time of reporting. Following the engagement of relevant experts on the subject matter, the Directors believe the assumptions applied in the revised impairment computations are more representative of the business and economic conditions that existed as at 31 March 2017. The impairment loss has been recognised retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed as below. Following the adoption of the RTGS$ in the 2019 financial year, the impairment has subsequently been reversed.

9.10.1 Impact of correction of prior period error on impairment of agriculture and milling assets on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Decrease in depreciation	1 651
Increase in profit before tax	**1 651**
Increase in tax expense	(425)
Increase in profit for the year	**1 226**
Increase in basic and diluted earnings per share (RTGS cents)	0.6

9.10.2 Impact of correction of prior period error on impairment of agriculture and milling assets on the Group Statement of Financial position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Increase in accumulated depreciation and accumulated impairment	(36 813)	(38 465)
Decrease in deferred tax liability	9 479	9 905
Decrease in net assets	**(27 334)**	**(28 560)**
Decrease in retained earnings	(27 334)	(28 560)
Decrease in equity	**(27 334)**	**(28 560)**

An impairment reversal of RTGS$35,1 million was recognised in the year ended 31 March 2019 in accordance with IAS 36: Impairment of Assets.

9.11 IAS 16: Property, plant and equipment - sugar factory

The Group applies IAS 16: Property, plant and equipment to account for its property, plant and equipment. In terms of IAS 16, depreciation is charged systematically over the useful life of the asset, using a method that reflects the pattern of benefit consumption to its residual value. The depreciation methods that are acceptable include straight-line, diminishing balance and units of production. It has been the Group policy to depreciate the sugar factory using the hybrid combination of the units of production and straight-line methods.

Following a comprehensive review of the depreciation policy, the hybrid method was determined not to be appropriate. The straight-line method has now been applied retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below.

9.11.1 Impact of correction of prior period error on sugar factory depreciation on the Group Statement of Profit or Loss and Other Comprehensive Income.

	Year ended 31.03.18 RTGS$'000
Increase in depreciation	(820)
Decrease in profit before tax	**(820)**
Decrease in tax expense	211
Decrease in profit for the year	**(609)**
Decrease in basic and diluted earnings per share (RTGS cents)	(0.3)

9.11.2 Impact of correction of prior period error on sugar factory depreciation on the Group Statement of Financial Position.

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Increase in accumulated depreciation	(5 755)	(4 935)
Decrease in deferred tax liability	1 482	1 271
Decrease in net assets	**(4 273)**	**(3 664)**
Decrease in retained earnings	(4 273)	(3 664)
Decrease in equity	**(4 273)**	**(3 664)**

9.12 IAS 41: Agriculture - Valuation of standing cane

Standing cane is measured at fair value less harvesting, transport and over the weighbridge costs. In determining fair value an estimate is made of the expected yield as well as the estimated realisable value of the processed sugar. The actual age of the standing cane at reporting period date is also considered in coming up with the equivalent value of the standing cane. In prior years, the actual age of standing cane has been rounded off to the nearest month for purposes of determining fair value. As it is possible to determine the exact ages of cane to the fraction of a month, and given the material impact that rounding off cane age has on the valuation, the standing cane valuations have been adjusted to take into account these exact ages. The correction has been adjusted retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed as below.

9.12.1 Impact of correction of prior period error on standing cane valuation on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Decrease in biological asset fair value	(792)
Decrease in profit before tax	**(792)**
Decrease in tax expense	204
Decrease in profit for the year	**(588)**
Decrease in basic and diluted earnings per share (RTGS cents)	(0.3)

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NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS (Continued)

9.12.2 Impact on correction of prior period error on standing cane valuation on the Group Statement of Financial position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in biological asset	(2 347)	(1 555)
Decrease in deferred tax liability	604	400
Decrease in net assets	**(1 743)**	**(1 155)**
Decrease in retained earnings	(1 743)	(1 155)
Decrease in equity	**(1 743)**	**(1 155)**

9.13 IAS 41: Agriculture – Standing cane on occupied land

A total of 1 776 hectares of the Group's land has been occupied by third-party farmers since April 2016. Despite various court processes ruling in favour of the farmers occupying the land, and with the farmers being remunerated the full cane proceeds (less a depreciation charge for the use of the cane roots) for the cane harvested and supplied to the mills, the value of standing cane continued to be recognised on the Group' statement of financial position. Following a subsequent review of the circumstances that existed at that time, the Group has derecognised the value of standing cane on this land during the 2018 financial year once the court rulings had been determined. The above has been adjusted by applying the correction retrospectively, effective 31 March 2018. The effect of the correction of the prior period error is detailed below. The Directors have taken active steps towards resolving this matter which include establishing new area under cane (i.e. Project Kilimanjaro) to which these farmers will be relocated and are confident of a mutually beneficial outcome.

9.13.1 Impact of correction of prior period error on standing cane valuation on the Group Statement of Profit or Loss and Other Comprehensive Income.

	Year ended 31.03.18 RTGS$'000
Decrease in biological assets fair value	(2 775)
Decrease in operating costs	1 219
Decrease in profit before tax	**(1 556)**
Decrease in tax expense	401
Decrease in profit for the year	**(1 155)**
Decrease in basic and diluted earnings per share (RTGS cents)	(0.6)

9.13.2 Impact of correction of prior period error on standing cane valuation on the Group Statement of Financial position

	As at 31.03.18 RTGS$'000
Decrease in biological asset	(2 775)
Decrease in cane maintenance cost provision	1 219
Decrease in deferred tax liability	401
Decrease in net assets	**(1 155)**
Decrease in retained earnings	(1 155)
Decrease in equity	**(1 155)**

The correction has had no impact on the opening balance of the earliest period presented, being 1 April 2017.

9.14 IAS 41: Agriculture – Game Valuation

The Group has a total of 15 060 hectares of land that is under wildlife management, comprising the management of game, safari and hunting activities. The Group had previously applied IAS 41: Agriculture in recognising the value of the wildlife as a biological asset. Following a comprehensive review, the Directors have determined that the control element of the asset recognition criteria for wildlife is not met given the unrestricted and free movement of wildlife to areas outside the Company's game park boundaries, including neighbouring game parks. Furthermore, the fair value of the wildlife was determined with reference to trophy fees but was not supported by any hunting revenue considering that the Group had not been issued a hunting quota between 2012 and 2018. Biological assets relating to game have therefore been derecognised retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed as below.

9.14.1 Impact of game derecognition on the Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31.03.18 RTGS$'000
Decrease in fair value gain on biological assets	(571)
Decrease in profit before tax	**(571)**
Decrease in tax expense	147
Decrease in profit for the year	**(424)**
Decrease in basic and diluted earnings per share (RTGS cents)	(0.2)

9.14.2 Impact of game derecognition on the Group Statement of Financial position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in biological asset	(4 635)	(4 064)
Decrease in deferred tax liability	1 194	1 047
Decrease in net assets	**(3 441)**	**(3 017)**
Decrease in retained earnings	(3 441)	(3 017)
Decrease in equity	**(3 441)**	**(3 017)**

9.15 IAS 39: Financial Instruments - Impairment of receivables

As detailed in note 8 the Group applied the first-time adoption of IFRS 9: Financial Instruments, retrospectively. In assessing the impact of the new standard which requires an expected credit loss ("ECL") model in the impairment of financial assets, the Directors considered whether any of the proposed impairment losses under IFRS 9 would still have applied under the incurred loss model of IAS 39: Financial Instruments: Recognition and measurement.

Following a comprehensive review of the above, the Directors have adjusted for additional impairment losses under IAS 39, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below.

9.15.1 Impact of correction of prior period error on impairment of receivables on the Group Statement of Profit or Loss and Other Comprehensive Income.

	Year ended 31.03.18 RTGS$'000
Increase in operating costs	(1 379)
Decrease in profit before tax	**(1 379)**
Decrease in tax expense	355
Decrease in profit for the year	**(1 024)**
Decrease in basic and diluted earnings per share (RTGS cents)	(0.5)

9.15.2 Impact of correction of prior period error on impairment of receivables on the Group Statement of Financial position.

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Decrease in receivables	(4 145)	(2 766)
Decrease in deferred tax liability	1 067	712
Decrease in net assets	**(3 078)**	**(2 054)**
Decrease in retained earnings	(3 078)	(2 054)
Decrease in equity	**(3 078)**	**(2 054)**

NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS (Continued)

9.16 IFRS 9: Financial Instruments - Sale of receivables

The Group has in prior years sold a portion of its trade receivables balance at a discount to a financial institution and derecognised the trade receivable. Following a comprehensive review, the Directors have determined that as there was recourse in favour of the financial institution if the debtor defaulted, the arrangement was in substance a financing arrangement. Consequently, the proceeds received therefrom have been reclassified to a trade finance liability as opposed to a settlement against trade receivables. The reclassification has been adjusted retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below.

9.16.1 Impact of correction of prior period errors on sale of receivables on the Group Statement of Profit or Loss and Other Comprehensive Income

The reclassification adjustment has had no impact on the Group Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2018.

9.16.2 Impact of correction of prior period errors on sale of receivables on the Group Statement of Financial position

	As at 31.03.18 RTGS$'000	As at 01.04.17 RTGS$'000
Increase in trade receivables	373	4 535
Decrease in deferred tax liability	1 129	-
Increase in trade finance	(1 502)	(4 535)
Impact on net assets	-	-

9.17 IFRS 9: Financial Instruments - Reclassification of receivables

In terms of a November 2016 agreement between Zimbabwe Sugar Sales (ZSS) and a key sugar customer, the Group agreed to convert its share of the short-term debt owed by the customer into a long-term debt payable by 31 October 2021. Notwithstanding this arrangement, the amount has in prior years been erroneously classified as a current receivable. The Directors have retrospectively reclassified the debt to a non-current receivable due to its long-term nature. The reclassification has been adjusted retrospectively, effective the beginning of the earliest period presented, being 1 April 2017. The effect of the correction of the prior period error is detailed below.

9.17.1 Impact of reclassification of receivables on the Group Statement of Profit or Loss and Other Comprehensive Income

The reclassification of receivables has had no impact on the Group Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2018.

9.17.2 Impact of reclassification of sale of receivables on the Group Statement of Financial position

	As at 01.04.17 RTGS$'000
Increase in long term receivables	5 690
Decrease in trade and other receivables	(5 690)
Impact on net assets	-

10. Financial review at Holding Company

The Group's 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 has been completed and key findings are available on the THL website. As a result, there has been 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 impacted on Hippo Valley Estates Limited, prior year financial statements were adjusted as detailed in note 9.

By Order of the Board
Hippo Valley Estates Limited

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

B Shava
Company Secretary

13 December 2019

DDHM/HIP15816

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HIPPO VALLEY ESTATES LIMITED

Adverse opinion

We have audited the accompanying consolidated and separate financial statements of Hippo Valley Estates Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated and separate statements of financial position as at 31 March 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity, and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of our report, the consolidated and separate financial statements do not present fairly, the consolidated and separate financial position of the Group and Company as at 31 March 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of Zimbabwe (Chapter 24:03), and the relevant Statutory Instruments ("SI") SI 33/99 and SI 62/96.

Basis for adverse opinion

International Accounting Standard ("IAS") 21 "The Effects of Changes in Foreign Exchange Rates" considerations

As detailed in note 2, the Group and Company transacted using a combination of United States Dollars ("USD"), bond notes and bond coins. An acute shortage of USD cash and other foreign currencies in the country resulted in an increase in the use of different modes of payment for goods and services, such as settlement through the Real Time Gross Settlement ("RTGS") system and mobile money platforms. During the year, there was a significant divergence in market perception of the relative values between the bond note, bond coin, mobile money platforms, and RTGS Foreign Currency Accounts ("FCA") in comparison to the USD. Although RTGS was not legally recognised as currency up until 22 February 2019, the substance of the economic phenomenon, from an accounting perspective, suggested that it was currency.

In October 2018, banks were instructed by the Reserve Bank of Zimbabwe ("RBZ") to separate and create distinct bank accounts for depositors, namely, RTGS FCA and Nostro FCA accounts. This resulted in a separation of transactions on the local RTGS payment platform from those relating to foreign currency (e.g. United States Dollar, British Pound, and South African Rand). Prior to this date, RTGS FCA and Nostro FCA transactions and balances were co-mingled.

As a result of this separation, there was an increased proliferation of multi-tier pricing practices by suppliers of goods and services, indicating a significant difference in purchasing power between the RTGS FCA and Nostro FCA balances, against a legislative framework mandating parity. These events were indicative of economic fundamentals that would require a reassessment of the functional currency as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates."

As a result of these factors, the directors performed an assessment of the functional currency of the Group and Company in accordance with IAS 21 and determined that the functional currency of the Group and Company is no longer USD.

On 20 February 2019, a currency called the RTGS Dollar was legislated through Statutory Instrument 33 of 2019 ("SI 33/19") with an effective date of 22 February 2019. SI 33/19 fixed the exchange rate between the RTGS Dollar and the USD at a rate of 1:1 for the period up to its effective date. The rate of 1:1 is consistent with the rate mandated by the RBZ at the time it issued the bond notes as currency. The rate post 22 February 2019, on the official interbank market, commenced at 1US$:2.5 RTGS$.

The directors used the 22 February 2019 date to effect the change in functional currency. Because the Group and Company transacted using a combination of USD, bond notes and coins, RTGS, and system and mobile money platforms during the period from 1 October 2018 to 22 February 2019, the decision to change the functional currency on 22 February 2019 in line with SI 33/19 results in material misstatement to the financial performance and cash flows of the Group and Company, as transactions denominated in USD were not appropriately translated during that period.

International Accounting Standard ("IAS") 21 "The Effects of Changes in Foreign Exchange Rates" considerations (continued)

Had the Group and Company applied the requirements of IAS 21, many of the elements of the accompanying consolidated and separate financial statements would have been materially impacted and, therefore, the departure from the requirements of IAS 21 is considered to be pervasive. The financial effects on the consolidated and separate financial statements of this departure have not been determined.

Material uncertainty related to going concern

We draw attention to the going concern note (note 27) in the financial statements, which gives detail regarding the derecognition of the land and land improvements as disclosed in note 4.3 as well as the fact that the milling license expired in prior years. The Company has applied for 99 year leases from the Zimbabwe Government for the agricultural land under their use which is still to be formalised and finalised and also lodged an application for the renewal of the Company's milling license.

These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in this respect.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How the matter was addressed in the audit
1. Valuation of growing crops – Standing Cane in terms of IAS 41 "Agriculture" ***(Separate and Consolidated)***	
The value of growing crops in the financial statements is quantitatively and qualitatively material to users as it converts to cash in a relatively short time-frame. Management's valuation process, governed by IAS 41: *Agriculture*, contains multiple significant assumptions involving judgment, each of which could have a material impact on the reported fair value of growing crops. Judgement by management is required in estimating the expected cane yield, the estimated sucrose content, and the forecast realisable sugar ("RV") price in the various markets that the Group operates in. Hectares under cane used in the underlying valuation models for growing cane not harvested and the number of months growth of that standing cane at year-end, are also subject to estimation error. The fair value of the growing crop is calculated via a complex, manual computation which further increased the audit risk associated with the balance. Due to the significance of the balance to the financial statements as a whole, combined with the significant assumptions associated with determining the carrying value and the prior period errors identified in this account balance,	In evaluating the fair value of standing cane, we inspected the valuations performed by management, with a particular focus on key estimates and the assumptions underlying those estimates, as noted below. Our procedures included, but were not limited to the following: • We performed sensitivity analyses on the valuation of standing cane, to evaluate the extent of impact on the fair value of the estimated cane yield, and estimated sucrose content. • We performed a sensitivity analysis on the sucrose price by assessing the impact of expected price changes in the coming period (both lower and upper ranges) on the valuation of the standing cane. • We compared the estimates of future sucrose prices made by the management in determining the value of standing cane, with the subsequently realised sucrose prices on the various markets. • We evaluated the valuation criteria used by the management against the requirements of IAS 41 "Agriculture". • We assessed the appropriate design and implementation and tested the operating effectiveness of monitoring controls and relevant controls with respect to the process of determining fair values for the biological assets. Controls tested included the review of cane haulage reports containing yield estimates, manager review of cane yields variance analysis reports and manager review of biological assets work sheet to assess reasonability of inputs.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>as set out in note 1, we considered the valuation of growing crops to be a Key Audit Matter.</td><td>We substantively tested all key data inputs underpinning the carrying value of standing cane, including the number of hectares under cane, estimated cane yields, estimated sucrose content, estimated sucrose prices, costs for harvesting, transport and over the weighbridge costs, by inspecting appropriate supporting documentation, to assess the accuracy, reliability and completeness thereof. Documentation inspected included the NEC reports detailing employee wages for harvesting costs, field reports for actual yields, ZINWA dam level forecasts for 2019/20 season and haulage invoices for transport costs.
We assessed the appropriateness of the disclosures in note 6 against the results of the audit procedures, in particular the estimated yield and sucrose price for standing cane.
We performed retrospective reviews by comparing actual results in the current year against previous forecasts made by management to assess the reliability of management's forecasts used in the valuation of standing cane.</td></tr>
<tr><td colspan="2">2. Capitalisation of overheads to cane roots in accordance with IAS 16 "Property, Plant and Equipment"
(Separate and Consolidated)</td></tr>
<tr><td>In terms of IFRS, the Group is required to recognise its cane roots at cost (as a bearer plant) in terms of IAS 41 "Biological Assets" and IAS 16 "Property, Plant and Equipment".

As detailed in note 4, the carrying value of cane roots amounted to ZW$41,5 million (2018 restated ZW$47 million, 2017 restated ZW$36 million). Cane root costs are determined based on the historical cost of planting and establishment, which is depreciated over the estimated expected life of the cane roots. The historical cost is determined with reference to actual historical labour costs, agricultural costs and outsourced costs related to planting and establishment. The useful life of the cane roots was estimated based on the critical judgments made by the management.

The management has made certain assumptions and judgements about the nature and allocation of costs to be included in determining the establishment costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Due to the significance of the balance to the financial statements as a whole, combined with the significant judgements outlined above, and the resulting prior period errors identified per note 30.3, the appropriate accounting treatment for overheads capitalised to cane roots is considered to be a key audit matter.</td><td>In evaluating the cost of cane roots, we reviewed the details of costs allocated to cane roots, as prepared management, with a particular focus on key estimates and the assumptions underlying those estimates, as noted below.

Our procedures included, but were not limited to the following:
Utilising our accounting specialists, we concluded on the appropriate application of the recognition criteria for cane root costs used by management against the requirements of IAS 16 "Property, Plant and Equipment".
We assessed the appropriate design and implementation and tested the operating effectiveness of monitoring and relevant controls with respect to the process of determining the cost of cane roots. Controls tested included the manager review of cane roots work sheet to assess reasonability of inputs.
We evaluated key data inputs applied in the establishment of the cost of cane roots by management such as land preparation, labour, seed cane, agrochemicals, irrigation and electricity against the requirements of IAS 16 "Property, Plant and Equipment."
We tested the validity of costs allocated to cane roots in the current year through inspection of supporting documentation such as wages reports, invoices from land preparation etc.
We tested the costing principles used in determining a standard cost per hectare for roots planted in the current year.
We assessed and challenged the reasonableness of management's assessment of the estimated expected life of the cane roots, by analysing the weather pattern and availability of irrigation water (this has a significant bearing on the life of the</td></tr>
</table>

Key audit matter	How the matter was addressed in the audit
	roots). We analysed the useful life determined by management against expected useful lives of cane in other farming regions as well as those stipulated by the Tongaat Hulett Limited Group based on historical information, in order to validate the estimated useful life of the cane roots. • Using our accounting specialists we assessed management's technical judgements applied in ascertaining whether the change in the basis of allocation of capitalised overheads was a prior period error in accordance with IAS 8 "Change in Accounting Policies, Change in Estimates and Errors". • We assessed the appropriateness of the disclosures in note 30.3 against the results of the audit procedures, and the requirements of IAS 16 "Property, Plant and Equipment" and noted no exceptions. Based on the audit procedures performed above, we found management's judgements with respect to the valuation of the cane roots, to be falling within a range of reasonable results. The impact of this has been recorded as a prior period error in accordance with IAS 8 "Accounting Policies, Change in Accounting Estimates and Errors", as disclosed in note 30.3 of the consolidated and separated financial statements.
3. Revenue Recognition in accordance with IAS 18 "Revenue" and IFRS 15 "Revenue from Contracts with Customers" ***(Separate and Consolidated)***	
Sugar sales make up the bulk of the Group's revenue. In previous years, at the end of every year and half year-end, the sugar inventory on hand were sold to a third party through the selling and distribution entity, Zimbabwe Sugar Sales, which is a related party. Management determined that under IFRS 15: *Revenue from contracts with customers* and IAS 18: *Revenue* (previous years), the significant risks and rewards associated with ownership of the sugar inventory did not transfer at the point of signing the legal revenue contract, but only subsequently. Judgments in the contracts included the determination of when the risks and rewards passed from the company to the customers with whom legal contracts existed as well as the existence of multiple element arrangements within the contracts. The previously reported financial information prematurely recognised revenue once the sale of sugar inventory stock had been consummated contractually to the third party. Due to the significance of the balance to the financial statements as a whole, combined with the significant judgements applied in determining when the significant risks and rewards of ownership passed in respect of sugar sales under IAS 18 "Revenue" (in previous years), and when control passes under IFRS 15 "Revenue from Contracts with Customers" and the resulting prior period errors identified per note 30.1, the	Our procedures performed in considering the appropriate recognition of revenue in terms of IAS 18 (in previous years) and IFRS 15 included the following: • We assessed the design and implementation of key controls performed by management with respect to revenue recognition such as review of transfer of control to the customer through customer acknowledgement, manager review of all contracts etc. Controls tested included the manager review of revenue ship contracts to ensure the price, volume and customer name are accurate. • Utilising our accounting specialists we assessed the appropriate application of IAS 18 and IFRS 15; • We assessed the sugar sale contracts against the requirements of IAS 18 and IFRS 15; • We recomputed managements calculation in support of the restatements; and • We utilised our internal tax specialists to assess the taxation implication of the restatements. Based on the audit work performed, we found management's assessment and conclusion to be acceptable. The impact of this has been recorded as a prior period error in accordance with IAS 8: Accounting policies, change in accounting estimates and errors as disclosed in note 30.1 of the consolidated and separate financial statements.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>appropriate accounting treatment for sugar sales is considered to be a key audit matter.</td><td></td></tr>
<tr><td colspan="2">4. Capitalisation of overheads to sugar inventory in accordance with IAS 2 “Inventories”
(Separate and Consolidated)</td></tr>
<tr><td>As disclosed in note 30.5, the Group values sugar inventory at the lower of cost or net realisable value in accordance with the requirements of IAS 2 “Inventories”. The Group’s inventory consists of consumable spares to be used in production, sugar inventory work in progress as well as raw sugar finished inventory.

In prior years, the cost included a portion of support services overheads, which were allocated based on varying bases, namely labour costs, direct costs and total costs incurred per division.

Management has determined that under IAS 2, these costs should not have been allocated to inventory in the prior period, as they cannot be considered to be directly attributable to the cost of bringing the inventory to its present condition and location

In the current year, management has valued its sugar inventory by including only the direct costs incurred. Following changes in accounting treatment by the parent company, the Group and Company has not allocated overheads in determining the cost of sugar stocks as was done in prior years. The inclusion or exclusion of the overheads requires management judgment to determine which costs are attributable to bringing the inventory to its present condition and location. Management has applied judgment by reversing all overhead costs capitalised to inventory in the current and prior years and not including any overheads.

Due to the significance of the balance to the financial statements as a whole, combined with the significant judgements outlined above, and the resulting prior period errors identified per note 30.5, the capitalisation of overheads to inventory is considered to be a key audit matter.</td><td>Our procedures performed in considering the appropriateness of the accounting treatment included the following:
• We performed an assessment of the appropriate application of IAS 2 and utilised our accounting specialist in this process ;
• We tested the accuracy and completeness of the information prepared by the company by analysing all the costs included in the inventory valuation against the requirements of IAS 2;
• We recomputed managements calculation in support of the restatements;
• We challenged management’s assumptions with respect to the basis of capitalisation of costs in inventory, as well as the restatements for previous years through recomputation on an independent basis based on actual data to determine whether it was within acceptable ranges; and
• We performed a detailed evaluation of the overheads excluded from inventory for previous years through testing each of them against requirements of IAS 2 to determine whether they met recognition criteria or not, hence assessing whether it is acceptable in accordance with the principles of IAS 2.

Based on the audit work performed, we found management’s assessment and conclusion to be acceptable. The impact of this has been recorded as a prior period error in accordance with IAS 8 “Accounting Policies, Change in Accounting estimates and errors as disclosed in note 30.5 of the consolidated financial statements.</td></tr>
<tr><td colspan="2">5. Accounting occupied land and the related cane roots and growing crop
(Separate and Consolidated)</td></tr>
</table>

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>As disclosed in note 30.8, during 2005, Hippo Valley North was expropriated by the Zimbabwean Government through Constitutional Amendment no 17 of 2005. During 2007, certain third parties were issued with land leases for certain parts of the expropriated land to be used for safaris and hunting.

Note 30.13 discloses the fact that third party farmers were given offer letters in 2016 by the Zimbabwean Government to occupy 1 776 hectares of the expropriated land. The acquiring authority appealed at the Supreme court, due to the dispute that arose subsequently, but lost the appeal. The farmers that occupied the land, expropriated from the entity, farmed the cane that was planted by the Hippo Valley and delivered harvested cane to the millers in return for compensation which was adjusted for an amount relating to the depreciation of the cane roots originally planted.

The significant judgments relating to this accounting treatment relates to:
• An assessment as to whether or not land , and land improvements (including clearing costs, road building costs, and drain construction costs), should not have been de-recognised as assets in previous years, notwithstanding the existing legislation and the judgements management had applied in previous years
• As assessment as to whether the cane roots and standing cane on occupied land should have remained as assets at various year ends, given the on-going disputes related to the farmers occupation on the land
• This is a significant area of judgement because the entity still continues to direct the majority of the land for planting cane, actively farms the cane and/or derive the benefits from the cane. The fact that government has demonstrated their ability to allocate the land to third parties questions whether the entity controlled the land and potentially the other assets established on the land.

Due to the significance of the balance to the financial statements as a whole, combined with the significant judgements outlined above, and the resulting prior period errors identified, the appropriate accounting treatment for land and the cane roots and standing cane on occupied land is considered to be a key audit matter.</td><td>Our procedures performed in considering the appropriateness of the accounting treatment included the following:
• We performed an assessment of management's position against the requirements of IFRS to determine whether the application was within acceptable ranges to the fact pattern established from 2005 to 2019, and involved an accounting specialist in this process;
• Our assessment covered the following pertinent issues:
i) Accounting for the land expropriated by the government, and the generality of agricultural and safari land
ii) Accounting for the land improvements on the above mentioned land (including clearing costs, road building costs and drain construction costs)
iii) Assessment of control and/or impairment of the cane roots and standing cane, at various intervals in previous years, on the land specifically leased by the Government to other external farmers
iv) Treatment of any possible compensation related to land improvements on expropriated land and on land leased by the government to external parties.
v) We conducted site visits and inspected evidence of cane deliveries to the mill from the affected sections to assess whether the company continued to derive economic benefit of the affected cane fields;

• We assessed the requirements of both IAS 16: Property, plant and equipment as it relates to the recognition of land;
• We re-performed the partial and full cane root impairment calculations for 2017 and 2018; and
• We assessed legal advice obtained by management with respect to the legal aspects pertaining to land occupation in Zimbabwe.

Based on the audit work performed, notwithstanding management's previous judgements, management's assessment that all the land should have been derecognised as an asset from as early as at least 2007, is acceptable.

We reviewed management's decision on the timing of the derecognition of the cane roots and standing cane on occupied land and deemed it acceptable in line with requirements of IFRS. Although the land in question was occupied since 2017, there was uncertainty as to whether the entity would regain control of the land. As it became clearer that the land was not going to revert to the control of Hippo Valley Estates, the cane roots and standing cane were appropriately derecognised. The impact of this has been recorded as a prior period error in accordance with IAS 8: Accounting policies, change in accounting estimates and errors as disclosed in note 30.8 of the consolidated and separate financial statements.</td></tr>
<tr><td colspan="2">6. Valuation of game and wildlife in accordance with IAS 41
(Separate and Consolidated)</td></tr>
</table>

Key audit matter	How the matter was addressed in the audit
The Group has a total of 15 060 hectares of land that is under wildlife management, comprising the management of game, safari and hunting activities. The Group had previously applied IAS 41 "Agriculture" in recognising the value of the wildlife as a biological asset. Following a comprehensive review, management determined that the control element of the asset recognition criteria for wildlife is not met given the unrestricted and free movement of wildlife to areas outside the Company's game park boundaries, including neighbouring game parks. Furthermore, the fair value of the wildlife was determined with reference to trophy fees but was not supported by any hunting revenue considering that the Group had not been issued a hunting quota between 2012 and 2018. Consideration was given as to whether this wildlife meets the criteria for recognition as an asset, in view of the following: • The free movement of game and wildlife in and out of the Company premises due to limited fencing. • The uncertainties with respect to when and how the company would realise value from the game in future. • The restrictions to generate hunting income in the past, due to land leases on certain parts of the safari land issued in 2007. Due to the significance of the balance to the financial statements as a whole, combined with the significant judgements outlined above, and the resulting prior period errors identified per note 30.14, the valuation of the game is considered to be a key audit matter.	We performed the following procedures in considering the appropriateness of the accounting treatment: • We assessed management's previous game and wildlife valuation and assumptions against the relevant IFRS to determine the appropriateness of the control element of asset recognition criteria with respect to the game and wildlife. • We performed technical assessment and consultation with our internal accounting experts in respect of whether the wildlife meets the criteria for recognition as an asset, considering that there is free movement in and out of the company premises due to limited fencing, the obtaining uncertainties with respect to when and how the company would realise value from the game in future, and the restrictions to generation of hunting income in the past, due to land leases on certain parts of the safari land issued in 2007. Against the foregoing, management concluded that recognition of game and wildlife on the statement of financial position was no longer justifiable and processed a prior year error to correct the position. We assessed managements' assumptions and judgements with respect to the application of IFRS and their decision to derecognise the game and wildlife, as well as appropriate accounting and disclosure of the de-recognition in accordance with IAS 8 – "Accounting policies, change in accounting estimates and errors" as disclosed in note 30.14 of the consolidated financial statements.
7. Valuation and determination of cash generating units ***(Separate and Consolidated)***	
Following the restatements, several of the Group's operations were not as profitable as previously reported and consequently several new impairment indicators were identified at each reporting period, including 31 March 2017 - being the earliest period presented in these financial statements. In order to perform the impairment tests required by IAS 36: Impairments, it is necessary to determine cash generating units ("CGU's"). A CGU is the smallest Group of assets that independently generates cash inflows. Due to the integrated nature of the Group's operations, the management's judgement needed to be applied in identifying CGU's. The impairment tests applied to the carrying values of the assets in the CGU's entailed calculating discounted cash flow models for each of the individual CGU's. Significant assumptions and judgements were applied by management when performing these calculations to determine whether impairments were required.	Our procedures performed in considering the appropriateness of the valuation of cash generating units where impairment indicators were in existence included the following: • Utilising our internal IFRS accounting specialists, we concluded on the appropriate application of IAS 36 in determining the Group's CGU's and the valuation of the identified CGU's; • We assessed the competence, capabilities and objectivity of managements' independent experts; • Utilising our internal valuation specialists to perform an independent assessment of the recoverable values of the underlying cash generating units where impairment indicators existed. The procedures performed by our specialist, involved challenging the assumptions and methodology applied by management's expert in determining the recoverable values through testing assumptions against independent data and testing how these assumptions were determined. • We critically evaluated whether the discounted cash flow models used by management to

Key audit matter	How the matter was addressed in the audit
As disclosed in the accounting policy of the group and company's financial statements, there are a number of key judgements made by management in determining the inputs into these models which include: • future revenue volumes and growth; • future operating margins; • future major maintenance and capital expenditure; and • discount rates applied to the projected future cash flows. Managements' assessment identified CGU's within the sugar operations where the recoverable amount was significantly lower that the respective carrying amounts. The impairment assessment by CGU was considered to be a matter of most significance to the current year audit due to: • The significant judgments made by the management regarding the assumptions and other forecast information included in the calculation used to perform the impairment assessments; and • The judgements applied in identifying an independent CGU in a vertically integrated business model. Due to the significance of the balance being assessed for impairment and the magnitude of the resultant impairment of certain CGUs' assets in the sugar business, combined with the significant judgements outlined above, and the resulting prior period errors identified per note 30.10, this was considered to be a key audit matter.	calculate the value in use of the assets comply with the requirements of IAS 36 through the following procedures: o Assessed the compilation of the projected cash flows used in the valuation models o Analysed the projected cash flows used in the models to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the respective entities • We assessed the allocation of identified impairments to underlying assets in accordance with the requirements of IAS 36 through recomputation of the allocation basis used and testing the assumptions surrounding the allocation basis; • We assessed the disclosures included in note 30.10 against the relevant IFRS disclosure requirements per IAS 36 to determine whether these were complete and accurate. Managements' assumptions and methodology in determining the impairments and impairment reversal, were deemed to be acceptable against the requirements of IAS 36 as at 31 March 2017 and at 31 March 2019 respectively. The 31 March 2017 impairment has been recorded as a prior period error in accordance with IAS 8: Accounting policies, change in accounting estimates and errors as disclosed in note 30.10 of the consolidated financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Statement of Directors' Responsibility for Financial Reporting, Directors' Report, Statistical Summary, and Corporate Governance Report, as required by the Companies Act (Chapter 24:03), which we obtained prior to the date of this auditor's report and the Sustainability Report, which was also made available to us prior to the auditor's report date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this regard, we report as follows in respect of other information:

- The matter resulting in the adverse opinion, International Accounting Standard ("IAS") 21 "The Effects of Changes in Foreign Exchange Rates" considerations, also impacts on the other information. Consequently, we have concluded that, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the financial aspects of other information relating the current financial year are not presented fairly in accordance with International

Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of Zimbabwe (Chapter 24:03), and the relevant Statutory Instruments ("SI") SI 33/99 and SI 62/96.

Responsibilities of the directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the manner required by the Companies Act (Chapter 24:03) and the relevant statutory instruments (SI 33/99 and SI 62/96), and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE & TOUCHE
Chartered Accountants (Zimbabwe)
Per: Brian Mabiza
Partner
Registered Auditor
PAAB Practicing No. 0447

20 December 2019