



TongaatHulett[®]

Hippo Valley Estates Limited

Reviewed Abridged Interim Financial Results for the six months ended 30 September 2020

SALIENT FEATURES (INFLATION ADJUSTED)

- Sugar production of 147 960 tons (2019: 152 076 tons) -3%
- Sugar sales of 110 671 tons (2019: 116 293 tons) -5%
- Revenue of ZWL6,9 billion (2019: ZWL5,7 billion) +21%
- Operating profit of ZWL2,6 billion (2019: ZWL3,1 billion) -16%
- Adjusted EBITDA* of ZWL3,7 billion (2019: ZWL2,7 billion) +37%
- Profit for the period of ZWL996 million (2019: ZWL1,4 billion) -29%

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

COMMENTARY

Trading Environment

Results for the six months period ended 30 September 2020 were achieved in a subdued economic environment that was a result of the nationwide COVID-19 induced lockdown since March 2020 with restrictions on movement over the greater part of the reporting period. However, the impact on the Company's trading activities was negligible as the sugar industry was designated an essential service. The country's local currency continued to be hyperinflationary closing the period at inflation rate of 659% for September 2020 (2019: 353%). Month-on-month inflation however slowed down to 3.83% due to the exchange rate stability experienced since the introduction of the foreign currency auction system. The re-introduction of the multi-currency system and shift to market driven exchange rate has resulted in significant foreign currency liquidity returning to the formal market.

Operations

Sugar production for the period of 147 960 tons (2019: 152 076 tons) was marginally lower than the same period in prior year in line with the reduced total cane deliveries to the mill amounting 1 204 140 tons (2019: 1 233 300 tons). The Company's own cane deliveries amounted to 744 672 tons (2019: 763 386 tons), a decrease of 2%, while private farmers collectively delivered 427 831 tons (2019: 469 914 tons), a decrease of 9%. Deliveries from Green Fuel amounted to 31 637 tons (2019: Nil). Industry cane quality for the period was lower than the prior season resulting in a cane to sugar ratio of 8.14 (2019: 8.11). Initiatives to restore cane yields to optimal levels are on-going, with about 1 370 hectares scheduled to be replanted by 31 March 2021.

Marketing

The Zimbabwe sugar industry has a single marketing desk administered by Zimbabwe Sugar Sales. The Company's share of total industry sugar sales volume of 225 000 tons (2019: 228 000 tons) for the six months period under review was 49.8% (2019: 50.2%). Industry local sales of sugar declined by 13.7% during the period to 158 000 tons (2019: 183 000 tons) due to measures taken by the industry in the early part of the financial year to minimize speculative trade and illegal exports to neighbouring countries. Such practices are common in hyperinflationary environments as some traders capitalise on pricing distortions on account of exchange rate differentials. Consumer spending power also came under pressure as salary and wage adjustments in the country generally lagged behind inflation. Industry export sales recorded a 43% growth to 67 000 tons (2019: 47 000 tons) for the six months despite a temporary suspension of sugar imports by Kenya in June 2020.

Financial Results

The financial results of the Group have been inflation adjusted to comply with the requirements of IAS 29. Historical financial statements for the reporting period and the comparative numbers for the corresponding period last year have been disclosed as supplementary information alongside the inflation adjusted financial results. This financial commentary is based on the inflation adjusted numbers. In complying with the requirements of IAS 29, the Directors applied, where appropriate, necessary judgements and assumptions with due care. However, users are cautioned that in hyperinflationary environments certain inherent economic distortions may influence the out turn of financial results.

Total revenue for the period increased by 21% to ZWL6.9 billion (2019: ZWL5.7 billion), largely due to better realisations from export markets. However, operating profit and profit for the period decreased by 16% to ZWL2.6 billion (2019: ZWL3.1 billion) and by 29% to ZWL996 million (ZWL1.4 billion) respectively, weighed down by a fair value loss on cane biological assets of ZWL886 million (2019: gain of ZWL604 million). Excluding the non-cash impact of biological asset valuations and depreciation, Adjusted EBITDA improved by 37% as the Company benefited from prudent management of costs and the positive impact of forward purchasing of key inputs in a hyperinflationary environment.

Net operating cash flow after interest, tax and working capital changes was ZWL244 million (2019: ZWL741 million) driven by increased cash consumed in working capital as the Company tied up cash in critical stocks and prepayments to hedge against hyperinflation. Capital expenditure totalled ZWL70 million (2019: ZWL64 million) of which ZWL43 million (2019: ZWL56 million) was for root replanting. At 30 September 2020, the Company had a net cash balance of ZWL576 million compared to a net cash balance of ZWL270 million in the previous corresponding period.

The effective tax rate on the inflation adjusted accounts was 41.45% (2019: 36.11%), impacted by the net monetary loss of ZWL1.1 billion that was treated as a permanent difference for income tax purposes.

Dividend

In view of the Company's positive financial performance for the six months to 30 September 2020, the Directors have declared an interim dividend of ZWL121 cents per share for the year ended 31 March 2021 payable in respect of all the ordinary shares of the Company. This dividend will be payable on or around 14 December 2020 in full to all Shareholders of the Company registered at the close of business on 11 December 2020.

Outlook

Successive poor rains during the last two seasons have resulted in minimal inflows into the sugar industry's water supply dams, presenting a key risk to the industry. While forecasts for the current rainy season predict a normal to above normal rainfall which will secure irrigation water for the industry for at least two seasons, water conservation initiatives including reduced water application rates to levels that are not a deterrent to normal crop growth were instituted earlier in the year as a precautionary measure.

Total industry sugar production from the current harvesting season is forecast at between 430 000 tons and 440 000 tons (2019: 441 000 tons). Efforts to maximize sugar production through yield improvement initiatives are on-going for both Company owned and Private farmer owned cane fields through strategic partnerships to resuscitate non-productive land to above breakeven yields. Work on the 4 000 hectares cane development project (Project Kilimanjaro) being undertaken by the Company in partnership with sister company Triangle Ltd, Government and local banks has seen a total of 2 700 hectares of virgin land being bush cleared and ripped and 588 hectares planted to sugarcane. Project works have been slowed down on account of delays in obtaining the requisite funding from financial institutions at the back of adverse economic conditions. While alternative funding structures for completion of the project are being considered, some 80 hectares of maize has been planted on the cleared land, whilst an additional 1 500 hectares will be planted to sorghum in partnership with Government as part of efforts to improve food security in the country. On completion, Project Kilimanjaro will contribute significantly to the industry target of full utilization of installed milling capacity of 600 000 tons sugar by 2024/25, positioning the country to be one of the most competitive sugar producers in the region and globally.

The Government has assured the Company that its application for a 99 Year Lease will be attended to with urgency and significant progress has been made in this process providing further confidence and stability to the operations.

Marketing focus remains on ensuring fulfilment of local market requirements whilst growing export sales in regional premium markets to generate additional foreign currency to fund foreign input costs. 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 Order of the Board

D L Marokane
Chairman

A Mhere
Chief Executive Officer

26 November 2020



Est. 1892

TongaatHulett

Hippo Valley Estates Limited

Reviewed Abridged Interim Financial Results for the six months ended 30 September 2020

ABRIDGED GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	INFLATION ADJUSTED		HISTORICAL COST*	
	30 September 2020	30 September 2019	30 September 2020	30 September 2019
	Reviewed	Unaudited	Unaudited	Unaudited
	ZWL'000	ZWL'000	ZWL'000	ZWL'000
Revenue	6 911 781	5 676 926	5 517 613	525 485
Operating profit	2 629 185	3 068 807	4 224 433	465 452
Net monetary loss	(1 075 955)	(884 306)	-	-
Net finance income/(charge)	79 383	(49 760)	157 297	(3 964)
Finance income	112 989	608	180 447	47
Finance costs	(33 606)	(50 368)	(23 150)	(4 011)
	1 632 613	2 134 741	4 381 730	461 488
Share of profit of associated companies	68 135	95 174	53 694	9 320
Profit before tax	1 700 748	2 229 915	4 435 424	470 808
Income tax expense	Note 1 (705 036)	(805 226)	(1 123 669)	(121 955)
Profit for the period	995 712	1 424 689	3 311 755	348 853
Other comprehensive income, net of tax	71 013	48 317	144 141	9 995
Actuarial gains/(losses) on post retirement provision	32 099	68 574	21 371	(2 029)
Exchange gain/(loss) on translation of foreign investment	38 914	(20 257)	122 770	12 024
Total comprehensive income for the period	1 066 725	1 473 006	3 455 896	358 848
Number of shares in issue ('000 of shares)	193 021	193 021	193 021	193 021
Basic and diluted earnings per share (ZWL cents)	515.9	738.1	1 715.7	180.7
Headline earnings per share (ZWL cents)	515.9	738.1	1 715.8	180.7

ABRIDGED GROUP STATEMENT OF FINANCIAL POSITION

	INFLATION ADJUSTED		HISTORICAL COST*	
	30 September 2020	30 September 2019	30 September 2020	30 September 2019
	Reviewed	Audited	Unaudited	Unaudited
	ZWL'000	ZWL'000	ZWL'000	ZWL'000
ASSETS	4 098 993	4 210 807	365 752	214 861
Non-current assets	3 760 876	3 873 894	181 853	139 490
Property, plant and equipment	86 562	90 151	2 837	2 704
Intangible assets	242 590	181 655	174 256	48 741
Investments in associated companies	-	61 360	-	22 549
Long term receivables	8 965	3 747	6 806	1 377
Right of use assets				
Current assets	7 731 307	5 619 934	7 681 346	1 960 689
Biological assets	2 393 237	3 278 745	2 393 237	1 204 902
Inventories	3 440 410	1 191 640	3 392 998	384 873
Trade and other receivables	1 110 721	825 123	1 108 172	251 691
Cash and cash equivalents	786 939	324 426	786 939	119 223
Total assets	11 830 300	9 830 741	8 047 098	2 175 550
EQUITY AND LIABILITIES	7 646 581	6 685 887	4 726 948	1 340 540
Capital and reserves	531 581	531 581	15 442	15 442
Issued share capital	(67 775)	(106 689)	201 518	78 748
Non-distributable (deficits)/reserves	7 182 775	6 260 995	4 509 988	1 246 350
Retained earnings				
Non-current liabilities	1 733 101	1 973 839	872 081	415 532
Deferred tax liabilities	1 678 087	1 774 220	817 067	342 174
Lease liability	5 734	2 349	5 734	863
Provisions	49 280	197 270	49 280	72 495
Current liabilities	2 450 618	1 171 015	2 448 069	419 478
Trade and other payables	1 711 760	951 648	1 709 211	338 863
Borrowings	211 279	54 423	211 279	20 000
Lease liability	2 787	1 444	2 787	531
Current tax liability	524 792	163 500	524 792	60 084
Total equity and liabilities	11 830 300	9 830 741	8 047 098	2 175 550

ABRIDGED GROUP STATEMENT OF CASH FLOWS

	INFLATION ADJUSTED		HISTORICAL COST*	
	30 September 2020	30 September 2019	30 September 2020	30 September 2019
	Reviewed	Unaudited	Unaudited	Unaudited
	ZWL'000	ZWL'000	ZWL'000	ZWL'000
Cash flows from operating activities	2 629 185	3 068 807	4 224 433	465 452
Operating profit	(1 075 955)	(884 306)	-	-
Net monetary loss	183 775	218 739	7 686	6 449
Depreciation and amortisation				
Exchange loss on foreign denominated dividend	-	-	-	5 641
Net movements in provisions	(112 888)	3 210	(2 364)	248
- Gross movement in provisions	(155 528)	(89 146)	(30 752)	2 980
- Movement attributable to revenue reserves	42 640	92 356	28 388	(2 732)
Changes in biological assets	885 508	(604 313)	(1 188 335)	(244 680)
Loss on disposal of property, plant and equipment	14	-	14	-
Cash generated from operations	2 509 639	1 802 137	3 041 434	233 110
Changes in working capital	(1 774 256)	(621 583)	(2 494 258)	(116 138)
Net cash generated from operations	735 383	1 180 554	547 176	116 972
Tax paid	(480 788)	(389 846)	(211 305)	(15 191)
Net finance charges paid	(10 127)	(49 760)	(338)	(3 964)
Net cash inflow from operating activities	244 468	740 948	335 533	97 817
Cash flows from investing activities	(70 159)	(63 824)	(53 383)	(7 681)
Additions to property, plant, equipment and right of use assets	(27 271)	(8 279)	(25 930)	(596)
- Other property, plant, equipment and intangible assets	(42 888)	(55 545)	(27 453)	(7 085)
- Cane roots				
Proceeds from disposal of property, plant, equipment and intangible assets	44	-	44	-
Dividends received from associated companies	76 485	21 284	71 168	1,644
Movement in non-current financial assets	61 360	76 976	22 549	-
Net cash inflow/(outflow) from investing activities	67 730	34 436	40 378	(6 037)
Net cash inflow before financing activities	312 198	775 384	375 911	91 780
Cash flow from financing activities	(106 031)	-	(69 488)	-
Dividends paid	345 468	207 554	230 000	16 034
Proceeds from borrowings	(188 612)	(777 115)	(38 721)	(40 381)
Repayment of borrowings	2 205	-	4 604	-
Lease financing raised				
Net cash inflow/(outflow) from financing activities	53 030	(569 561)	126 395	(24 347)
Net increase in cash and cash equivalents	365 228	205 823	502 306	67 433
Net cash balance at the beginning of the period	119 223	147 859	119 223	19 470
Translation effects on cash and cash equivalents	97 285	-	165 410	-
Inflation effects on cash and cash equivalents	205 203	306 259	-	-
Net cash balance at the end of the period	786 939	659 941	786 939	86 903

ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

	INFLATION ADJUSTED			
	Issued share capital	Non-distributable reserves	Retained earnings	Total
	ZWL'000	ZWL'000	ZWL'000	ZWL'000
Balance at 31 March 2019 (Audited)	531 581	(21 231)	4 603 878	5 114 228
Total comprehensive income for the period	-	(85 458)	1 657 117	1 571 659
Profit for the period	-	-	2 063 752	2 063 752
Other comprehensive loss for the period	-	(85 458)	(406 635)	(492 093)
Balance at 31 March 2020 (Audited)	531 581	(106 689)	6 260 995	6 685 887
Total comprehensive income for the period	-	38 914	1 027 811	1 066 725
Profit for the period	-	-	995 712	995 712
Other comprehensive income for the period	-	38 914	32 099	71 013
Dividend	-	-	(106 031)	(106 031)
Balance at 30 September 2020 (Reviewed)	531 581	(67 775)	7 182 775	7 646 581



TongaatHulett[®]

Hippo Valley Estates Limited

Reviewed Abridged Interim Financial Results for the six months ended 30 September 2020

ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

	HISTORICAL COST*			Total ZWL'000
	Issued share capital ZWL'000	Non- distributable reserves ZWL'000	Retained earnings ZWL'000	
Balance at 31 March 2019 (Audited)	15 442	53 511	115 957	184 910
Total comprehensive income for the period	-	25 237	1 130 393	1 155 630
Profit for the period	-	-	1 178 287	1 178 287
Other comprehensive income/(loss) for the period	-	25 237	(47 894)	(22 657)
Balance at 31 March 2020 (Unaudited)	15 442	78 748	1 246 350	1 340 540
Total comprehensive income for the period	-	122 770	3 333 126	3 455 896
Profit for the period	-	-	3 311 755	3 311 755
Other comprehensive income for the period	-	122 770	21 371	144 141
Dividend	-	-	(69 488)	(69 488)
Balance at 30 September 2020 (Unaudited)	15 442	201 518	4 509 988	4 726 948

NOTES TO THE ABRIDGED GROUP FINANCIAL STATEMENTS

INFLATION ADJUSTED		HISTORICAL COST*	
30 September 2020	30 September 2019	30 September 2020	30 September 2019
Reviewed	Unaudited	Unaudited	Unaudited
ZWL'000	ZWL'000	ZWL'000	ZWL'000

1. Income tax expense

Normal tax	(842 080)	(201 491)	(676 013)	(3 083)
Deferred tax	96 133	(657 237)	(474 893)	(122 082)
Transfer to non-distributable reserve	30 371	29 721	20 220	3 914
Transfer to/(from) revenue reserve	10 540	23 781	7 017	(704)
Charged to profit or loss	(705 036)	(805 226)	(1 123 669)	(121 955)

2. Depreciation and amortisation

Depreciation of property, plant and equipment	102 121	118 234	3 598	3 450
Amortisation of intangible assets	3 835	3 303	115	96
Depreciation of roots	77 819	97 202	3 973	2 903
	183 775	218 739	7 686	6 449

3. Capital expenditure commitments

Contracted and orders placed	21 823	18 562	21 823	18 562
Authorized by Directors but not contracted	87 327	487	87 327	487
	109 150	19 049	109 150	19 049

4. Historical reporting*

The historical financial disclosure is shown as complementary information. The information does not comply with the International Financial Reporting Standards in that it has not taken into account the requirements of International Accounting Standard 29 – Financial Reporting for Hyperinflationary Economies. As a result, the auditors have not issued a review conclusion on the historic financial information.

5. Basis of preparation

Statement of Compliance

The abridged consolidated interim financial statements of Hippo Valley Estates Limited (the 'Company'), together with its subsidiaries (the 'Group') for the six months ended 30 September 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 interim 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 interim reporting period.

The abridged consolidated interim 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 interim reporting period, except for the adoption of new and amended standards.

The abridged consolidated interim financial statements appearing in this announcement are the responsibility of the Directors. The Directors take full responsibility for the preparation of the abridged consolidated interim 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 six months ended 30 September 2020.

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

- There was a rapid increase in official inflation rates. As at September 2020, the annual inflation rate was 659.4%, retreating from a high of 837 % reached in July this year.
- There was significant deterioration in the interbank Zimbabwe Dollar (ZWL) exchange rate during the period. Trading commenced at a closing interbank rate of ZWL25 to US\$1 during March 2020 and weakened to a rate of ZWL81.44 to US\$1 at 30 September 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
30 September 2020	2 205.2	1.000
31 March 2020	810.4	2.721
1 October 2019	290.4	7.594
Average CPI for 6 months to:		
30 September 2020	1 630.7	
30 September 2019	192.1	

6. Interim Results Conclusion

These inflation adjusted abridged consolidated interim financial results for the six-months period ended 30 September 2020 have been reviewed by Deloitte & Touche. An unmodified review conclusion has been expressed on the inflation adjusted abridged consolidated interim financial results.

The review conclusion has been made available to management and those charged with the governance of Hippo Valley Estates Limited, and the conclusion is available for inspection at the Hippo Valley Estates Limited registered offices.

The engagement partner responsible for this review is Brian Mabiza.

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

Pauline Kadembo
Company Secretary

26 November 2020