HIPPO VALLEY ESTATES LIMITED

NOTICE TO SHAREHOLDERS AND ANNUAL RESULTS

Group results for the year ended 31 December 2008 are as follows:

Production Statistics

	Season 2008	2007
Hectares cut during period	8 985	9 313
Hectares carried over	3 164	2 784
Cane milled - Company	869 233	936 976
- Other	216 564	342 922
Total cane milled (tonnes)	1 085 797	1 279 898
Sugar produced (tonnes)	117 349	156 061
Cane to sugar ratio	9.25	8.20
Overall recovery	73.16	82.15
Factory performance index	87.01	95.29

Abridged Group Profit and Loss Account

	Year ended 31.12.08 Z$qdn	Year ended 31.12.07 Z$qdn Restated
Revenue		
Sugar	10 682 589	0
Changes in fair value of biological assets	913 431 887	0
	924 114 476	0
Operating profit	742 550 898	0
Interest paid	(6 422 571)	0
	736 128 327	0
Share of associated companies' profit before taxation	33 830 808	0
Profit before taxation	769 959 135	0
Taxation	(267 893 787)	0
Profit for the year	502 065 348	0

Abridged Group Balance Sheet

	As at 31.12.08 Z$qdn	As at 31.12.07 Z$qdn Restated
Capital employed		
Capital and reserves	2 421 283 743	0
Deferred taxation	1 001 270 338	0
	3 442 554 081	0
Employment of capital		
Property, plant and equipment	2 625 446 942	0
Unlisted investments	55 680 368	0
Other non-current assets	265 867 272	0
Bank and cash	129 856 663	0
Other current assets	799 565 721	0
Total assets	3 876 416 966	0
Non- current loans	90 815 060	0
Interest bearing short-term loans	32 869 312	0
Other current liabilities	330 178 513	0
	3 442 554 081	0

Group Statement of Changes in Equity

	Share capital Z$qdn	Share premium Z$qdn	Capital reserve Z$qdn	Retained profit Z$qdn	Total Z$qdn
Balance at 31 December 2007	0	0	0	0	0
Exchange gain on translation of shareholders' equity in foreign associated company	0	0	22 881 236	0	22 881 236
Currency adjustments					
Surplus on revaluation of property, plant and equipment	0	0	1 896 337 159	0	1 896 337 159
Accumulated profit of associated companies	0	0	23 417 992	(23 417 992)	0
Profit for the year	0	0	0	502 065 348	502 065 348
Balance at 31 December 2008	0	0	1 942 636 387	478 647 356	2 421 283 743

Dividend Declaration

In the light of the challenging economic environment in 2008, the Directors have decided not to declare a dividend for the year ended 31 December 2008.

Notice of Annual General Meeting

The fifty-third Annual General Meeting of the Company will be held on Tuesday, 30 June 2009 at Meikles Hotel Harare, Zimbabwe at 09H00.

The Annual Report will be mailed to Shareholders on or about 2 June 2009.

By order of the Board
Secretaries

Per: B Shava
28 Broadlands Road
Harare

22 May 2009

CHAIRMAN'S REVIEW

INTRODUCTION

The Country's accelerated economic decline reached unprecedented levels during the year under review, with hyperinflation reaching a last recorded peak of 231 million per cent in July 2008, on the back of a rapidly shrinking industrial and commercial base. The macro-economic environment was characterised by a shortage of critical inputs such as fertilisers, coal, fuel, crop chemicals and equipment spares, and was compounded by frequent and prolonged power cuts. Measures by the monetary authorities aimed at arresting the inflationary spiral did not meet with success. Broad money supply growth rose to levels in excess of 658 billion per cent by year end from 143 per cent in January 2008. Trade on the Zimbabwe Stock Exchange was suspended on 20 November 2008, and for the first time since the onset of hyperinflation, the Zimbabwean dollar was rendered dysfunctional in favour of other more stable currencies such as the US dollar and the South African rand. A severe shortage of foreign currency persisted throughout the year. Although interest rates remained negative in real terms characterised by significant swings, during the latter part of the year the banking sector was virtually inactive. Whilst the effects of the global financial crisis have not yet been fully felt in the local environment, it has already had a significant impact on some industries that have had to scale down or cease operations, particularly in the mining industry where metal and mineral prices dropped to sub-economic levels, with severe consequences on foreign currency inflows. It was against this macro-economic background that the Company conducted its activities in 2008.

OPERATING REVIEW

The average sugar cane yield, at 99,50 tonnes cane per hectare, was 1 per cent lower than the prior year yield of 100,75 tonnes cane per hectare and 7 per cent below the long-term mean of 106 tonnes cane per hectare. Although rainfall was good and an optimal irrigation regime maintained, evaporation rates were low during the main summer growing period, resulting in the lower average yield. A total of 869 233 tonnes of Company-owned cane was delivered to the mill for crushing, compared to 936 976 tonnes achieved in 2007. This 7 per cent reduction was mainly attributed to the non-availability of mill spares, coupled with reduced cane haulage capacity, again due to the general non-availability of vehicle and equipment spares. The early closure of the mill due to unavailability of coal further militated against the Company's efforts to extend the milling season into January 2009 to catch up on the harvesting program. As a result, 3 164 hectares, equivalent to approximately 286 405 tonnes of cane has been carried into the 2009/10 season.

A total of 15 732 tonnes of cane at a yield of 58,9 tonnes cane per hectare was delivered from the Mkwasine Estate Joint Venture with Triangle Limited, a decrease of 17 per cent from the previous season's deliveries of 18 940 tonnes.

Mkwasine Estate outgrowers delivered a total of 81 808 tonnes of cane from 2 100 hectares harvested compared to 138 448 tonnes cane from 2 376 hectares harvested in 2007, at an average yield of 39,0 and 58,3 tonnes cane per hectare, respectively.

A total of 119 024 tonnes cane was delivered by the Hippo Mill Group, comprised of the Chiredzi Sugar Cane Farmers' Association of Zimbabwe (CSFAZ) and commercial growers under the Zimbabwe Cane Farmers Association (ZCFA) at an average yield of 53,0 tonnes cane per hectare, a decrease of 38 per cent from the 185 533 tonnes cane, at an average yield of 48,8 tonnes cane per hectare, delivered in 2007.

Following the mill closure in late December 2008, 10 969 tonnes cane was milled at Triangle under a toll milling arrangement producing 1 099 tonnes sugar under this arrangement.

A total of 1 497 hectares was carried over by all outgrowers, comprising 752 hectares for Hippo Mill Group outgrowers and 745 hectares for Mkwasine Estate outgrowers.

The low throughput that characterised the season, compounded by inadequate coal supplies and extended mill breakdowns as a result of a lack of maintenance spares, adversely impacted on mill operating efficiencies. This resulted in an average capacity utilisation of 60 per cent for the season, a decline of 12 per cent from the 72 per cent capacity utilisation achieved in 2007. Cane throughput at 272 tonnes cane crushed per hour (TCH) was 16 per cent below the 325 TCH achieved in 2007 and 40 per cent below the installed capacity of 450 TCH. Frequent stock outs of coal throughout the milling season meant that factory energy demands could not be adequately met, resulting in poor recoveries being achieved. A total of 117 348 tonnes of sugar was produced from 1 085 797 tonnes of cane crushed at a cane to sugar ratio of 9,25 : 1. This was the lowest production level since the 1992 drought, compared with 156 061 tonnes sugar produced in 2007 at a cane to sugar ratio of 8,20 : 1.

The milling season ended on 26 December 2008 after 269 days of milling compared to 246 days in 2007.

MARKETING

Sugar production in the 2008/09 season for the industry as a whole decreased by 15 per cent to 297 865, from 349 356 tonnes achieved in 2007. Availability of sugar on the domestic market declined mainly as a consequence of the severe price controls in force during the year as well as the speculative activities of third parties. In spite of these difficulties, the industry managed to sell 185 935 tonnes into the domestic market, 19 per cent lower than the 229 433 tonnes sold in 2007.

Preferential export quota markets to the European Union (EU) and the United States of America (USA) could not be supplied in full during 2008, due to logistical challenges. A total of 42 072 tonnes was exported under the Complimentary Quota and 21 849 tonnes under the Sugar Protocol (SP) quota. A further 22 300 tonnes under the SP quota and 12 200 tonnes under the USA quota remain to be exported early in 2009.

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The demand for sugar both in the domestic and export markets is expected to remain buoyant in spite of the global financial crisis. The pricing of sugar in foreign currency since February 2009 is likely to eliminate the secondary market for sugar that has characterised the local market for some years.

Out of the Euro45 million set aside by the EU for the rehabilitation of the Zimbabwe Sugar Industry and its outgrower productive capacity as part of its Adaptation Strategy, Euro2,3 million has been approved for disbursement allowing for the establishment of operational infrastructure for this programme.

FINANCIAL RESULTS

The Company's principal accounting policies applied in the preparation of these financial results are in all material respects, consistent with those applied in the previous year other than for non-compliance with International Accounting Standard 29 (IAS 29) – Financial Reporting in Hyperinflationary Economies. These results have not been inflation-adjusted in compliance with IAS 29 due to the non-availability of reliable inflation data for the period August to December 2008 and are presented on a historical cost basis.

The hyperinflationary environment and the resultant distortions in the historical cost values have rendered commentary on the Company's financial results meaningless. Comparative figures for 2007 are rounded to zero after the re-denomination of the Zimbabwe dollar by the removal of ten zeros in August 2008 and when quoted in quadrillions.

The auditors' opinion on the historical cost financial statements is qualified on the basis that this information does not present a true and fair view of the financial position of the Company.

LAND ACQUISITION

As previously reported in a notice to shareholders dated 22 September 2008, the Mkwasine land issue modelled around the establishment of a core estate, remained unresolved. Only 598 hectares are under the maintenance of the consortium partners, Hippo Valley Estates and Triangle, whilst 4 283 hectares of the Mkwasine Estate cane land is under the control of the CSFAZ outgrowers. In spite of the reduced size of the Mkwasine core estate, an establishment of employees continues to be carried, to provide extension services to the outgrower farmers.

Consultations with the relevant authorities on the applicability of 99-year leases to large agro-industrial entities under the Constitutional Amendment Act No.17 promulgated in 2005 are ongoing.

A ruling on the long outstanding appeal by the A2 and commercial farmers against an earlier ruling by the High Court on the disputed ownership of cane deliveries in 2003, following the inter-pleader proceedings instituted by the Company, was given on 16 September 2008. The Supreme Court confirmed the ruling of the High Court that 'the settlers be awarded the proceeds of the sugar cane produced during the existence of the acquisition orders made by the Minister of Lands, Agriculture and Rural Resettlement' and dismissed the appeal by commercial farmers with costs.

SAFETY AND SUSTAINABLE DEVELOPMENT

The Company's goal of a fatality-free workplace was achieved in 2008. A total of 3 Lost Time Injuries (LTIs) were recorded during the year resulting in a commendable Lost Time Injury Frequency Rate (LTIFR) of 0.02 compared to 0.03 achieved in 2007.

By end of December 2008, the Company had achieved a total of 12 315 024 man-hours worked without recording an LTI – this being 684 976 man-hours short of the previous milestone of 13 million man-hours achieved in 2007.

The Company retained its 4-Platinum Star rating under the National Occupational Safety Association (NOSA) system following an audit conducted in October 2008. Certification to the ISO 14001:2004 Environmental Management System was also retained whilst the retention of OHSAS 18001 certification was confirmed in January 2009.

The company continues to place a high priority in the fight against HIV and AIDS. To this end, the Company intensified its Anti Retroviral Treatment (ART) programme for both employees and spouses. At the end of December 2007, a total of 7 350 individuals had presented for Voluntary Counselling and Testing (VCT) of which 2 867 were permanent employees, representing 62 per cent of the permanent workforce. A total of 1 375 individuals were on the ART programme at the end of the year, of which 787 were permanent employees. Notwithstanding the encouraging progress to date, non-availability of drugs continues to impact adversely on the realisation of full benefits arising out of the ART initiative.

INDUSTRIAL RELATIONS

The Company continued to experience a relatively high staff turnover rate during the year due mainly to the difficult economic environment presenting challenges to skills and workforce retention. This was despite the generally good industrial relations climate prevailing during 2008. In order to cushion employees against the prevailing harsh socio-economic environment and to ensure the availability of basic food items on a sustainable basis, the Company operated an employee food assistance programme on a partial cost recovery basis.

The company continued to provide essential medical services to employees through its medical and other health centres established across its estates. Benefits were also derived via the utilisation of the Colin Saunders Hospital at Triangle, following the collapse of the national health delivery system. The adequate supply and availability of drugs remained a challenge throughout the year.

DIRECTORATE

Mr J E Chibwe was appointed a director of the Company with effect from 15 July 2008.

OUTLOOK

The dams supplying the Company with irrigation water hold sufficient water for a full allocation for the 2009/2010 season. The weather conditions between October 2008 and January 2009 were favourable for cane growth although the Company's cane yields in 2009 are expected to be below optimum due to the low and delayed application of fertilizers in 2008.

The 2009 milling season has commenced and is scheduled to close around end-November 2009. Sugar production is expected to improve marginally against the 2008 year. The 2009 crop is being viewed as a crop positioning year for a production turnaround aimed at restoring sugar production levels to the installed capacity of 300 000 tonnes in the short to medium term.

The signing in September 2008 of the Global Political Agreement culminating in the formation of an inclusive Government in February 2008 has injected some impetus and stability into the macro-economic environment. The removal of price controls, adoption of certain foreign currencies as legal tender, a liberalised foreign exchange environment and anticipated balance of payment support inflows, as well as direct foreign investment, is expected to stimulate economic recovery. The company welcomes these developments and looks forward to playing a role in the economic turnaround of Zimbabwe.

DIVIDEND DECLARATION

In the light of the challenging economic environment in 2008, the Directors have decided not to declare a dividend for the year ended 31 December 2008.

APPRECIATION

The Board would like to express its appreciation to the Company's management and employees for their commitment in an extremely difficult operating environment.

B. Dunlop

B G Dunlop
Chairman

22 May 2009