Hippo Valley Estates Limited

Abridged Audited Financial Results for the year ended 31 March 2020

SALIENT FEATURES (INFLATION ADJUSTED)

- Sugar production of 212 004 tons (2019: 238 965 tons) -11%
- Sugar sales of 413 000 tons (2019: 483 000 tons) -14%
- Revenue of ZWL3,7 billion (2019: ZWL2,5 billion) +48%
- Operating profit of ZWL1,6 billion (2019: ZWL0,9 billion) +77%
- Adjusted EBITDA* of ZWL1,2 billion (2019: ZWL0,4 billion) +200%
- Profit for the year of ZWL0,8 billion (2019: ZWL0,6 billion) +33%

*Adjusted EBITDA is operating profit adjusted to exclude depreciation, amortisation, any impairment (or reversal thereof) and fair value adjustments relating to biological assets.

COMMENTARY

Introduction
Results for the year ended 31 March 2020 were achieved in a challenging economic environment following the re-introduction of the local currency in February 2019, the abandonment of the multi-currency system in June 2019 and its subsequent return in March 2020 as part of economic measures to combat the COVID-19 pandemic. Zimbabwe's inflation accelerated substantially to 676% by March 2020 (2019: 67%) as the local currency continued to devalue against the major currencies. Accordingly, the Public Accountants and Auditors Board (PAAB) pronounced Zimbabwe a hyperinflationary economy, effective for reporting periods ended on or after 1 July 2019. The requirements of IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29") have therefore been applied to the financial results for the year ended 31 March 2020.

Operations
A total of 1 696 000 tons (2019: 1 862 000 tons) of cane was crushed during the season, of which 1 009 000 tons (2019: 1 068 000 tons) was Company cane and 687 000 tons (2019: 794 000 tons) was delivered by private farmers. A total of 212 000 tons sugar was produced (2019: 239 000 tons) by the Company contributing 48% (2019: 53%) to total industry sugar production. The production decrease of 11% from the last season was due to a decrease in both the volume and quality of cane resulting in a cane to sugar ratio of 8.0 (2019:7.8). While the high incidence of Yellow Sugarcane Aphids (YSA) experienced in the region negatively impacted cane quality, robust crop management practices to contain the pest are being successfully implemented. Cane plough out and replanting programmes aimed at restoring cane yields to optimal levels continued during the year with some 690 hectares (2019: 1 670 hectares) having been replanted.

Marketing
Total industry sales in the local market decreased by 13% to 324 000 tons (2019: 371 000 tons) as a result of a decline in demand due to erosion of disposable incomes. Timely adjustments of local sugar prices in line with inflation have been successful in maintaining margins, minimizing speculative trading and illegal exports to neighbouring countries, practices historically common in hyperinflationary environments. Due to infrastructural damage and other logistical challenges occasioned by Cyclone Idai which impacted exports via Beira, industry export volumes decreased to 89 000 tons compared to 112 000 tons exported in prior year, representing 22% of total sales volumes (2019: 23%). Prices on both regional and international export markets were on average 17% higher than prices achieved in prior year.

Financial Results
The financial results of the Group have been inflation adjusted in compliance with the requirements of IAS 29 and the historical numbers have been disclosed as supplementary information. Users are however cautioned that in hyperinflationary environments certain inherent economic distortions may influence the out turn of financial results. Total revenue for the year amounted to ZWL3,7 billion (2019: ZWL2,5 billion), an increase of 48% despite a 14% decrease in sales volumes. This was due mainly to the industry successfully optimizing the market mix in the local market and better realisations from export markets. As a result profitability improved by 200% and 77% at adjusted EBITDA and operating profit levels respectively.

Net operating cash flow after interest, tax and working capital changes increased to ZWL378 million (2019: ZWL280 million) despite higher tax payments during the period under review. Capital expenditure totalled ZWL47 million (2019: ZWL110 million) of which ZWL40 million (2019: ZWL55 million) was spent on root replanting. At 31 March 2020, the Company had cash on hand of ZWL119 million compared to ZWL151 million for the previous year. However, a closing net cash position at 31 March 2020 of ZWL99 million (2019: net debt position of ZWL288 million) was achieved, indicating a significant reduction in debt during the period under review.

The effective tax rate on the inflation adjusted accounts was 34.17% (2019: 27.72%), impacted by the net monetary loss of ZWL434 million (2019: ZWL74 million) that was treated as a permanent difference for income tax purposes.

Dividend
In view of the Company's positive financial performance the Directors have declared an interim dividend of ZWL36 cents per share for the year ended 31 March 2020 payable in respect of all the ordinary shares of the Company. This dividend will be payable in full to all Shareholders of the Company registered at the close of business on 26 June 2020.

Outlook
For the second successive year the country has experienced a poor rainfall season resulting in minimal inflows into the sugar industry's water supply dams, presenting a key risk to the industry. While there is sufficient irrigation water for the period leading to the next rain season, the industry has implemented water conservation initiatives including reduced water application rates to levels that are not a deterrent to normal crop growth.

Sugar cane yields on Company owned land are forecast to improve, benefiting from prior years' accelerated replanting program. In addition to the Company's on-going inputs and extension support to private farmers, closer partnerships are being offered to low yielding farmers in order to improve productivity on their farms.

Work on the 4 000 hectares out grower cane development project in partnership with Government and local banks (Project Kilimanjaro) is on-going with a total of 2 700 hectares of virgin land having been cleared and ripped, 400 hectares of which have been planted to sugarcane. Work on the project is being slowed down by delays in obtaining adequate funding from financial institutions due to the prevailing adverse economic environment. Alternative funding structures for the project are under consideration which will result in the project being progressed on a phased approach. On completion, Project Kilimanjaro will contribute significantly to the industry target of full utilization of installed milling capacity of 600 000 tons sugar by 2023/24, positioning the country to be one of the most competitive sugar producers in the region and globally.

Total industry sugar production for the 2020/21 financial year is forecast to be between 440 000 and 455 000 tons of sugar with approximately 35% being sold into the export market. The Company's share of industry sugar production is forecast to be 50%.

Monetary policy uncertainty continues to perpetuate the economic ills of reduced disposable incomes, foreign currency shortages, high interest rates, distorted exchange rates and a hyperinflationary local currency. Demand for sugar, being a staple commodity will continue to be stable. Sugar pricing strategies will therefore be aimed at balancing value preservation for the Company, consumer affordability and discouraging arbitrage opportunities. Strategies to ensure consistent supply of regional export markets including the execution of an efficient logistical strategy will be pivotal to the industry achieving targeted foreign currency earnings.

Business interruption as a result of the current COVID-19 pandemic will further weaken the economy. However, with the sugar milling season having begun on schedule, sugar production is unlikely to be impacted by the Covid-19 pandemic. The potential impact on the sugar industry and the Company will continue to be closely monitored. The industry is alert to potential export opportunities into Europe as global economies seek to recover from the pandemic. The Board issued a detailed trading update on Covid-19 on the 26th of May 2020 wherein the development and implementation of a robust Business Continuity plan (BCP) to mitigate the negative impact of the pandemic is clearly outlined.

The Company remains optimistic that notwithstanding the COVID-19 pandemic and the current economic challenges, the Zimbabwe sugar industry is well positioned to be one of the most competitive in the region by 2023 off the back of increased production and operating efficiencies.

By Order of the Board

D L Marokane	A Mhere
Chairman	**Chief Executive Officer**

29 June 2020

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Abridged Audited Financial Results for the year ended 31 March 2020

ABRIDGED GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	INFLATION ADJUSTED		HISTORICAL COST*	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	ZWL'000	ZWL'000	ZWL'000	ZWL'000
Revenue	3 672 042	2 522 540	1 682 340	244 890
Operating profit	1 562 219	906 767	1 573 521	113 612
Net monetary loss	(434 400)	(74 705)	-	-
Net finance costs	(30 370)	(85 852)	(10 161)	(6 708)
Finance income	1 204	10 205	584	1 085
Finance costs	(31 574)	(96 057)	(10 745)	(7 793)
	1 097 449	746 210	1 563 360	106 904
Share of profit of associated companies	54 543	16 189	20 081	1 587
Profit before tax	1 151 992	762 399	1 583 441	108 491
Income tax expense Note 1	(393 587)	(211 354)	(405 154)	(34 715)
Profit for the year	758 405	551 045	1 178 287	73 776
Other comprehensive income, net of tax	(180 839)	(21 427)	(22 657)	579
Actuarial losses on post retirement provision	(149 434)	(27 355)	(47 894)	(2 526)
Exchange (loss)/gain on translation of foreign investment	(31 405)	5 928	25 237	3 105
Total comprehensive income for the year	577 566	529 618	1 155 630	74 355
Number of shares in issue ('000 of shares)	193 021	193 021	193 021	193 021
Basic and diluted earnings per share (ZWL cents)	393	285	610	38
Headline earnings per share (ZWL cents)	393	112	611	22

* IAS 29 discourages the publication of historical results as the inflation adjusted results are the primary records. However, the historical cost results are included as supplementary information to allow for some user requirements. As a result, the auditors have not expressed an opinion on this historical information.

ABRIDGED GROUP STATEMENT OF FINANCIAL POSITION

	INFLATION ADJUSTED		HISTORICAL COST*	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	ZWL'000	ZWL'000	ZWL'000	ZWL'000
ASSETS				
Non-current assets	1 547 425	1 663 300	214 861	142 173
Property, plant and equipment	1 423 612	1 528 785	139 490	126 517
Intangible assets	33 130	35 275	2 704	2 874
Right-of-use assets	1 377	-	1 377	-
Investments in associated companies	66 757	55 066	48 741	7 092
Long term receivables	22 549	44 174	22 549	5 690
Current assets	2 065 261	1 692 254	1 960 689	216 115
Biological assets	1 204 901	719 506	1 204 901	92 673
Inventories	437 914	339 251	384 873	41 847
Trade and other receivables	303 223	482 330	251 692	62 125
Cash and cash equivalents	119 223	151 167	119 223	19 470
Total assets	3 612 686	3 355 554	2 175 550	358 288
EQUITY AND LIABILITIES				
Capital and reserves	2 456 987	1 879 421	1 340 540	184 910
Issued share capital	195 350	195 350	15 442	15 442
Non-distributable reserves	(39 207)	(7 802)	78 748	53 511
Retained earnings	2 300 844	1 691 873	1 246 350	115 957
Non-current liabilities	725 364	570 354	415 532	56 713
Deferred tax liabilities	652 006	506 212	342 174	48 451
Lease liability	863	-	863	-
Provisions	72 495	64 142	72 495	8 262
Current liabilities	430 335	905 779	419 478	116 665
Trade and other payables	349 720	400 430	338 863	51 576
Lease liability	531	-	531	-
Borrowings	20 000	439 200	20 000	56 569
Dividend payable	-	10 825	-	1 394
Current tax liability	60 084	55 324	60 084	7 126
Total equity and liabilities	3 612 686	3 355 554	2 175 550	358 288

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ABRIDGED GROUP STATEMENT OF CASH FLOWS

	INFLATION ADJUSTED		HISTORICAL COST*	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	ZWL'000	ZWL'000	ZWL'000	ZWL'000
Cash flows from operating activities				
Operating profit	1 562 219	906 767	1 573 521	113 612
Net monetary loss	(434 400)	(74 705)	-	-
Depreciation and amortisation Note 2	152 459	119 560	12 769	9 488
Reversal of impairment loss on property, and intangible assets	-	(406 068)	-	(35 113)
Exchange (gain)/loss	(10 825)	931	(6 410)	931
Net movements in provisions	(190 151)	(32 627)	612	123
• Gross movement in provisions	8 353	4 214	64 233	3 525
• Movement attributable to revenue	(198 504)	(36 841)	(63 621)	(3 402)
Changes in biological assets	(485 395)	(253 622)	(1 112 228)	(55 847)
Loss on disposal of property, plant and equipment	130	71 567	130	4 017
Cash generated from operations	594 037	331 803	468 394	37 211
Changes in working capital	28 175	38 723	(232 475)	(19 287)
Net cash generated from operations	622 212	370 526	235 919	17 924
Tax paid	(215 011)	(51 955)	(49 492)	(7 017)
Net finance charges paid	(28 811)	(38 938)	(9 752)	(3 566)
Net cash inflow from operating activities	378 390	279 633	176 675	7 341
Cash flows from investing activities				
Additions to property, plant, equipment, intangible and right of use assets	(46 648)	(109 601)	(27 079)	(9 818)
• Other property, plant, equipment and intangible assets	(5 502)	(54 786)	(2 901)	(5 101)
• Initial adoption of IFRS 16 Leases	(1 586)	-	(1 586)	-
• Cane roots	(39 560)	(54 815)	(22 592)	(4 717)
Proceeds from disposal of property, plant, equipment and intangible assets	-	274	-	35
Dividends received from associated companies	32 496	21 028	10 415	1 942
Movement in non-current financial assets	21 625	27 805	(16 859)	-
Net cash inflow/(outflow) from investing activities	7 473	(60 494)	(33 523)	(7 841)
Net cash inflow/(outflow) before financing activities	385 863	219 139	143 152	(500)
Cash flow from financing activities				
Proceeds from borrowings	141 269	981 935	45 277	76 376
Repayment of borrowings	(560 470)	(1 118 336)	(90 070)	(32 092)
Lease financing raised	1 394	-	1 394	-
Repayment of trade finance	-	-	-	(30 150)
Dividends paid	-	(48 375)	-	(3 397)
Net cash (outflow)/inflow from financing activities	(417 807)	(184 776)	(43 399)	10 737
Net (decrease)/increase in cash and cash equivalents	(31 944)	34 363	99 753	10 237
Cash and cash equivalents at the beginning of the year	19 470	9 233	19 470	9 233
Inflation effects on cash and cash equivalents	131 697	107 571	-	-
Cash and cash equivalents at the end of the year	119 223	151 167	119 223	19 470

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ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

	INFLATION ADJUSTED			
	Issued share capital ZWL'000	Non-distributable reserves ZWL'000	Retained earnings ZWL'000	Total ZWL'000
Balance at 31 March 2018	195 350	(13 730)	1 217 020	1 398 640
Total comprehensive income for the year	-	5 928	523 690	529 618
Profit for the year	-	-	551 045	551 045
Other comprehensive income/(loss) for the year	-	5 928	(27 355)	(21 427)
Dividend	-	-	(48 837)	(48 837)
Balance at 31 March 2019	195 350	(7 802)	1 691 873	1 879 421
Total comprehensive (loss)/income for the year	-	(31 405)	608 971	577 566
Profit for the year	-	-	758 405	758 405
Other comprehensive loss for the year	-	(31 405)	(149 434)	(180 839)
Balance at 31 March 2020	195 350	(39 207)	2 300 844	2 456 987

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Abridged Audited Financial Results for the year ended 31 March 2020

ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

	HISTORICAL COST*			
	Issued share capital ZWL'000	Non-distributable reserves ZWL'000	Retained earnings ZWL'000	Total ZWL'000
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	-	-	(3 860)	(3 860)
Balance at 31 March 2019	**15 442**	**53 511**	**115 957**	**184 910**
Total comprehensive income for the year	-	25 237	1 130 393	1 155 630
Profit for the year	-	-	1 178 287	1 178 287
Other comprehensive income/(loss) for the year	-	25 237	(47 894)	(22 657)
Balance at 31 March 2020	**15 442**	**78 748**	**1 246 350**	**1 340 540**

* IAS 29 discourages the publication of historical results as the inflation adjusted results are the primary records. However, the historical cost results are included as supplementary information to allow for some user requirements. As a result, the auditors have not expressed an opinion on this historical information.

NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS

	INFLATION ADJUSTED		HISTORICAL COST	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	ZWL'000	ZWL'000	ZWL'000	ZWL'000
1. Income tax expense				
Normal tax	(219 772)	(110 596)	(102 450)	(14 405)
Deferred tax - other	(172 637)	(96 917)	(307 658)	(19 955)
Deferred tax – rate change*	26 844	-	13 935	-
Transfer to non-distributable reserve	21 048	5 646	6 746	521
Transfer from revenue reserve	(49 070)	(9 487)	(15 727)	(876)
Charged to profit or loss	**(393 587)**	**(211 354)**	**(405 154)**	**(34 715)**

*The rate of corporate tax was reduced from 25% to 24% with effect from 1 January 2020. AIDS levy remains at 3% of the tax payable.

	INFLATION ADJUSTED		HISTORICAL COST	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
2. Depreciation and amortisation				
Depreciation of property, plant and equipment	98 545	56 554	7 998	4 476
Amortisation of intangible assets	2 145	4 323	169	348
Depreciation of right-of-use assets	209	-	209	-
Depreciation of roots	51 560	58 683	4 393	4 664
	152 459	**119 560**	**12 769**	**9 488**
3. Capital expenditure commitment				
Contracted and orders placed	53 786	11 275	53 786	1 452
Authorized by Directors but not contracted	15	166	15	21
	53 801	**11 441**	**53 801**	**1 473**

4. Basis of preparation

Statement of Compliance

The abridged consolidated financial statements of Hippo Valley Estates Limited (the 'Company'), together with its subsidiaries (the 'Group') for the year ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards ('IFRS'), and interpretations developed and issued by the International Financial Reporting Interpretations Committee (IFRIC).

The abridged consolidated financial statements do not include all the disclosures required for complete annual financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board. Accordingly, these statements are to be read in conjunction with the annual financial statements for the year ended 31 March 2020 and any public announcements made by Hippo Valley Estates Limited during the reporting period.

The abridged consolidated financial statements are presented in Zimbabwean Dollars (ZWL), which is the Group's functional and presentation currency. The accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period, except for the adoption of new and amended standards.

The abridged consolidated financial statements appearing in this announcement are the responsibility of the Directors. The Directors take full responsibility for the preparation of the abridged consolidated financial statements.

IAS 29 Financial Reporting in Hyperinflationary Economies

On 11 October 2019, the Public Accountants and Auditors Board of Zimbabwe classified Zimbabwe as a hyperinflationary economy in accordance with the provisions of IAS 29 Financial Reporting in Hyperinflationary Economies ('IAS 29'), applicable to entities operating in Zimbabwe with financial periods ending on or after 1 July 2019. Hyperinflationary accounting has therefore been applied by the Group for the year ended 31 March 2020. *IAS 29 discourages the publication of historical results as the inflation adjusted results are the primary records. However, the historical cost results are included as supplementary information to allow for comparability during the transitional phase of applying the standard and to meet most user requirements. As a result, the auditors have not expressed an opinion on this historical information

The Group concurs with this classification, supported by the following factors:

- There was a rapid increase in official inflation rates. As at March 2019, the annual inflation rate was 67% resulting in a three-year cumulative inflation rate of 72%. The annual inflation rate through to March 2020 increased to 676% resulting in a three- year cumulative inflation rate for Zimbabwe of over 1 000%.
- There was significant deterioration in the interbank Zimbabwe Dollar (ZWL) exchange rate during the period. Trading commenced at an interbank rate of ZWL2.5 to US$1 during February 2019 and weakened to a rate of ZWL25.00 to US$1 at 31 March 2020.
- Access to foreign currency to settle foreign currency denominated liabilities remains constrained.

Hyperinflationary accounting requires transactions and balances of each reporting period to be presented in terms of the measuring unit current at the end of the reporting period in order to account for the effect of loss of purchasing power during the period. The Group has elected to use the Zimbabwe Consumer Price Index (CPI) as the general price index to restate amounts as it provides an official observable indication of the change in the price of goods and services.

The carrying amounts of non-monetary assets and liabilities carried at historic cost have been stated to reflect the change in the general price index from the date of acquisition to the end of the reporting period. No adjustment has been made for those non-monetary assets and liabilities measured at fair value. An impairment is recognised in profit or loss if the remeasured amount of a non-monetary asset exceeds the recoverable amount.

All items recognised in the statement of profit or loss and other comprehensive income are restated by applying the change in the average monthly general price index when the items of income and expenses were initially earned or incurred.

Gains or losses on the net monetary position have been recognised as part of profit or loss before tax in the statement of profit or loss and other comprehensive income.

All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

Comparative amounts in the Group financial results are expressed in terms of the general price index at the end of the reporting period.

The following general price indices and conversion factors were applied:

Date	General Price Index	Conversion factor
31 March 2019	104.4	7.764
31 March 2020	810.4	1.000
Average CPI for 12 months to:		
31 March 2020	382.92	
31 March 2019	87.38	

5. Audit Opinion

The condensed financial statements of the Group and Company have been audited by Deloitte & Touche (Chartered Accountants) Zimbabwe, who have issued a qualified audit opinion with respect to non-compliance with International Accounting Standards 21 "Effects of Changes in Foreign Exchange Rates", as it relates to the opening balances as it elected to comply with Statutory Instrument 33 of 2019. Our current year opinion is qualified because of the possible effects of this matter on the comparability of current year inflation adjusted results with those of the prior year.

The audit opinion contains key audit matters in respect of valuation of biological assets, valuation of bearer plants, and valuation and recoverability of long-standing receivables.

The Engagement Partner responsible for the audit was Brian Mabiza.

By order of the Board
Hippo Valley Estates Limited Registration No. 371/1956
Registered Office: Hippo Valley Estates Limited, Chiredzi

T F Makoni
Company Secretary

29 June 2020

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HIPPO VALLEY ESTATES LIMITED GROUP
Report on the audit of the inflation adjusted consolidated and separate financial statements

Qualified opinion

We have audited the inflation adjusted financial statements of Hippo Valley Estates Limited (the "Company") and its subsidiaries, joint venture and associates (together, the "Group"), which comprise the inflation adjusted consolidated and separate statement of financial position as at 31 March 2020, and the inflation adjusted consolidated and separate statement of profit or loss and other comprehensive income, the inflation adjusted consolidated and separate statement of changes in equity and the inflation adjusted consolidated and separate statement of cash flows for the year then ended, and the notes to the inflation adjusted consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying inflation adjusted consolidated and separate financial statements present fairly, in all material respects, the inflation adjusted consolidated and separate financial position of the Group as at 31 March 2020, and its inflation adjusted consolidated and separate financial performance and inflation adjusted consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies and Other Businesses Entities Act (Chapter 24:31) and the relevant Statutory Instruments ("SI") 33/99 and 62/96.

Basis for qualified opinion

<u>Impact of the incorrect date of application of International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" (IAS 21") on the comparative financial information</u>

As disclosed in note 2 of the financial statements the Group and Company did not comply with IAS 21 in the prior financial year, as it elected to comply with Statutory Instrument 33 of 2019 ("SI 33/19") only from 22 February 2019. Had the Group and Company applied the requirements of IAS 21, many of the elements of the prior year consolidated and separate financial statements, which are presented as comparative information, would have been materially impacted. Therefore, the departure from the requirements of IAS 21 were considered to be pervasive in the prior year.

Our opinion on the current year's inflation adjusted consolidated and separate financial statements is qualified because of the possible effects of this matter on the comparability with the current year's inflation adjusted consolidated and separate statement financial statements with that of the prior year.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the inflation adjusted consolidated and separate financial statements" section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA) Code, together with the ethical requirements that are relevant to our audit of inflation adjusted financial statements in Zimbabwe. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the inflation adjusted consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the inflation adjusted 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 Basis for Qualified Opinion section of our report, we have determined the matters described below to be the key audit matters.

Key Audit Matter	How the matter was addressed in the audit
1. Valuation of biological assets – Standing Cane in accordance with IAS 41 "Agriculture"	
The Group is required to value its standing cane at fair value in accordance with IAS 41 "Agriculture" ("IAS 41"). As disclosed in the notes to the financial statements, the carrying value of the standing cane amounted to ZWL1.192 billion (2019: ZWL709 million). The value of standing cane is based on the estimated sucrose content and realisable value of the sugar for the following season less the estimated costs of harvesting, transport and over-the-weighbridge costs. Important inputs include the expected cane yield and the average maturity of the cane. Accordingly, the valuation of standing cane is considered to be a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the multiple judgements associated with determining estimates used to compute the carrying value, namely estimated cane yields, average age at maturity and the sucrose realisable value.	In evaluating the fair value of standing cane, we reviewed the valuations performed by the directors, with a particular focus on key estimates and the assumptions underlying those estimates, such as the determination of the estimated cane yield, average age and maturity and sucrose realisable value, as noted below. Our procedures included, but were not limited to the following: • Performing 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. • Performing a sensitivity analysis on the sucrose price. • Comparing the estimates of sucrose prices made by the directors in determining the value of standing cane with the subsequently realised sucrose prices on the various markets. • Evaluating whether the valuation criteria used by the directors comply with the requirements of IAS 41. • Testing the design and implementation of monitoring controls and relevant controls with respect to the process of determining fair values for the biological assets. • Substantively testing 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, against appropriate supporting evidence, to assess the accuracy, reliability and completeness thereof. • Assessing the appropriateness of the disclosures with respect to the impact of the sensitivity of the various assumptions by ensuring that the information disclosed in the financial statements was in accordance with the results of the audit procedures, in particular, the estimated yield and sucrose price for standing cane.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HIPPO VALLEY ESTATES LIMITED GROUP
Report on the Audit of the Inflation Adjusted Consolidated and Separate Financial Statements

Key Audit Matter	How the matter was addressed in the audit
1. Valuation of biological assets – Standing Cane in accordance with IAS 41 "Agriculture"	
	• Assessing the reliability of management's forecasts used in the valuation of standing cane through a comparison of the actual results in the current year against previous forecasts made by the directors. We did not identify any material misstatements as a result of the procedures detailed above.
2. Valuation of biological assets, Cane Roots, in accordance with IAS 16 "Property, plant and equipment"	
The Group is required to value its cane roots at cost in accordance with IAS 16 "Property, plant and equipment" ("IAS 16"). As disclosed in the notes to the financial statements, the carrying value of the cane roots amounted to ZWL258 million (2019: ZWL270 million). The value of cane roots is based on the estimated historical cost depreciated over the expected useful life of cane roots of 9 ratoons. The cost is determined by restating the estimated historical cost to the year-end purchasing power using the relevant conversion factors. The carrying value of cane roots is significantly impacted by management's determination of the estimated expected useful life of the cane roots. Accordingly, the value of cane roots is a key audit matter due to the significance of the balance to the financial statements as well as the estimation uncertainty associated with the 9 year ratoon life, as the balance is sensitive to this estimate.	In evaluating the carrying value of cane roots, we reviewed the valuations performed by the directors, with a particular focus on the establishment costs capitalised in the current year and the expected useful life, as noted below. Our procedures included, but were not limited to the following: • Evaluating whether the valuation criteria used by the directors as well as key data inputs into the carrying value of cane roots comply with the requirements of IAS 16. • Testing the design and implementation and the operating effectiveness of controls with respect to the process of determining the cost of cane roots. • Reviewing the useful life determined by management against expected useful lives of cane in other farming regions as well as those stipulated by the Group based on historical information, in order to validate the estimated useful life of the cane roots. • Assessing the reasonableness of management's estimated expected life of the cane roots by analysing the weather patterns and availability of irrigation water (this has a significant bearing on the life of the roots) through inspecting the dam level statistics of the dams used by the Group as provided by the Zimbabwe Water Authority (ZINWA) and comparing these to the irrigation water requirements of the Group based on historical information, in order to validate the estimated expected useful life of the cane. We did not identify any material misstatements as a result of the procedures detailed above.

3. Valuation and recoverability of long standing receivables	
As disclosed in the notes to the financial statements, the balance of trade and other receivables at year end of ZWL292 million (2019: ZWL456 million) includes long outstanding receivables amounts. The average credit period is 66 days (2019: 43 days). However, some receivables totalling ZWL39 million have been outstanding for more than 120 days. These include a balance of ZWL7 million that relates to out-grower farmers who will settle the amounts through future delivery of cane, with the support of the Group, over the next three years. This is a key audit matter in the current year due to the significance of the value of trade and other receivables to the financial statements, the judgement involved in assessing the recoverability of the balance through the determination of probabilities of default and the possible effects of Covid-19 global pandemic, which has been assessed as an adjusting event, on the recoverability of balances receivable.	In evaluating the valuation and recoverability of receivables, we reviewed the expected credit loss model prepared by the directors, with a particular focus on forward looking information incorporated in the assessment. Our procedures included independently assessing recoverability of receivables and performing various procedures, including, but not limited to the following: • Obtaining an understanding of management's process and assumptions in assessing recoverability. • Assessing the appropriateness of management's assumptions with respect to the timing of the receipt of funds from the debtors through independently estimating the period of recovery of the receivable based on historic payment patterns, and payment plans in place. • Evaluating the appropriateness of the probability of defaults allocated to each debtor category, based on prior payment patterns and the expected effect of inflation and Covid-19 on their ability to repay their debts to the Group. • Ascertaining the debtors' solvency and liquidity based on available market data (as applicable) and inspection of correspondence between the debtors and the Group. • Testing the controls related to management's methods and assumptions in regard to determination of the value of long outstanding receivable balances. • Obtaining external confirmations of balances for a sample of debtors and reconciling these to the balances recorded in the ledger. • Analysing payments received subsequent to year-end, where applicable, as a way to establish recoverability of amounts recorded at year-end. • Evaluating management's plans and efforts at collecting the receivables, including their pursuit of legal action as a means of recovering outstanding balances, and evaluating the likelihood of success. • Reviewing impairment calculations and discounted cash flows where receipts from debtors are expected to be recovered over a long period of time. We did not identify any material misstatements as a result of the procedures detailed above.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HIPPO VALLEY ESTATES LIMITED GROUP
Report on the Audit of the Inflation Adjusted Consolidated and Separate Financial Statements

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act (Chapter 24:31) and the historical cost consolidated financial information, which we obtained prior to the date of this auditor's report and the Annual Report, which is expected to be made available to us after that date. The other information does not include the inflation adjusted consolidated financial statements and our auditor's report thereon. Our opinion on the inflation adjusted financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the inflation adjusted consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the inflation adjusted consolidated 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.

As described in the Basis for Qualified Opinion section above, we qualified our audit opinion for the following reasons:

- The Group did not comply with the requirements of IAS 21 when it changed it functional currency to the RTGS Dollar during 2019. The opinion is modified due to the possible effects of the matter on the comparability of the current year's inflation adjusted consolidated and separate financial statements with that of the prior year.

We have determined that the other information is misstated for that reason.

Responsibilities of the directors for the inflation adjusted consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the inflation adjusted consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and the requirements of the Companies Act (Chapter 24:03) and for such internal control as the directors determine is necessary to enable the preparation of inflation adjusted financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the inflation adjusted 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 inflation adjusted consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the inflation adjusted 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 inflation adjusted consolidated and separate financial statements.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HIPPO VALLEY ESTATES LIMITED GROUP
Report on the Audit of the Inflation Adjusted Consolidated and Separate Financial Statements

Auditor's responsibilities for the audit of the inflation adjusted consolidated and separate financial statements

As part of an audit in accordance with ISAs, we exercise professional judgement 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 and Company'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 and Company'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 and Company 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 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.

The engagement partner on the audit resulting in this independent auditor's opinion is Brian Mabiza.

Deloitte & Touche

Deloitte & Touche
Per: Brian Mabiza
Partner
Registered Auditor
PAAB Practice Certificate Number 0447

30 June 2020