2020 ANNUAL REPORT

TRANSFORM.
ADAPT.
SUSTAIN.

Zambia Sugar

AN **ILLOVO SUGAR AFRICA** COMPANY


Zambia Sugar
AN ILLOVO SUGAR AFRICA COMPANY

CONTENTS

2020 REVIEW

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

I am very pleased to make my inaugural statement as Chairman of Zambia Sugar Plc. I wish to thank Mr Fidelis Banda, your previous Chairman, for the counsel given to the Board and the overall leadership shown over the years, making it possible for me to share with you such an exceptional operational and financial performance as achieved in the 2019/20 financial year just ended.

The total cane crushed for the period was 3.367 million tonnes leading to sugar production of 398 000 tonnes. Domestic sales increased to a record high of 209 000 tonnes, an increase of 15% over the previous year. Exports to the regional markets were 169 000 tonnes, a 27% decrease over the previous year. Operating profit for the year was K 775 million, up by 28% compared to the previous year, but a higher tax charge resulted in lower after-tax profits of K 235 million, down from K 269 million. Earnings per share were K 0.74, down from K 0.83 the previous year. An operating margin of 23% was achieved, up by 13% over the previous year.

SAFETY & HEALTH

At Zambia Sugar every activity begins with serious safety considerations. The Company incorporated Safety Enablers which focus on delivering a safety framework that builds confidence and trust towards working safely at Zambia Sugar. This is in line with Illovo Sugar Africa's Group Vision. It also provides the foundation towards enabling the delivery of long-term benefits including the personal safety of employees, contractors, and their families and friends through people-driven safety. The improvement in the Total Injury Frequency Rate (TIFR) continued with a 66% improvement against budget. It is pleasing to report that zero fatalities were recorded during the year under review. There were no Lost Time Injuries (LTIs) reported within the agricultural operations for the entire production season, which ran from April 2019 to March 2020. This is a great milestone in the history of the company since reporting of LTIs was mandated in 2018.

The "4 Steps to Safety" campaign that was a major success factor in reducing incidents in the last two seasons was re-launched with the inclusion of COVID-19 awareness and controls. Extensive support has been provided to employees and to our community during this pandemic, resulting in success in terms of containing the spread of the pandemic within our immediate environment.

"Stirring up their day with Whitespoon."

MACROECONOMIC ENVIRONMENT

The Company experienced many headwinds at both national and global levels which adversely impacted operations. The country continued to experience adverse weather conditions resulting in increased electricity load shedding and thereby low supply of water for irrigation in the fourth quarter of 2019. As a consequence, disease and pest infestation increased. The Company executed control measures to mitigate this, but at great cost.

In the first quarter of 2020, the COVID-19 pandemic impacted Zambia and our surrounding neighbours causing further deterioration of general business environment. The environment of weak demand led companies to scale back employment and procurement activities. Despite input prices escalating, output prices have generally been lower as part of efforts to encourage sales. This impacted the volumes of sugar sold both in the domestic and regional markets.

The current global recession in the wake of the COVID-19 pandemic has not spared Zambia, which has faced negative growth during the year. This challenging macro-environment necessitated the exercising of prudent financial management and containment of operational costs. The continued resilience of the Company is thanks to prudent management by the leadership team and the commitment of employees to implement initiatives including internal financial and operational efficiency programmes aimed at reducing costs on a permanent basis and optimising all production processes.

In spite of all these headwinds, your company still turned out a very good financial performance.

REGULATORY CHANGES

The Company has been subject to several regulatory changes during the period under review. Significant items include the enactment of the Electricity Act No 11 of 2019 and the Energy Regulations Act No 12 of 2019. The Company will continue to look at opportunities these regulations present for long-term investment in energy generation to guarantee power self-sufficiency. Other regulations that impacted the Company positively were the Government's response to COVID-19 pandemic which included the removal of the provisions of SI 90 of 2019 relating to VAT claims on a number of items used in the manufacturing process including lubricants, spares and transport.

Over the past few years, the profile of the business with respect to purchased cane from growers has changed with a proportionate increase of grower cane. This led to the designation of part of the business as manufacturing with a resultant increase in the effective tax rate from about 10% to 21%.

CREATING SHARED VALUE

At Zambia Sugar Plc, we remain committed to our values including creating shared value for the benefit of all our stakeholders. The Company continued to work with the local communities especially on the Lubombo Road Project which is expected to be finalised in the ensuing financial year. The Company is helping women and youth in the development of crop production skills and creation of market linkages in a project aimed at improving incomes of rural communities.

The Company worked closely with the Government in the fight against the pandemic and helped set up a COVID-19 Isolation Centre for the District. At substantial cost, the Company focused on the refurbishment of the centre and donating 50 beds, bedding, handwashing utensils and detergent. The Company conducted COVID-19 awareness campaigns using various communications channels such as local radio stations, posters and PA system mounted on vehicles moving around the district.

SHARE PRICE OF ZAMBIA SUGAR PLC

The share price for the Company at the beginning of the financial year was at K 2.50. At the close of the year, the share price moved marginally to K 2.51. The marginal movement in share price is largely because majority of the shares are held by the majority shareholders and institutional investors, thus limiting the number of shares available for trading on the stock exchange. The share price at year-end represented a market capitalisation of K 795 million.

DIVIDENDS

I am pleased to report that a final dividend of K 0.24 per share for the year ended 31 August 2020 has been proposed. This is compared to a final dividend of K 0.08 paid last year, an increase of over 200%. We are making steady progress towards our objective of delivering sustainable value to our shareholders.

THE BOARD

In November 2019, we welcomed Raphael Chipoma to the board as Executive Director after he was appointed Finance and Legal Head of Zambia Sugar. I also wish to welcome to the Board, Mrs Roseta Chabala as Non-Executive Independent Director and Mr Doug Kasambala as Non-Executive Director following his appointment as Illovo Sugar Africa Group Finance Director.

Both of them joined the Board on 1 February 2020 and I thank Roseta for leading the Remunerations Committee. I further wish to welcome Mr Marc Pousson to the Board as Executive Director following his appointment as Factory Head at Zambia Sugar Plc. Marc is no stranger to the Board, having served before his reassignment to Malawi where he gained a wealth of knowledge and experience which the Board will be able to benefit from.

Mr. Graham Rolfe resigned from the Board on 31 May 2020 after serving for four years, following his appointment as Operations Director. After serving the Company for over six years, our Company Secretary and Legal Counsel, Mrs Mwansa Mutimushi, decided to pursue interests outside the Group, effective 30 September 2020. I wish to thank Graham and Mwansa for their valuable contributions to the Board and the Company. We wish them success in their future endeavours.

I propose these new Board members for confirmation by you at the Annual General Meeting.

OUTLOOK

While we continue to face headwinds in the economic environment, we remain optimistic about the future. Focus will be on deriving benefits from the improved agricultural performance, enhancing the reliability of the factory and optimising the implementation of commercial imperatives. We are encouraged by the benefits resulting from the implementation of the new operating model and other agricultural initiatives introduced by the Company. We did well this year in reducing our financial indebtedness and these efforts will deliver value to our shareholders. We will continue to focus on advocacy and ensure transparent and open communication with all our stakeholders. To this end, the Company has revamped its website allowing for more functionality which can be accessed at **www.zamsugar.co.zm**.

CONCLUSION

I would like to thank you, our shareholders, for your commitment and continued support. I wish to assure you that the Board will continue to guide the Executive team in pursuit of our growth strategy rooted in strong corporate governance principles. Many thanks to our customers for their loyalty, employees and contractors, suppliers and growers for their diligence, commitment and hard work. I would like to thank the Illovo Group for its continued assistance and all the other stakeholders for their continued confidence in Zambia Sugar Plc.

Norman Mbazima
Chairman

COUNTRY MANAGING DIRECTOR'S STATEMENT

DEAR SHAREHOLDERS,

It is my pleasure to share the annual results of Zambia Sugar Plc for the financial year ended 31 August 2020. I am pleased to report that despite the challenging environment, the Company performed well from a financial and operational point of view.

The Company experienced unprecedented challenges during the year as a consequence of the devastating effects of COVID-19 which called for agility and resilience across our business.

The COVID-19 pandemic came at a time when the Company was undergoing an organisational transformation that led to the implementation of a new operating model which took effect on 1 April 2020. I am confident that the new look organisation is better equipped with the requisite skills, knowledge, experience and embodies the Group values required to attain our vision of being "a diversified, world-class consumer-centric agricultural business delivering shareholder value and creating thriving communities".

FINANCIAL PERFORMANCE

The Company generated revenue in excess of K 3 335 million during the year compared to K 2 955 million in the previous year. This growth was driven by an increase in sales volume, an optimal sales mix for sugar and molasses as well as the enhanced embedding of the commercial imperatives. Despite achieving close to 20% growth in operating profit year-on-year, the Company recorded a decline in after tax profit, from K 269 million to K 235 million driven by a higher effective tax rate due to a change in the business profile.

The Company faced significant headwinds in achieving this strong financial performance due to an inflation-driven escalation of costs, increased costs of electricity, weakening of the Kwacha against other currencies and COVID-19-induced tight liquidity. The various cost reduction initiatives introduced over the last couple of years however, helped create an organisation that is agile and resilient enough to adapt to some of these challenges.

I am pleased to report that we repaid fully the

Product Alignment and Refinery loan which has reduced the overall gearing of the business and positioned it for future growth. We will continue to build on this performance as we head towards the attainment of our long term goals which are aligned to the five year strategy targeted at sustainability of such performance.

OPERATIONS

Health & Safety

I am delighted to report that the financial year ended 31 August 2020 is the first year in the history of the Company that a zero Lost Time Injury (LTI) was recorded in the agricultural operations since safety started reporting LTIs in 2018.

There were no fatalities recorded during the year, although the Lost Time Injury Frequency Rate (LTIFR) for the Company closed at 0.03 against a target of 0.09. The Company remains committed to zero fatality and minimal Lost Time Injuries (LTIs).

The Company continues to embed a safety culture in the organisation, requiring every individual to be "safety-vigilant", underscoring the notion of looking out for the safety of self and of others. The mind-set of "being your neighbour's keeper" has permeated across the organisation and this was evidenced by our employees coming up with the safety enabler slogan: "Safety, My Responsibility, Our Way of Life", which continues to be demonstrated in the way work is performed in the Company. The Company's objective is to ensure that every employee, contractor or visitor returns home safely and unharmed at the end of each day. Every employee has the right to refuse to perform any unsafe work assignment without fear of retribution if they believed it was unsafe to do so. To this end, before any work is commenced, employees perform a personal risk assessment using tools and procedures set by the Company including our customised "4 Steps to Safety".

In view of the COVID-19 pandemic, additional safety procedures were introduced to further enhance safety and prevent the spread of COVID-19. The risk assessment tool was modified accordingly to one of "4 Steps to COVID-19 Safety".

As a result of studies completed and sharing of best practices across industries, the Company moved the role of "Safety" to line management. This entails that a supervisor would pay attention to a job being done safely in much the same way they would expect all the other aspects of the job. This called for a mind-set shift on the part of supervisor as well as the Safety Team. The Safety Team has taken on the consultant/advisory role whereas the supervisor has become more of a safety coach. With support from the Illovo Group, all line managers have gone through an intensive training programme on Safety, Health, Quality, Environment and Risk Management aimed at supporting this change management process, which has delivered results in many companies.

Production

Despite the impacts of the COVID-19 pandemic, the total amount of cane crushed in a single season hit a record high, at 3.37 million tonnes compared to 3.36 million for the prior year, a good reflection of the strong agricultural performance during the year. The agricultural initiatives introduced by the Illovo Group continue to pay off and has created a platform for even stronger performance in future. Sugar production remained relatively flat compared to prior year at 398 000 tonnes. A record domestic sales performance was achieved for the year at 209 000 tonnes compared to 182 000 tonnes in the prior year. Sugar exports were lower at 169 000 tonnes due to strong local demand.

The global supply chain disruption caused by the COVID-19 pandemic presented us with challenges in obtaining critical maintenance parts and personnel. Once again, the local team rose to the challenge and managed to devise innovative solutions to the challenges which included using digital technologies for remote collaboration.

COVID-19 PANDEMIC

In early March 2020 – at the point of the global outbreak of COVID-19– the Illovo Group developed guidelines in line with the World Health Organization. These, used alongside the guidelines by Government, looked at the need to safeguard employee wellbeing and ensure business continuity. Consequently, the Company formed an Executive Emergency Preparedness Task Team, which focused on preparedness, prevention and protection strategies against the outbreak of COVID-19 in the workplace and immediate community. The COVID-19 protocols implemented and investment in medical supplies, ventilators and an Isolation Centre paid off as the Company experienced minimal infection rates across its population of over 16 000 employees and their families.

The Company further supported the refurbishment of the Zambia Institute of Animal Husbandry College which was designated as COVID-19 Isolation Centre for Mazabuka District. The consequent refurbishment of the college turned out to be a blessing in disguise for the college students who have gone back to better learning conditions.

The Company further introduced a number of interventions and business solutions that will be retained post the pandemic. For example, the various digital payment options we have now made available to our customers (mobile money, EFT, POS, Internet) in response to COVID-19 have not only reduced personal contact with paper-based payment methods, but have also brought convenience and simplification to our business that will now be our new normal.

SOCIAL ECONOMIC IMPACT

The Company's thriving community purpose continued to be demonstrated throughout the year in spite of the pandemic. As one of the leading employers in the country, a total of 6 865 people were employed during the year. Further, over 3 000 were employed through our outgrower scheme and several thousands more employed in the downstream value chain retained their jobs as the Company continued operations during the pandemic.

A number of women associations were contracted to supply over 25 000 face masks for employees, contractors and the immediate community to help stem the spread of the virus.

OUTLOOK

The operating environment will continue to be a major concern exacerbated by the COVID-19 pandemic. High inflation and the continued weakening of the Kwacha threaten to lead to further escalation of costs in the coming year. To mitigate this, the Company will focus on its commercial strategy drawing on its strong brand penetration efforts and building sustainability through embedding the route to consumer initiatives, among others.

The Company will continue to place emphasis on cost containment and help align factory production costs to world standards. In addition, the Continuous Improvement initiatives in agriculture will be implemented in several of the farm blocks to help scale up the benefits that continue to be experienced from these initiatives.

Changing climatic conditions continue to present challenges to the Company as we are faced with changing rainfall patterns and the threat of pests and diseases (including locusts). The Company will continue to implement sustainable farming practices across the cane supply area to mitigate risk.

In order to enhance the execution of the Company strategy, the Company will among others, continue to focus on embedding and improving the new operating model effectiveness through various capability development interventions and manage the business through agility and continued focus on opportunities and risks.

I wish to thank the Board for their counsel, the employees, contractors, growers, local communities and suppliers for their support, the customers and consumers for their loyalty and partnership, and the shareholders for their confidence and trust in the Company. We commit to ensuring that we remain focused on our mandate to attaining the company goals in line with our vision.

Rebecca Katowa
Country Managing Director

OUR BUSINESS AT A GLANCE

Zambia Sugar Plc, the largest single mill cane sugar producer in Africa, was established in 1964. It is listed on the Lusaka Securities Exchange with 75% of its shares held by the Illovo Sugar Africa Group and the balance by institutional and private investors.

As the country's leading sugar producer, Zambia Sugar's primary focus is on the domestic market, producing a wide range of sugar and sugar products under its Whitespoon brand. This includes direct consumption sugar enriched with Vitamin A (refined, brown and household), refined sugar for industrial customers, syrup, speciality sugars as well as molasses for both local and export markets.

VISION

To be a diversified, world-class consumer-centric agricultural business, delivering shareholder value and creating thriving communities.

PRODUCING QUALITY BRANDS WITH OUR CONSUMERS IN MIND

The Whitespoon brand has a product range comprising Brown, Household, Refined, Castor, Icing and Rich Dark Sugar, as well as Golden Syrup, Treacle Syrup and Maple Syrup.

OTHER PRODUCTS INCLUDE:

- **Industrial Brown, Industrial Household, Refined Sugar and Raw Sugar, including Golden Brown for export.**
- **Molasses for both local and export markets.**

Upholding our Values

We consistently live our values, treat all individuals in a fair and consistent manner, as well as act in accordance with ethical guidelines and statutory requirements. We are welcomed by the communities in which we operate, are trusted by investors, and our employees are proud to work for us.

Delivery Focused

We find ways to break through resistance and obstacles, and strive to seek new methods in order to continuously improve. We align our day-to-day work with the Illovo vision and strategic intent, and our objectives, action plans and commitments are delivery focused. We also engage in celebrating our achievements.

Empowering our People

We are committed to the development of our people through the continued acquisition of new knowledge and skills. We use various methodologies to enhance the learning experience and the transfer of skills. We earn each other's trust, provide constructive feedback and hold ourselves and others accountable for performance development.

Embracing Diversity

We leverage on our diversity in order to maximise performance by actively supporting transformation initiatives. Because we value innovation, creativity and inclusion, we respect each other's opinions and perspectives, treat people with dignity and respect, and build culturally diverse teams.

Working Collaboratively

We are committed to the success of the whole and together look for ways to co-operate and support each other, even when the immediate benefit is one-way. We value strong networks and working relationships that are underpinned by teamwork, open communication, trust and respect. We invest time and other resources to build and nurture high-performing teams.

CREATING A POSITIVE IMPACT

Zambia Sugar Plc:

- Is one of Zambia's **largest employers** and the largest employer in the Southern Province.
- Has **6 865** employees, at peak.
- Is a leading contributor in Non-Traditional Exports (NTEs).
- Has **28 000 hectares** under cultivation.
- Crushes **3.4 million tonnes** of sugar cane per annum, including cane produced by our own operations.
- Operates one of the world's most successful outgrower schemes, with **385 smaller holders** and **23 Commercial Growers** supplying the mill.
- Is a **supplier** of **bulk raw water** to Mazabuka District, with a population of close to **400 000** people.
- Has **3 000 housing units** on the estate, home to **16 000 residents**.
- Administers **five schools** (Primary and Secondary) on the estate.
- Operates **its own electricity plant** with a capacity to produce **40mw**.
- Produces **power** from bio-renewable sources i.e. **cane fibre (bagasse)**.

2020 FINANCIAL HIGHLIGHTS

REVENUE

K 3 335 MILLION

2019: K 2 955 million

OPERATING PROFIT

K 775 MILLION

2019: K 605 million

PROFIT FOR THE YEAR

K 235 MILLION

2019: K 269 million

EARNINGS PER SHARE

K 0.74

2019: K 0.83

DIVIDENDS PER SHARE

K 0.24

2019: K 0.08

"3.4 million tonnes of sugar cane delivered to the factory."

BUSINESS MODEL & STRATEGY

Zambia Sugar's business is organised in such a way that it is close to the markets and consumers that it serves. The Company strives daily to be a consumer-facing organisation that is equipped to thrive in the domestic and regional markets in which it operates.

Its aim is to create a company that achieves a step-change in its own financial ambition through focused strategy execution, as well as by creating a scalable and competitive organisation, underpinned by consistency, standardisation and delivery of material group synergies.

Zambia Sugar has a clear strategy that identifies the sources of growth, cost and profitability targets, drivers of value and prioritises consumer needs. It also highlights critical capabilities within the Company and the key decisions that need to be made, including which markets to participate in. The Company focuses on organic growth which is achieved through investments in marketing, in the development of existing and new products and technologies, and in targeted capital expenditure to improve efficiency and expand capacity.

The Company takes a long-term approach to investment and is committed to increasing shareholder value through sound commercial, responsible and sustainable business decisions that deliver steady growth in earnings and dividends. It aims to operate in a sustainable, ethical, efficient and safe manner.

Commercial activities are underpinned by three pillars:

Building excellence in commercial execution, building sustainability of the Route-To-Customer (RTC) and optimisation of the product portfolio.

Building excellence in commercial execution is key to consistency in achieving the Company's commercial objectives. This ambition has been enabled by the implementation of the Winning Sales Organisation (WSO) initiative which has resulted in the deploying of sales tools, such as the Perfect Store Guides (PSGs), Illovo's Sales Service Offering (ISSO), and the Sales Force Automation (SFA).

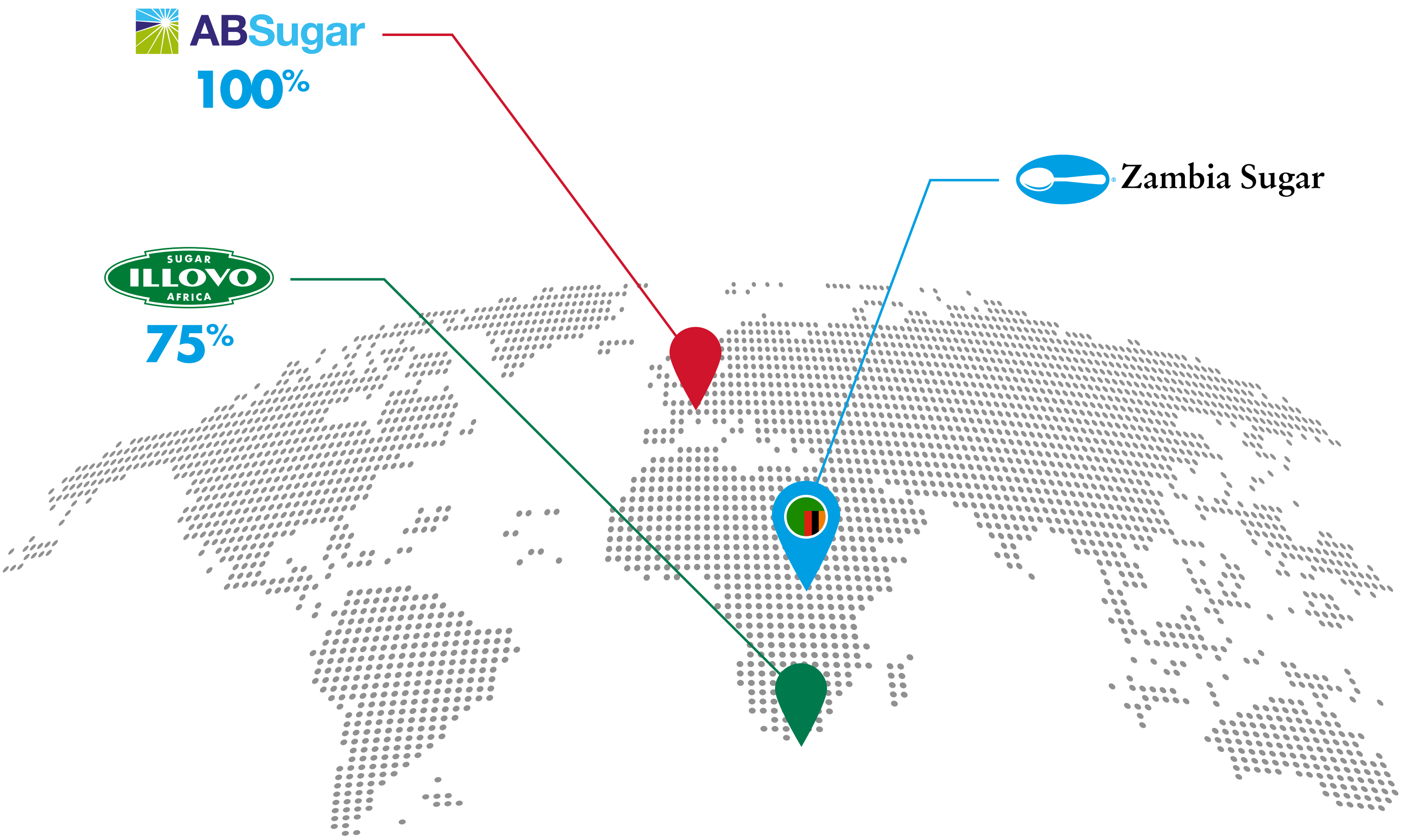
The Route-To-Customer (RTC) model, introduced in 2017 as part of the commercial transformation journey, has focused around the creation of sustainable customer service. Building of strong partnerships with distribution channel members (resellers, retail chains and stockists) and financial capability development for resellers continues to be a primary focus.

Whitespoon products, including the recently launched small format pack sizes, continue to be readily available countrywide for consumers to purchase according to their preference. The "Whitespoon Loyalty Club" launched in March 2020 is designed to reward good performance and form long-term partnerships.

The Company recently embarked on the implementation of the "Last Mile" distribution initiative. This initiative involves the door-to-door distribution of the full range of Whitespoon products to grocers who are located in communities and interact directly with consumers, in order to eliminate stock unavailability owing to an array of reasons.

The optimisation of the product portfolio focuses on the development of propositions that meet the needs of every consumer in the domestic and regional markets.

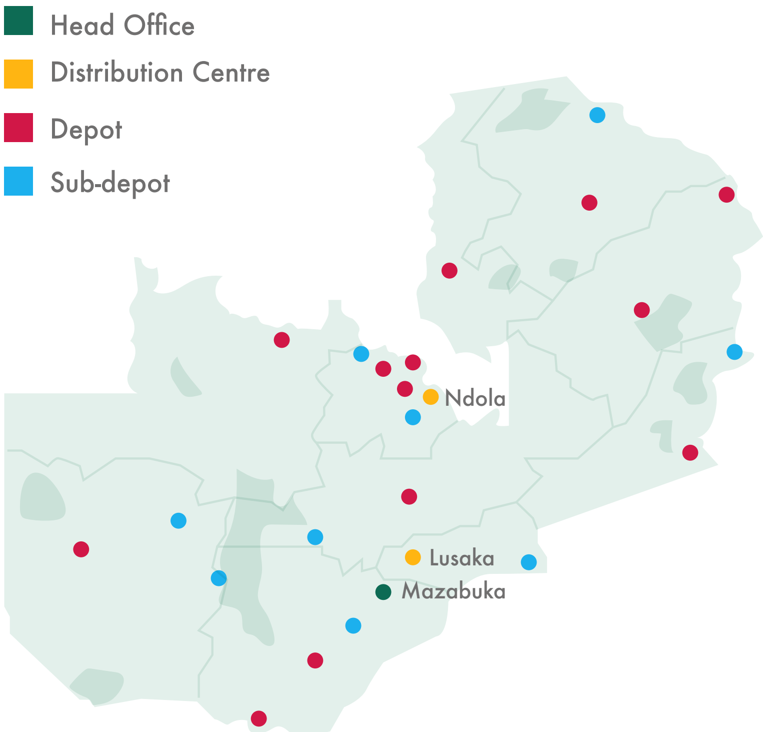
ZAMBIA SUGAR PLC - OWNERSHIP STRUCTURE AND OPERATING LOCATIONS

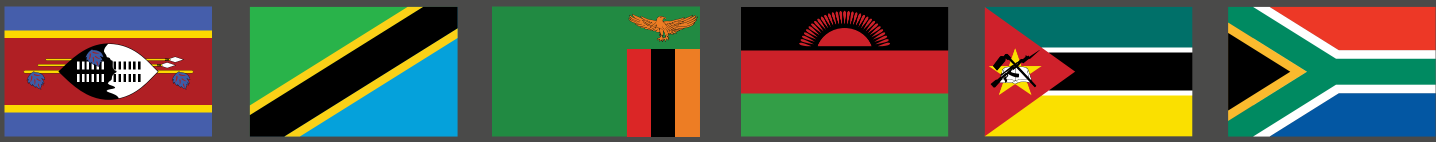


ASSOCIATED BRITISH FOODS Plc
(Associated British Foods Plc)
100%

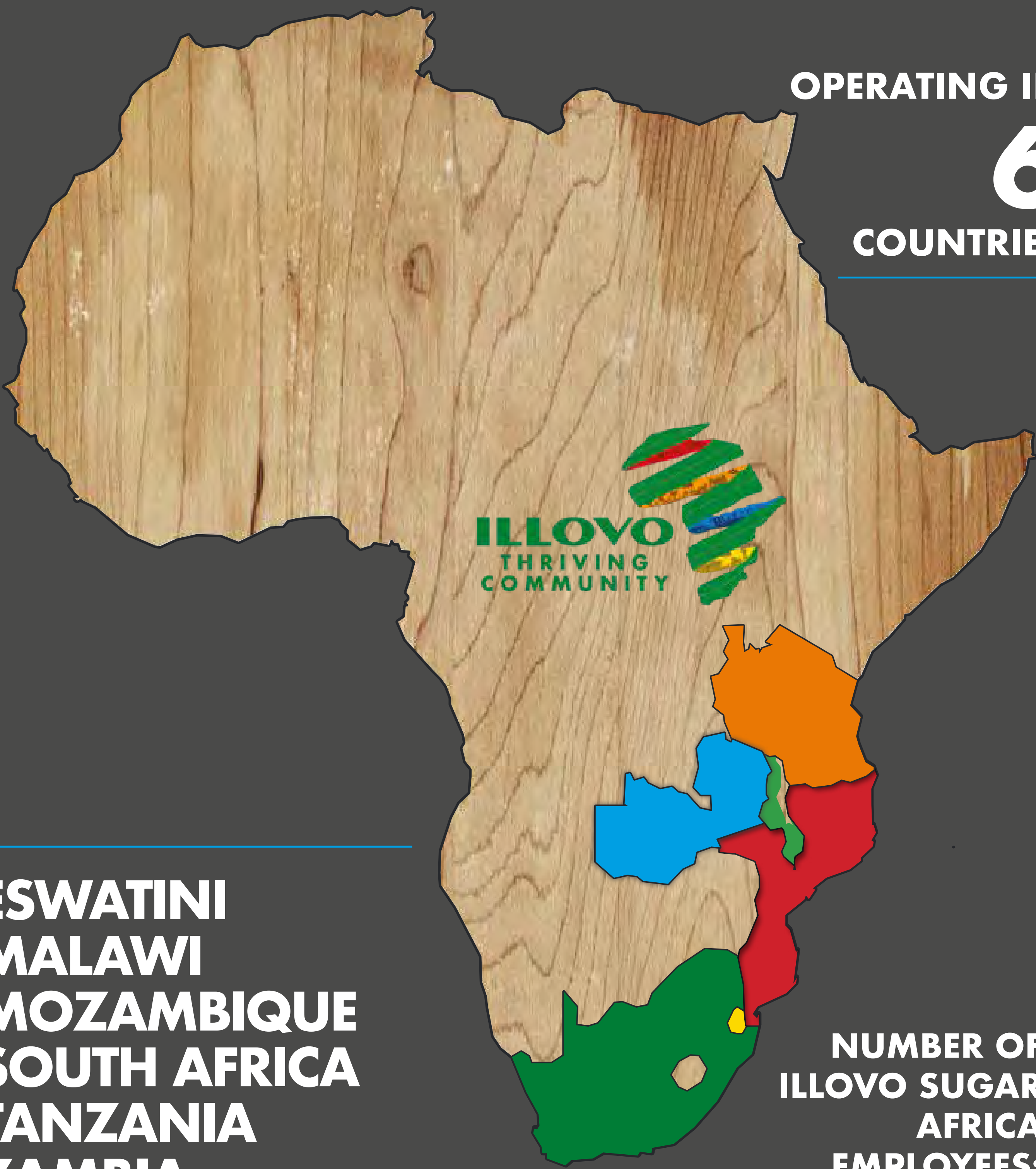
ILLOVO SUGAR AFRICA HOLDINGS LTD
75%

ZAMBIA SUGAR Plc





ILLOVO SUGAR AFRICA



OPERATING IN 6 COUNTRIES

ESWATINI
MALAWI
MOZAMBIQUE
SOUTH AFRICA
TANZANIA
ZAMBIA

NUMBER OF ILLOVO SUGAR AFRICA EMPLOYEES:

40 000

ASSOCIATED BRITISH FOODS

ABF, which acquired full ownership of Illovo Sugar Africa in 2016, is a diversified international food, ingredients and retail group with sales of £15.8 billion and 138 000 employees and operations in 52 countries across Europe, Southern Africa, the Americas, Asia and Australia.

AB Sugar, which manages all of ABF's sugar interests across the globe, including Illovo Sugar Africa, is one of the largest sugar producers in the world. Illovo is the largest cane sugar producer in Africa and Associated British Sugar is the sole processor of the UK sugar beet crop.

OPERATIONS IN 52 COUNTRIES WORLD WIDE

ILLOVO SUGAR AFRICA

Vision: ILLOVO SUGAR AFRICA is a Pan-African, consumer centric agri-business with roots in growing and making sugar and related products.

As Africa's biggest sugar producer, we have extensive agri-business operations in six African countries, manufacturing raw and refined sugar from cane supplied by our own agricultural operations and independent local growers.

Illovo Sugar Africa is a wholly-owned subsidiary of Associated British Foods plc (ABF), a diversified international food, ingredients and retail group operating in 52 countries. We focus on supplying our diverse range of sugar products to the domestic markets in which we operate and to our regional neighbours, with high sea exports of bulk and speciality sugars to long standing international customers. Illovo also produces syrup, together with a range of downstream products including furfural and furfuryl alcohol, natural flavourants, high-quality ethyl alcohol and lactulose.

Through our own internal electricity generating capability, using bio-renewable boiler-feedstock such as the cane fibre residue post the extraction process, we aim to ensure reliable, cost-effective energy supply to all of our own operations and where economically viable, to export power into the national grids of the countries in which we operate.

We take enormous pride in our people employed across a range of disciplines in our six countries of operation, with the focus on Values-Driven Leadership, talent management, leadership growth and an active learning and development process underscored by the Group's customised Engaged Performance Management Approach which tracks the professional growth and achievement of strategy-aligned personal objectives of every single employee. Our Group-wide safety programme under the brand name of "Illovo Safe", and based on the premise of all employees returning home as they left it before going to work, is focused on creating a safe working environment and is in alignment with the occupational health and safety legislation of our six countries of operation.

As a major private investor in Africa, we operate and market our products in countries which face considerable challenges in the form of poverty, unemployment, inequality and disease. The United Nations (UN) classifies Malawi, Mozambique, Zambia and Tanzania as among the world's least developed countries. The Group has a significant positive impact on the rural communities in the areas where we operate, by creating valuable jobs and economic opportunities, and providing accommodation, health care, educational assistance and basic services to employees.

In addition, where no such facilities exist, we provide medical care to communities, assist in education delivery, provide municipal and civic services and access to water and sanitation, and participate in community outreach programmes.

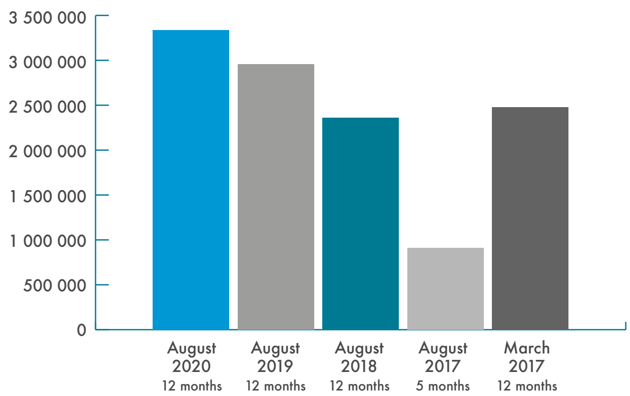
Our continuing ambition is to create an African sugar company that is anchored on delivering value to our customers and consumers, promoting sustainable agricultural and sound manufacturing processes mindful of our impacts on the environment and through the collaborative weight of our own people, resources and skills, supporting the needs and aspirations of our many communities and stakeholders through our Thriving African Community purpose.

KEY PERFORMANCE INDICATORS

Zambia Sugar Plc uses Key Performance Indicators (KPIs) to measure progress in delivering the successful implementation of the strategy and to monitor performance. The Company develops KPIs relevant to the area of operation.

FINANCIALS

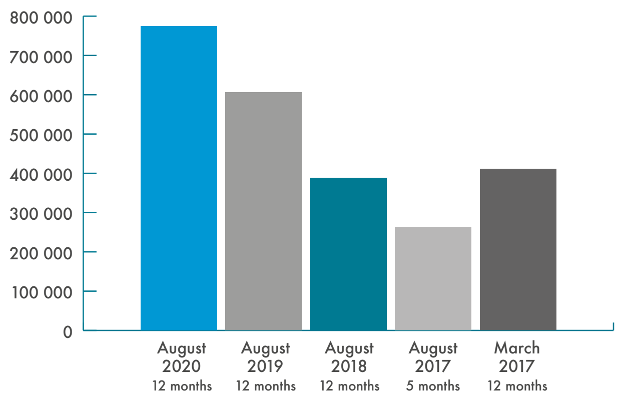
Revenue (K '000)



K 3 335 MILLION

2019: K 2 955 million

Operating profit (K '000)



K 775 MILLION

2019: K 605 million

Profit for the year

K 235 MILLION

2019: K 269 million

Dividends per share

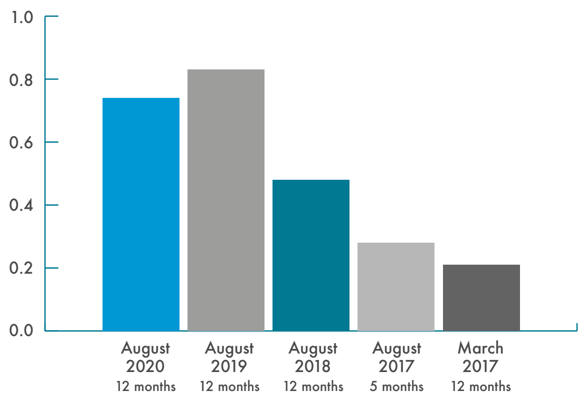
K 0.24

2019: K 0.08

Earnings per share

K 0.74

2019: K 0.83



NON-FINANCIALS

Employees at peak:

6 865

Permanent employees:

1 126

Tonnes of sugar cane produced:

3.4 MILLION

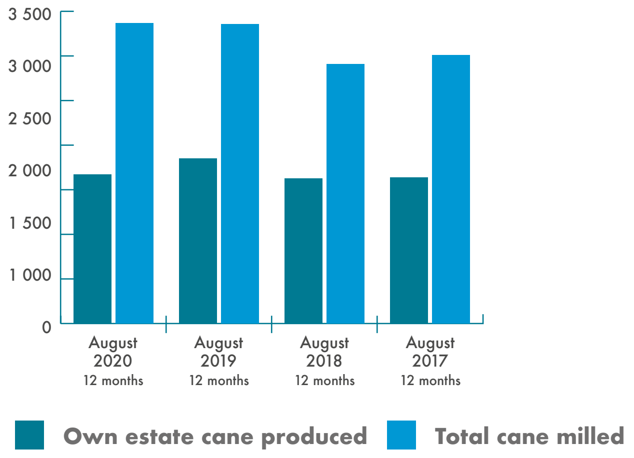
Safety/Lost Time Injury Frequency Rate

0.03

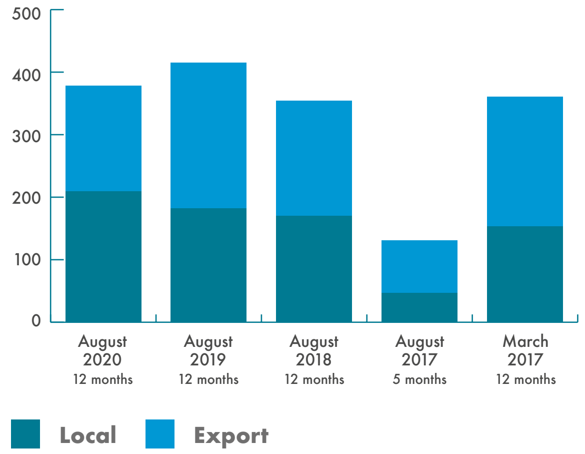
(Annual Target - 0.09)

PRODUCTION AND SALES

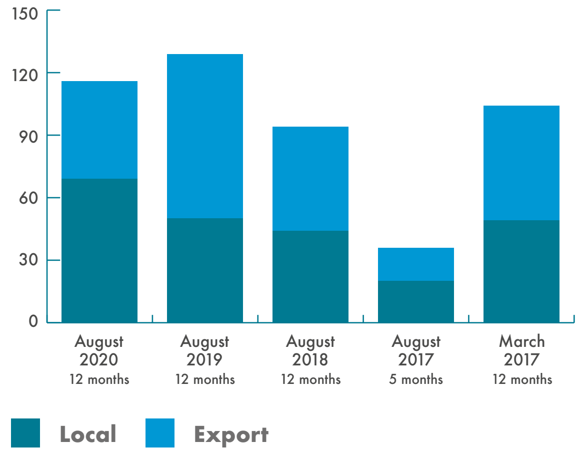
Sugar cane milled (Tonnes '000)



Sugar sales (Tonnes '000)



Molasses sales (Tonnes '000)



Zambia Sugar

MAJOR MILESTONES

1955
Local Mazabuka farmer Tony Dahl plants sugar cane at his Better Ole Farm (later called Dahlia Sugar Estate). This was later to be taken over by Zambia Sugar Plc.

1960
Cane is first planted in Chirundu on the Southern Rhodesia side with the refinery located in Ndola.

1966
Tate & Lyle develop Nakambala Estate.

1967
The first commercial cane is planted at Nakambala.

1968
Raw sugar is produced at Nakambala and refined at Ndola Refinery.

1980
Zambia Sugar Plc and the Common Wealth Development Corporation (CDC) establishes an outgrowers' scheme - the Kaleya Small Holders Company Limited (KASCOL).

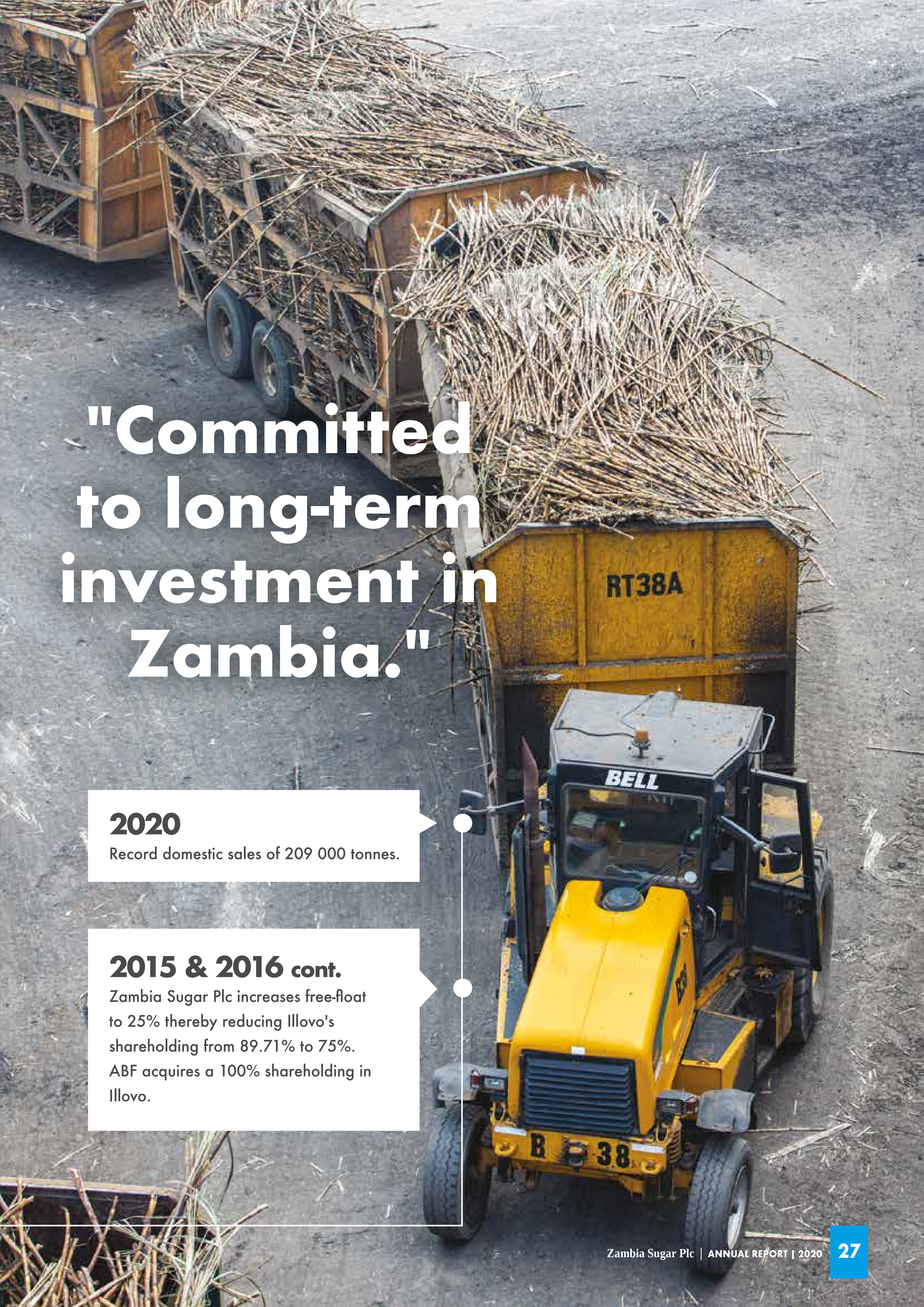
1995
The Company is privatised - Tate & Lyle (50.9%), CDC (31%) & GRZ-ZPTF (18.1%).

1996
Zambia Sugar Plc is listed on the Lusaka Securities Exchange (LuSE).

2001
Illovo acquires a 50.9% share in Zambia Sugar Plc, and later increases it to 89.71%.

2007 & 2009
Zambia Sugar Plc undergoes the biggest expansion project since its inception, increasing its sugar production capacity from 200 000 tonnes to 450 000 tonnes annually. This expansion of both agriculture and milling capacity is commissioned in 2009. It is the largest single investment outside the Mining sector in Zambia.

2015 & 2016
An expansion of sugar refining capacity takes place with the launch of the Product Alignment and Refinery project (PAAR). It increases production capacity of refined sugar from 40 000 tonnes per year to 90 000 tonnes per year. The Commissioning is held in July 2016 by the Head of State, His Excellency President Edgar Lungu.



"Committed to long-term investment in Zambia."

2020

Record domestic sales of 209 000 tonnes.

2015 & 2016 cont.

Zambia Sugar Plc increases free-float to 25% thereby reducing Illovo's shareholding from 89.71% to 75%. ABF acquires a 100% shareholding in Illovo.

ABOUT OUR AGRICULTURE

Zambia Sugar turned out a good agricultural performance resulting in 3.4 million tonnes of sugar cane being delivered to the factory in the financial year. This comprised 1.67 million tonnes supplied by own operations with the remaining 1.69 million tonnes supplied by growers.

The late season cane yields in 2019 declined as the season progressed. The onset of the summer rains disrupted cane supplies to the factory. When infield conditions deteriorated to a point where harvesting machinery could not go in, a decision was made to shut the factory on 17 December 2019.

Year-on-year production from the estate declined by 9.5% or 8 tonnes of cane per hectare, whilst the production from growers increased by 12.4% as a result of the additional area developed for cane increasing the harvest area by 14.9%. The overall cane yield for the cane supply declined from 122 tonnes cane per hectare to 117 tonnes cane per hectare.

The main challenges impacting on agricultural production during the year were as a result of the drought conditions experienced across the region. A direct consequence was that the major dams providing hydropower had insufficient inflow to generate sufficient power and load shedding was implemented across the country of between 8 to 12 hours per day.

The load shedding by ZESCO affected water supply to the crop. From April to the end of August 2019, 93% of crop water demand was met. Only 56% of the crop water demand was met between September 2019 and March 2020. The crop forecast was therefore revised downward from 3.4 million tonnes of cane to 3.2 million tonnes of cane.

The whole cane supply area was affected to some degree by load shedding. However, certain parts of the Estate were severely affected when water had to be diverted to keep the factory running, thereby limiting irrigation water availability to the western half of the estate.

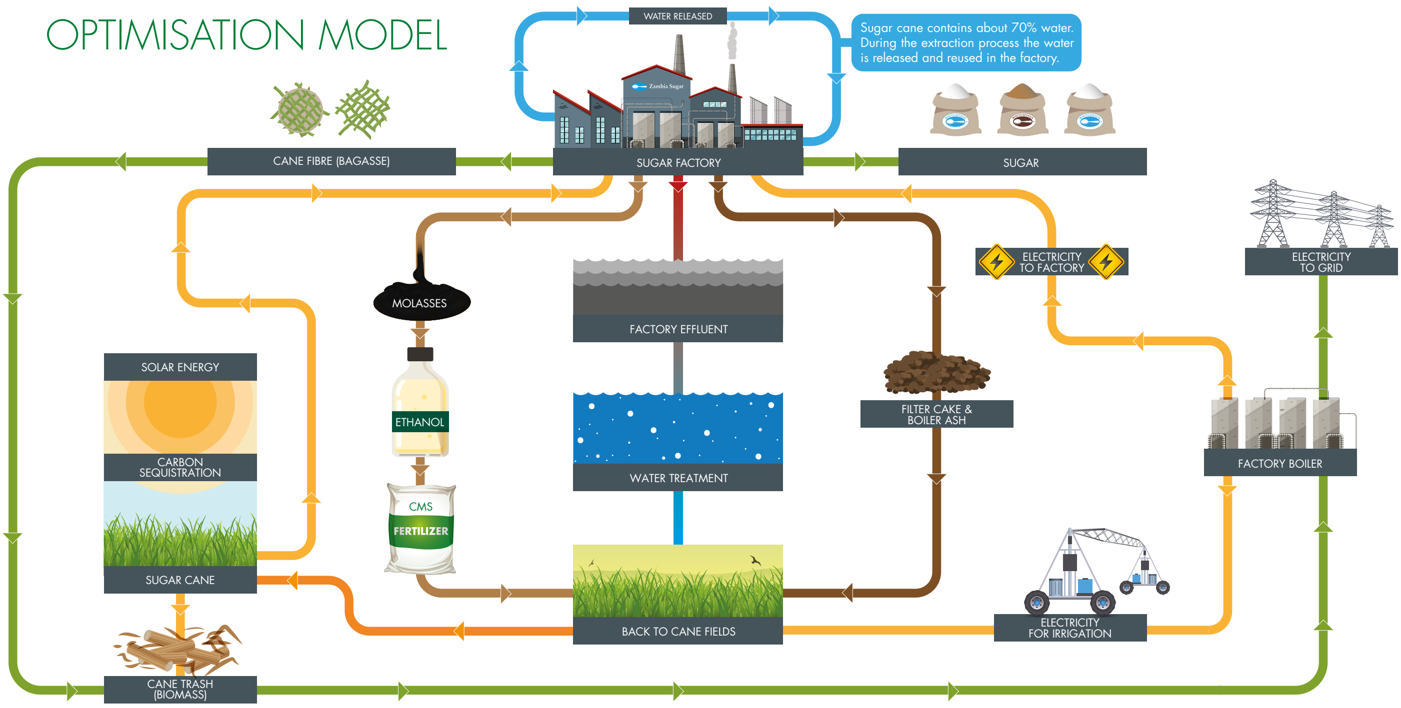
The pest and disease teams took a more proactive stance to curb the outbreak of Yellow Sugarcane Aphids (YSA) by introducing a preventative spraying strategy that provided good protection for 3 - 4 months. However, the dry weather conditions experienced during the second half of summer subjected the crop to increased stress and widespread YSA infestations.

The estate rolled out its Continuous Improvement programme to all its farms during the year. This programme is aimed at embedding best practices. The improved planning and timing of activities as well as engagement of the workforce will provide a solid platform to deliver the future agricultural reset targets.

"Making great efforts in continuing to drive business improvement & profitability."

THE SUGAR PRODUCTION PROCESS

OPTIMISATION MODEL



THE MILLING PROCESS: SUGAR CANE TO SUGAR CRYSTALS

The Mill at Nakambala has an installed capacity of 445 000 tonnes of Sugar production per annum. In general, sugar production takes place in a series of stages and is presented below:

STAGE ONE: CANE PREPARATION

The sugar cane is delivered to the mills by road transport. At the mills the cane is first massed at a weigh bridge before being off-loaded directly onto a large moving table. From there, the cane continuously travels through a system of conveyors to the cane preparation unit, namely the shredder. This unit literally shreds all the fibres and opens the inner part of the cane for the extraction process.

STAGE TWO: JUICE EXTRACTION

At Nakambala two methods are employed to extract the juice from prepared cane, namely the diffusion and the milling process.

DIFFUSION: The prepared cane passes through a huge vessel called a diffuser. Hot water is continuously being sprayed onto the moving bed of finely prepared cane, thereby leaching out the sucrose from the cane.

MILLING: The prepared cane passes through heavy rollers which squeeze out the juice. This process is repeated several times down a tandem of mills. The dry fibre discharged from the last mill is called bagasse. The bagasse produced as a result is the main source of fuel for boilers, which produce all the energy required by the milling process. Other by-products such as paper, particleboard, animal feeds and industrial solvents can also be made from bagasse.

STAGE THREE: CLARIFICATION

The mixed juice is heated and milk of lime is added to it. This neutralises the acids and forms a precipitate that is settled out in the clarifiers. This sediment is then filtered to recover any remaining sucrose before returning it to the fields in the form of filter press as a source of fertilizer. The clear juice from the clarifiers is pumped across the evaporators.

STAGE FOUR: EVAPORATION

The clear juice is pumped to the multiple effect evaporators. This consists of a series of vessels so arranged that each vessel has a higher vacuum than the preceding one, and thereby boiling at a lower temperature. Steam from the boilers is sent to the first vessel and the resultant vapour from it used to boil the juice in the next vessel and so on. The last vessel boils under a high vacuum. In this process about 85% of the water is evaporated concentrating the juice solids from about 12% to 65%.

STAGE FIVE: CRYSTALLISATION

Crystallisation is accomplished by further evaporation of water under carefully controlled conditions in vacuum pans. As the water is evaporated, the sugar reaches concentrated levels. At this stage, seed crystals in the form of slurry are added and these act as nuclei, growing into larger sugar crystals. The dense mixture of crystals and mother liquor is known as massecuite. After discharging from the vacuum pans it passes through crystallisers which are large open vessels with slow-moving stirrers, where under the action of stirring and cooling, more sugar is exhausted from the mother liqour and is deposited onto the crystal surfaces.

STAGE SIX: CENTRIFUGING

This stage separates the sugar from the mother liquor. The massecuite is fed to the centrifuge which comprises a perforated basket lined with a metallic screen which acts as a filter medium. The basket rotates at high speed and the sugar remains behind while the mother liquor now known as molasses passes through the basket perforations. The resultant molasses is sold either for manufacture of animal feeds, alcohol or as a by-product for the manufacture of other chemicals.

The sugar is discharged and either passed through a drier before being packed as raw sugar or transferred to the refinery for further processing.

STAGE SEVEN: DISTRIBUTION

The packed raw and refined sugar is loaded in to road or rail trucks and transported to the market.

RESPONSIBILITY REPORT - LIVING OUR VALUES

Zambia Sugar continues to build on the approach to communicate openly to all stakeholders and to ensure that a report on non-financial performance is availed to shareholders and other stakeholders.

It has been observed that shareholder interest in Zambia Sugar's non-financial performance reporting is growing and thus the Company will endeavour to interact more than ever with all stakeholders, including Non-Governmental Organisations (NGOs), to ensure more open and transparent communication.

The Company will continue to prioritise engagements with employees to further enhance the drive to connect them to the business strategy and promote team effort across the business as opposed to only within functional teams. The Company has also leveraged the use of metrics that prioritise teamwork, such as Performance Related Bonus Scheme (PRBS) targets which have helped spur overall performance.

SAFETY

At Zambia Sugar, the health and safety of employees, contractors and those affected by activities is a priority. The Company is committed to creating opportunities that lead to the success and development of all stakeholders. It continues to invest in programmes that drive continuous improvements in processes and standards for health and safety. As a diverse, decentralised organisation, employees are given the flexibility to manage the safety issues according to Group guidelines as well as within the confines of their local environment. Through this, the Company encourages and empowers people to report and address concerns so that everyone feels safe and secure in their place of work.

Every activity begins with serious consideration of safety. The Company has incorporated Safety Enablers which focus on delivering a safety framework that builds confidence and trust towards the ultimate goal of working safely at Zambia Sugar. This is in line with Illovo Group Vision. It also provides the foundation towards enabling the delivery of long-term benefits including the personal safety of employees, contractors and their families and friends through people-driven safety programmes.

The Company's transformational journey includes creating a safety culture, embedding strong safety habits that are supported by strong Illovo Group guidelines. This involves making sure that every leader undergoes a 9-module Safety Health Environment, Risk and Quality (SHERQ) immersive training programme. This training programme is intended to help every leader within the Company to internalise the Group focus on SHERQ and to appreciate the leadership focus that the Group is aspiring to in the respective areas of operations.

The Company continues to promote safety programmes such as 4 Steps to Safety which has been revised to include COVID-19 preventive measures as well as other people-driven safety programmes which continue to focus on safety behavioural coaching. Important practices, like 'Safety Why', occur before the beginning of every meeting, and are a call to action reminding everyone about the need to reflect on safety or health in whatever they do on a daily basis.

ILLOVO SAFE

SAFETY, MY RESPONSIBILITY, OUR WAY OF LIFE.

APPROACH TO SAFETY

The Company complies with the Zambian regulations, the Illovo Group guidelines as well as Associated British Foods' Health and Safety (H&S) Policy.

The Company has a focus on action plans to reduce the risk of injuries and incidents in the operations. There are many safety programmes in place to encourage people to take responsibility for keeping themselves and their colleagues safe and healthy.

The Company conducts training every year across a wide range of training on high-risk areas to ensure people are equipped with robust safety knowledge.

SAFETY PERFORMANCE THIS YEAR

The marked improvement in the Total Injury Frequency Rate (TIFR) has continued with zero fatalities recorded. This marks the third year running of closing the financial year without recording a work-related fatality.

There were no Lost Time Injuries (LTIs) reported from the agricultural operations for the entire production season i.e. from April 2019 – March 2020. This is the first time that no Lost Time Injuries have been recorded in agricultural operations in the history of Zambia Sugar Plc since safety reporting of LTIs was mandated.

Indicator	Illovo Group Target	Current reporting year performance	Previous reporting year performance
SHERQ balanced scorecard	85%	89.5%	89.2%
Fatalities	0	0	0
Total Injury Frequency Rate	1.00	0.24	0.85
Lost Time Injury Frequency Rate (LTIFR)	0.09	0.03	0.09

ENVIRONMENT

The Company remains committed to seeking sustainable solutions to environmental challenges. This includes a pledge to use raw materials efficiently and responsibly targeting zero waste. The Company upholds the hierarchy of controls to help manage its operations and care for the environment, and the Company aims to recycle more of the waste that is generated and thus reduced their overall environmental footprint. Therefore, it includes commitments to the United Nations Sustainable Development Goals.

The Company will continue to work with other stakeholders and remains focused on addressing the challenges of the changing climate through innovation and commitment to upholding its values every time it chooses to engage.

OPTIMISING OUR ENERGY USE

Energy generation is our primary source of Green House Gas (GHG) emissions. The Company remains committed to working hard towards improving energy efficiency on a continuous basis, and has developed projects to help in achieving this objective. In addition, the high price adjustments of the energy used means that energy management, including power and load management, is a key operational focus.

WATER MANAGEMENT

Zambia Sugar has invested in initiatives to reduce water abstraction per tonne of product produced, and aims to increase their ability to reuse water for cleaning or cooling equipment, as well as for irrigation before returning it to the environment. By reusing water, the Company is able to reduce the amount which is abstracted in the first place.

Zambia Sugar is committed to addressing climate change, water and deforestation risks and has implemented systems that ensure we remain committed to the Target Zero initiative. This is a programme aimed to ensure a closed circuit operation where all the water utilised in the agricultural and factory processes continue to be recycled and used within the operations. Close to 80% of process water is recycled and efforts remain in place to achieve target zero.

The Company ensures that water abstraction is done responsibly and in line with Group guidelines, Government regulatory requirements through WARMA and ZEMA, and in compliance with UN Sustainable Development Goals. The Company supplies water to Mazabuka District through Southern Water and Sanitation Company (SWSC) Limited. All necessary abstraction permits are in place and the Company continues to remain compliant with WARMA and ZEMA requirements in this respect.

PERFORMANCE IN THE YEAR

During the period under review, the licensed effluent drains were monitored through weekly sampling and analysis for compliance with license conditions. All statutory reports were submitted as per legislative requirements and Zambia Sugar has not received any penalties due to breaches from regulators. The Company has also placed a greater focus on water stewardship and welcome that during the year under review, has been recognised with an award of second place for Water Stewardship in Zambia.

The Water Stewardship Awards were hosted collaboratively by the Zambia Chamber of Commerce and Industry (ZACCI) and the Lusaka Water Security Initiative (LuWSI).

The award was won for a demonstrated commitment and action towards meeting the following criteria:

- Clear demonstration of the official commitment to water stewardship;
- Compliance with water-related legal and regulatory requirements and respect of water rights;
- Positive participation to catchment governance as a member of the KFJAG; and
- Provision of clean water and sanitation services (WASH) to workers on-site.

The Company was also recognised for their capital investment in sustainable irrigation systems, integrated sugar cane production and playing an active role in the the Kafue Flats Joint Action Group (KFJAG).

Corporate Water Stewardship is increasingly becoming important as part of the Company's commitment and contribution to meeting the Global Sustainable Development Goals.

QUALITY & FOOD SAFETY

Producing products that meet both quality and food safety requirements remains paramount to the Company. As such, there were no product recalls during the year.

The Company successfully passed an audit in May 2020 and had its Food Safety System Certification (FSSC) extended by another six months by the governing body, the South Africa Bureau of Standards (SABS). Food Safety System Certification (FSSC) 22000 is an internationally accepted certification scheme based on a combination of ISO 22000 sector-specific Pre-Requisite Programs (PRP) and FSSC additional requirements.

External customer complaints reduced markedly in the year compared to the same period last year due to increased internal audits, inspections and prudent management of internal incidents to identify root causes and put in place corrective measures before they culminate into an external complaint. The leadership team continued to review reports on a monthly basis and institute corrective measures accordingly.

APPROACH TO RISK MANAGEMENT

The delivery of strategic objectives and the sustainable growth (or long-term shareholder value) is dependent on effective risk management. The Company regularly faces business uncertainties and it is through a structured approach to risk management that the Company is able to mitigate and manage these risks and embrace opportunities when they arise.

As with any business, risks and uncertainties are inherent in the Company's business activities. These risks may have a financial, operational or reputational impact. Annual assessment of the principal risks, including those that would threaten the business model, future performance, solvency or liquidity are undertaken.

The decentralised Illovo business model empowers the management of the Company to identify, evaluate and manage the risks that it faces on a timely basis, to ensure compliance with the country's legislation, the business principles and Illovo Group policies.

The Company performs risk assessments which consider materiality, risk controls and specific risks relevant to the domestic and foreign markets in which the Company operates. Mitigation measures are formulated to help address these risks.

PEOPLE

The Company endeavours to be the employer of choice, not only in Zambia, but in the region as well. It is committed to recruiting the right number of people with the right skills set, experiences and competencies with a focus on developing them into world-class talent. The Company devotes thousands of man-hours to training people, as well as millions of kwacha to keeping them safe.

Every employee has a right to refuse to carry out any job assignment delegated by their supervisor if that job is established to be unsafe. Every employee enjoys this protection which has been given as a commitment from the Country Managing Director (CMD). This continues to empower employees and reinforces the message of collaboration and care that the Company has enshrined in its values.


CBM ISSUES
Description
Target
NK
Age
Status
RCA TRIGGERS
Who
When

UNDERSTANDING OUR VALUES

Zambia Sugar aims to be an employer of choice and we work actively to develop capabilities and create opportunities for employee progression. Our focus is to ensure people tend to stay with the Company for a long time and build exciting careers. Whether through formal training and apprenticeships, cross-fertilisation of skills between roles or mentoring, we encourage and support everybody to thrive at work.

Being part of the Illovo Group means being part of a community that respects human rights and celebrates diversity. We recognise the United Nations Guiding Principles on Business and Human Rights and aim to adhere to the core ILO conventions and all relevant laws relating to working conditions and the work environment.

We live our values through the work we do every day. We have articulated a set of five values that reflect the way we conduct ourselves in the business. Our values can be seen in action, for example, in our work in investing in the health and safety of our colleagues, promoting diversity, or in respecting human rights through our supply chain programmes. Numerous business-specific examples of such activities are highlighted throughout this report.

Our Company values are lived out best when they encourage our employees to feel supported to bring their values and passions to work. This is reflected in the many acts of decency, kindness and neighbourliness that take place across the business every day, and are where our values are truly found.

We also have a succession planning programme that aligns current talent development with future talent or succession needs. Young and new talent undergo mentoring, coaching, performance management, training and stretch assignments or projects to enable strong interaction with the leadership and ensure that no leadership gap is created.

Zambia Sugar recognises that highly talented and dynamic people, who are capable of achieving performance targets, are essential in ensuring maximum returns for the company and its stakeholders.

We aim to engage our employees by fostering diversity, providing challenging work and developmental opportunities, and rewarding performance. Our people strategy is fortified by Group values of respect, integrity, accountability, team work and employee commitment to provide sustainable growth and development for the Company and employees.

THE COMPANY HAS A CLEAR SET OF PRINCIPLES THAT IT FOLLOWS:

- Providing a safe and healthy workplace;
- Briefing and engaging with employees on a regular basis to create a common understanding of the financial performance of the Company, as well as seeking their views during decision making;
- Taking all steps necessary to minimise the risks to employee and customer safety;
- Offering equal opportunities in recruitment, career development and promotion regardless of sex, age, race, religion or sexual orientation;
- Providing proactive support to pregnant employees as well as to new parents;
- Giving full and fair consideration to applicants with disabilities and ensuring the training, career development and promotion of disabled persons should, as far as possible, be the same as that of other employees; and
- Not tolerating sexual, mental or physical harassment in the workplace.

EMBEDDING THE NEW OPERATING MODEL

Zambia Sugar undertook to restructure its operations and implemented a new operating model which is intended to embed a new way of operating in line with the Illovo Group strategy.

The Workforce Transition (WFT) Project Team, whose key task was to transition the Company's workforce from the previous state to its desired end-state, embarked on a process involving several actions including determining people outcomes, conducting consultations, conducting interviews and placing employees in roles as well as facilitating functional transitions.

The scope was from the Country Managing Director (CMD) level to the 4th reporting level in the Company's hierarchy (CMD-4). Ultimately the group of employees whose skills did not fit within the new structure exited the Company under redundancy conditions, as in line with the Illovo Group policy that aims to build thriving communities.

The WFT Team was set up in November 2019 and had a consistent, Group-wide approach to follow which was underpinned by clear principles, values and governance, and also supported by standard designed tools and processes. In implementing the Operating Model, the team adopted the Group approach with the incorporation of any country-specific nuances such as labour laws and local human resources policies and practices.

The team also embarked on company-wide consultations with affected employees in January 2020, with the aim of implementing the new model by 1 April 2020. The Workforce Transition process concluded at design level CMD-4 going live on 1 April 2020.

SKILLS GAP ASSESSMENT

The Company conducted "Skills Gap Assessments" on the identified critical roles in agriculture, manufacturing and human resources post WFT. The objective of the process was largely to ensure that every employee understood their skills and knowledge gaps and to encourage them to identify their own gaps which fostered ownership of personal accountability to the subsequent development of Action Plans. The general feedback from employee discussions was good and positive.

Employees commended the Company for taking an interest in how they were settling into their new roles post WFT and appreciated the consultation in the Skills Gap Analysis Process.

The summary of the outcomes of the Skills Gap Analysis indicates what competencies need to be developed for which roles, the prioritisation and the Individual Development Plans (IDP's) for each individual to be planned and actioned accordingly. The Company will be developing the Human Resource Development and Learning and Development methodologies. Focus will be on the skills that impact on the overall business performance.

PROMOTING DIVERSITY

We strive to create diverse, inclusive working environments in which everyone's dignity is respected and people are valued regardless of ethnicity, race, religion, gender, age, nationality, or disability.

WHISTLEBLOWING POLICY

Effective and honest communication is essential to help deal with wrongdoing. The Company's value of integrity means that those engaged in malpractice must be disciplined in line with Company's disciplinary code and national regulations.

The Company has indicated that it is serious in wanting to listen to colleagues about such examples. The Whistleblowing Policy provides guidelines for people who feel they need to raise certain issues in confidence. It is designed in line with Public Interest Disclosure (Protection of Whistleblowers Act No4 of 2010).

The Company has a whistleblowing telephone hotline in place, managed by Deloitte, which can be used by employees, or others, wherever they work. Any calls made to the hotline are disseminated to the senior management team responsible for investigating issues raised. A thorough investigation is then undertaken and any remediation agreed upon.

"We aim to create a committed workforce that considers Zambia Sugar Plc as a great place to work."

- JAPHET BANDA, HUMAN RESOURCES HEAD

PROVISION OF CLEAN WATER

The Company provides potable water to a population of more than 16 000 on the Estate and further supplies bulk raw water to the Southern Water and Sanitation Company (SWSC) which in turn supplies clean and treated water to the entire Mazabuka District. The Company supplies a total of 6 000 000 litres per day to SWSC.

HEALTH AND WELLNESS PROGRAMMES

As a company that is proud to sell a range of sugar and sugar-related products, serious consideration is given to Zambia Sugar's responsibility to promote healthy diets and lifestyles. The Company endeavours to do this through education.

The Company also helps to educate consumers by running campaigns that provide them with accurate information about aspects of their diet like fibre and sugar. A "Making Sense of Sugar" page is also available on the Zambia Sugar Plc website which helps give relevant information to visitors to the site. The Company is committed to promoting good health and support to sports development in the district and across the country.

The wellness programme run by the Company caters for the 16 000 people that are resident on the Nakambala Estate as well as members of the local community by providing them with a range of social amenities.

"Supplying a total of 6 000 000 litres of water per day."

At national level, the Company contributes towards the development of sport through support to national associations that help run talent identification and development programmes.

The Company supports the Nakambala Private School as well as other community and Government-run schools in the area. It provides health and medical services that include wellness activities and medical supplies for the Company's hospital and three clinics. It also supports employees in the provision of social services ranging from housing to related services including lighting of townships, sanitation, refuse collection, road maintenance and water reticulation.

The Company has robust HIV/AIDS and prevention against Malaria programmes. To this effect, Malaria has been virtually eradicated on the Estate, earning the Company recognition from the Zambian Government as well as a board position on the End Malaria Council (EMC). The End Malaria Council was established following the launch of the "Malaria Ends with Me" Campaign of the RBM Partnership to end Malaria, by the President of the Republic of Zambia, His Excellency Dr Edgar Chagwa Lungu in 2018.

SUGAR FORTIFICATION

A mark of Zambia Sugar good corporate social responsibility is through its commitment to the fortification with Vitamin A of all sugar sold for direct consumption in Zambia.

In this regard, Zambia Sugar plays a valuable role in helping to reduce infant and maternal mortality caused by Vitamin A deficiency. This runs in conjunction with Government's nutrient supplementation programme targeted at children under 5-years. Due to the incident of COVID-19, the country experienced challenges in continuing with this programme resulting in a heavy reliance on sugar fortification. To this end, Government designated the Company as an essential goods supplier during the COVID-19 pandemic.

Making sense of *sugar*

As a responsible business, the Company is actively contributing to the debate around the role sugar can play in one's diet through the Making Sense of Sugar campaign, initiated by AB Sugar which manages all of ABF's global sugar interests, including the Illovo Sugar Africa Group. The campaign, initiated in 2014, committed to provide access to objective scientific advice on sugar, diet and health to over 25 million people around the world by 2030. The campaign has since been expanded to reach a global audience. In December 2019, Zambia Sugar joined sugar-producing companies in countries like Malawi and Tanzania in this effort to reach the African audience and offer content adapted to the Zambian reality.

Making Sense of Sugar helps inform and educate people about sugar and the role it can play as part of a healthy, balanced diet. The aim of this campaign is to provide factual information based on robust science for everyone so that they can make informed choices about what they choose to consume. For more information on Making Sense of Sugar in Zambia, visit:
https://makingsenseofsugar.com/zm/

ECONOMIC IMPACT

PREFERENTIAL PROCUREMENT

A key focus of Zambia Sugar's strategy is to promote small and medium enterprises within Zambia. To this end, the Company has a preferential procurement policy in place that encourages the participation of the local community in economically beneficial activities. It supports the long-term growth and stability of a local supply chain by sourcing materials and services of the correct quality at an acceptable premium, notwithstanding the economic advantages that would otherwise be gained by sourcing bulk supplies and technologies through the Illovo Group procurement function in South Africa. The Company continues to promote small and medium enterprises within Zambia.

Future focus will be on supplier development and the education of the community in respect of the Company's procurement processes, and thus ultimately leading to a more sustainable model.

SMALLHOLDER DEVELOPMENT

The Company has established a very successful Outgrower Scheme, composed of commercial farmers and smallholder farmers. Smallholder schemes at Kaleya, Magobbo and Manyonyo are supported through the Mazabuka Sugarcane Growers Trust. The smallholder schemes that the Company is directly involved with reflects its commitment to supporting the development of sustainable, commercially-directed farming business models and governance systems. At present, there are 385 smallholder farmers participating in outgrower schemes.

SOCIAL SUPPORT

The Company continues to engage with a wide range of local stakeholders including local chiefs, local authorities, council officials, NGOs and local communities on social matters.

The Community Shared Value (CSV) approach is the Company's focus in addressing social matters. It aims to advance responsible partnerships to empower more communities.

Some examples that have delivered value for all stakeholders include the community road construction "Lubombo Road Project" where working with various partners has demonstrated empowerment of 110 youths, four contractors and their supervisors with road construction skills.

In addition, a cobblestone supply line using the youths mobilised under a local contractor was created, further indirectly impacting 600 of household members.

The second phase of implementation of the project was embarked on and is scheduled for completion during this financial year.

The project aims to benefit a population of 29 000 people who live in Lubombo and neighbouring communities which will result in multiple benefits arising from increased opportunities, improved access to markets, and the potential to attract other investments and services such as banking and trading.

SUPPORT TO PRIMARY AND SECONDARY EDUCATION

Support to the education sector is premised on investment in sustainable education by helping build capacity and providing opportunities for local people to access quality education.

The Company hosts Government schools on the Estate. It has supported the construction of a staff room and an upgrade of ablution and sanitary facilities at Nakambala Primary School. Similarly, the Company has supported the construction of staffrooms and toilets at Kabanje Primary School.

SUPPORT TO TERTIARY EDUCATION

Support to sustainable education extends to tertiary education to afford more learners access to higher education. To this effect, the Company has supported the complete construction of a Nursing School at Rusangu University in Monze. The University is situated 70 kilometres from the Nakambala Estate and is a demonstration of the investment in sustainable health. The University continues to focus on the training of medical personnel as a contribution to addressing human resource challenges in the sector.

Furthermore, the Company runs a scholarship programme, and during the year under review, sponsored two students at the University of Zambia.

Ensuring sustainable streamlined activities that help eradicate Malaria.

END MALARIA COUNCIL (EMC)

In March 2019, Zambia established the first End Malaria Council (EMC) at country level to assist the nation to increase resource mobilisation to achieve and sustain Malaria elimination by focusing on the three priority areas as listed below:

1. **ACTION & ACCOUNTABILITY: Ensuring the national strategic plan is implemented by driving action and holding stakeholders accountable.**

2. **RESOURCE MOBILISATION: Pursuing traditional and innovative financing to mobilise domestic resources to close the existing funding gap.**

3. **ADVOCACY: Advocating for Malaria elimination to remain high on public and private sector agendas.**

To enable the Council to eradicate Malaria in accordance with the three priority areas, the Council aims to raise $95 million thereby closing the budget gap. Through the most efficient and economic use of the funds, the Council would ensure sustainable streamlined activities that help eradicate Malaria. The funds to be raised will be allocated to the activities as agreed by the stakeholders in accordance with the National Malaria Strategic Plan.

The Council appeals to the readers to join the fight against Malaria.

WHAT WE DID TO STOP COVID-19 FROM HARMING OUR PEOPLE, COMMUNITIES AND OPERATIONS

The COVID-19 pandemic has affected everyone across the globe. At Zambia Sugar, this impact has been experienced at both employee, as well as at corporate level.

Early in March 2020, at the point of the global outbreak of COVID-19, the Illovo Group began building scenarios and strategies to respond to this disease outbreak which helped to exploit all possible public health measures to interrupt chains of human-to-human transmission in a range of settings, including workplaces and communities.

The novel nature and the continuously evolving understanding of COVID-19 demanded tremendous agility from operations to rapidly adapt and change readiness and response planning. The Illovo Group developed guidelines in line with the World Health Organisation guidelines which were shared with subsidiaries.

These, used alongside the guidelines by respective Governments, focused on the need to continue:

- Security and resilience of basic infrastructure;
- Business continuity for critical support services for the health sector; and
- Business continuity for public health and safety, including food security.

The Company's overarching approach to COVID-19 was to ensure the ongoing need to apply the necessary strategies to limit disease spread, protect employees and others that the Company interacted with. At Zambia Sugar Plc, management created an Emergency Preparedness Task Team chaired by the Country Managing Director (CMD). This team initiated daily morning meetings and reviewed daily situations and potential risks in the environment. It also ensured that COVID-19 updates continued to be given to employees, including national and district COVID-19 statistics.

The guidelines indicated protocols to follow including heightening the risk profile if a confirmed case was recorded in the district where the Company operates.

The guidelines helped the Company put in place preparedness measures ranging from creating an Isolation Centre equipped with beds, two ventilators and other medical supplies, to recruiting medical staff to support the frontline efforts.

In addition, the Company introduced a working-from-home policy where employees could continue to work from home, with only the Executive Team and employees that practically could not work from home, continuing to work onsite. The Company adopted social distancing, wearing of masks when in public or in confined spaces, and using engineering, adjusted some work stations including altering turnstiles to prevent hand contact, installing handwashing stations and fitting taps at access control points. The Company also introduced new technology to support communications across the business. In collaboration with our banks and mobile phone operators, the Company introduced various additional contactless payment solutions which drastically reduced the number of customers making cash payments at our facilities. Customers were now able to pay using mobile money, electronic funds transfers, contactless card payments and internet payments.

Additional vehicles were added to the Company fleet to help comply with social distancing during shift changes and physical barriers were established to minimise the risk of transmission. Additional access control points were created and necessary protocols including declarations, temperature checks and handwashing were instituted at these locations.

The Company also ensured that regular communications to employees regarding COVID-19 was availed and that all guidelines were widely communicated. The Company further communicated with Nakambala Estate residents through a personalised letter signed by the Country Managing Director as well as through the use of public announcement system mounted on a Company vehicle. This was commissioned to move throughout the Estate and the nearby community.

Local radio stations were also engaged to run programmes in English and vernacular languages. Posters promoting COVID-19 awareness and personal hygiene were placed throughout the district.

Further, the Company supported Government in the refurbishment of a local college which was designated to operate as a COVID-19 Isolation Centre for the district. The Company built new ablution blocks, installed lighting and water points as well as donated 50 beds and bedding, along with soap and over 1 000 masks which were produced by locally-based women's associations contracted by the Company as a means of supporting livelihoods during this pandemic.

"ENSURING SAFETY IN THE FACE OF THE PANDEMIC."

Protecting our employees and limiting the spread of COVID-19 by implementing the necessary precautions and regulations.

Make your commitment today take a photo of and send to this email address: corporate@zamsugar.zm

IT'S IN YOUR HANDS

Everyone at ZAMBIA SUGAR Plc commits to fighting COVID-19. Make your COMMITMENT today....

Zambia Sugar

AN ILLOVO SUGAR AFRICA COMPANY

ILLOVO SAFE

SAFETY, MY RESPONSIBILITY, OUR WAY OF LIFE.

COVID-19 IT'S IN OUR HANDS

VALUE ADDED STATEMENT

The Value Added Statement reflects the wealth that the Group and the Company have been able to create through its agricultural, manufacturing and selling operations, as well as through its subsequent distribution and reinvestment into the business.

During the financial year under review, K 1 375 million (August 2019: K 1 277 million) was created. Of this amount, K 935 million (August 2019: K 894 million) was distributed to employees, providers of capital and to Government. Of the wealth created, 39% (August 2019: 45%) was paid to employees.

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Wealth created				
Revenue	**3 334 924**	2 955 958	**3 334 924**	2 955 958
Dividend income	**-**	-	**29 875**	16 746
Paid to growers for cane purchases	**(822 616)**	(659 162)	**(1 010 739)**	(731 422)
Manufacturing and distribution costs	**(1 137 102)**	(1 019 636)	**(1 050 374)**	(1 022 101)
	1 375 206	1 277 160	**1 303 686**	1 219 181
Wealth distributed				
To employees as salaries, wages and other benefits	**539 752**	571 565	**512 274**	544 663
To lenders of capital as interest	**325 891**	299 492	**326 127**	302 022
To Government as taxation	**69 447**	23 404	**64 030**	18 582
	935 090	894 461	**902 431**	865 267
Wealth reinvested				
Retained profits/(loss)	**234 874**	263 730	**206 779**	245 126
Depreciation	**107 064**	105 518	**97 834**	96 261
Deferred taxation	**98 177**	13 451	**96 642**	12 527
	1 375 206	1 277 160	**1 303 686**	1 219 181
Amounts paid to Government for taxation excludes the following:				
Employees tax deducted from remuneration	**106 118**	87 212	**104 959**	86 025
Net VAT amount paid to Government	**52 158**	29 821	**52 158**	36 754
Customs and excise duties	**13 046**	23 316	**13 046**	18 136
Withholding taxes and Withholding VAT collected on behalf of Government	**316 737**	261 906	**315 722**	258 921
	488 059	402 255	**485 885**	**399 836**

ZAMBIA SUGAR PLC

BOARD OF DIRECTORS

Board Committee Key
N - Nomination Committee
R - Remuneration Committee
RC - Risk Committee
A - Audit Committee
C - Committee Chair

NORMAN MBAZIMA (61) FCCA, FZICA

Chairman {R} {N}

Mr Mbazima is the Independent Non-Executive Chairman of the Board of Zambia Sugar Plc. He is a Zambian National and was appointed to the Board on 26 February 2018. Mr Mbazima is a Chartered Accountant with extensive experience in the Anglo American Group, which he joined in 2001. He served on the Board of Kumba Iron Ore, a business unit of Anglo American from September 2012 to September 2016. He joined the Board of Anglo American South Africa as the Deputy Chairman in June 2015 and is a member of the Group Management Committee.

He has also served as CEO of Thermal Coal and during this time, oversaw the business unit's record operating profit in 2011 combined with an improved safety performance. He began his career in accounting roles at Zambia Consolidated Copper Mines, before spending 17 years with Deloitte & Touche, Zambia. His former roles include; CEO of Scaw Metals, Finance Director and Acting CEO of the Platinum business unit as well as CFO of the former Anglo Coal business unit and CFO of Konkola Copper Mines.

Mr Mbazima has had extensive experience in the mining industry including managing operations, capital raising and managing finances, negotiating transactions, and interfacing with stakeholders including labour, communities, Government departments, and a wide variety of investors.

EXECUTIVE DIRECTORS

REBECCA M. L. KATOWA (59) BA, MBA, DipM, MCIM, FZIM

Executive Director of the Board {RC} {R} {N}

Mrs Katowa is a Zambian National and was appointed to the Board on 5 April 2001. She joined the Company in 1996 as the Marketing Services Manager and in 2001, became Company Marketing Director.

She serves as a Member of the Board of several companies and institutions including Zambia Development Agency (ZDA). She holds a Bachelor of Arts degree with a double major in Economics, Geography and Library Science from the University of Zambia (UNZA), a postgraduate diploma in Marketing from the Chartered Institute of Marketing (UK) as well as a Masters in Business Administration (MBA) from the Copperbelt University.

RAPHAEL CHIPOMA (46) MBA, FCCA, FZICA

Executive Director of the Board

Mr Chipoma, a Zambia national, was appointed to the Board as Finance Director on 1 December 2019. He is responsible for providing leadership and coordination in financial strategy, planning, control and reporting, treasury, legal, IT and taxation. He has over 22 years of diverse senior finance leadership experience in oil marketing, commodity trading, logistics, healthcare and manufacturing having held Finance Director roles in BP Africa, Impala Terminals, Stryker South Africa and Lafarge across a number of countries in Sub-Saharan Africa. Raphael holds a Master of Business Administration from Oxford Brookes University and is a fellow of the ZICA and ACCA.

MARC POUSSON (54) NHD ElecEng, GCC (Elec)

Executive Director of the Board

Mr. Pousson is an Executive Director of the Board. He is a South African National and was appointed to the Board in June 2020. Mr Pousson was appointed as Factory Head of the Company in April 2020. Prior to this he served as General Manager of Nchalo Sugar Estate for 3 years and as a Director of Illovo Sugar(Malawi)Plc.

He has over 25 years' sugar milling experience and has held a number of leadership positions within the Illovo Sugar Group. Mr Pousson is responsible for factory operations and manufacturing at Nakambala Sugar Estate. He holds a Higher National Diploma from Durban University of Technology and a Government Certificate of Competency in Electrical Engineering.

NON-EXECUTIVE INDEPENDENT DIRECTORS

DIPAK K. A. PATEL (67)

Independent Non-Executive Director

Mr Patel is a Zambian National and was appointed to the Board on 8 December 2006. He is a businessman and chairman of various companies. He previously served as a Member of Parliament for Lusaka Central Constituency for 15 years and also held ministerial positions during this time including Minister of Trade and Industry.

He is an advocate on the need to address third-world poverty through fair trade. In addition, he is a member of the Board of Trustees of the Investment Climate Facility, nominated by the Department for International Development of the United Kingdom.

ROSETA CHABALA (40) BA Ed, MSc

Independent Non-Executive Director {N} {A} {C}

Mrs Chabala is a Zambian National and was appointed to the Board on 1 February 2020. She is Chair of the Remunerations and Nominations Committee. Mrs Chabala was Chief Executive Officer of Zambia Association of Manufacturers (ZAM) for four years. She later joined Metal Fabricators of Zambia as Managing Director, a role she has held since March 2013.

She comes with a wealth of experience and expertise in lobbying and advocacy, capacity building and business linkages both local and regional for the manufacturing industry. Her contribution in promoting the manufacturing industry and development of the private sector has been recognised by both the private sector and Government. She holds a Master of Science degree in International Trade Policy and Trade Law.

FIDELIS M. BANDA (69) ACIS, FCMA, CGMA, FZICA

Independent Non-Executive Director {N} {A} {C}

Mr Banda is a Zambian National and was appointed to the Board on 17 May 2001.

He is a seasoned Accountant whose association with Zambia Sugar Plc began 46 years ago when he was appointed as a management trainee. He rose through the ranks to eventually become Finance Director/Company Secretary in 1995. He held this position until his retirement in 2002. He is also a member of the Board of several other companies within the country.

NON-EXECUTIVE DIRECTORS

AMI R. MPUNGWE (69) BA(Hons)

Non-Executive Director {N} {A} {RC}

Mr Mpungwe is a Tanzanian National and was appointed to the Board on 27 October 2006. He brings a wealth of experience as a Non-Executive Director of two Illovo subsidiaries, namely Illovo Sugar (Malawi) Limited and Kilombero Sugar Company Limited in Tanzania. Mr Mpungwe also serves as director of a number of other companies in Tanzania and has had over 25 years' experience in the Tanzanian Government, which included serving as a Deputy High Commissioner accredited to Zambia from 1979 to1985.

GAVIN B. DALGLEISH (54) MSc Chem Eng

Non-Executive Director of the Board {R} {N} {RC}

Mr Gavin Dalgleish is a South African National and was appointed to the Board on 29 August 2012. He is Managing Director of Illovo Sugar Africa (Pty) Ltd, a role he has held since September 2013. He joined Illovo in 1988 and has since held a number of technical, business development, operational and general management positions within the Illovo Group. He also spent three years leading the Australia-based global technology unit of AB Mauri, a yeast business which is a subsidiary of Illovo's holding company, Associated British Foods plc, before returning to Illovo in December 2010. He was appointed Operations Director for Illovo Sugar Limited (ISL) (now Illovo Sugar Africa (Pty) Ltd) in 2012 before assuming his current role. He holds a Master's degree in Chemical Engineering.

DOUG KASAMBALA (50) BSc, MBA, ACMA

Non-Executive Director of the Board {A {R} {RC}

Mr Kasambala is a Malawian National and was appointed to the Board on 1 February 2020. He is CIMA-qualified and held the role of Director in KPMG UK Corporates where he led the manufacturing finance capability. Prior to joining the consultancy group, he was a Finance Transformation Consultant with IBM for three years. He has led large complex finance and management information transformation projects at large blue-chip FTSE-25 multinational corporations including BP, Glaxo SmithKline, AstraZeneca and Associated British Foods group. He holds a Bachelor of Science degree in Computer Science from the University of Malawi, and an MBA in Finance from the University of Nottingham.

DR NELIS SAAYMAN (50) PhD ChemEng

Non-Executive Director of the Board {R} {C}

Dr Saayman is a South African National and was appointed to the Board on 1 May 2018. He is a qualified Chemical Engineer and previously served as Senior Vice President of Group Planning and Optimisation for the Sasol Group. He has many years of varied technical, operational and business experience in various roles including roles at top management level. He is currently the Operations Director at Illovo Sugar Africa. He holds a PhD in Chemical Engineering from Stellenbosch University (1996), a Master's degree in Business Leadership from the University of South Africa and BEng (Chemical) degree (cum laude) from Stellenbosch University.

ZAMBIA SUGAR PLC

EXECUTIVE MANAGEMENT COMMITTEE

REBECCA M.L. KATOWA
Country Managing Director
Refer to profile on page 56

RAPHAEL CHIPOMA
Finance Head
Refer to profile on page 56

MARC POUSSON
Factory Head
Refer to profile on page 57

CHEMBE KABANDAMA
Commercial Head

Mr Kabandama joined the Executive Management Team as the Marketing Director on 1 September 2015. Mr Kabandama is a Zambian National with more than 22 years' experience covering the petroleum, manufacturing, construction and sugar sectors. He has held leadership roles at Agip Petroleum, Kobil Petroleum and Lafarge Zambia Plc before joining Zambia Sugar Plc. Mr Kabandama holds a Bachelor of Engineering degree from the University of Zambia and is a Chartered Management Accountant from the Chartered Institute of Management Accountants (CIMA). He also holds a Master of Business Administration degree from the Eastern and Southern African Management Institute. He is responsible for sales and marketing operations in respect of domestic markets and new market opportunities.

ANTHONY H. DOMLEO
Agriculture Head

Mr Domleo was appointed Agriculture Head of Zambia Sugar Plc on 1 April 2020. He is a South African National and joined the Company as the Agricultural Manager on 1 May 2012 having been transferred from Ubombo Sugar Ltd in Eswatini where he had served as Agricultural Manager since 2005. He began his career with Illovo Sugar Ltd (CG Smith Sugar Ltd at the time) in 1983 at the Sezela Mill where he held positions as Farm Manager and Field Manager for Small Grower Development. He holds a Bachelor of Commerce degree as well as a diploma in Agriculture. He is responsible for agricultural operations and smallholder development.

STUART S. FORBES
Business Improvement Head

Mr Forbes joined the Company in September 2014 as the Supply Chain Manager. Before his appointment, he was the Continuous Improvement Manager and Group Operations Systems Manager for Illovo Sugar Group. He has 18 years of cross-functional experience, having worked in operations and supply chain, international human resources development, and continuous improvement. He previously worked for Toyota (South Africa) and had his own consultancy with a key focus on continuous improvement processes within operations and many businesses. He holds a Bachelor degree of Technology (Management) and a ABP - Advanced Business Programme. He is currently the Business Improvement Head, which drives the delivery of strategy execution and strategic projects to enhance revenue and reduce costs, ensuring that organisational effectiveness is achieved through systemic integration, capability development and key business analytics.

JAPHET BANDA

Human Resources Head

Mr Banda was appointed Human Resource Head of Zambia Sugar Plc in 2018. He is a Zambian National and joined as the Corporate Affairs Manager in 2015. He has over 25 years' experience in the manufacturing, construction, sugar, journalism and publishing sectors. He has held leadership roles at Zambian Breweries, International Labour Organisation (ILO) and Chilanga Cement Ltd. He holds a Master of Commerce degree in Management, a postgraduate diploma in Management and a diploma in Journalism. Mr Banda is responsible for human resources policies, staffing and talent management, human resource development and training, industrial relations, retirement funding, compensation and benefits, human resource administration, payrolls and employee welfare.

JOHN NKONJELA

Supply Chain Head

Mr Nkonjela was appointed as Supply Chain Head in November 2019. He was previously employed as Finance Manager-Operations from September 2013 when he joined Zambia Sugar Plc. Mr Nkonjela has extensive financial, operational, general management and commercial experience, gained through executing various senior roles in the Finance Department. He is a fellow of both the Chartered Association of Certified Accountants (FCCA-UK) and the Zambia Institute of Chartered Accountants (ZICA). He is also an associate member of the Zambia Institute of Purchasing and Supply. Mr Nkonjela holds a Bachelor of Arts degree in Accountancy obtained from the Copperbelt University. He also has an MBA obtained from Herriot Watt University (UK). Mr Nkonjela is responsible for procurement, inventory, inbound and outbound logistics, warehousing and customer service.

RUMBANI MWANDIRA

Estate Support Services Head

Mr Mwandira was appointed Estate Support Services Head of Zambia Sugar Plc in April 2020. He is a Zambian National and has extensive business experience, including in-depth knowledge of the beverage industry, mining and energy industry. He joined on 1 November 2017 in the role of Factory Manager. He holds a Bachelor's degree in Mechanical Engineering as well as an MBA. He also has over 25 years' experience in leading firms such as ZCCM, Zamox and SABMiller, both in Zambia and Ghana. He is responsible for Safety & Health, Environment, Enterprise Risks, Quality and Food Safety, Capital projects Community Services, Security and Emergency Response Management.

EUGENE CHUNGU

Corporate Affairs Head

Mr Chungu was appointed Corporate Affairs Head of Zambia Sugar Plc on 1 December 2019. He is a Zambian National with more than 20 years' experience covering the manufacturing, construction, telecommunications and mining sectors. He previously held leadership roles at Konkola Copper Mines Plc, Lafarge Zambia and Lafarge South East Africa as well as Telecel, the precursor of MTN. Mr. Chungu holds a Bachelor's degree in Agricultural Economics from the University of Zambia and a postgraduate diploma in Marketing from the Chartered Institute of Marketing (CIM). He also holds an MBA from Oxford Brookes University. He is responsible for advocacy, stakeholder management, media relations as well as internal and external communications.

ZAMBIA SUGAR PLC EXECUTIVE MANAGEMENT COMMITTEE

CORPORATE GOVERNANCE

Zambia Sugar considers compliance to be its highest priority based on the following vision:

"...to be a diversified, world-class consumer-centric agricultural business, delivering shareholder value and creating thriving communities..."

The Company is committed to the strengthening and improvement of corporate governance as an ongoing priority for the Board, with the aim of continuing sustainable growth and corporate citizenship by adhering to the relevant codes of best practice, principles of fairness, accountability, responsibility, transparency and integrity.

The Company believes that a corporate culture of compliance with applicable laws, regulations, internal policies and procedures is a core component of good corporate governance. Consequently, the Company adheres to the laws applicable to it, including among others, the Companies Act, Employment Act and Factories Act etc. The Company draws guidance from the Lusaka Securities Exchange (LuSE) Governance Code. The Company continues to enforce and foster the Declaration of Gifts and Ethics policies which are in place. In addition to compliance with regulatory requirements, the Company endeavors to ensure that standards of ethical and responsible conduct are met throughout the organisation.

FRAMEWORK

The Company's corporate governance framework is structured to provide for the prudent management and oversight of the business, and to adequately protect the interests of all stakeholders.

This report therefore aims to provide an overview of the Company's governance practices. It is comprehensive, albeit to avoid duplication of information, other relevant information will be contained in the other reports and financial statements that form part of the Annual Report for the year.

THE BOARD OF DIRECTORS

The Board currently comprises 11 Directors, including four Independent Non-Executive Directors. The Board is mandated in terms of its Charter, which requires that there is an appropriate balance of power and authority on the Board.

New appointments to the Board are carried out in a transparent manner and are subject to the recommendations of the Remunerations and Nominations Committee and, following approval of the Board, are subject to confirmation by shareholders at the next Annual General Meeting. The roles of the Chairman and the Chief Executive are separated and the Chairman is a Non-Executive Independent Director.

THE BOARD COMPOSITION

At the date of this report, the Board comprised the following Directors:

Director	Title	Appointment Date
Norman Mbazima	Chairman	26 February 2019
Fidelis Banda	Non-Executive Independent Director	17 May 2001
Roseta Chabala	Non-Executive Independent Director	1 February 2020
Ami Mpungwe	Non-Executive Independent Director	27 October 2006
Dipak Patel	Non-Executive Independent Director	8 December 2006
Gavin Dalgleish	Non-Executive Director	29 August 2012
Doug Kasambala	Non-Executive Director	1 February 2020
Nelis Saayman	Non-Executive Director	1 May 2018
Rebecca Katowa	Executive Director (Managing Director)	5 April 2001
Raphael Chipoma	Executive Director (Company Secretary)	1 December 2019
Marc Pousson	Executive Director	1 June 2020

Brief curricula vitae of the Directors appear on page 54 - 56 of this report. The Board is satisfied that all of the Directors have sufficient time to devote to their roles and that it is not placing undue reliance on key individuals.

BOARD MEETINGS

The Zambia Sugar Plc. Board met formally four times and the Company's Articles of Association made provision for decisions to be taken between meetings through written resolutions where necessary. The meetings of the Board were presided over by the Chairman, and written notices of Board meetings, agendas and other management reports were circulated timeously. The minutes of the meetings were appropriately recorded by the Company Secretary, circulated and approved at subsequent Board meetings.

Four meetings were convened in 2019/2020 and attendance is shown in the table below:

Director	256th Board Meeting (28/11/2019)	257th Board Meeting (28/02/2020)	258th Board Meeting (14/05/2020)	259th Board Meeting (19/08/2020)	Total Meetings Attended	Total Meetings Held
Norman Mbazima	✓	✓	✓	✓	4	4
Fidelis Banda	✓	✓	✓	✓	4	4
Roseta Chabala	BA	✓	✓	✓	3	4
Ami Mpungwe	✓	✓	✓	✓	4	4
Dipak Patel	✓	✓	✓	✓	4	4
Gavin Dalgleish	✓	✓	✓	✓	4	4
Douglas Kasambala	BA	✓	✓	✓	3	4
Nelis Saayman	✓	✓	✓	✓	4	4
Rebecca Katowa	✓	✓	✓	✓	4	4
Raphael Chipoma	BA	✓	✓	✓	3	4
Marc Pousson	BA	BA	BA	✓	1	4
Craig Taylor	✓	✓	RS	RS	2	4
Graham Rolfe	✓	✓	✓	RS	3	4

KEY: ✓ = Attended **x** = Absent **BA** = Before Appointment **RS** = Resigned

BOARD COMMITTEES

The Board is assisted in the discharge of its responsibilities by three committees, namely:

- The Audit Committee;
- The Risk Committee; and
- The Remuneration and Nomination Committee.

The Board committees operate under approved mandates and terms of reference, which define their functions and responsibilities. Through the Company's Executive Committee, management meets weekly and serves to assist the Board to co-ordinate, guide and monitor the management and performance of the Company. Following each meeting, the Committee Chair reports to the Board on the committee's activities, and makes such recommendations as are deemed appropriate in the circumstances. Minutes of committee meetings are made available to all Directors on a timely basis. Non-Executive Directors actively participate in all committees.

AUDIT COMMITTEE

The Audit Committee supports the Board in fulfilling its oversight responsibility with regards to financial reporting, the system of internal controls and the process for monitoring compliance with laws and regulations. It is composed of three members, all of whom are independent of management.

The Head of the Internal Audit Function reports at the Audit Committee meetings and has unrestricted access to the Chairperson of the Audit Committee. The department has a robust and continuous training programme. As a consequence of the foregoing, the Board has satisfied itself of the effectiveness of the Audit Committees input to the business and therefore deems to be the composition of the Audit Committee.

AUDIT COMMITTEE ATTENDANCE	CATEGORY	16 OCTOBER 2019 MEETING	14 MAY 2020 MEETING
F Banda	Chairman	✓	✓
A Mpungwe	Member	✓	✓
C Taylor	Member	✓	RS
D Kasambala	Member	BA	✓
R Chabala	Member	BA	✓

KEY: ✓ = Attended **x** = Absent **BA** = Before Appointment **RS** = Resigned

RISK COMMITTEE

The Risk Committee is responsible for reviewing the Company's risk philosophy, strategy and policies to ensure compliance with such policies. It also reviews the adequacy and overall effectiveness of the Company's risk management function, ensuring the implementation of an ongoing process of risk identification, mitigation and management; ensures the establishment of a comprehensive system of controls; pursues measures for increasing risk awareness; reviews significant legal matters; reviews adequacy of insurance coverage, and provides reports to the board. During the year under review, the Committee satisfied its responsibilities.

RISK COMMITTEE ATTENDANCE	CATEGORY	16 OCTOBER 2019 MEETING	14 MAY 2020 MEETING
N Saayman	Chairman	✓	❖
A Mpungwe	Member	✓	❖
G Dalgleish	Member	✓	❖
D Kasambala	Member	BA	❖
R Katowa	Member	✓	❖

KEY: ✓ = Attended ❖ = Postpond due to COVID-19 **x** = Absent **BA** = Before Appointment **RS** = Resigned

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee provided oversight over the remuneration and compensation for senior management so as to retain and motivate employees to perform at the level of the quality required. The Committee is chaired by an Independent Non-Executive Director.

REMUNERATION AND NOMINATION COMMITTEE ATTENDANCE	CATEGORY	28 NOVEMBER 2019 MEETING	28 FEBRUARY 2020 MEETING	19 AUGUST 2020 MEETING
R Chabala	Chairman	BA	✓	✓
A Mpungwe	Member	✓	✓	✓
G Dalgleish	Member	✓	✓	✓
R Katowa	Member	✓	✓	✓
N Mbazima	Member	✓	✓	✓
D Kasambala	Member	BA	✓	✓

KEY: ✓ = Attended **x** = Absent **BA** = Before Appointment **RS** = Resigned

RETIREMENT AND ELECTION OF DIRECTORS

It is the Board's policy that new Directors are subject to confirmation at the first opportunity following their appointment. All Directors, excluding the Executive Directors, are subject to retirement and re-election on a rotational basis with one-third of the Board being re-elected annually.

PERFORMANCE EVALUATION OF THE BOARD

The Board will continue to implement necessary changes to enhance its performance.

BOARD INDUCTION AND DEVELOPMENT

Newly appointed Directors are taken through the Company's Articles of Association, the Board Charter, Codes of Conduct, policies, listing regulations and applicable acts such as Companies Act and Securities Act. They follow a tailored induction programme facilitated by the Company Secretary, which includes a scheduled trip to tour the factory and other head office operations.

COMPANY SECRETARY

The Company Secretary is responsible for implementing and sustaining high levels of corporate governance and keeps abreast of legislation, regulations and corporate governance developments which may impact on the Company. All Directors have direct access to the Company Secretary.

EMPLOYEE DEVELOPMENT, TRAINING AND INFORMATION TECHNOLOGY

Zambia Sugar is committed to employee development and training as this is a key ingredient to continued and improved operations. The Company places emphasis on information technology as key in its strategy of delivering quality products which are the first choice for customers and consumers. To this end, the Company has over the last two years, invested in the automation of all key processes from raw and packaging material receipts to manufacturing, sales and distribution and finally payment system for our goods and services. All the outlying depots in the country are connected via satellite.

STAKEHOLDER RELATIONS

The Company places considerable importance in maintaining active investor relations through open, fair and transparent communications. It ensures timely dissemination of information to its investors and other stakeholders through various media. A dedicated shareholders unit through the Transfer Secretaries is responsible for active interaction with the shareholders. The Company goes beyond the unit and organises a shareholders day every year to augment and harness the relationship with the shareholders.

The Board considers the AGM key in providing shareholders with the opportunity to ask the Board and Chairperson of the Audit Committee questions concerning the affairs of the Company. Accordingly, all legal and regulatory requirements, notices and information are released well in advance to shareholders, regulators, stock exchange and company website (www.zamsugar.zm). To this end, the Company ensures copies of the Annual Report and Accounts are made available well before the AGM as this ensures the shareholders have insight of the business performance.


Emergency Exit


WHITESPOON

Zambia Sugar | AN **ILLOVO SUGAR AFRICA** COMPANY

ANNUAL FINANCIAL STATEMENTS

CONTENTS

REPORT OF THE DIRECTORS

The Directors have the pleasure in presenting their report which forms part of the Annual Financial Statements of Zambia Sugar Plc and the subsidiary ("Group") for the year ended 31 August 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the growing of sugar cane and the production of sugar and other speciality products for sale into domestic and export markets. The details of the Company's business and postal addresses are:

Business Address
Plot No. 118a, Livingstone/Lubombo
Road, Nakambala Estate, Mazabuka,
ZAMBIA

Postal Address
P.O. Box 670240,
Mazabuka,
ZAMBIA

REVIEW OF OPERATIONS

AGRICULTURE

Total sugar cane delivered to the factory in the two growing seasons was 3.367 million tonnes, with our operations supplying 1.673 million tonnes and growers supplying a total of 1.694 million tonnes. The sustained delivery level is attributable to the improved factory performance in the financial year. Cane yields at the close of the financial year were recorded at 108 tonnes of cane per hectare for the estate, and 127 tonnes of cane per hectare for the growers.

Although cane quality has been trending below average for the 2021 financial year mainly due to climatic factors, cane supply has improved as the area under expansion comes into production. The sucrose content for the financial year was 14.38% (August 2019: 14.37%).

PRODUCTION

Sugar production during the financial year was 398 331 tonnes (August 2019: 399 000 tonnes). Refined sugar production for the year was 81 251 tonnes (August 2019: 74 000 tonnes).

Major challenges impacting sugar production in the year included cane quality and cane availability at the start of the April 2020 to March 2021 season. The Company is committed to maximising production, and is focusing on continuous improvement, cost optimisation, quality, and plant reliability.

COMMERCIAL

Total revenue for the year was K 3 335 million (2019: K 2 956 million). Relatively strong performances from both the domestic and regional markets were driven by different factors. Demand in the domestic market continued to be strong, with a 15% growth in the financial year.

This was driven by the continued focus on Commercial strategy of an optimised product portfolio that focuses on low-income consumer segments and reduction in inflow of foreign sugar brands and illicit trade as a result of the closure of borders due to the COVID-19 pandemic.

The foreign market was however negatively impacted by the border closure in the regional markets and export restrictions in the wake of COVID-19. The Group had a 24% reduction in its performance compared to the last financial year. This was slightly offset by the weakening local currency. Commercial readiness ensured the Company capitalised on all opportunities that arose in regional markets.

SUPPLY CHAIN

The procurement of goods and services was a key focus under the P400 and the external spend project within Fit4Future. The Fit4Future project has since been implemented. The Company still aims to achieve and sustain the objectives behind the two projects to ensure long-term sustainability.

The sales and operations planning process has improved engagement and decision making, which has impacted on better revenues within the financial year. The outbound logistics teams continue to enhance the delivery of quality to customers, ensuring that the Company meets the requirement of 30% by rail on a yearly basis.

HUMAN RESOURCES

The Company continued to be a significant provider of employment, with an average workforce of 5 324 (2019: 6 426) during the year with numbers peaking at 6 865 (2019: 7 580).

PROSPECTS

The Company expects to face challenges in the new financial year due to economic uncertainties evidenced by the negative growth rate in the Zambian economy in the current year. This has mainly been attributed to the effects of the COVID-19 pandemic. This is despite the Company being classified as an "essential goods" business and the allowance to operate during this period.

The further depreciation of the kwacha increases the risk of further escalation of costs and pressure on operating profit.

Sugar production for the April 2020 to March 2021 season is expected to be slightly lower than the April 2019 to March 2020 season by 6% as per the current seasonal estimations.

Domestic sales are forecast to remain static with a possibility of a slight drop due to disposal income constraints on customers.

Regional export markets sales are expected to remain the same as per the actual amounts sold in the current period due to product availability constraints, however the regional market is currently benefiting from the depreciation of the kwacha.

FINANCIAL RESULTS

The Group's results are as follows:

Group	Note	August 2020 K' million	August 2019 K' million
Revenue	5	**3 335**	2 956
Operating profit	6	**775**	606
Net financing costs	7	**(326)**	**(300)**
Profit before taxation		**449**	306
Taxation (charge)	8	**(214)**	**(37)**
Profit for the year		**235**	269
Profit attributable to:			
Non-controlling interest		**0**	6
Shareholders of Zambia Sugar Plc		**235**	263
Earnings per share (ngwee per share)	9	**74.2**	83.3

DIVIDENDS

A dividend of 24 ngwee per share is being proposed for the year ended 31 August 2020.

DIRECTORATE AND SECRETARY

The names of the Directors and the Company Secretary in office at the date of this report are reflected below:

Norman Mbazima	Chairman
Fidelis Banda	Non-Executive Independent Director
Roseta Chabala	Non-Executive Independent Director
Ami Mpungwe	Non-Executive Independent Director
Dipak Patel	Non-Executive Independent Director
Gavin Dalgleish	Non-Executive Director
Doug Kasambala	Non-Executive Director
Nelis Saayman	Non-Executive Director
Rebecca Katowa	Executive Director (Managing Director)
Marc Pousson	Executive Director
Raphael Chipoma	Company Secretary

Appointments and Resignations

During the year under review, the following changes were made:

- Ms Roseta Chabala was appointed to the Board as a Non-Executive Independent Director, effective 1 February 2020.
- Mr Doug Kasambala was appointed to the Board as a Non-Executive Director, effective 1 February 2020.
- Mr Raphael Chipoma was appointed to the Board as an Executive Director, effective 1 December 2019.
- Mr Marc Pousson was appointed to the Board as an Executive Director, effective 1 June 2020.
- Mr Graham Rolfe resigned from the Board as an Operations Director, effective 31 May 2020.
- Mr Craig Taylor resigned from the Board as a Non-Executive Director, effective 31 January 2020.

Directors' Interest and Emoluments

None of the Directors had any interest in any contract with the Group during the period under review. Details of Directors' emoluments are disclosed in note 25.6. The Directors that held beneficial interests in the issued ordinary share capital of the company as at 31 August 2020 were as follows:

	August 2020	August 2019
	No. of shares	No. of shares
Fidelis Banda	**7 176**	7 176
Norman Mbazima	**75 000**	75 000

Directors' Loans

There were no Directors' loans during the current and previous year.

PROPERTY, PLANT AND EQUIPMENT

The significant additions to property, plant and equipment for the Group were:

	August 2020 K' million	August 2019 K' million
Opening Capital Work in Progress	**18 943**	29 959
Additions to Capital Work in Progress	**49 944**	52 298
	68 887	82 257
Items Capitalised during the year		
- Buildings	**(1 594)**	(2 365)
- Plant & equipment	**(27 487)**	(42 563)
- Motor vehicles	**(3 337)**	(14 153)
- Furniture & fittings	**(711)**	(4 233)
	(33 129)	(63 314)
Closing Capital work in progress	**35 758**	18 943

During the year, expenditure valued at K 49.9 million (2019: K 52 million) was added to property, plant and equipment as capital work in progress, while K 33 million (2019: K 63 million) was completed and transferred to the relevant category of assets. During the year, K 44 million (2019: K 44 million) was added in respect of cane roots.

SHARE CAPITAL

A detailed analysis of the shareholding is shown below:

Range	Number of holders	Number of shares	%
1 - 1 000	2 379	839 553	0.3
1001 - 5 000	570	1 237 634	0.4
5 001 - 10 000	112	792 275	0.3
10 001 - 100 000	93	2 869 581	0.9
100 001 - 1 000 000	18	6 475 327	2.0
> 1 000 001 - 100 000 000	6	66 928 476	21.1
> 100 000 001	1	237 428 539	75.0
Totals	3179	316 571 385	100

Classification	Number of holders	Number of shares	%
Illovo Group Holdings Limited	1	237 428 539	75.0
Pension Funds	61	57 033 510	18.0
Local Companies	65	1 168 263	0.4
Local Individuals	2 749	3 484 380	1.1
Foreign Individuals	276	413 741	0.1
Foreign Companies	27	17 042 952	5.4
Totals	3 179	316 571 385	100

SIGNIFICANT SHAREHOLDING

As at 31 August 2020, the Company has been advised of the following notable interests in its ordinary share capital:

	Number of Shares	%
Illovo Group Holdings Limited	237 428 539	75,00
National Pension Scheme Authority	30 788 021	9,73
Standard Chartered Zambia Securities Nominees Ltd	16 911 458	5,34

Other than the shareholdings listed above, the Directors are not aware of any individual shareholding that exceeds 5% of the issued share capital.

EMPLOYEES

The average number of employees employed in each month of the period under review was as follows:

Year	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
August 2020	6 107	5 892	5 911	5 895	4 843	3 017	2 865	3 372	5 430	6 826	6 864	6 865
August 2019	7 531	7 580	7 480	7 416	5 722	5 094	4 643	5 227	6 497	6 561	6 619	6 739

The total remuneration paid in respect of the above employees was K 540 million (2019: K 572 million).

EXPORTS

The value of products exported by the Group during the year was K 1 157 million (2019: K 1 317 million).

DONATIONS

The Group made donations to the value of K 365 200 (2019: K 292 000) in respect of various charitable activities. Of this, K 319 000 went to the local community to aid in the COVID-19 pandemic. No donation was of a political nature.

OCCUPATIONAL HEALTH

Providing a safe and healthy working environment is a key priority and is underpinned by a robust Health and Safety policy.

Occupational Health policies help to support implementation of activities and practices that advance the promotion of health and reduction in risk behaviours. Significant investments have been made in the health of employees and the community. Not only are measures in place to protect employees against occupational health hazards and to safeguard their general health and wellbeing, but also to ensure that the measures impact all those who come into contact with the Company, such as visitors to its operations and communities.

COVID-19 PANDEMIC

The COVID-19 pandemic has had an impact both at the employee level as well as at a corporate level for the Group. This initiated the building of scenarios and strategies to respond to this disease outbreak for the Group. This led to the development of guidelines and policies in line with the World Health Organisation and the Government of the Republic of Zambia. In addition, the Group aided the local community through donations done via its corporate social responsibility department. The details of which are disclosed on note 32.

ENVIRONMENT

The performance of the Company in environmental management practices was satisfactory relative to the environmental regulations on air, land, water, ecology and noise. Compliance to regulatory and legislative obligations was satisfactory. The Company embeds and implements best practices in environmental management throughout the operations, enhancing on monitoring and performance mechanisms, and measuring performance against environmental regulations. There is strong commitment to the environmental governance best practices and accountability from the operation through to the Board of Directors. The Company's underlying environment philosophy is to continually investigate as a means to reduce the impact on the environment of operations. There were no major contraventions on regulated environmental aspects recorded in the year.

QUALITY AND FOOD SAFETY

The Quality and Food Safety performance for the period under review was satisfactory. The Company successfully retained its permit to supply certifications by institutions such as Zambia Compulsory Standards Agency (ZCSA) and the South African Bureau of Standards (SABS). Furthermore, the Company's Quality Management Systems (QMS) continue to be impressive with continuous improvement consolidation on the main systems' enhancers. These were reflected into effective customer complaint closures, enhanced internal incidence management, as well as good performance of the Quality and Food Safety Scorecard.

The Company continues to look at ways of enhancing food safety and quality procedures and ensuring that it maintains a food safety management system which meets the requirements of the Food Safety System Certification (FSSC).

TECHNOLOGY, RESEARCH AND DEVELOPMENT

In order to optimise the return from existing installed capacity, the Group continues to benefit from well-established resources from within the Illovo Group, which provides technical expertise in agricultural and sugar production and downstream product manufacture to all Group operations. A centralised core of expertise exists to ensure technical standards are optimised and maintained for both existing equipment and new agricultural and factory installations, and to keep abreast of technical innovations. Benchmarking to improve productivity and reduce unit costs is a major area of attention in all operations, with additional resources recently having been allocated to enhance operational performance and benchmarking across the Illovo Group.

AUDIT AND NON-AUDIT REMUNERATION

In the current year, the Auditors' remuneration amounted to K 2.20 million (2019: K 2.01 million). There were no non-audit fees paid to the Auditors.

AUDITORS

In accordance with the provisions of section 257 (1) of the Zambian Companies Act, the auditors, Messrs EY Zambia, will retire as auditors of the Company at the forthcoming Annual General Meeting. Having expressed their willingness to continue in office, a resolution for their re-appointment will be proposed at the Annual General Meeting.

By order of the Board,

Raphael Chipoma
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The requirements of the Zambia Companies Act, 2017 requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the affairs of the Group and the Company and the profit or loss for that year. The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the Annual Financial Statements and related information in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2017. In addition, the Directors are responsible for the preparation of the Directors' Report. The independent external auditors, Messrs EY Zambia, have audited the Annual Financial Statements and their report is set out on page 77 to 80.

The Directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the Financial Statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

These consolidated and separate Financial Statements are prepared on the going concern basis. Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern in the foreseeable future.

In the opinion of the Directors:

- The consolidated and separate statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the profit of the Group and the Company for the financial year ended 31 August 2020.
- The consolidated and separate statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 August 2020.
- There are reasonable grounds to believe that the Group and the Company will be able to pay debts as and when they fall due.
- The Group accounts are drawn up so as to give a true and fair view of:
  - (i) the profit of the Company and its subsidiary for the financial period; and
  - (ii) the state of affairs of the Company and its subsidiary as at the end of the financial period.
- The Financial Statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2017.

The Financial Statements of the Group and the Company which were prepared on the going concern basis were approved by the Board of Directors on 30 October 2020 and are signed on its behalf by:

Norman Mbazima
Chairman

Rebecca Katowa
Country Managing Director

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Email: info@zm.ey.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ZAMBIA SUGAR PLC

Report on the Audit of the Financial Statement

Opinion

We have audited the Financial Statements of Zambia Sugar Plc and its subsidiary set out on pages 83 to 147, which comprise the consolidated and company statement of financial position as at 31 August 2020, and the consolidated and Company Statement of profit or loss and other comprehensive income, consolidated and Company Statement of changes in equity and consolidated and Company Statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the consolidated and Company Financial Statements present fairly, in all material respects the financial position of Zambia Sugar Plc as at 31 August 2020, and its consolidated and Company financial performance and its consolidated and Company cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of Zambia, 2017.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of Zambia Sugar Plc. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Zambia Sugar Plc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Statements.

Key Audit Matters	How KAM was addressed in the audit
Fair value of growing cane	
The Company carries its growing cane at fair value in accordance with IAS-41, Agriculture. The growing cane valuation is based on the estimated sucrose content (adjusted for the Company's long-term view of the average maturity of the cane) and the estimated sucrose price for the following season, less the estimated costs for harvesting and transport. There is significant management judgement in the estimation of the sucrose content and price, expected cane yield and average maturity of the growing cane. As at 31 August 2020, the fair value of growing cane was estimated at K 384 million. We considered this as a key audit matter as the determination of the fair value involves significant judgement and estimates. A management expert was utilised in the determination of yield and sucrose content values that will be extracted from the area under cane. The Company's disclosures about significant judgements and estimates related to fair value of growing crane are included in note 17 which details the assumptions and key inputs used by management.	Our procedures included, among others: • Evaluating the sucrose price per tonne, the direct costs (haulage and harvest (crop removal costs)) per tonne against the approved 2020/2021 budget and to the industry norms. • Evaluating the production inputs utilised in the calculation of the fair value such as estimated sucrose content to the signed factory production report at the beginning of December 2019. • Performing a retrospective review of the inputs above by assessing the August 2019 forecast to the actual results and investigating any material difference. • Assessing the Ratoon Maintenance costs to the forecast prepared by management by agreeing the prior year estimates to actual results to assess the reasonableness of management forecasts. • Assessing the accuracy of management's valuation by re-performing the mechanics of the valuation calculation. • For area under cane, we obtained the field maps and then used Google Earth to recalculate the size of the area under cane and compared this to management's position for any differences determined whether this was reasonable. • Performed the profit adjustment calculation which is based on the inputs from the August 2021 Valuation. • Obtained an understanding of the competence and expertise of management's expert involved in the budgeting of the growing cane inputs..
Adoption of IFRS 16 leases	
IFRS 16 'Leases' became effective for the annual periods beginning on or after 1 January 2019. The Company applied the standard for the first time this year. IFRS 16 requires management to consider whether there is a lease implicit in a contract and whether the lease will result in a Right-of-Use asset with a corresponding lease liability being brought onto the balance sheet or whether the lease will be classified as a short term lease, treated as an operating lease. Management utilises significant judgement in determining the non-cancellable lease term and the discount rate used to discount the lease payments. • Management applies significant judgement in determining the lease term. It considers the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Management reasonably ascertains by way of judgement that the renewal option will be exercised for all its lease contracts and therefore factors this into its lease asset and liability amounts. • As management cannot readily determine this interest rate implicit in the lease, it uses an entity specific incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. We considered this a key audit matter as the determination of the lease term and the incremental borrowing rate significantly affects the amount recorded as the Right-of-Use asset and accompanying lease liability in the Financial Statements. At 31 August 2020, the right of use asset was K 42 million and lease liability was K 95 million. Disclosure requirements relating to leases are included in note 3.1 & 31 of the Financial Statements.	Our audit procedures included assessing the design and implementation of the key controls relating to the determination of the IFRS 16 transition impact disclosure. Our procedures to assess management's key modelling estimates and the completeness and accuracy of the underlying lease data included: • Assessing the reasonableness of discount rates used to calculate the lease obligation with support from our valuation specialists; • Assessing the accuracy of the lease data by testing the lease data captured by management for a sample of leases through the inspection of lease documentation; • Testing the completeness of the lease data by reconciling the Group's existing lease commitments to the lease data underpinning the IFRS 16 model.

Information other than the Financial Statements and Auditor's Report thereon

The Directors are responsible for the other information. The other information comprises the Directorate and Corporate Information, Value Added Statement, Five Year Review, the Chairman's Statement, Report of the Directors and the Director'' Responsibility Statement, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the Financial Statements and our Auditor's Report thereon.

Our opinion on the 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 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 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. We have nothing to report in this regard. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Zambia, 2017, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company'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 Director either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for overseeing Zambia Sugar Plc's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 Zambia Sugar Plc'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 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 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 a Company to cease to continue as a going concern.

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

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 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.

Report on other legal and regulatory requirements

As required by Section 259(3) of the Companies Act of Zambia, 2017 we report to you, based on our audit, that:

- We have no relationship, interest or debt in the Company; and
- Based on our audit, we did not come across any serious breaches of corporate governance principles or practices contained in Part VII, sections 82 to 122 of the Companies Act of Zambia, 2017 by the Directors.

As required by Part III, Rule18 of the Securities (accounting and financial reporting requirements) Rules of the Securities Act Zambia, we report that:

- The Annual Financial Statements have been properly prepared in accordance with Securities and Exchange Commission rules.
- The Company has, through the financial year, kept proper accounting records in accordance with the requirements of the Securities and Exchange Commission rules.
- The statement of financial position and statement of comprehensive income are in agreement with the Company records.
- We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

EY Zambia

EY Zambia
Chartered Accountants

The engagement partner on the audit resulting in this Independent Auditor's Report is:

Mark M Libakeni
Partner - Practicing certificate number: AUD/F000397

30 October 2020
Lusaka

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 August 2020

		GROUP		COMPANY	
	Note	**August 2020 K'000**	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Revenue from contracts with customers	5	**3 334 924**	2 955 958	**3 334 924**	2 955 958
Cost of sales of goods		**(1 755 301)**	(1 631 891)	**(1 830 182)**	(1 681 504)
Gross profit		**1 579 623**	1 324 067	**1 504 742**	1 274 454
Profit on disposal of plant and equipment		**6 260**	6 157	**6 260**	5 854
Distribution expenses		**(347 350)**	(364 119)	**(347 350)**	(364 119)
Administration expenses		**(466 269)**	(362 405)	**(456 074)**	(356 719)
Net impairment gains on financial assets	18	**2 577**	2 041	**2 577**	2 041
Operating profit	6	**774 841**	605 741	**710 155**	561 511
Dividend income		**-**	-	**29 875**	16 746
Net finance costs	7	**(325 891)**	(299 492)	**(326 127)**	(302 022)
Finance Costs		**(326 831)**	(300 969)	**(327 047)**	(303 499)
Finance Income from an effective interest rate		**940**	1 149	**920**	1 149
Other Income		**-**	328	**-**	328
Profit before taxation	6	**448 950**	306 249	**413 903**	276 235
Taxation (expense)	8	**(214 076)**	(36 855)	**(207 124)**	(31 109)
Profit/(loss) for the year		**234 874**	269 394	**206 779**	245 126
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent years:					
Adjustments in respect of cash flow hedges	26	**(26 183)**	36 442	**(26 183)**	36 442
Taxation effect of cash flow hedges	26	**2 618**	(3 644)	**2 618**	(3 644)
Other comprehensive income for the year, net of income tax		**(23 567)**	32 798	**(23 567)**	32 798
Total comprehensive income for the year		**211 307**	302 192	**183 212**	277 924
Profit/Loss for the year attributable to:					
Shareholders of Zambia Sugar Plc		**234 874**	263 730	**206 779**	245 126
Non-controlling interest		**-**	5 664	**-**	-
		234 874	269 394	**206 779**	245 126
Total comprehensive income/(loss) for the year attributable to:					
Shareholders of Zambia Sugar Plc		**211 307**	296 528	**183 212**	277 924
Non-controlling interest		**-**	5 664	**-**	-
		211 307	302 192	**183 212**	277 924
Basic and diluted earnings per share (ngwee per share)	9	**74.2**	83.3	**65.3**	77.4

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

as at 31 August 2020

		GROUP		COMPANY	
	Note	**August 2020 K'000**	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
ASSETS					
Non-current assets		**2 001 594**	1 969 777	**1 978 344**	1 954 014
Property, plant and equipment	12	**1 891 307**	1 901 875	**1 758 796**	1 776 851
Intangible asset	14	**67 902**	67 902	**-**	-
Right-of-use assets	31	**42 385**		**42 385**	
Investment in subsidiary	15	**-**	-	**177 163**	177 163
Current assets		**1 892 984**	1 974 361	**1 786 442**	1 886 620
Inventories	16	**940 388**	687 390	**923 591**	674 746
Growing cane	17	**384 444**	336 745	**318 495**	283 414
Trade and other receivables	18	**487 741**	584 477	**468 400**	563 152
Derivative financial instruments	26	**-**	26 228	**-**	26 228
Amounts due from related parties	25.4	**3 256**	10 265	**3 256**	10 265
Cash and bank balances	19	**77 155**	329 256	**72 700**	328 815
Assets classified as held for sale	13	**3 851**	5 625	**3 851**	5 625
Total assets		**3 898 429**	3 949 763	**3 768 637**	3 846 259
EQUITY AND LIABILITIES					
Equity attributable to shareholders of Zambia Sugar Plc		**1 567 724**	1 412 679	**1 408 823**	1 283 863
Share capital and premium	20	**247 338**	247 338	**247 338**	247 338
Capital redemption reserve		**40**	40	**40**	40
Hedging reserve	26	**-**	23 567	**-**	23 567
Retained earnings		**1 320 346**	1 141 734	**1 161 445**	1 012 918
Total equity		**1 567 724**	1 412 679	**1 408 823**	1 283 863
Non-current liabilities		**1 343 825**	1 538 061	**1 318 881**	1 514 606
Long-term borrowings	21	**1 048 460**	1 399 704	**1 048 460**	1 399 704
Lease Liabilities	31	**65 933**	-	**65 933**	-
Deferred tax liability	22	**229 432**	138 357	**204 488**	114 902
Current liabilities		**986 880**	999 023	**1 040 933**	1 047 790
Trade and other payables	23	**492 103**	394 720	**468 779**	377 501
Lease liabilities	31	**28 967**	-	**28 967**	-
Contract liabilities	24	**281 663**	221 272	**281 663**	221 272
Short-term borrowings	21	**85 562**	231 993	**85 562**	231 993
Amounts due to related parties	25.4	**35 851**	95 691	**116 133**	168 302
Derivative financial instruments	26	**-**	44	**-**	44
Current tax liability	8	**45 085**	17 855	**42 180**	11 230
Bank overdraft	19	**2 010**	16 239	**2 010**	16 239
Provisions	27	**15 639**	21 209	**15 639**	21 209
Total liabilities		**2 330 705**	2 537 084	**2 359 814**	2 562 396
Total equity and liabilities		**3 898 429**	3 949 763	**3 768 637**	3 846 259

The responsibilities of the Company's Directors with regard to the preparation of the Financial Statements are set out on page 76. The Financial Statements on pages 81to145 were approved and authorised for issue by the Board of Directors on 30 October 2020 and were signed on its behalf by:

Norman Mbazima
Chairman

Rebecca Katowa
Country Managing Director

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2020

	Share capital and premium	Capital redemption reserve	Hedging reserve	Retained earnings	Attributable to shareholders of Zambia Sugar Plc	Non-controlling interest	Total
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
GROUP							
Balance at 1 September 2018	**247 338**	**40**	**(9 231)**	**857 920**	**1 096 067**	**40 729**	**1 136 796**
Total comprehensive income for the year	-	-	32 798	263 730	296 528	5 664	302 192
Profit for the year	-	-	-	263 730	263 730	5 664	269 394
Cash flow hedges	-	-	32 798	-	32 798	-	32 798
Dividends paid	-	-	-	-	-	(2 787)	(2 787)
Elimination of non-controlling interest	-	-	-	20 084	20 084	(43 606)	(23 522)
Balance at 31 August 2019	**247 338**	**40**	**23 567**	**1 141 734**	**1 412 679**	**-**	**1 412 679**
Balance at 1 September 2019	**247 338**	**40**	**23 567**	**1 141 734**	**1 412 679**	**-**	**1 412 679**
Effect of adoption of IFRS 16 leases				(50 747)	(50 747)		(50 747)
Prior year balance adjustment*				1 990	1 990		1 990
Balance at 1 September 2019 adjusted	**247 338**	**40**	**23 567**	**1 092 977**	**1 363 922**	**-**	**1 363 922**
Total comprehensive income for the year	-	-	(23 567)	252 694	229 127	-	229 127
Profit for the year	-	-	-	234 874	234 874	-	234 874
Unwinding of ECL IFRS 9 provision	-	-	-	17 821	17 821	-	17 821
Cash flow hedges	-	-	(23 567)	-	(23 567)	-	(23 567)
Dividends paid	-	-	-	(25 326)	(25 326)	-	(25 326)
Balance at 31 August 2020	**247 338**	**40**	**-**	**1 320 346**	**1 567 724**	**-**	**1 567 724**

**Prior year balance adjustment relates to amounts incorrectly recognised for FY2019 closing balances on retained earnings for Nanga. The adjustment is a presentation disclosure and had no impact on the Statement of comprehensive income or Statement of changes in equity.*

	Share capital and premium	Capital redemption reserve	Hedging reserve	Retained earnings	Attributable to shareholders of Zambia Sugar Plc	Non-controlling interest	Total
COMPANY							
Balance at 1 September 2018	**247 338**	**40**	**(9 231)**	**767 792**	**1 005 939**	**-**	**1 005 939**
Total comprehensive income for the year	-	-	32 798	245 126	277 924	-	277 924
Profit for the year	-	-	-	245 126	245 126	-	245 126
Cash flow hedges	-	-	32 798	-	32 798	-	32 798
Balance at 31 August 2019	247 338	40	23 567	1 012 918	1 283 863	-	1 283 863
Balance at 01 September 2019	**247 338**	**40**	**23 567**	**1 012 918**	**1 283 863**	**-**	**1 283 863**
Effect of adoption of IFRS 16 Leases				(50 747)	(50 747)		(50 747)
Balance at 1 September 2019 adjusted	247 338	40	23 567	962 171	1 233 116	-	1 233 116
Total comprehensive income for the year	-	-	(23 567)	224 600	201 033	-	201 033
Profit for the year	-	-	-	206 779	206 779		206 779
Unwinding of ECL IFRS 9 provision			-	17 821	17 821		17 821
Cash flow hedges	-	-	(23 567)	-	(23 567)	-	(23 567)
Dividends paid	-	-	-	(25 326)	(25 326)	-	(25 326)
Balance at 31 August 2020	**247 338**	**40**	**-**	**1 161 445**	**1 408 823**	**-**	**1 408 823**

The Capital Redemption Reserve was created on the redemption of preference shares in 1996.

The hedging reserve arises in respect of foreign currency forward sales contracts in place at year-end which mature in the new financial year.

Dividends worth K 25 326 million were paid during the year ended 31 August 2020 (August 2019: Nil) and therefore the dividend per share, calculated on a cash basis, was 8 Ngwee per share (August 2019: Nil).

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

for the year ended 31 August 2020

		GROUP		COMPANY	
	Note	**August 2020 K'000**	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Cash flows from operating activities					
Profit before tax		**448 950**	306 249	**413 903**	276 235
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation of property, plant and equipment	**12**	**88 640**	105 518	**79 410**	96 261
Depreciation of right-of-use asset	**31**	**18 211**	-	**18 211**	-
Depreciation of cane roots	**12**	**18 424**	-	**18 424**	-
Net impairment gains on financial assets	**18**	**10 965**	2 041	**10 965**	2 041
Finance Income	**7**	**(940)**	(1 149)	**(920)**	(1 149)
Finance Costs	**7**	**337 181**	300 969	**337 397**	303 499
Dividend income		**-**	-	**(29 875)**	(16 746)
Assets classified as held for sale expensed	**13**	**(1 642)**	-	**(1 642)**	-
Change in fair value of growing cane	**17**	**(47 699)**	(34 250)	**(35 081)**	(26 731)
Change in fair value of livestock		**(429)**	-	**-**	-
Net foreign exchange differences		**(10 350)**	(2 039)	**(10 350)**	(2 039)
Provisions raised during the period	**27**	**15 639**	21 209	**15 639**	21 209
Provisions utilised during the period	**27**	**(21 209)**	(50 503)	**(21 209)**	(50 503)
Profit on disposal of property and equipment		**(7 059)**	(6 157)	**(6 260)**	(5 854)
Cash operating profit		**848 682**	641 888	**788 612**	596 223
Working capital movements		**(99 950)**	(105 512)	**(92 916)**	(95 530)
Increase in inventories	**16**	**(252 467)**	(20 904)	**(248 845)**	(18 865)
Increase in amounts due to related parties*	**25.4**	**(105 172)**	(94 186)	**(97 501)**	(92 887)
(Increase)/decrease in amounts due from related parties*	**25.4**	**7 009**	(5 830)	**7 009**	(5 830)
Decrease/(increase) in trade and other receivables	**18**	**92 888**	(139 494)	**94 752**	(131 411)
Equity Adjustment on adoption of IFRS 9	**18**	**-**	(17 821)	**-**	(17 821)
Increase in trade and other payables	**23**	**97 401**	(48 549)	**91 278**	(49 988)
Increase in contract liabilities	**24**	**60 391**	221 272	**60 391**	221 272
		-	-	**-**	-
Cash generated from operations		**748 732**	536 376	**695 696**	500 693
Finance Income	**7**	**940**	1 149	**920**	1 149
Finance Costs	**7**	**(302 653)**	(300 969)	**(302 869)**	(303 499)
Payment of interest portion of lease liabilities	**31**	**(13 660)**	-	**(13 660)**	-
Taxation paid	**8**	**(83 330)**	(5 810)	**(80 766)**	(1 721)
Dividends paid to shareholders of Zambia Sugar Plc	**10**	**(25 326)**	-	**(25 326)**	-
Dividends paid to non-controlling shareholder		**-**	(2 787)	**-**	-
Net cash outflows from operating activities		**324 703**	227 959	**273 995**	196 622

		GROUP		COMPANY	
	Note	**August 2020 K'000**	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Cash flows from investing activities					
Purchase of property, plant and equipment	**12**	**(98 758)**	(96 282)	**(82 041)**	(81 257)
Purchase of biological assets (livestock)		**(102)**	-	**-**	-
Dividends received		**-**	-	**29 875**	16 746
Proceeds from disposal of Assets held for sale		**1 774**	6 864	**1 774**	6 864
Proceeds from disposal of plant and equipment		**10 064**	2 515	**10 064**	2 212
Acquisition of non-controlling interests	**15**	**-**	(21 539)	**-**	(21 539)
Cashflow hedges movement		**1**	-	**1**	-
Net cash outflows from investing activities		**(87 020)**	(108 442)	**(40 327)**	(76 974)
Net cash inflows before financing activities		**237 682**	119 517	**233 668**	119 648
Cash flows from financing activities					
Borrowings raised	**21**	**-**	249 624		249 624
Repayment of borrowings	**21, 25.2.1**	**(452 343)**	(232 114)	**(452 343)**	(232 114)
Payment of principal portion of lease liabilities		**(33 561)**	-	**(33 561)**	-
Net cash (outflows)/inflows from financing activities		**(485 904)**	17 510	**(485 904)**	17 510
Net increase in cash and cash equivalents		**(248 222)**	137 027	**(252 236)**	137 158
Net cash and cash equivalents at beginning of period		**313 017**	173 929	**312 576**	173 379
Net foreign exchange differences		**10 350**	2 061	**10 350**	2 039
Net cash and cash equivalents at end of period		**75 145**	313 017	**70 690**	312 576
Bank and cash balances		**75 145**	313 017	**70 690**	312 576
Comprising of:					
Cash and bank balances	**19**	**77 155**	329 256	**72 700**	328 815
Bank overdraft		**(2 010)**	(16 239)	**(2 010)**	(16 239)

*Movements under working capital for related parties have been split as additional disclosure to reflect amounts "due to related parties" and amounts "from related parties". The adjustment has also been applied to the prior year cash flow movement for comparative purposes. This adjustment has no impact on the net position that was reflected in the prior year as the net movement still remains the same.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 August 2020

1. GENERAL INFORMATION

Zambia Sugar Plc is a public limited company incorporated in Zambia. Its parent company is Illovo Sugar Africa Holdings Limited and its ultimate holding company is Associated British Foods plc. The addresses of its registered office and principal place of the business are disclosed under corporate information on page 70 of these Annual Financial Statements. The principal activities of the Company and its subsidiaries (the Group) are described in the Directors' Report.

2. SIGNIFICANT ACCOUNTING POLICIES

The Annual Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Zambian Companies Act 2017, using the historical cost convention except for certain financial instruments and biological assets that are stated at fair value. All principal accounting policies have been applied on a basis consistent with those of the previous year, except for the application of the revised standards which have been described in note 3. The application of these standards has had no material impact on the Financial Statements. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated Financial Statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

These Financial Statements are presented in Zambian Kwacha ("K") in units of Thousands. The principal accounting policies are set out below apply to both consolidated and separate Financial Statements.

2.1 Basis of consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Company and Nanga Farms Ltd (its subsidiary). The investment in the subsidiary is held at cost in the Company Financial Statements. Control is achieved where the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in net assets since the date of the combination. Non-controlling interests are allocated their proportionate share of total comprehensive income even if this results in the non-controlling interest having a deficit, unless there is doubt as to the recoverability of the deficit.

2.2 Revenue from contracts with customers

The Group is in the business of selling sugar and sugar-related products. Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has generally concluded that it is the principal in its revenue arrangements, except for the agency services below, because it typically controls the goods or services before transferring them to the customer. The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in note 5.

(a) Sale of goods

Revenue from the sale of sugar and sugar-related products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. rebates). In determining the transaction price for the sale of sugar and sugar-related products, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

- Variable consideration
  If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of sugar provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

- Volume rebates
  The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. These amounts may subsequently be repaid in cash to the customer or are offset against amounts payable by the customer.

  To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the

2.2 Revenue from contracts with customers (continued)

requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

(b) Advances received from customers

Generally, the Group receives only short-term advances from its customers. They are presented as contract liabilities. The Group does not receive long-term advances from customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods to the customer and when the customer pays for that good or service will be one year or less.

(c) Contract balances

- Trade receivables
  A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to Accounting Policies of Financial Assets in note 2.15.

- Contract liabilities
  A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the Group performs under the contract.

2.3 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

- Land leases 34 years
- Warehouse leases 2 years
- IT leases 4 years

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Leases (continued)

(ii) Lease liabilities (continued)

The Group's lease liabilities are included in the IFRS 16 disclosure note (see note 31).

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

Prior Year IAS 17 Treatment

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 2.5 below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.4 Foreign currencies

The Financial Statements of the Group are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated and separate Financial Statements, the results and financial position are expressed in Zambian Kwacha ('K'), which is the functional currency of the Company and its subsidiary, as well as the presentation currency for the consolidated Financial Statements.

In preparing the Financial Statements of the Company and its subsidiary, transactions in currencies other than the Company and its subsidiary's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for: exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings and exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.16 below for hedging accounting policies).

2.5 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.6 Retirement benefits

The Group's employees are members of a separately administered defined contribution pension scheme. Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group also contributes to the National Pension Scheme Authority (NAPSA), a defined contribution scheme, for its eligible employees as provided for by law. Membership is compulsory and monthly contributions are made by both employer and employees. The employer's contribution is charged to profit or loss in the year in which it arises.

2.7 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from ‘profit before tax’ as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Such assets are initially shown as capital work in progress and are later classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than assets under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The Group's depreciation rates are as follows:

• Leasehold buildings	2 - 60 years
• Canals and domestic waterworks	2 - 60 years
• Furniture, fittings and equipment	5 - 12 years
• Plant and machinery	15 - 50 years
• Vehicles	5 - 15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

In Zambia, land is held on lease from the Government of the Republic of Zambia for a period of 99 years. The IFRS 16 Standard does not differentiate between an operating lease and a finance lease for the lessee. The standard requires that for any lease a right of use and lease liability be recognised unless the Group deems the lease as short-term lease or of low value. The Group considers the amounts paid for Ground rates as a "Low Value" short-term lease. Any advance payment is treated as a prepayment and amortised over the period of the lease on a straight line basis.

Bearer plants comprising of cane roots are stated at cost less accumulated depreciation and accumulated impairment losses. Costs capitalised to cane roots include preparing the land, maintaining a source of seed cane, planting the seed cane and costs related to establishing new area under cane. Depreciation of bearer plants commence when they are ready for their intended use. Costs incurred for infilling including block infilling are generally recognised in the Statement of Profit and Loss unless there is a significant increase in the yield of the sections, in which case such costs are capitalised and depreciated over the remaining useful life of the respective fields.

Depreciation on bearer plants is recognised so as to write off its cost less residual values over useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Estimated useful lives of the bearer plants has been determined to be 8 years.

2.9 Asset impairment review

An assessment is made at each reporting date to determine whether there is objective evidence that the Group's tangible and intangible assets may be impaired. An estimate of the future undiscounted net cash flows of the related assets over the remaining useful life is used to determine whether the asset value is recoverable and to measure any impairment by reference to fair value. If such evidence exists, the estimated recoverable amount of the asset is determined and any impairment loss on the difference between the recoverable amount and carrying amounts is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Asset impairment review (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.10 Growing cane

The fair value of growing cane is determined as the estimated sucrose content in the sugar cane at 31 March, valued at the estimated sucrose price for the following season. The estimated sucrose price is adjusted for the estimated costs of harvesting the sugar cane and transporting it from the field to the mill. The sucrose content is estimated in tonnes and is adjusted by a factor to reflect the growth of the cane at 31 March (i.e. the cane growth percentage). The cane growth percentage reflects the long-term average climate and agricultural conditions at each operation and will not fluctuate for year-on-year changes in milling season length or weather events (e.g. floods or drought). Rather, such changes are embodied in the fair value through a revision to the estimated sucrose content to which the cane growth percentage is applied.

The valuation as at August is derived from the March valuation by deducting the costs necessarily incurred to farm sugar cane until the commencement of the following season and the expected profit margin on the cane growing activity.

2.11 Factory overhaul costs

Factory overhaul costs comprise expenditure actually incurred on plant and equipment for the overhaul of the factory in preparation for the new sugar season commencing after financial year-end. This expenditure is written off in full over its expected useful life being the duration of one sugar season.

2.12 Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Intangible assets assessed as having an indefinite useful life are not amortised but tested for impairment annually and impaired, if necessary. Intangible assets assessed as having a finite useful life are amortised over their useful lives using a straight-line basis and are tested for impairment if there is an indication that it may be impaired.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Costs of inventory are determined using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Redundant and slow-moving inventories are identified and written down to their net realisable value and obsolete inventories are written off.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A contingent liability is disclosed when the Group has a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

2.15 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a) Financial assets

Initial recognition and measurement

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit and loss) are added to the fair value of the financial asset on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in note 2.2 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

2.15 Financial instruments – initial recognition and subsequent measurement (continued)

a) Financial assets (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost mainly comprises trade receivables.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group does not have financial assets recognised at fair value through OCI as at 31 August 2020.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired.

2.15 Financial instruments – initial recognition and subsequent measurement (continued)

a) Financial assets (continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The default classification of 365 days is made on the following basis:

- Customers at times exceed their payments terms for various reasons. Often, debt falls into 120 days due to reconciling issues/WHVAT related issues/misallocations/disputes over commissions being applied. It takes extensive engagement and reconciling to resolve some of these issues. The recoverability in most instances is not in question.
- In certain circumstances, customers go through temporary cash flow challenges, but they are fully committed to settling the debts. In these instances, payment plans are entered into. In certain instances, these payment plans can extend even beyond 12 months.
- The default classification of 365 days gives management a strong indication that the debt is potentially irrecoverable. Debt that falls into the category of 120 - 365 days old provides management with an indication of potential irrecoverability.
- This should always be considered against the backdrop of agreed upon payment plans with customers, or other relevant information specific to that customer. If there are payment plans which are being met, then management may make specific adjustments to expected default.

b) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial instruments – initial recognition and subsequent measurement (continued)

a) Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial Liabilities at amortised cost (Loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 21.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

d) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term bank overdrafts on which interest is charged. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash at hand and bank, net of outstanding bank overdrafts as they are considered an integral part of the Group’s cash management.

2.16 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. For the purpose of hedge accounting, hedges are classified as:

Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Beginning 1 September 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument;
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.
If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions. The ineffective portion relating to foreign currency contracts is recognised as other expense. Refer to note 27 for more details.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Derivative financial instruments and hedge accounting (continued)

The Group designated all of the forward contracts as hedging instrument. Any gains or losses arising from changes in the fair value of derivatives were taken directly to profit or loss, except for the effective portion of cash flow hedges, which were recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied. For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

2.17 Segmental analysis

Segment reporting is presented in respect of the Group's business segments. The business segments format is based on the Group's management and internal reporting structure and combines businesses with common characteristics. Intersegment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segmental capital expenditure is the total costs incurred during the period to acquire segment assets that are expected to be used for more than one year. The Group is comprised of the

following business segments:

- **Cane growing** - the growing of sugar cane for use in the sugar production process; and
- **Sugar production** - the manufacture of sugar from sugar cane.

2.18 Non-current assets held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortised while they are classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss. Refer to note 13.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 New and amended standard and interpretations

The Financial Statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year, except for the adoption of the following revised accounting standards and amendments applicable to the Group.

3.1.1 Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. This was effected by the Group in the current year. This amendment had no impact on the consolidated Financial Statements of the Group.

3.1.2 IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The Group applied a modified retrospective approach on implementation of IFRS 16.

3.1 New and amended standard and interpretations (continued)

3.1.2 IFRS 16 Leases (continued)

The effect of adopting IFRS 16 as at 1 September 2020 is as follows:

Impact on the statement of financial position (increase/(decrease)):

	1 Sep 2019 K'000
Assets	
Right of use Assets	29 122
Deferred tax Asset	1 905
Total assets	31 027
Lease Liability - Capital	(49 593)
Lease Prepayments	(1 092)
Total liabilities	(50 685)
Total adjustments on equity	
Retained earnings	
Lease Transition Equity adjustment	20 758
Lease Liability FX Gain/Loss transition adjustment	29 989
	50 747
Impact in the statement of profit or loss for 2020:	
Depreciation expense of right-of-use assets (included in cost of sales)	(18 211)
Interest expense on lease liabilities (included in finance cost)	(24 313)
Foreign exchange gain/(loss) (included in finance cost)	(21 859)
Operating Lease expense (land rates included in administrative expenses)	(37)

Due to the adoption of IFRS 16, the Group's operating profit has improved while its interest expense has increased.

This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

The effective average discounting rate can be referenced in note 31.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

3.1 New and amended standard and interpretations (continued)

3.1.2 IFRS 16 Leases (continued)

The Group also applied the available practical expedients:

- Use of hindsight in determining the lease term if contracts contain extension or termination options.
- Applying single discount rates to portfolios of leases with reasonably similar characteristics .

The Right-of-Use Assets and Lease Liabilities can be reconciled to the operating lease commitments as at 1 September 2019 as follows:

	K'000
Annual Operating lease commitments at lease commencement	10 349
Effective discounting rate as at 1 September 2019	30.8%
Discounted operating lease commitments at lease commencement	35 517
Liability	
Discounted operating lease commitments at lease commencement	(35 517)
Less:	
Initial liability as per model	(21 342)
Capital repayment pre-transition date	95 129
Interest accrual pre-transition date	(73 368)
FX gains/losses	(14 495)
Lease Liability on transition as at 1 September 2019	(49 593)

3.1.3 IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group applied the interpretation from its effective date.

The amendments had no material impact on the consolidated Financial Statements of the Group.

3.2 International Financial Reporting Standards in issue, but not yet effective

3.2.1 Definition of a Business - Amendments to IFRS 3

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities.

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

These amendments had no impact on the consolidated Financial Statements of the Group as there is no transaction where a joint control is obtained.

3.2.2 Definition of Material - Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the Financial Statements.

New threshold

The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users. The amendments are expected to have no impact on the consolidated Financial Statements of the Group.

3.2.3 Classification of Liabilities as Current or Non-current - Amendments to IAS 1

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.

3.2 International Financial Reporting Standards in issue, but not yet effective (continued)

- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

Right to defer settlement
The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period
The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations
IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the Financial Statements are authorised for issuance.

Effective for annual periods beginning on or after 1 January 2022.

3.2.4 Annual Improvements 2018-2020 Cycle

IFRS 1 First-time Adoption of International Financial Reporting Standards

Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments are expected to have no impact on the consolidated Financial Statements of the Group as the company and subsidiary report in the same currency.

IFRS 9 Financial Instruments

Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. The Group's current practice is in line with these amendments, they are expected to have no impact on the consolidated Financial Statements of the Group.

Illustrative Examples accompanying IFRS 16 Leases

Lease incentives

The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

3.2.4 Annual Improvements 2018-2020 Cycle (continued)

3.2.4 Annual Improvements 2018-2020 Cycle (continued)

IAS 41 Agriculture

Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022.

The Group's current practice is in line with these amendments, they are expected to have no impact on the consolidated Financial Statements of the Group.

3.2.5 Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated Financial Statements of the Group as it does not have any interest rate hedge relationships.

The amendments are expected to have no impact on the consolidated Financial Statements of the Group.

3.2.6 Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated Financial Statements of the Group.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the Directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets, liabilities and contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see note 4.2 below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated Financial Statements.

4.1.1 Impairment of non-financial assets

In making its judgment, management has assessed at each reporting date whether there is any indication that the Group's tangible and intangible assets may be impaired. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

4.1 Critical judgments in applying accounting policies (continued)

4.1.1 Impairment of non-financial assets (continued)

The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in note 15.

4.1.2 Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group’s historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future. The information about the ECLs on the Group’s trade receivables is disclosed in note 18.

4.1.3 Fair value measurement of financial instruments.

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See note 29.6 for further disclosures.

4.1.4 Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group is reasonably certain that the renewal option will be exercised for all it's lease contracts and therefore factors this into its lease asset and liability amounts.

4.1.5 Leases-estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group ‘would have to pay’, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

4.1 Critical judgments in applying accounting policies (continued)

4.1.5 Leases-estimating the incremental borrowing rate (continued)

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4.2 Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management has made the following key assumptions concerning the future and other key sources of uncertainty at the reporting date that have the most significant effect on the amounts recognised in the financial statements.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 Property, plant and equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated useful lives using the straight line basis. Management reviews the residual values annually considering market conditions and projected disposal values. In assessing useful lives, maintenance programmes and technological innovations are considered. The carrying value of property, plant and equipment is disclosed in note 12 to the Financial Statements.

Cane roots valuation

The escalated average costs of planting cane roots are adjusted for the remaining expected life. This requires an estimation by management of the average number of ratoons expected from the crop. The carrying value of cane roots is disclosed in note 12 to the Financial Statements.

4.2.2 Growing cane valuation

Growing cane is valued at the estimated sucrose content valued at the estimated sucrose price for the following season, less estimated costs for harvesting and transport. The value of growing cane is further adjusted for the estimated cane growth percentage, the costs necessarily incurred to farm the sugar cane until the commencement of the following season and the expected profit margin on the cane growing activity. The estimated sucrose content requires management to assess the expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. In assessing the estimated sucrose price, management is required to assess into which markets the forthcoming crop will be sold and assess the domestic and export prices as well as related foreign currency exchange rates. In addition, management prepares detailed costs forecasts to determine the costs to farm the sugar cane to maturity as well as the expected profit margin. The carrying value of growing cane is disclosed in note 17 to the Financial Statements.

4.2.3 Income taxes

At the time of preparing the Annual Financial Statements, estimates are used to determine the income tax charge for the year. When the income tax computation is finalised and submitted to the Zambia Revenue Authority, any differences to the estimate will be recognised in profit or loss in the period in which such determination is made.

There are no other key assumptions concerning the future, or key sources of estimation uncertainty at the reporting date, that management have assessed as having a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

5.1 Disaggregated revenue information

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Revenue represents proceeds receivable from the following primary business segments:				
Sugar production	**1 310 000**	2 040 000	**2 580 021**	2 303 391
Cane growing	**754 903**	652 567	**754 903**	652 567
Total revenue from contracts with customers	**3 334 924**	2 955 958	**3 334 924**	2 955 958
From secondary business segments as follows:				
Local market	**2 079 482**	1 573 318	**2 079 482**	1 573 318
Export market	**1 255 442**	1 382 640	**1 255 442**	1 382 640
Total revenue from contracts with customers	**3 334 924**	2 955 958	**3 334 924**	2 955 958
From geographical business segments as follows:				
Zambia	**2 079 482**	1 638 853	**2 079 482**	1 638 853
Rest of Africa	**1 254 930**	1 267 069	**1 254 930**	1 267 069
Europe	**512**	50 036	**512**	50 036
Total revenue from contracts with customers	**3 334 924**	2 955 958	**3 334 924**	2 955 958

The Group recognised a net gain on impairment of receivables arising from contracts with customers, included in the statement of profit or loss, amounting to K 1.31 million for the year ended 31 August 2020 (2019: K 2.04 million impairment loss). This was largely driven by higher volumes of cash sales and efficient debt management during the current financial year.

5.2 Contract balances

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Contract liabilities (note 25)	**281 663**	221 272	**281 663**	221 272

Contract liabilities relate to amounts received in advance from customers in relation to sales contracts. These liabilities were previously disclosed under trade and other payables (note 24).

6. OPERATING PROFIT

Operating profit has been determined after charging/(crediting) the following:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Employees remuneration expenses	**500 745**	533 382	**474 803**	507 528
Exchange loss (trading balances)	**23 450**	39 842	**22 363**	38 213
Depreciation expense (see note 12)	**107 064**	105 518	**97 834**	96 261
Factory overhaul costs expensed (see note 16.1)	**98 731**	75 506	**98 731**	75 506
Employer contributions to pension funds (see note 30)	**39 007**	38 183	**37 471**	37 135
Operational support fees (see note 25.1.2)	**52 748**	42 770	**52 748**	42 770
Lease expenses (see note 30)	**67 882**	-	**67 873**	-
Depreciation expense of right-of-use assets	**18 211**	-	**18 211**	-
Interest expense on lease liabilities	**24 313**	-	**24 313**	-
Foreign exchange gain	**21 859**	-	**21 859**	-
Short-term lease charges	**3 490**	-	**3 490**	-
Operating lease charges	**-**	31 321	**-**	31 321
Property and ground rates	**-**	27 522	**-**	27 522
Plant and equipment	**-**	3 799	**-**	3 799
Directors' emoluments for services as directors	**1 562**	1 517	**1 163**	1 508
Auditors' remuneration	**2 365**	2 111	**1 966**	1 738
- Audit fees	**2 203**	2 010	**1 807**	1 655
- Fees for other services	**-**	-	**-**	-
- Other expenses	**162**	101	**159**	83
Profit on disposal of plant and equipment	**(6 260)**	(6 157)	**(6 260)**	**(5 854)**
Charitable donations	**319 540**	292	**319 247**	50
Fair value adjustments				
- Growing cane (see note 17)	**47 699**	34 250	**35 081**	26 731

7. NET FINANCING COSTS

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Finance costs				
Interest charged on:				
Long-term borrowings	**21 901**	42 099	**21 901**	42 099
Related party borrowings (see note 25.5)	**280 695**	237 329	**280 911**	239 826
Bank overdraft and short-term facilities	**10 092**	23 580	**10 092**	23 613
Other	**14 143**	(2 039)	**14 143**	(2 039)
Total interest charged	**326 831**	300 969	**327 047**	303 499
Finance income				
Interest received on positive cash balances	**(940)**	(1 149)	**(920)**	(1 149)
Other Interest income	**-**	(328)	**-**	(328)
	325 891	299 492	**326 127**	302 022

8. TAXATION

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Current tax				
- current year charge	**69 447**	25 409	**64 030**	20 510
- prior year charge*	**46 452**	-	**46 452**	
- (over)/under provision in prior year	**-**	(2 005)	**-**	(1 928)
Deferred taxation (see note 22)				
- current year (credit)/charge	**98 177**	(10 462)	**96 642**	(11 309)
- under/(over) provision in prior year	**-**	**23 913**	**-**	23 836
Total taxation (credit)/charge	**214 076**	36 855	**207 124**	31 109
Included under current assets:				
Taxation (payable)/ receivable at beginning of period	**(17 855)**	1 744	**(11 230)**	5 631
Current year charge	**(69 447)**	(25 409)	**(64 030)**	(20 510)
Prior year charge	**(46 452)**	-	**(46 452)**	-
(Over)/under provision in prior year	**5 339**	2 005	**(1 234)**	1 928
	(128 415)	(21 660)	**(122 946)**	(12 951)
Paid during the year	**83 330**	3 924	**80 766**	1 721
- Prior year	**-**	(119)	**-**	-
Taxation (payable)/receivable at end of period	**(45 085)**	(17 855)	**(42 180)**	(11 230)

Reconciliation of taxation rate :	%	%	%	%
Statutory taxation rate applicable to agricultural entities-	**10.0**	10.0	**10.0**	10.0
Increase/(decrease) in charge due to:				
- Under/(over) provision in prior year	**9.7**	9.1	**1.2**	9.1
- Expenses disallowed for tax purposes	**2.0**	3.1	**1.4**	2.0
- Tax rate differential on non-farming income	**5.7**	1.3	**6.6**	-
- Other - Blended rate adjustment on first expansion assets	**18.7**	(10.1)	**21.7**	(10.1)
- Other adjustments	**(0.5)**	0.1	**(0.5)**	0.1
Effective rate of taxation	**45.6**	13.5	**50.4**	11.2

Non-deductible expenses (disallowed) include employee non-cash fringe benefits (motor vehicles and housing benefits) and incidental costs of obtaining finance (arrangement fees and guarantee fees).

The Company's effective tax rate for the year is 50% as a result of tax effect of the tax rate change for the tax years 2013 to 2019. Taxable business profits are currently split and taxed as follows:

a) Agriculture - 10%;
b) Non-traditional exports - 15%; and
c) Manufacturing - 35%.

*The prior year charge is a change in accounting estimate as opposed to an error. The basis is this change has been outlined above in the effective tax rate composition.

8. TAXATION - (continued)

Aging of Disallowed Interest

Effective 1 January 2019 deductible interest expense shall be restricted to 30% of EBITDA as provided under section 29 of the Zambia Income Tax Act (as amended). The Group and Company has estimated disallowed interest of K 228 million (August 2019: K 108 million) available to carry forward for a period of not more than five years from the charge year in which they were disallowed for set off against future taxable profits from the same source as follows:

August 2019 disallowed interest available until August 2024	**104 950**	104 950	**104 950**	104 950
August 2017 tax losses available until 2022	**2 830**		**2 830**	
August 2019 Prior year adjustment	**120 269**	-	**120 269**	-
	228 049	104 950	**228 049**	104 950

9. EARNINGS PER SHARE

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Earnings per share (ngwee per share)	**74.2**	83.3	**65.3**	77.4
Headline earnings per share (ngwee per share)	**72.4**	81.6	**63.5**	75,8
	Shares	Shares	**Shares**	Shares
Number of shares	**'000**	'000	**'000**	'000
Weighted average number of ordinary shares for the purposes of basic earnings, diluted earnings and headline earnings per share	**316 571**	316 571	**316 571**	316 571
Reconciliation of earnings	**K'000**	K'000	**K'000**	K'000
Profit/(loss) attributable to shareholders of Zambia Sugar Plc	**234 874**	263 730	**206 779**	245 126
Earnings for the purposes of earnings per share	**234 874**	152 642	**206 779**	130 104
Reconciliation of headline earnings				
Profit/(loss) attributable to shareholders of Zambia Sugar Plc	**234 874**	263 730	**206 779**	245 126
Gain on sale of property, plant and equipment	**(6 260)**	(5 854)	**(6 260)**	(5 854)
Tax effect of adjustments	**626**	585	**626**	585
Non-controlling interest effect of adjustments	**-**	-	**-**	-
Headline earnings for the year	**229 240**	258 461	**201 145**	239 857

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these Financial Statements.

10. DIVIDENDS PAID

Dividends of K 25 326 million were paid in the current year (2019: Nil).

Dividends proposed per share - final 2020 to be proposed at AGM (ngwee)	**24**	8	**24**	8
Number of ordinary shares in issue ('000)	**316 571**	316 571	**316 571**	316 571

11. SEGMENTAL ANALYSIS

	Group			Company		
Year ended 31 August 2020	**Sugar production**	**Cane growing**	**TOTAL**	**Sugar production**	**Cane growing**	**TOTAL**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Revenue	2 580 021	754 903	3 334 924	2 580 021	754 903	3 334 924
Material items of expense						
Employee costs	(156 980)	(194 616)	(351 596)	(156 980)	(171 232)	(328 212)
Electricity and fuel	28 857	(85 274)	(56 417)	28 857	(77 147)	(48 290)
Operating costs	(61 773)	(222 589)	(284 362)	(61 773)	(179 400)	(241 173)
Refining, packing and storage	(136 414)	-	(136 414)	(136 414)	-	(136 414)
Cane haulage		(94 502)	(94 502)		(69 488)	(69 488)
Operating profit/(loss)	619 432	155 409	774 841	619 446	90 709	710 155
Property, plant and equipment	1 427 191	464 116	1 891 307	1 418 383	340 413	1 758 796
Balance at beginning of period	1 432 164	469 711	1 901 875	1 419 371	357 480	1 776 851
Additions at cost	82 041	16 717	98 758	82 041	-	82 041
Depreciation charge for the period	(84 752)	(22 312)	(107 064)	(80 767)	(17 067)	(97 834)
Net book value of disposals	(2 262)	-	(2 262)	(2 262)	-	(2 262)
Intangible assets	-	67 902	67 902	-	-	-
Investment in subsidiary	-	-	-	-	177 163	177 163
Right-of-use assets	42 385	-	42 385	42 385	-	42 385
Current assets	1 381 269	515 566	1 896 835	1 381 269	409 024	1 790 293
Inventories	846 434	93 954	940 388	846 434	77 157	923 591
Growing cane	-	384 444	384 444	-	318 495	318 495
Trade and other receivables	455 028	32 713	487 741	455 028	13 372	468 400
Derivative financial instruments	-	-	-	-	-	-
Amounts due from related parties	3 256	-	3 256	3 256	-	3 256
Assets classified as held for sale	3 851	-	3 851	3 851	-	3 851
Cash and cash equivalents	72 700	4 455	77 155	72 700	-	72 700
Current liabilities	833 037	153 843	986 880	913 319	127 614	1 040 933
Trade and other payables	375 023	117 080	492 103	375 023	93 756	468 779
Lease Liabilities	28 967	-	28 967	28 967	-	28 967
Contract Liabilities	281 663	-	281 663	281 663	-	281 663
Short-term borrowings	55 615	29 947	85 562	55 615	29 947	85 562
Amounts due to related parties	35 851	-	35 851	116 133	-	116 133
Derivative financial instruments	-	-	-	-	-	-
Current tax liability	42 180	2 905	45 085	42 180	-	42 180
Bank overdrafts	2 010	-	2 010	2 010	-	2 010
Provisions	11 728	3 911	15 639	11 728	3 911	15 639
Non-current liabilities	951 920	391 905	1 343 825	951 920	366 961	1 318 881
Long-term borrowings	681 499	366 961	1 048 460	681 499	366 961	1 048 460
Lease Liabilities	65 933	-	65 933	65 933	-	65 933
Deferred tax liability	204 488	24 944	229 432	204 488	-	204 488
Net asset value	**1 065 888**	**501 836**	**1 567 724**	**976 798**	**432 025**	**1 408 823**

The Group's business operating units are segmented up to operation profit stage.

11. SEGMENTAL ANALYSIS (continued)

	Group			Company		
Period ended 31 August 2019	**Sugar production**	**Cane growing**	**TOTAL**	**Sugar production**	**Cane growing**	**TOTAL**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Revenue	2 303 391	652 567	2 955 958	2 303 391	652 567	2 955 958
Material items of expense						
Employee costs	(141 698)	(190 804)	(332 502)	(141 698)	(164 953)	(306 651)
Electricity and fuel	14 505	(52 386)	(37 881)	14 505	(44 868)	(30 363)
Operating costs	(47 692)	(181 371)	(229 063)	(47 692)	(147 098)	(194 790)
Refining, packing and storage	(114 957)	-	(114 957)	(114 957)	-	(114 957)
Cane haulage		(94 669)	(94 669)		(71 442)	(71 442)
Operating profit	465 293	140 448	605 741	467 143	94 368	561 511
Property, plant and equipment	1 432 164	469 711	1 901 875	1 419 371	357 480	1 776 851
Balance at beginning of period	1 431 506	481 554	1 913 060	1 418 713	375 091	1 793 804
Additions at cost	81 257	15 025	96 282	81 257	-	81 257
Depreciation charge for the period	(78 650)	(26 868)	(105 518)	(78 650)	(17 611)	(96 261)
Net book value of disposals	(1 949)	-	(1 949)	(1 949)	-	(1 949)
Intangible assets	-	67 902	67 902	-	-	-
Investment in subsidiary	-	-	-	-	177 163	177 163
Current assets	1 536 384	443 602	1 979 986	1 536 384	355 861	1 892 245
Inventories	618 377	69 013	687 390	618 377	56 369	674 746
Growing cane	-	336 745	336 745	-	283 414	283 414
Trade and other receivables	547 074	37 403	584 477	547 074	16 078	563 152
Derivative financial instruments	26 228	-	26 228	26 228	-	26 228
Taxation receivable	-	-	-	-	-	-
Amounts due from related parties	10 265	-	10 265	10 265	-	10 265
Assets classified as held for sale	5 625	-	5 625	5 625	-	5 625
Cash and cash equivalents	328 815	441	329 256	328 815	-	328 815
Current liabilities	813 177	185 846	999 023	885 788	162 002	1 047 790
Trade and other payables	302 001	92 719	394 720	302 001	75 500	377 501
Contract Liabilities	221 272	-	221 272	221 272	-	221 272
Short-term borrowings	150 795	81 198	231 993	150 795	81 198	231 993
Amounts due to related parties	95 691	-	95 691	168 302	-	168 302
Derivative financial instruments	44	-	44	44	-	44
Current tax liability	11 230	6 625	17 855	11 230	-	11 230
Bank overdrafts	16 239	-	16 239	16 239	-	16 239
Provisions	15 905	5 304	21 209	15 905	5 304	21 209
Non-current liabilities	1 024 710	513 351	1 538 061	1 024 710	489 896	1 514 606
Long-term borrowings	909 808	489 896	1 399 704	909 808	489 896	1 399 704
Deferred tax liability	114 902	23 455	138 357	114 902	-	114 902
					-	
Net asset value	**1 130 661**	**282 018**	**1 412 679**	**1 045 257**	**238 606**	**1 283 863**

The Group's business operating units are segmented up to operation profit stage.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Motor vehicles	Furniture and fittings	Cane roots	Capital work in progress	Total
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
GROUP							
Cost							
Balance at 1 September 2018	748 248	1 540 386	111 121	21 797	244 359	29 959	2 695 870
Additions	-	-	-	-	43 984	52 298	96 282
Transfers	2 365	42 563	14 153	4 233	-	(63 314)	-
Disposals	-	(356)	(12 299)	-	-	-	(12 655)
Balance at 31 August 2019	**750 613**	**1 582 593**	**112 975**	**26 030**	**288 343**	**18 943**	**2 779 497**
Additions	4 319	530	-	-	43 965	49 944	98 758
Transfers	1 594	27 487	3 337	711	-	(33 129)	-
Disposals	-	(1 780)	(13 692)	-	-	-	(15 472)
Balance at 31 August 2020	**756 526**	**1 608 830**	**102 620**	**26 741**	**332 308**	**35 758**	**2 862 783**
Accumulated depreciation							
Balance at 1 September 2018	118 708	442 957	72 268	17 740	131 137	-	782 810
Charge for period	12 747	59 105	10 011	1 792	21 863	-	105 518
Disposals	-	-	(10 706)	-	-	-	(10 706)
Balance at 31 August 2019	**131 455**	**502 062**	**71 573**	**19 532**	**153 000**	**-**	**877 622**
Charge for year	12 674	59 844	8 896	1 790	23 860	-	107 064
Disposals	-	(1 647)	(11 562)	-	-	-	(13 209)
Balance at 31 August 2020	**144 129**	**560 259**	**68 907**	**21 322**	**176 860**	**-**	**971 476**
Net carrying amount							
Balance at 31 August 2020	**612 397**	**1 048 572**	**33 713**	**5 419**	**155 448**	**35 758**	**1 891 307**
Balance at 31 August 2019	619 158	1 080 531	41 402	6 498	135 343	18 943	1 901 875

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings	Plant and machinery	Motor vehicles	Furniture and fittings	Cane roots	Capital work in progress	Total
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
COMPANY							
Cost							
Balance at 1 September 2018	662 973	1 501 114	108 259	21 031	198 805	25 571	2 517 753
Additions	-	-	-	-	36 509	44 748	81 257
Transfers	1 085	37 537	14 153	4 233	-	(57 008)	-
Disposals	-	(356)	(12 299)	-	-	-	(12 655)
Balance at 31 August 2019	664 058	1 538 295	110 113	25 264	235 314	13 311	2 586 355
Additions	3 427	-	-	-	40 976	38 452	82 855
Transfers	1 594	22 284	2 909	711	-	(27 498)	-
Disposals	-	(1 780)	(13 692)	-	-	-	(15 472)
Balance at 31 August 2020	**669 079**	**1 557 985**	**99 930**	**25 975**	**276 290**	**24 265**	**2 652 924**
Accumulated depreciation							
Balance at 1 September 2018	117 364	413 060	70 895	17 242	105 388	-	723 949
Charge for year	12 527	54 717	9 623	1 783	17 611	-	96 261
Disposals	-	-	(10 706)	-	-	-	(10 706)
Balance at 31 August 2019	**129 891**	**467 777**	**69 812**	**19 025**	**122 999**	**-**	**809 504**
Charge for period	12 550	55 021	8 603	1 785	19 875	-	97 834
Disposals	-	(1 647)	(11 562)	-	-	-	(13 209)
Balance at 31 August 2020	**142 441**	**521 151**	**66 853**	**20 810**	**142 874**	**-**	**894 128**
Net carrying amount							
Balance at 31 August 2020	**526 638**	**1 036 834**	**32 477**	**5 165**	**133 416**	**24 265**	**1 758 796**
Balance at 31 August 2019	534 167	1 070 518	40 301	6 239	112 315	13 311	1 776 851

Expenditure on assets under construction is initially shown as capital work in progress and is transferred to the relevant class of asset when commissioned. In accordance with Zambia Companies Act, 2017 the Register of Land and Buildings is available for inspection by members and their duly authorised agents at the registered office of the Company.

The Company has pledged by way of a first legal mortgage over all fixed property to which the Company holds title and first fixed charge over all property, plant and machinery as security for the long-term borrowings referred to in note 21.

The Directors consider that the fair value of the property, plant and equipment as at 31 August 2020 is at least equal to their carrying values as reflected in the statement of financial position.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Leasehold Land

On 1 April 2007, the Company entered into land leasehold agreements with six local farmers for the purposes of growing sugar cane. The agreements are for a period of 17 years and the total leasehold land area is 3 226 ha. The leases were treated as operating leases under IAS 17 and were charged to profit or loss over the lease period in the previous financial year as follows:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Within one year	**-**	9 526	**-**	11 320
More than one year but less than five years	**-**	38 104	**-**	45 275
More than five years	**-**	47 630	**-**	186 760
	-	95 260	**-**	243 355

The leases have since been reclassified under IFRS 16 upon adoption on 1 September 2019.

13. ASSETS HELD FOR SALE

On 30 May 2016, management completed the construction of the refinery and decided to discontinue the internal use of the heavy-duty machinery (cranes), contractors' camp and other assets directly connected to the construction of the refinery. This decision was taken in line with the Company's strategy to focus on its sugar business and related products. Consequently, all excess assets were classified as a disposal group. There were no liabilities associated with this decision. Measurement of the disposal group's assets at fair value less costs to sell did not result in a profit or loss.

On 17 February 2017, the Board approved the sale of houses outside the Nakambala Estate perimeter to sitting tenants (employees). Respective employees were given a conditional offer to procure the houses. At year-end, five houses were not sold (2017: 26 houses). Consequently, the unsold houses were classified as held for sale and placed in a disposal group. There were no liabilities associated with this decision. Measurement of the disposal group's assets at fair value less costs to sell did not result in a profit or loss.

Some assets classified as held for sale were sold during the financial year and further sales have been concluded beyond year-end. Some of the assets were sold during the financial year. Unfortunately due to the restrictions in movement and public gathering as a result of the COVID-19 pandemic, management could not actively seek buyers to finalise the sale of all items by 31 August 2020. Management are still committed to have the items sold.

The carrying amounts of assets in the disposal group is analysed as follows:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Property, plant and equipment				
Balance at start of year	**5 625**	6 898	**5 625**	6 898
Disposals during the year	**(1 774)**	(1 273)	**(1 774)**	(1 273)
Balance at end of year	**3 851**	5 625	**3 851**	5 625

14. INTANGIBLE ASSET

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Balance at the beginning and end of year	**67 902**	67 902	**-**	-

The intangible asset represents a strategic cane supply arrangement arising from the acquisition of a controlling interest in Nanga Farms Plc. The arrangement provides security over cane supply to Zambia Sugar Plc, is considered to have an indefinite useful life, and is tested for impairment annually.

The Group performed its annual impairment test in August 2020. The recoverable amount of Investment in Nanga Farms is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The Weighted Average Cost of Capital (WACC) applied to the cash flow projections is 18.64%. The Group calculates and reports on the WACC based on agreed methodology, using inputs from respective banks to determine the cost of equity and the debt facilities to calculate the cost of debt. The Group then use the target debt/equity weightings to calculate the WACC.

It incorporates country, currency and company risk in arriving at the cost of equity. Cost of debt is a function of the current debt facilities. The Group uses a five-year impairment assessment model to determine the Value in use and the carrying value of the Cash Generating Unit (CGU). The investment in Nanga Farms ensure security of source of cane supply as the Group has control of the product from Nanga, thereby preventing other entities from accessing sugar cane from Nanga Farms.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use for the investment in Nanga Farms is most sensitive to the following assumptions:

- Discount rates.
- Raw materials price inflation.
- Operational parameters.
- Gross and EBITDA margins.

Discount rates - Discount rates represent the current market assessment of the specific risks taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in the pre-tax discount rate to by +0.5% would not result in impairment. A rise or decline in the discount rate to by +0.5% would not result in impairment.

Production inputs price inflation - Estimates are obtained from published indices in Zambia, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements are used as an indicator of future price movements. Management has considered the possibility of greater than forecast increases in raw material price inflation. This may occur if anticipated regulatory changes result in an increase in demand that cannot be met by suppliers. Forecast long term inflation lies at 6%. If prices of raw materials increase on average by 0.5% more than the forecast price inflation, the Group will still have no impairment.

Operational parameters - Operational parameters include cane yields, sucrose percentage in sugar cane, and sucrose price. A 1% movement in operational parameters would not result in an impairment.

Gross margins - Gross margins are based on average values achieved in the six years preceding the beginning of the budget period. The gross margin for Nanga was 39.9%. These are increased over the budget period for anticipated efficiency improvements. An increase of 5% per annum was applied. Increased operational costs and reduced cane yields can lead to a decline in the gross margin. A decrease in the gross margin by 1.0% would not result in an impairment. EBITDA margin changes are highly correlated to the Gross Profit margin changes due to the low proportion of operating expenses.

15. INVESTMENTS IN SUBSIDIARIES

The principal subsidiaries of Zambia Sugar Plc are as follows:

	Issued capital K'000	Effective percentage holding %	Shares at cost K'000	Amounts due by subsidiary K'000	Amounts due to subsidiary K'000
August 2020					
Direct Investment					
Tukunka Agriculture Ltd	**10 000**	**100,0**	**-**	**-**	**-**
Nanga Farms Plc	**487**	**14,27**	**21 539**	**-**	**-**
Indirect Investment					
Nanga Farms Plc	**487**	**85,7**	**155 624**	**-**	**80 967**
August 2019					
Direct Investment					
Tukunka Agriculture Ltd	**10 000**	100,0	-	-	-
Nanga Farms Plc	**487**	**14,27**	**21 539**	-	-
Indirect Investment					
Nanga Farms Plc	487	85,7	155 624	-	72 963

On 28 December 2018, the Group acquired 14.27% shares of Nanga Farms Plc for K 21.5 million. This increased the Group's level of investment in Nanga Farms Plc from 85.73% to 100%. The Group acquired the additional shares in Nanga Farms Plc because it expands its existing product portfolio and securing source of cane supply. The acquisition has been accounted for using the acquisition method. The Financial Statements include the results of the entire accounting period. The fair values of the identifiable assets and liabilities of Nanga Farms Plc as at the date of acquisition were K 193 million.

16. INVENTORIES

		Group		Company	
	Note	**August 2020 K'000**	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Maintenance stores (at cost)		**167 059**	133 804	**154 386**	124 713
Provision for obsolescence		**(3 963)**	(4 066)	**(3 397)**	(3 460)
		163 096	129 738	**150 989**	121 253
Livestock		**4 690**	4 159	**-**	-
Factory overhaul costs	16.1	**37 475**	32 822	**37 475**	32 822
Finished goods - sugar (at lower of cost and net realisable value)		**735 127**	520 671	**735 127**	520 671
Total inventories at the lower of cost and net realisable value		**940 388**	687 390	**923 591**	674 746
Movement in provision for slow-moving stocks					
Balance at beginning of year		**4 066**	3 312	**3 460**	2 732
Amounts written off during the year		**-**	754	**-**	728
Provision released during the year		**(103)**	-	**(63)**	-
Balance at end of year		**3 963**	4 066	**3 397**	3 460

The costs of individual items of inventory are determined using weighted average costs.

16. INVENTORIES (continued)

Write-downs of finished goods to net realisable value at year-end amounted to K 5.1 million (August 2019: K 7.3 million). These were recognised as an expense during the year ended 31 August 2020 and included in cost of sales in the statement of profit or loss. Previous year's write downs were reversed in the statement of profit or loss during the financial year on reprocessing prior year downgraded sugar.

A first agricultural and floating charge over agriculture assets, crops and stocks has been pledged as security for the long-term borrowings and is referred to in note 21. The syndicated loan has since been repaid as at 31 August 2020.

16.1 Factory overhaul costs

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Balance at beginning of year	**32 822**	25 838	**32 822**	25 838
Capitalised during the year	**103 384**	82 490	**103 384**	82 490
	136 206	108 328	**136 206**	108 328
Amortised during the year	**(98 731)**	(75 506)	**(98 731)**	(75 506)
Balance at end of year	**37 475**	32 822	**37 475**	32 822

Factory overhaul costs are classified under Inventory in note 16 as they satisfy the definition of inventory in the form of materials or supplies to be consumed in the production process. Factory overhaul costs represents expenditure actually incurred on plant and equipment for the overhaul of the factory in preparation for the new sugar season commencing after the year-end. The expenditure is written off in full over its expected useful life being the duration of one sugar season.

17. GROWING CANE

The carrying value of growing cane is reconciled as follows:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Carrying value at beginning of year	**336 745**	302 495	**283 414**	256 683
Change in fair value	**47 699**	34 250	**35 081**	26 731
Carrying value at end of year	**384 444**	336 745	**318 495**	283 414

The fair value of the growing cane is determined using inputs that are unobservable, using the best information available in the circumstances and therefore fall into the level 3 fair value category (see note 2).

The following are the key assumptions in the valuation of growing cane:

Expected area to harvest (hectares)	**17 167**	16 229	**14 435**	13 568
Estimated yield (tonnes cane per hectare)	**108.5**	118.8	**105.9**	116.8
Sucrose content in cane (%)	**14.45**	14.42	**14.45**	14.42
Average maturity of cane at 31 March (%)	**65.7**	65.7	**65.7**	65.7

A 1% change in the unobservable inputs could increase or decrease the fair value of the standing cane by the following values:

Estimated sucrose content	**5 569**	4 928	**4 590**	4 088
Estimated sucrose price (K'000)	**5 657**	5 904	**4 666**	4 854

17. GROWING CANE (continued)

A first agricultural and floating charge over agriculture assets, crops and stocks has been pledged as security for the long-term borrowings and is referred to in note 21.

18. TRADE AND OTHER RECEIVABLES

Trade receivables comprise amounts receivable in respect of the sale of sugar and molasses:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Gross trade receivables	**167 991**	315 653	**167 991**	315 653
Allowance for expected credit losses	**(10 600)**	(22 604)	**(10 600)**	(22 604)
	157 391	293 049	**157 391**	293 049
VAT receivable	**273 766**	239 593	**254 666**	219 886
Other receivables	**56 343**	51 835	**56 343**	50 217
Balance at end of year	**487 741**	584 477	**468 400**	563 152
Movement in the allowance for expected credit losses				
Balance at beginning of year	**(22 604)**	(6 824)	**(22 604)**	(6 824)
Increase on adoption of IFRS 9 recognised to retained earnings	**-**	(17 821)	**-**	(17 821)
Amounts recovered from prior year	**8 388**	-	**8 388**	-
Amounts recovered during the year	**2 577**	2 041	**2 577**	2 041
Amounts utilised during the year	**1 039**	-	**1 039**	-
Balance at end of year	**(10 600)**	(22 604)	**(10 600)**	(22 604)

The Group's receivables are mainly categorised into Sugar Credit Customers, Industrial Customers, Retail Chain Stores, Molasses Customers, Sundry Credit Customers, Transporters, Growers and Staff Sales. The gain on the allowance for expected credit losses can be attributed to improved debt management procedures and a higher volume of cash sales in the current financial year.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. Additional disclosures concerning the management of credit risk have been provided in note 29.4. An assignment of all present and future rights and claims to material contracts, insurances and all other receivables has been pledged as security for the long-term borrowings and is referred to in note 21.

19. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Bank and cash balances	**77 155**	329 256	**72 700**	328 815
Bank overdraft - unsecured	**(2 010)**	(16 239)	**(2 010)**	(16 239)
Cash and cash equivalents at end of year	**75 145**	313 017	**70 690**	312 576

20. SHARE CAPITAL AND PREMIUM

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Authorised:				
350 000 000 (August 2019: 350 000 000) ordinary shares of K 0.01 each (August 2019: K 0.01 each)	**3 500**	3 500	**3 500**	3 500
Issued and fully paid:				
316 571 385 (August 2019: 316 571 385) ordinary shares of K 0.01 each (August 2019: K 0.01 each)	**3 166**	3 166	**3 166**	3 166
Share premium	**244 172**	244 172	**244 172**	244 172
	247 338	247 338	**247 338**	247 338

21. BORROWINGS

				Group		Company	
	Note	**Years of repayment**	**Effective Interest rate (%)**	**August 2020 K'000**	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Syndicated bank loan	**a**	2020	17,92	-	140 473	-	140 473
Related party loans	**b**	2020-2023		1 134 022	1 491 224	1 134 022	1 491 224
Total borrowings				1 134 022	1 631 697	1 134 022	1 631 697
Less:							
Current portion - syndicated bank loan	**a**			-	140 473	-	140 473
Short-term related party loans	**b**			**85 562**	91 520	**85 562**	91 520
Short-term borrowings				**85 562**	231 993	**85 562**	231 993
Long-term borrowings				**1 048 460**	1399 704	**1 048 460**	1399 704

The amounts are due for repayment in the following years ending 31 August:

2021	**85 562**	950 111	**85 562**	950 111
2023	**1 048 460**	449 593	**1 048 460**	449 593

Summary of borrowing arrangements

(a) The syndicated Zambian Kwacha denominated loan from four financial institutions was first drawn down in July 2015 in order to finance the Product Alignment and Refinery (PAAR) capital project. The final draw down was made in August 2016. The four participating banks are Barclays Bank, Stanbic Bank, Citibank and Zambia National Commercial Bank Plc. The loan is repayable in eight equal instalments commencing in January 2017 and attracts interest at the ruling 182 day Treasury Bill interest rate at the beginning of each interest year plus a 2.5% margin. The weighted average effective interest rate on the loan for the last financial year was 17.92%.

The loan was secured by way of a first legal mortgage over all fixed property to which the company holds title, a first fixed charge over all property, plant and machinery, a first agricultural and floating charge over agriculture assets, crops and stocks and assignment of all present and future rights and claims to material contracts, insurances and all other receivables. The loan has since been repaid in full during the year ended 31 August 2020.

21. BORROWINGS (continued)

Summary of borrowing arrangements (continued)

(b) Loans from related parties are disclosed in note 25.2.1

(c) There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current or previous year.

22. DEFERRED TAX LIABILITY

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Balance at beginning of year	**138 357**	121 262	**114 902**	98 731
Charged to profit or loss:				
- Current year income statement charge	**98 177**	(10 462)	**96 642**	(11 309)
- Prior year income statement relief		23 913	**-**	23 836
- Prior year under/(over) provision	**700**	-	**746**	-
- Current year other comprehensive income charge	**(7 802)**	3 644	**(7 802)**	3 644
Balance at end of year	**229 432**	138 357	**204 488**	114 902
Analysis of liability:				
Property, plant and equipment	**209 875**	113 998	**193 935**	110 738
Right-of-use assets, lease liabilities	**(4 746)**		**(4 746)**	
Cane roots	**22 945**	13 534	**20 742**	11 231
Factory overhaul costs	**5 826**	3 282	**5 826**	3 282
Growing cane	**56 109**	46 217	**49 514**	28 341
Provisions	**(10 392)**	-	**(10 392)**	-
Deferred Interest Deduction (Restriction): S29	**8 335**	(10 495)	**8 335**	(10 495)
Deferred Income	**(43 788)**	(22 127)	**(43 788)**	(22 127)
Other	**(14 732)**	(6 052)	**(14 938)**	(6 068)
Balance at end of year	**229 432**	138 357	**204 488**	114 902

23. TRADE AND OTHER PAYABLES

Trade payables comprise amounts outstanding for trade purchases and ongoing costs.

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Trade payables	**112 767**	90 435	**112 767**	83 813
Growers	**188 376**	155 002	**188 376**	155 002
Accruals	**127 989**	107 087	**115 857**	97 069
Payroll	**37 718**	29 594	**37 118**	29 072
Other payables	**25 253**	12 602	**14 661**	12 545
Balance at end of year	**492 103**	394 720	**468 779**	377 501

The Directors consider that the carrying amount of trade and other payables approximates their fair value. The Group has financial risk management policies in place to ensure that suppliers are paid within the pre-agreed credit terms.

24. CONTRACT LIABILITIES

Contract liabilities relate to amounts received in advance from customers in relation to sales contracts. These liabilities were previously disclosed under trade and other payables.

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Deferred Income	**221 272**	-	**221 272**	-
At start of the year (Reclassified balance from trade and other payables)	**-**	93 874	**-**	93 874
Recognised as revenue during the year	**-**	(93 874)	**-**	(93 874)
Deferred income received during the year	**281 663**	221 272	**281 663**	221 272
	-	-	**-**	-
Deffered income balance at the end of the year	**281 663**	221 272	**281 663**	221 272
	281 663	221 272	**281 663**	221 272
Aging of contract balances				
Current balance (within 12 months)	**281 663**	221 272	**281 663**	221 272
Beyond 12 months		-		-

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES

The Group, in the ordinary course of business, enters into various transactions with related parties.

25.1 Holding Company

The Group is controlled by the following entities:

		Ownership Interest in Zambia Sugar Plc	
Names	**Type**	**August 2020**	August 2019
Illovo Group Holdings Limited (IGHL), incorporated in Mauritius	Immediate holding company	**75%**	75%
Illovo Sugar Africa Holdings Limited (ISAHL), incorporated in United Kingdom	Illovo holding company	**100%**	0%
Illovo Sugar Africa Proprietary Limited (ISAPL), incorporated in South Africa	Illovo holding company	**0%**	75%
Associated British Foods plc, incorporated in United Kingdom	Ultimate holding company	**75%**	75%

25.1.1 Ultimate Holding Companies

Associated British Foods plc (ABF) holds 100% of the issued share capital of ISAHL and therefore hold an effective ownership interest of 75% in the Group. This is compliant with the minimum free float requirement, where 25% of the shares should be in public hands. There were no transactions between the Group and Associated British Foods plc in either the current year or the previous year.

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.1 Holding Company (continued)

25.1.2 Illovo Holding Company

Illovo Sugar Africa Holdings Limited ("ISAHL") holds 100% of the issued share capital of Illovo Group Holdings Limited and therefore has an effective ownership interest of 75% in the Group effective September 2019. In the prior year, Illovo Sugar Proprietary Limited (ISAPL) held 75% of the Illovo Group Holdings limited (IGHL).

Transactions and balances with Illovo Sugar Africa Holdings Limited related to procurement services:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Trading balances owing by the Group	**23 795**	25 082	**23 110**	24 730
Procurement of goods and services	**205 562**	161 580	**201 359**	127 541
Interest paid: procurement	**474**	1 675	**459**	290

The Group utilises the centralised procurement office to share in the benefit of the bulk purchasing power that arises from ISAPL combining the procurement requirements of six operations to negotiate preferential supply arrangements. On receipt of an order from the Group, the centralised procurement office sources and purchases the required goods and services from third party suppliers.

The cost of the goods and services procured, together with any transport costs, is recovered from the Group. No mark-up is charged on the recovery of the procurement expenditure and any pricing benefit negotiated with the third party supplier by the centralised procurement office is passed on to the Group.

The trading balance owing in respect of procurement expenditure on goods and services is unsecured, is repayable within 30 days from statement date and only bears interest if the repayment terms have been exceeded, after which a market-related interest (9% per annum) is charged. Interest is not raised on goods that have not been received, or damaged in transit, and for which there are legitimate queries pending. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balance will be settled by cash payments.

Other transactions and balances with Illovo Sugar Africa Proprietary Limited:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Trading balances owing (to)/by the Group	**(1 480)**	10 630	**(1 480)**	10 630
Operational support fees	**52 748**	42 770	**52 748**	42 770
Cost reimbursement (general)	**13 158**	12 198	**13 158**	12 198
Directors' fees	**-**	615	**-**	588
Export agency commission	**13 534**	14 284	**13 534**	14 284

Operational support fees are charged to the Group in order to recover the costs of providing technical support, business support and operating a centralised procurement office. Technical support includes services rendered to monitor and improve agricultural and manufacturing performance as well as technical engineering services. Business support covers the provision of a range of services including legal, taxation, treasury, governance, human resources and information technology. The services provided by the centralised procurement office are detailed above. Operational support fees are charged on a cost-plus basis, allowing a margin of 8% with the exception of procurement services component for which the margin is 15%.

The trading balance owing by the Group represents amounts outstanding for transactions detailed above. The trading balance is unsecured, has no fixed repayment terms and does not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balance will be settled by cash payments.

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.1 Holding Company (continued)

25.1.2 Illovo Holding Company (continued)

Illovo Sugar Africa Holdings Limited ("ISAHL") is the agent to co-ordinate and manage the marketing, sale and distribution of all the Group's export sugar and molasses (excluding distribution into Rwanda) for which it receives a commission of 1% of export revenue. The cost incurred in the year 1 September 2018 to 31 August 2019 is the product of the export revenue achieved.

25.2 Fellow Subsidiaries of the Group

25.2.1 Illovo Group Financing Services ("IGFS")

Funding balances owing by the Group:

			Group		Company	
	Years of repayment	Effective Interest rate (%)	**August 2020 K'000**	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Aggregation A Loans			**731 022**	731 022	**731 022**	731 022
Loan A1 - Zambian Kwacha	2023	18,81	**182 000**	182 000	**182 000**	182 000
Loan A2 - Zambian Kwacha	2023	18,81	**182 000**	182 000	**182 000**	182 000
Loan A3 - Zambian Kwacha	2023	18,80	**183 111**	183 111	**183 111**	183 111
Loan A4 - Zambian Kwacha	2023	18,78	**98 349**	98 349	**98 349**	98 349
Loan A5 - Zambian Kwacha	2023	19,64	**85 562**	85 562	**85 562**	85 562
Aggregation B Loans			**403 000**	668 682	**403 000**	668 682
Loan B1 - Zambian Kwacha	2023	17,07	**202 000**	202 000	**202 000**	202 000
Loan B2 - Zambian Kwacha	2023	17,07	**201 000**	201 000	**201 000**	201 000
Loan B3 - Zambian Kwacha	2023	17,09	**-**	193 140	**-**	193 140
Loan B4 - Zambian Kwacha	2023	19,81	**-**	72 542	**-**	72 542
Loan 3 - US Dollar	2019	3,00	**-**	91 520	**-**	91 520
Total related party borrowings			**1 134 022**	1 491 224	**1 134 022**	1 491 224
Short-term portion						
Loan 3 - Zambian Kwacha	2020	3,00	**-**	91 520	**-**	91 520
Short-term borrowings			**-**	91 520	**-**	91 520
Long-term borrowings			**1 134 022**	1 399 704	**1 134 022**	1 399 704
Trading balances owing by the group						
Aggregation A Loans			**3 543**	28 795	**3 543**	28 795
Accrued interest - Loan A1			**2 867**	7 363	**2 867**	7 363
Accrued interest - Loan A2			**2 632**	7 363	**2 632**	7 363
Accrued interest - Loan A3			**962**	7 363	**962**	7 363
Accrued interest - Loan A4			**(1 436)**	3 625	**(1 436)**	3 625
Accrued interest - Loan A5			**(1 482)**	3 081	**(1 482)**	3 081
Aggregation B Loans			**1 478**	22 414	**1 478**	22 414
Accrued interest - Loan B1			**780**	6 671	**780**	6 671
Accrued interest - Loan B2			**775**	6 637	**775**	6 637
Accrued interest - Loan B3			**-**	6 700	**-**	6 700
Accrued interest - Loan B4			**(77)**	2 406	**(77)**	2 406
			5 021	51 209	**5 021**	51 209

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.2 Fellow Subsidiaries of the Group (continued)

25.2.1 Illovo Group Financing Services ("IGFS") (continued)

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Interest paid: funding				
Aggregation A Loans	**150 404**	128 340	**150 404**	128 340
Interest paid - Loan A1	**37 470**	34 231	**37 470**	34 231
Interest paid - Loan A2	**37 471**	34 231	**37 471**	34 231
Interest paid - Loan A3	**37 691**	34 432	**37 691**	34 432
Interest paid - Loan A4	**20 178**	18 469	**20 178**	18 469
Interest paid - Loan A5	**17 594**	6 977	**17 594**	6 977
Aggregation B Loans	**129 817**	107 066	**129 817**	107 066
Interest paid - Loan B1	**43 053**	34 481	**43 053**	34 481
Interest paid - Loan B2	**42 840**	34 310	**42 840**	34 310
Interest paid - Loan B3	**30 068**	33 014	**30 068**	33 014
Interest paid - Loan B4	**13 856**	5 261	**13 856**	5 261
Interest paid - Loan 3	**-**	248	**-**	248
	280 221	235 654	**280 221**	235 654

A Loans

During the current financial year, Loan B3 K 193 million and Loan B4 K 72.5 million were repaid in May 2020 and July 2020 respectively. The balance owing on the A Loans comprises K 731 million capital (August 2019: K 731 million) and K 3.5 million accrued interest (August 2019: K 29 million). The loans are denominated in Zambian Kwacha, are unsecured and attract interest at the annual yield rate quoted by the Bank of Zambia, from time to time, in respect of the most recent 91 day treasury bill rate, plus 4.0% (four point zero percent), with such rate being set on the original Agreement Effective Date and reset and compounded on each of 31 March, 30 June, 30 September and 31 December each year. Interest is paid on a monthly basis. The repayment date of loans A1, A2 and A3 is on a date as agreed in writing by the parties. The repayment dates of loan A4 and A5 are 31 March 2023 and 31 December 2023 respectively, or such date as agreed in writing by the parties. These loans are subordinate to the syndicated loan detailed in note 21.

B Loans

During the current financial year, Loan B3 K 193 million and Loan B4 K 72.5 million were repaid in May 2020 and July 2020 respectively. The balance owing on the B Loans comprises K 403 million capital (August 2019: K 669 million) and K 1.5 million accrued interest (August 2019: K 22 million). The loans are denominated in Zambian Kwacha, are unsecured and attract interest at the annual yield rate quoted by the Bank of Zambia, from time to time, in respect of the most recent 182 day treasury bills rate, plus 2.25% (two point twenty five percent), with such rate being set on the Effective Date and reset on 31 March and 30 September each year. Interest is paid on 24th of each month or if that date is not a business day, the next business day. The repayment date of loans B1 and B2 is on such date as agreed in writing by the parties. The repayment dates of loan B3 and B4 are 30 April 2023 and 20 April 2023 respectively, or such date as agreed in writing by the parties. These loans are subordinate to the syndicated loan detailed in note 21.

25.2.2Illovo Group Marketing Services Limited ("IGMS")

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Trading balances owing by the Group	**6 468**	8 362	**6 468**	8 362
Trading balances owing to the Group	**-**	9 009	**-**	9 009
Export sugar sales	**-**	9 009	**-**	9 009
Export agency commission	**3 120**	4 675	**3 120**	4 675
Logistics cost reimbursement	**23 407**	23 460	**23 407**	23 460

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.2 Fellow Subsidiaries of the Group (continued)

25.2.2 Illovo Group Marketing Services Limited ("IGMS") (continued)

Trading balance owing by the Group to Illovo Group Marketing Services Limited ("IGMS") represent amounts outstanding for commissions and logistics costs yet to be settled. All trading balances with IGMS are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

IGMS is the Group's appointed agent to coordinate and manage the marketing, sale and distribution of all the Group's export sugar and molasses into Rwanda for which it receives a commission of 3% of export revenue. The cost incurred in the year 1 September 2018 to 31 August 2019 is the product of the export revenue achieved.

Certain third party export logistics costs incurred by the Group are paid for on its behalf by IGMS and for which IGMS is reimbursed with no mark-up charged.

25.2.3 East African Supply Proprietary Limited ("EAS")

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Trading balances owing by the Group	**567**	381	**567**	381
Air services	**2 961**	2 457	**2 961**	2 457

EAS recovers the cost of air services provided to the Group necessary to facilitate the provision of operational support and director services by Illovo Sugar Africa Proprietary Limited.

The trading balance owing by the Group to EAS in respect of air services is unsecured, has no fixed repayment terms and does not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balance will be settled by cash payments.

25.2.4 Czarnikow Group Limited

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Trading balances owing to the Group	**-**	74	**-**	74
Export sugar sales	**-**	22 733	**-**	22 733

During the prior year, sugar was sold to Czarnikow Group Limited on either the same commercial terms and conditions that would be available to third party customers. The trading balance owing to the Group in the prior year represents the value of export sugar sales invoiced to Czarnikow Group Limited, but which were not yet due to the Group. The trading balances were unsecured, but had repayment terms in line with those applicable to third party customers (i.e. interest is payable on overdue accounts). No expense has been recognised in the current year or prior period in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances were settled on a cash payments.

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.2.5 Other fellow subsidiaries

Trading balances owing to/(from) the Group

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
- Illovo Sugar (Malawi) plc	**1 653**	588	**1 653**	588
- Ubombo Sugar Limited	**-**	(27)	**-**	(27)
- Kilombero Sugar Company Limited ("KSC")	**123**	594	**123**	594
Cost recoveries (general) transactions				
- Illovo Sugar (Malawi) plc	**1 653**	803	**1 653**	803
- Kilombero Sugar Company Limited ("KSC")	**1 111**	2 703	**1 111**	2 703
Cost reimbursement transactions				
-Ubombo Sugar Limited	**48**	42	**32**	42

Various costs are paid for by the Group on behalf of other fellow subsidiaries. Similarly, various costs are paid for by other fellow subsidiaries on behalf of the Group. All such costs are recovered and/or reimbursed with no mark-up charged.

All trading balances related to cost recoveries and/or reimbursements are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

25.3 Subsidiary of Zambia Sugar Plc

The Company holds 100% of the ordinary share capital of Tukunka Agricultural Ltd. Tukunka Agricultural Ltd owns 85.73% of the ordinary share capital for Nanga Farms plc. Effective 28 December 2018, the company purchased the remaining 14.27% of the ordinary share capital for Nanga Farms plc from the minority shareholder.

The Company, therefore has an effective ownership interest of 100% in Nanga Farms plc. The Company has entered into a long-term agreement with Nanga Farms plc for the supply of sugar cane.

Nanga Farms plc

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Trading balances owing by the Company	-	-	**80 967**	72 963
Operational support fees received	-	-	**6 254**	2 880
Cane purchases	-		**136 202**	136 202
Dividend income	-	-	**29 875**	16 746
Interest paid on overdue balances	-	-	**231**	2 497

Operational support income is received by the Company from Nanga Farms Plc for costs incurred in providing technical support and business support. Technical support includes services rendered to monitor and improve agricultural performance. Business support covers the provision of a range of services including legal, taxation, treasury, governance, human resources and information technology.

The trading balance owing by the Company represents amounts outstanding for the supply of sugarcane. The trading balance is unsecured, has no fixed repayment terms and bears interest at variable market-related rates. The balance will be settled by cash payments.

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.4 Related Party Balances - Summary

	Note	Group August 2020 K'000	Group August 2019 K'000	Company August 2020 K'000	Company August 2019 K'000
Long-term borrowings					
Illovo Group Financing Services	25.2.1	**1 134 022**	1399 704	**1 134 022**	1399 704
Short term borrowings					
Illovo Group Financing Services	25.2.1	**-**	91 520	**-**	91 520
Amounts due from related parties					
Czarnikow Group Limited	25.2.4	**-**	74	**-**	74
Illovo Sugar (Malawi) plc	25.2.5	**1 653**	588	**1 653**	588
Kilombero Sugar Company Limited	25.2.5	**123**	594	**123**	594
Illovo Group Marketing Services Limited	25.2.2	**-**	9 009	**-**	9 009
Illovo Sugar Africa Proprietary Limited - Corporate Division	25.1.2	**1 480**		**1 480**	-
		3 256	10 265	**3 256**	10 265
Amounts due to related parties					
Illovo Sugar Africa Proprietary Limited - Procurement Division	25.1.2	**23 795**	25 082	**23 110**	24 730
Illovo Sugar Africa Proprietary Limited - Corporate Division	25.1.2	**-**	10 630	**-**	10 630
Illovo Group Financing Services	25.2.1	**5 021**	51 209	**5 021**	51 209
Illovo Group Marketing Services Limited	25.2.2	**6 468**	8 362	**6 468**	8 362
East African Supply Proprietary Limited	25.2.3	**567**	381	**567**	381
Ubombo Sugar Limited	25.2.5	**-**	27	**-**	27
Nanga Farms ltd	25.3	**-**	-	**80 967**	72 963
		35 851	95 691	**116 133**	168 302

25.5 Related Party Transactions - Summary

	Note		Group August 2020 K'000	Group August 2019 K'000	Company August 2020 K'000	Company August 2019 K'000
Income						
Illovo Group Marketing Services Limited ("IGMS")	25.2.2	Export revenue	**-**	9 009	**-**	9 009
Czarnikow Group Limited	25.2.4	Export revenue	**-**	22 733	**-**	22 733
Kilombero Sugar Company Limited	25.2.5	Cost recoveries	**1 111**	2 703	**1 111**	2 703
Illovo Sugar (Malawi) plc	25.2.5	Cost recoveries	**1 653**	803	**1 653**	803
Nanga Farms ltd	25.3	Operational support fees received	**-**	-	**6 254**	2 880
Nanga Farms ltd	25.3	Dividend income	**-**	-	**29 875**	16 746
			2 764	35 248	**38 893**	54 874

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.5 Related Party Transactions - Summary (continued)

	Note		Group		Company	
			August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Expenditure						
Illovo Sugar Africa Proprietary Limited - Procurement Division	25.1.2	Goods and services procured	**205 562**	161 580	**201 359**	161 580
Illovo Sugar Africa Proprietary Limited - Corporate Division	25.1.2	Operational support	**52 748**	42 770	**52 748**	42 770
Illovo Sugar Africa Proprietary Limited - Corporate Division	25.1.2	Cost reimbursement	**13 158**	12 198	**13 158**	12 198
Illovo Sugar Africa Proprietary Limited - Corporate Division	25.1.2	Directors fees	**-**	615	**-**	615
Illovo Sugar Africa Proprietary Limited - Corporate division	25.1.2	Export agency commission	**13 534**	14 284	**13 534**	14 284
Illovo Group Marketing Services Limited	25.2.2	Export agency commission	**3 120**	4 675	**3 120**	4 675
Illovo Group Marketing Services Limited	25.2.2	Cost reimbursement	**23 407**	23 460	**23 407**	23 460
East African Supply Proprietary Limited	25.2.3	Air services	**2 961**	2 457	**2 961**	2 457
Ubombo Sugar Limited	25.2.5	Cost reimbursement	**32**	42	**32**	42
Nanga Farms Limited	25.3	Sugar cane purchases			**136 202**	136 202
			314 522	262 081	**446 521**	398 283
Financing costs						
Illovo Sugar Africa Proprietary Limited - Procurement Division	25.1.2	Overdue trading balances	**474**	1 675	**459**	1 675
Illovo Group Financing Services ("IGFS")	25.2.1	Funding balances	**280 221**	235 654	**280 221**	235 654
Nanga Farms Limited	25.3	Overdue trading balances	**-**	-	**231**	2 497
			280 695	237 329	**280 911**	239 826

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.6 Compensation of key management

(a) Compensation for the year to 31 August 2020

	Note	Salary (K'000)	Out of Country Allowance (K'000)	Housing Allowance (K'000)	Car Allowance (K'000)	Air Fares Allowance (K'000)	Medicals (K'000)	Bonus (K'000)	Gratuity/ Retirement Benefit (K'000)	Phantom Shares Option Scheme (K'000)
Non-Executive										
Norman Mbazima		243	-	-	-	-	-	-	-	-
Fidelis Banda		227	-	-	-	-	-	-	-	-
Roseta Chabala		161	-	-	-	-	-	-	-	-
Ami Mpungwe		273	-	-	-	-	-	-	-	-
Dipak Patel		261	-	-	-	-	-	-	-	-
Gavin Dalgleish	1	-	-	-	-	-	-	-	-	-
Doug Kasambala	1	-	-	-	-	-	-	-	-	-
Nelis Saayman	1	-	-	-	-	-	-	-	-	-
Executive										
Rebecca Katowa	8	1 645	-	485	Company Car	-	Company Medical	588	1 003	-
Raphael Chipoma	4	1 163	-	Company House	259	-	Company Medical	-	90	-
Marc Pousson	5	1 286	432	Company House	Company Car	22	Company Medical	-	73	-
Graham Rolfe	6, 8	1 909	939	Company House	Company Car	116	26	646	146	-

(b) Compensation for the year to 31 August 2019

	Note	Salary (K'000)	Out of Country Allowance (K'000)	Housing Allowance (K'000)	Car Allowance (K'000)	Air Fares Allowance (K'000)	Medicals (K'000)	Bonus (K'000)	Gratuity/ Retirement Benefit (K'000)	Phantom Shares Option Scheme (K'000)
Non-Executive										
Fidelis Banda		234	-	-	-	-	-	-	-	-
Monica Musonda	1	153	-	-	-	-	-	-	-	-
Ami Mpungwe		205	-	-	-	-	-	-	-	-
Norman Mbazima	4	104	-	-	-	-	-	-	-	-
Dipak Patel		197	-	-	-	-	-	-	-	-
Gavin Dalgleish	1	-	-	-	-	-	-	-	-	-
Mohammed Abdool-Samad	1, 5	-	-	-	-	-	-	-	-	-
Craig Taylor	1, 3, 7									
Nelis Saayman	1	-	-	-	-	-	-	-	-	-
Executive										
Rebecca Katowa	8	1 516	-	455	Company Car	-	Company Medical	110	750	-
Graham Rolfe	6, 8	1 687	1 096	Company House	Company Car	119	28	125	183	-
Faith Mukutu	2, 8	1 369	-	Company House	Company Car	-	Company Medical	54	203	-

25. AMOUNTS DUE TO/(FROM) RELATED PARTIES (continued)

25.6 Compensation of key management (continued)

1. Fees earned by these Directors, who are nominated by the Group's majority shareholder, are paid by ISL.
2. Resigned as Finance Director on 31 August 2019.
3. Appointed as a Non-Executive Director of the Board on 1 August 2019.
4. Appointed as an Executive Director of the Board on 1 December 2019.
5. Appointed as an Executive Director of the Board on 1 June 2020.
6. Resigned as Operations Director of the Board on 31 May 2020.
7. Resigned as a Non-Executive Director of the Board on 31 January 2020.
8. The Executive Director's qualify for a bonus based on the financial performance of the Company for the reporting period and on their personal performance related to predetermined objectives. The values indicated relate to performance as at 31 August 2019 and 31 August 2018 for the comparative year numbers.

26. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange forward contracts measured at fair value through Other Comprehensive Income (OCI) are designated as hedging instruments in cash flow hedges of forecast sales in US dollar. These forecast transactions are highly probable, and they comprise about 67% of the Group's total expected sales in US dollars.

The foreign exchange forward contract balances vary with the level of expected foreign currency sales and changes in foreign exchange forward rates.

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Balance at start of year	**23 567**	(9 231)	**23 567**	(9 231)
Adjustment in respect of cashflow hedges	**(26 185)**	36 442	**(26 185)**	36 442
Tax effect on cashflow hedges	**2 618**	(3 644)	**2 618**	(3 644)
Balance at end of year	**-**	**23 567**	**-**	**23 567**
Forward exchange contracts - designated as cash flow hedges	**-**	26 184	**-**	26 184
Comprising:				
Assets	**-**	26 228	**-**	26 228
Liabilities	**-**	(44)	**-**	(44)
	-	26 184	**-**	26 184
Due within 6 months	**-**	16 797	**-**	16 797
Due between 6 months and 1 year	**-**	9 387	**-**	9 387
	-	26 184	-	26 184

The fair values of derivative instruments are determined using inputs that are observable, either directly (i.e. as prices), or indirectly (i.e. derived from prices), other than quoted prices in an active market and therefore fall into the level 2 fair value category. Additional disclosures concerning the derivative financial instruments used to manage currency risk have been provided in note 29.3.

26. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivative financial instruments - amounts reclassified to profit and loss

The terms of the foreign currency forward contracts did not match the terms of the expected highly probable forecast transactions. As a result, there is hedge ineffectiveness recognised in the statement of profit or loss as shown on this table.

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Hedging loss	**(25 626)**	(49 442)	**(25 626)**	(49 442)

The impact of the hedging instruments on the statement of financial position is as follows:

	Notional amount	Carrying amount	Line item in the statement of financial position
	K'000	K'000	
As at 31 August 2020			
Foreign exchange forward contracts			
	-	-	Other current financial assets
As at 31 August 2019			
Foreign exchange forward contracts			
	400 059	26 185	Other current financial assets

The impact of hedged items on the statement of financial position is as follows:

	31 AUGUST 2020		31 AUGUST 2019	
	Cash flow hedge reserve	Cost of hedging reserve	Cash flow hedge reserve	Cost of hedging reserve
	K'000	K'000	K'000	K'000
Highly probable forecast sales	-	-	23 567	

The effect of the cash flow hedge in the statement of profit or loss and other comprehensive income is as follows:

	Total hedging gain/ (loss) recognised in OCI	Line item in the statement of profit or loss	Amount reclassified from OCI to profit or loss	Line item in the statement of profit or loss
	K'000		K'000	
Year ended 31 August 2020				
Highly probable forecast sales	51 809	Revenue	(25 626)	Revenue
Year ended 31 August 2019				
Highly probable forecast sales	13 000	-	(49 442)	

The amount removed from OCI during the year and included in the carrying amount of the hedged items as a basis adjustment for 2020 is detailed above. The are currently no amounts retained in OCI at 31 August 2020.

The cash flow hedges of the expected future sales in 2020 were assessed to be ineffective with a net realised loss of K 26.1 million (2019: unleased loss of K 36 million), with a deferred tax asset of K 3 million (2019: deferred tax asset of K 4 million) relating to the hedging instruments, is included in OCI.

27. PROVISIONS

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
At beginning of period	**21 209**	50 503	**21 209**	15 720
Provisions made during the period	**15 639**	21 209	**15 639**	21 209
Utilised during the period	**(21 209)**	(50 503)	**(21 209)**	(15 720)
At end of period	**15 639**	21 209	**15 639**	21 209
Analysed as follows:				
Provision for leave pay	**15 639**	21 209	**15 639**	21 209
	15 639	21 209	**15 639**	21 209

The provision for annual leave is calculated at current salary and wage rates multiplied by the number of available leave days. There are no uncertainties envisaged that may affect the above provision.

28. CAPITAL COMMITMENTS

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Approved but not contracted	**22 760**	17 267	**22 760**	17 267
Contracted	**11 105**	13 342	**11 105**	13 342
	33 865	30 609	**33 865**	30 609

Capital expenditure will be financed from cash resources, short-term borrowings and external debt financing.

29. FINANCIAL RISK MANAGEMENT

Financial instruments consist primarily of cash deposits with banks, trade and other receivables, trade and other payables, derivative financial instruments and both short-term and long-term borrowings. Financial instruments are carried at fair value or amounts that approximate fair value.

29. FINANCIAL RISK MANAGEMENT (continued)

		Group		Company	
		August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
	Fair value hierarchy:				
Financial assets					
Loans and receivables	Level 3	**294 386**	727 517	**289 690**	726 929
Derivative financial instruments designated as cash flow hedges	Level 2	**-**	26 228	**-**	26 228
Financial liabilities					
Derivative financial instruments designated as cash flow hedges	Level 2	**-**	(44)	**-**	(44)
Financial liabilities measured at amortised cost	Level 3	**1 663 986**	2 136 515	**1 720 944**	2 187 874
Reconciliation to the statement of financial position:					
Trade and other receivables	Level 3	**213 734**	387 996	**213 734**	387 849
Amounts due from related parties	Level 3	**3 256**	10 265	**3 256**	10 265
Cash and bank balances	Level 2	**77 155**	329 256	**72 700**	328 815
Loans and receivables	Level 3	**294 386**	727 517	**289 690**	726 929
Long-term borrowings	Level 3	**1 048 460**	1399 704	**1 048 460**	1399 704
Short-term borrowings	Level 3	**85 562**	231 993	**85 562**	231 993
Trade and other payables	Level 3	**492 103**	392 888	**468 779**	371 636
Amounts due to related parties	Level 3	**35 851**	95 691	**116 133**	168 302
Bank overdraft	Level 2	**2 010**	16 239	**2 010**	16 239
Financial liabilities measured at amortised cost	Level 3	**1 663 986**	2 136 515	**1 720 944**	2 187 874

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, and forward rate curves of the underlying commodity. The derivative contracts are fully cash collateralised, thereby eliminating both counterparty risk and the Group's own non-performance risk.
- The fair values of the Group's interest-bearing borrowings and loans are determined by using the discounted cash flow method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 August 2018 was assessed to be insignificant.

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Liquidity risk management

In terms of the Company's Articles of Association, the Directors may from time to time, at their discretion, raise loans or otherwise borrow for the purpose of the Company as they deem fit.

The Group has access to the following unsecured local banking facilities at year-end:

	Group August 2020 K'000	Group August 2019 K'000
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount utilised	**2 010**	16 239
- Amount unutilised	**497 990**	283 761
Total local bank overdraft facilities	**500 000**	300 000

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. Approximately 8% of the Group's debt will mature in less than one year at 31 August 2020 (2019: 14%) based on the carrying value of borrowings reflected in the Financial Statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 August 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Interest-bearing loans and borrowings (other than convertible preference shares)	-	85 562	-	1 840 101	1 925 663
Lease Liabilities	-	-	28 967	142 067	181 687
Contingent consideration	-	-	-	-	-
Provisions	15 639	-	-	-	15 639
Trade and other payables	-	492 103	-	-	492 103
Contract Liabilities	-	281 663	-	-	281 663
Amounts due to related parties	-	35 851	-	-	35 851
Other financial liabilities	-	-	-	-	-
Derivatives and embedded derivatives		-	-	-	-
	15 639	**895 179**	**28 967**	**1 982 168**	**2 932 606**

Year ended 31 August 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years > 5 years	Total
Interest-bearing loans and borrowings (other than convertible preference shares)	-	128 985	388 586	1 930 118	2 447 689
Lease Liabilities	-	-	-	-	-
Provisions	21 209	-	-	-	21 209
Trade and other payables	-	394 720	-	-	394 720
Contract Liabilities	-	221 272	-	-	221 272
Amounts due to related parties	-	95 691	-	-	95 691
Other financial liabilities	-	16 239	-	-	16 239
Derivatives and embedded derivatives	-	-	44	-	44
	21 209	**856 907**	**388 630**	**1 930 118**	**3 196 864**

29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Interest rate risk management

Taking cognisance of the seasonality of the Group's cash flow and long-term interest rate forecasts, the treasury risk management committee positions the Group's interest rate exposures according to expected movements in interest rates.

The interest rate profile at 31 August 2019 is as follows:

	Floating rate		
Year ended 31 August 2019	**Less than one year**	**Greater than one year**	**Total borrowings**
Borrowings (K'million)	88	1 048	1 136
% total borrowings	8%	92%	100%

The Group has no fixed rate facilities.

Interest rate sensitivity

The Group is exposed to interest rate cash flow risk in respect of its variable rate loans and short-term cash investments, which can impact on the cash flows of these instruments. The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant in the case of variable rate borrowings.

	Group		**Company**	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
If interest rates had been 50 basis points higher/lower and all other variables held constant, profit before tax for the period would decrease/increase by:	**5 294**	6 593	**5 317**	6 596

29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Currency risk management

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency). The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12 month period for hedges of forecasted sales and purchases. When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

In the normal course of business, the Group enters into transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts. The carrying amount of uncovered foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		Liabilities	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Group				
US Dollars	**293 788**	(77 956)	**(111 257)**	(78 835)
SA Rands	**69 080**	83 737	**(51 518)**	(45 952)
Euros	**2 565**	(150)	**-**	-

	Assets		Liabilities	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Company				
US Dollars	**290 930**	(77 956)	**(105 722)**	(43 562)
SA Rands	**69 080**	83 737	**(27 420)**	(45 952)
Euros	**2 565**	(150)	**-**	-

Foreign currency sensitivity

The Group's exchange rate exposure relates mainly to the US dollar, Rand and the Euro. The following sensitivity analysis indicates the impact on profit before tax resulting from the revaluation of uncovered foreign currency denominated monetary items outstanding on the reporting date for an assumed 10% movement in the US dollar, Rand and the Euro. A positive/(negative) number indicates an increase/(decrease) in profit before tax where the kwacha strengthens by 10% against the relevant currency. For a 10% weakening of the kwacha against the relevant currency, there would be an equal and opposite impact on profit before tax.

10% foreign currency sensitivity

All figures in K'000:

	US Dollar		SA Rand		Euro	
	August 2020	August 2019	**August 2020**	August 2019	**August 2020**	August 2019
Group						
Monetary assets	**29 379**	8 815	**6 908**	8 374	**257**	15
Monetary liabilities	**(11 126)**	(7 883)	**(5 152)**	(4 595)	**-**	-
	18 253	932	**1 756**	3 779	**257**	15
Company						
Monetary assets	**29 093**	7 796	**6 908**	8 374	**26**	(2)
Monetary liabilities	**(10 572)**	(4 356)	**(2 742)**	(4 595)	**-**	-
	18 521	3 440	**4 166**	3 779	**26**	(2)

29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Currency risk management (continued)

10% foreign currency sensitivity (continued)

The following tables demonstrate the sensitivity to a reasonably possible change in USD, SA Rand and Euro exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Group's pre-tax equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges. The Group's exposure to foreign currency changes for all other currencies is not material.

		US Dollar		Euro		SA Rand	
	Change in rate	Effect on profit before tax	Effect on pre-tax equity	Effect on profit before tax	Effect on pre-tax equity	Effect on profit before tax	Effect on pre-tax equity
		K'000	K'000	K'000	K'000	K'000	K'000
2020	-/+ 10%	18 253	18 253	257	257	1 756	1 756
2019	-/+ 10%	932	(94)	15	15	3 779	3 779

Exchange rates most affecting the performance of the Group and the Company are as follows:

	Rates at year-end		Average for year	
	August 2020	August 2019	**August 2020**	August 2019
Kwacha/Rand	**1.17**	0.86	**1.00**	0.86
Kwacha/US dollar	**19.61**	13.08	**15.88**	12.25
Kwacha/Euro	**23.35**	14.45	**17.67**	13.82

The Group has entered into certain forward exchange contracts to cover forecast foreign currency proceeds not yet receivable. The contracts will be utilised for purposes of trade during the 2020 financial year.

	Group August 2020			Group August 2019		
	Foreign currency million	Average rate	Amount in K'million	Foreign currency million	Average rate	Amount in K'million
Foreign currency sold						
US Dollar	4	15.8	63.2	63.2	31	461.5

These forward exchange contracts have resulted in the Group's derivative financial instruments, the fair value of which are determined using inputs that are observable, either directly (i.e. as prices), or indirectly (i.e. derived from prices), other than quoted prices in an active market, and therefore fall into the level 2 fair value category.

29.4 Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables comprise a widespread customer base, and the Group undertakes ongoing credit evaluations of the financial condition of their customers. Trade receivables overdue in excess of 120 days has decreased since the prior year. The Group does not consider there to be any material credit risk that has not been insured or adequately provided for.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

29. FINANCIAL RISK MANAGEMENT (continued)

29.4 Credit risk management (continued)

10% foreign currency sensitivity (continued)

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 18. The Group holds collateral as security for certain credit customers and this is considered in the calculation of future estimated credit losses.

The ECL rate used for creation of provision is calculated incorporating macroeconomic forward factors of inflation, interest rates and Gross Domestic Product (GDP) rates. This is weighted over a five year historical period derive the rate. A specific probability adjustment rate is applied to customers in whose debts are in default and known to be irrecoverable.

The Group and the Company grants credit terms of 14 - 30 days to its customers. The analysis of trade receivables which are past due at reporting date is as follows:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Not past due	**121 889**	207 630	**121 889**	207 630
Past due by 30 days	**22 698**	33 470	**22 698**	33 470
Past due by 60 days	**1 042**	11 428	**1 042**	11 428
Past due by 90 days	**795**	5 085	**795**	5 085
Past due over 120 days	**21 567**	58 114	**21 567**	58 114
	167 991	315 727	**167 991**	315 727
less: allowance for doubtful debts	**(10 600)**	(22 604)	**(10 600)**	(22 604)
Total trade receivables	**157 391**	293 123	**157 391**	293 123

No specific trade receivables were placed under liquidation in either the current or the previous year.

Trade Receivables

Days past due

31st August 2020	Not past due	Past due by 30 days	Past due by 60 days	Past due by 90 days	Past due by 120 days	Past due by 365 days	Total
Expected credit loss rate	1%	0%	0%	0%	0%	**59%**	
Estimated total gross carrying amount	121 889	22 698	1 042	795	4 843	**16 724**	167 991
Expected credit loss amount	704					**9 896**	10 600

The calculation of loss rates considers the historical default rate per customer when calculating the expected credit loss provision hence a provison made for items under the category of "not past due" in instances were the customer has had a default in the past.

Trade Receivables

Days past due

31st August 2019	Not past due	Past due by 30 days	Past due by 60 days	Past due by 90 days	Past due by 120 days	Past due by 365 days	Total
Expected credit loss rate	0%	0%	0%	0%	0%	**100%**	
Estimated total gross carrying amount	207 630	33 470	11 428	5 085	35 510	22 604	315 727
Expected credit loss amount	0	0	0	0	0	22 604	22 604

No specific trade receivables were placed under liquidation in either the current or the previous year with the exception of Zambia were properties that were offered as security were transferred to Group on 31 August 2020 following a summary judgement.

29. FINANCIAL RISK MANAGEMENT (continued)

29.4 Credit risk management (continued)

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments. The Group did not invest any surplus funds for extended periods during the year.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 August 2020 and 2019 is the carrying amounts as illustrated in note 29.7 except for derivative financial instruments. The Group's maximum exposure relating to financial derivative instruments is noted in the liquidity table in note 29.1.

29.5 Capital risk management

The Group manages its capital to ensure that the company and its subsidiary will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of equity and debt, which includes borrowings net of cash and bank balances.

Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Debt (see note i)	**1 134 022**	1 631 697	**1 134 022**	1 631 697
Bank overdraft	**2 010**	16 239	**2 010**	16 239
Cash and bank balances	**(77 155)**	(329 256)	**(72 700)**	(328 815)
Net Borrowings	**1 058 877**	1 318 680	**1 063 332**	1 319 121
Equity (see note ii)	**1 567 723**	1 412 679	**1 408 823**	1 283 863
Net debt to equity ratio	**67.5%**	93.3%	**75.5%**	102.7%

(i) Debt is defined as long and short-term borrowings as described in note 23.
(ii) Equity includes all capital and reserves of the Group that are managed as capital.

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current or previous year.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 August 2020 and 2019.

29.6 Fair Values

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	2020		2019	
	Carrying Amount K'000	Fair Value K'000	Carrying Amount K'000	Fair Value K'000
Financial Assets				
Trade and other receivables	213 975	213 975	387 996	387 996
Forward exchange contracts	-	-	26 228	26 228
Amounts due from related parties	3 256	3 256	10 265	10 265
Total	217 231	217 231	424 489	424 489

	2020		2019	
	Carrying Amount K'000	Fair Value K'000	Carrying Amount K'000	Fair Value K'000
Financial Liabilities				
Long-term borrowings	1048 460	988 422	1 399 704	988 422
Short-term borrowings	85 562	194 952	231 993	194 952
Trade and other payables	492 103	492 103	392 888	392 888
Forward exchange contracts	-	-	44	44
Amounts due to related parties	35 851	35 851	95 691	95 691
Total	1 661 976	1 711 328	2 120 320	1 671 997

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

The fair values of the Group's financial assets are derived from quoted market prices in active markets.

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment-grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies and currency basis spreads between the respective currencies.
- Some derivative contracts are fully cash collateralised, thereby eliminating both counterparty risk and the Group's own non-performance risk. As at 31 August 2020, the marked-to market value of other derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.
- The fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 August 2020 was assessed to be insignificant.

29. FINANCIAL RISK MANAGEMENT (continued)

29.7 Changes in liabilities arising from financing activities

	1 September 2019	Cash flows	Exchange rate	Interest capitalised	Other	31 August 2020
Current interest bearing loans and borrowings	231 993	(231 993)	-	-	-	-
Non-current interest bearing loans and borrowings	1 399 704	(265 682)	-	-	-	1 134 022
Total liabilities from financing activities	**1 631 697**	**(497 675)**	**-**	**-**	**-**	**1 134 022**

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings to current due to the passage of time. The Group classifies interest paid as cash flows from operating activities.

30. RETIREMENT BENEFITS

Defined contribution pension scheme

Zambia Sugar Plc provides retirement benefits for its employees through a defined contribution pension scheme which was established on 1 May 2002. The employer's contribution is recognised as an expense in the year in which the related services are rendered by the employees. The Group expensed an amount of K 16.2 million (2019: K 19.2 million) during the year in respect of this scheme.

The Group also contributes to the National Pension Scheme Authority (NAPSA), a defined contribution scheme, for its eligible employees as required by law. Membership is compulsory and monthly contributions are made by both employer and employees. The employer's contribution is expensed in the year in which it arises. The Group expensed an amount of K 22.7 million (2019: K 18.0 million) during the year in respect of this scheme.

31. LEASES

The Group has lease contracts for land used in its agricultural cane growing operations, warehouses for storage of sugar and IT leases for hardware equipment used in its operations. Leases of land are for 17 years, while warehouses are for one year and IT equipment leases are for four years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group paid the kwacha equivalent amounts of K 6.32 million in land rentals and K 4.68 million in IT equipment rentals. The Land rentals are denoted in United Stated Dollars and the IT Equipment leases are denoted in South African rand. The effective discounting rate used is 34.7% for the land leases and 10.31% for the IT equipment leases.

Below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and Buildings	Plant,equipment and other	Total
	K'000	K'000	K'000
As at 1st Sep 2019	**29 122**	**-**	**29 122**
Additions	25 318	6 156	31 474
Depreciation expense	(14 769)	(3 442)	(18 211)
As at 31st Aug 2020	**39 671**	**2 714**	**42 385**

31. LEASES (continued)

Below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	Land and Buildings	Plant, equipment and other	Total
	K'000	K'000	K'000
As at 1st Sep 2019	**(49 593)**	**-**	**(49 593)**
Additions	(25 318)	(7 378)	(32 696)
Foreign exchange gain/(loss)	(20 045)	(1 814)	(21 859)
Capital payments	16 459	3 442	19 901
As at 31st Aug 2020	**(78 497)**	**(5 750)**	**(84 247)**
Accretion of interest			
As at 31st Aug 2019	-	-	-
Lease liability - Interest expense	(23 478)	(835)	(24 313)
Lease liability - Payments	12 825	835	13 660
As at 31st Aug 2020	**(10 653)**	**-**	**(10 653)**
Current	**(27 717)**	**(1 250)**	**(28 967)**
Non-current	**(61 433)**	**(4 500)**	**(65 933)**

The following are the amounts recognised in profit or loss:

	Group		Company	
	August 2020 K'000	August 2019 K'000	**August 2020 K'000**	August 2019 K'000
Depreciation expense of right-of-use assets	**(18 211)**		**(18 211)**	
Interest expense on lease liabilities	**(24 313)**		**(24 313)**	
Foreign exchange gain/(loss)	**(21 859)**		**(21 859)**	
Total amount recognised in profit or loss	**(64 383)**	-	**(64 383)**	-

32. COVID-19 ADDITIONAL DISCLOSURE

The COVID-19 pandemic has had a number of negative and positive impacts on the operation of the Group in the financial year ended 31 August 2020.

Among the impacts include the effect on the economy which has led to high inflation and depreciation of the kwacha. This has led to high cost of essential production raw materials. The closure of the borders during the year also led to delays on supply and delivery of essential raw materials (i.e. off crop maintenance items, packing materials etc.). This led to additional requirements made by suppliers for upfront payments to secure supply which in turn affected daily operational cash flow requirements. The Group has however managed to adapt and remain resilient to these challenges as evidenced by the strong performance achieved in the financial year.

The depreciation of the currency however has a positive impact on the kwacha realisation obtained by the Group. This in turn aid cash flow especially with respect to settlement of local supplier contracts for supply of good and services. The closure of the borders also had a probable implied indirect benefit of reduction of illegal sugar available on the market. The domestic market experienced 15% growth in the current financial year.

The Group also incurred additional costs to ensure compliance with COVID-19 preventative regulatory measures and also in the form of donations to other direct and indirect stakeholders within its operating environment. Below is a breakdown of the amounts spent by the Group:

	Group	Company
	August 2020 K'000	**August 2020 K'000**
Costs incurred to ensure compliance with revised healthy and safety measures directly attributable to COVID-19	**5 642**	**5 549**

33. CONTINGENT LIABILITIES

There is a contingent liability estimated at K 1.727 million (2019: K 1.422 million) in respect of local industrial relations actions currently before the courts.

The Company currently has a matter pending with the Zambia Revenue Authority (ZRA) regarding Value Added Tax (VAT). Due to the current dispute, the ZRA has withheld input VAT claims amounting to K 254 Million as at 31 August 2020 (August 2019: K 220 million). There has been ongoing engagement with the ZRA on this matter from 2014 to date. In view of the fact that the matter has not yet been resolved and there are still processes to follow prior to resolution, management has thought it prudent to disclose a contingent liability for this potential exposure. Due to the complexity of the matter, a definitive value has not been established for the purposes of the recoverability of the input VAT from the ZRA.

On 11 October 2017, following a four-year investigation, the Competition and Consumer Protection Commission (CCPC) announced that it was imposing a fine of K 76 million on Zambia Sugar PLC for alleged abuse of its dominant market position in the pricing of its products. In view of the uncertainty surrounding this matter, and on the basis of legal advice obtained, and the fact that an economic outflow of funds is neither probable nor likely at this stage, management have concluded that no provision is required in the financial statements as at 31 August 2020.

There are some tax matters that are currently under assessment with the Zambia Revenue Authority. There is no reasonable estimate for these matters as they have not been concluded yet.

34. EVENTS AFTER THE REPORTING DATE

There are no significant events occurring after the reporting date which would require adjustment or disclosure in these financial statements.

PRODUCTION & SALES			**August 2020 K'000**	August 2019 K'000	August 2018 K'000	August 2017 K'000	March 2017 K'000
Own estate cane produced			**1 673**	1 849	1 625	1 639	1 694
Total cane milled			**3 367**	3 356	2 910	3 007	3 102
Sugar production			**398**	399	351	359	380
Cane sugar ratio			**8,46**	8,41	8,29	8,38	8,16
Sugar sales			**378**	415	354	361	381
Local			**209**	182	170	153	184
Export			**169**	233	184	208	197
Molasses sales			**116**	129	94	104	103
Local			**69**	50	44	49	42
Export			**47**	79	50	55	61

FINANCIAL	**Note**		**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Statement of comprehensive income							
Revenue			**3 334 924**	2 955 958	2 362 468	2 479 348	2 015 435
Operating profit			**774 841**	605 741	387 601	410 508	327 416
Net financing costs			**(325 891)**	(299 492)	(242 530)	(469 791)	(221 915)
Profit/(loss) before taxation			**448 950**	306 249	145 071	(59 283)	105 501
Taxation			**(214 076)**	(36 855)	11 323	(814)	(19 905)
Profit/(loss) for the year			**234 874**	269 394	156 394	(60 097)	85 596
Attributable to non-controlling interest			**-**	(5 664)	(3 752)	(6 512)	(5 461)
Profit/(loss) attributable to shareholders of Zambia Sugar Plc			**234 874**	263 730	152 642	(66 609)	80 135
Other comprehensive income/(loss)			**(23 565)**	32 798	(45 433)	39 802	19 938
Total comprehensive income/(loss) for the year attributable to shareholders of Zambia Sugar Plc			**211 307**	296 528	107 209	(26 807)	100 073
Statement of financial position							
Property, plant and equipment			**1 891 307**	1 901 875	1 931 227	1 826 528	1 931 227
Intangible asset			**67 902**	67 902	67 902	67 902	67 902
Current assets			**1 819 680**	1 650 730	1 376 091	1 308 641	1 376 091
Net cash and bank balances			**75 145**	313 017	160 365	77 694	160 365
Borrowings			**(1 134 022)**	(1 631 697)	(1 647 914)	(1 582 439)	(1 647 914)
Deferred tax liability			**(229 432)**	(138 357)	(127 585)	(129 092)	(127 585)
Current liabilities			**(899 308)**	(750 791)	(816 796)	(601 169)	(816 796)
Net asset value			**1 591 272**	1 412 679	943 290	968 065	943 290
Profitability and asset management							
Operating margin		%	**23.2**	20.5	16.4	16.6	16.2
Return on net assets	1	%	**28.9**	22.4	14.6	15.9	14.0
Liquidity and borrowings							
Current ratio	2	times	**2.1**	2.6	2.3	1.9	2.3
Interest cover	3	times	**2.4**	2.0	1.6	0.9	1.5
Net debt: equity	4	%	**67**	93	125	158	155
Gearing	5	%	**40**	48	56	61	61
Earnings and dividends per share							
Earnings per share	6	ngwee	**74.19**	83.31	48.22	(21.04)	25.31
Headline earnings per share	7	ngwee	**72.41**	81.56	81.64	(21.04)	36.12
Dividend per share	8	ngwee	**24**	8	-	-	-
Dividend cover	9	times	**3**	10	-	-	-
Dividend paid		K '000	**25 326**	-	-	-	47 486
LuSE statistics							
Ordinary shares in issue		000	**316 571**	316 571	316 571	316 571	316 571
Weighted average number of shares		000	**316 571**	316 571	316 571	316 571	316 571
Net asset value per share	10	K	**5.03**	4.46	3.65	2.98	3.06
Market price per share at year end		K	**2.51**	2.50	2.71	2.70	4.78
Dividend yield at year end	11	%	**8.9**	3	-	-	0.0
Price: headline earnings ratio	12	%	**3.7**	3.3	3.3	(12.8)	13.2

FIVE YEAR REVIEW - NOTES

1. **RETURN ON NET ASSETS**
   Profit from operations expressed as a percentage of average net operating assets.

2. **CURRENT RATIO**
   Current assets divided by current liabilities.

3. **INTEREST COVER**
   Profit from operations divided by net financing costs.

4. **NET DEBT: EQUITY RATIO**
   Interest-bearing liabilities (net of cash and cash equivalents) divided by total equity.

5. **GEARING**
   Interest-bearing liabilities (net of cash and cash equivalents) expressed as a percentage of total equity and interest-bearing liabilities (net of cash and cash equivalents).

6. **EARNINGS PER SHARE**
   Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

7. **HEADLINE EARNINGS PER SHARE**
   Headline earnings divided by the weighted average number of ordinary shares in issue.

8. **DIVIDEND PER SHARE**
   Dividends for the year (interim: paid and declared; final: proposed) divided by number of shares in issue.

9. **DIVIDEND COVER**
   Headline earnings per share divided by dividend per share (interim: paid and declared; final: proposed).

10. **NET ASSET VALUE PER SHARE**
    Total assets less total liabilities divided by the number of shares in issue.

11. **DIVIDEND YIELD AT YEAR-END**
    Dividends per share (interim: paid and declared: final: proposed) as a percentage of year-end market price.

12. **PRICE: HEADLINE EARNINGS RATIO AT YEAR-END**
    Year-end market price divided by headline earnings per share.

COMPANY DIRECTORY

Secretary:	Raphael Chipoma
Business address & Registered Office:	Nakambala Estate, Mazabuka, Zambia
Postal address:	P O Box 670240, Mazabuka, Zambia
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Fax:	+260 21 3 230 385
Email address:	RChipoma@zamsugar.zm
Website address:	www.zamsugar.co.zm / www.illovosugarafrica.com
Transfer secretaries:	Corpserve Transfer Agents Ltd 2760, Lubu Road, Long Acres, Lusaka, Zambia P.O. Box 37522, Lusaka, Zambia Telephone: +260 21 1 256 969, 256 970 Fax: +260 21 1 256 975 E-mail: corpservezambia@corpservezambia.com.zm
Auditors:	EY Zambia
Bankers:	Absa Bank Zambia Citibank Zambia FNB Zambia Stanbic Bank Zambia Standard Chartered Bank Zambia Zambia National Commercial Bank Ecobank Finance Bank

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 59th annual general meeting of the members of the company will be held virtually on https://eagm.creg.co.zw/eagm/Login.aspx and at the Radisson Blu Hotel, Lusaka, Zambia on Thursday, 26 November 2020 at 14h00. The voting at the Annual General Meeting will be electronically on https://eagm.creg.co.zw/eagm/Login.aspx.

1. Minutes of the previous meeting

To receive and note the minutes of the 58th Annual General Meeting held on 28 November 2019 duly approved by the Chairman in accordance with the Companies Act.

2. Financial statements

To receive and adopt the Directors' Report and the Financial Statements for the year ended 31 August 2020, together with the Auditor's Report thereon.

3. Ordinary Resolutions

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolutions:

3.1 Ordinary resolution number 1: Confirmation of appointment of Director - Raphael Chipoma

To confirm the appointment of Mr Raphael Chipoma, who was appointed by the Board as a Director with effect from 28 November 2019.

3.2 Ordinary resolution number 2: Confirmation of appointment of Director - Roseta Chabala

To confirm the appointment of Ms Roseta Chabala, who was appointed by the Board as a Director with effect from 1 February 2020.

3.3 Ordinary resolution number 3: Confirmation of appointment of Director - Douglas Kasambala

To confirm the appointment of Mr Douglas Kasambala, who was appointed by the Board as a Director with effect from 1 February 2020.

3.4 Ordinary resolution number 4: Confirmation of appointment of Director - Marc Pousson

To confirm the appointment of Mr Marc Pousson, who was appointed by the Board as a Director with effect from 1 June 2020.

3.5 Ordinary resolution number 5: Re-election of a Director retiring by rotation

To re-elect Mr Norman Mbazima, who retires by rotation, and who, being eligible, offers himself for re-election.

Based on the recommendations of the Nomination Committee, which has conducted a formal assessment of Mr Mbazima, the Board recommends his re-election to shareholders. His details are set out on page 54 of the Annual Report.

3.6 Ordinary resolution number 6: Re-election of a Director retiring by rotation

To re-elect Mr Fidelis Banda, who retires by rotation, and who, being eligible, offers himself for re-election.

Based on the recommendations of the Nomination Committee, which has conducted a formal assessment of Mr Banda, the Board recommends his re-election to shareholders. His details are set out on page 55 of the Annual Report.

3.7 Ordinary resolution number 7: Re-election of a director retiring by rotation

To re-elect Mr Ami Mpungwe, who retires by rotation, and who, being eligible, offers himself for re-election.

Based on the recommendations of the Nomination Committee, which has conducted a formal assessment of Mr Mpungwe the Board recommends his re-election to shareholders. His details are set out on page 56 of the Annual Report.

3.8 Ordinary resolution number 8: Approval of Directors' fees

That the fees for Non-Executive Directors be increased by 6.5% for the year ending 31 August 2021 in order that the following may apply per annum:

- K 228 000 for a Board member;
- K 238 000 for a Board member/Committee member; and
- K 271 000 for the Board Chairman.

The above fee increase has been recommended to shareholders by the Remuneration Committee.

3.9 Ordinary resolution number 9: Appointment of the Independent Auditor

Pursuant to the requirements of sections 257(1) of the Companies Act No. 10 of 2017, and as nominated by the company's Audit Committee, to resolve that EY be re-appointed as the Company's Independent Registered Auditor for the financial year ending 31 August 2021 and to authorise the Directors to determine their remuneration.

4. Declaration of final dividend

The Directors recommend that a dividend of K 0.24 per share be paid for the financial year ending 31 August 2020. It is noted that in terms of Company's Articles, the Company may only declare a dividend if the Directors have recommended a dividend.

5. Other business

To transact such other business as may be transacted at an Annual General Meeting of members.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. The proxy need not be a member of the Company. Proxy forms should be forwarded so as to reach the Company`s register office or the transfer secretaries not later than 48 hours before commencement of the Annual General Meeting.

DETAILED INSTRUCTIONS ON HOW TO PARTICIPATE IN THE AGM VIRTUALLY

As there will be limited space for the physical meeting, members are encouraged to participate in the AGM virtually

1. The proceedings of the Annual General Meeting will be streamed live and Members are required to sign up in advance at https://eagm.creg.co.zw/eagm/login.aspx
2. To sign up for the AGM, a Member must have a working email and active cell phone number.
3. After signing up, Members will receive a confirmation email and SMS containing information about joining the AGM.
4. After registering, Members will also receive their Lusaka Securities Exchange (LuSE) ID number which they must have on the day of the AGM in order to vote on the resolutions.
5. On the day of the AGM, Members will require to confirm their attendance with the login details that will be provided after signing up.
6. To fully participate in the AGM, a Member must have a reliable internet connection.
7. Queries on the registration process, how to login to the meeting or voting process must be sent to info@corpservezambia.com.zm or telephone number +260 950 968 435, +260 979 420 470 or +260 977 519 641

Queries pertaining to shareholders relations such as change of address or bank details are to be channelled through the Transfer Secretaries, whose contact address is:

Corpserve Transfer Agents Limited
6 Mwaleshi Road, Olympia Park, Lusaka, Zambia
Telephone: +260 211 256969/70
Facsimile: +260 (211) 256975
Email: info@corpservezambia.com

By order of the Board

Raphael Chipoma
Company Secretary

FORM OF PROXY
ZAMBIA SUGAR PLC

I/We ____________________

(Name/s in block letters)

of ____________________

(address)

being a member/ members of the above-named Company hereby appoint

1. ____________________ of ____________________

or in his absence

2. ____________________ of ____________________

or in his absence

3. the Chairman of the meeting

As my/our proxy to vote for me/us on my/our behalf at the Annual Meeting of the Company to be held virtually on https://eagm.creg.co.zw/eagm/Login.aspx and at the Radisson Blu Hotel, Lusaka, Zambia on Thursday, 26 November 2020 at 14h00 and at any adjournment thereof as follows:

MARK WITH X WHERE APPLICABLE IN...

No.	AGENDA ITEM	FAVOUR	AGAINST	ABSTAIN
1.	Confirmation of the appointment of Raphael Chipoma as a Director			
2.	Confirmation of the appointment of Roseta Chabala as a Director			
3.	Confirmation of the appointment of Doug Kasambala as a Director			
4.	Confirmation of Marc Pousson as a Director			
5.	Re-election of Norman Mbazima as a Director			
6.	Re-election of Fidelis Banda as a Director			
7.	Re-election of Ami Mpungwe as a Director			
8.	To increase the Directors' fees by 6.5% for the year ending 31 August 2021			
9.	Pursuant to Section 257 of the Companies Act			
10.	To reappoint EY as the Independent Auditor and authorise the Directors to determine the Auditor's fees			
11.	The Directors recommend that a final dividend of K 0.24 per share, for the year ended 31 August 2020, be declared to all shareholders registered in the books of the Company, at close of business on 16 December 2020 and payable on 21 December 2020			

Unless otherwise instructed, the proxy will vote as he thinks fit.

Signed at ____________________ on this __________ day of __________ 2020.

Signature ____________________ Assisted by me (where applicable) (see note 3) ____________________

Full name/s of signatory/ies if signing in a representative capacity (see note 4) ____________________

NOTES TO THE FORM OF PROXY

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

2. If this proxy form is returned without any indication as to how the proxy should vote, the proxy will be entitled to vote or abstain from voting as he/she thinks fit.

3. A minor must be assisted by his/her guardian.

4. The authority of a person signing a proxy in a representative capacity must be attached to the proxy unless the Company has already recorded that authority.

5. The delivery of the duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the meeting, speaking and voting instead of such duly appointed proxy.

6. If two or more proxies attended the meeting, then that person attending the meeting whose name appears first on the proxy form, and whose name is not deleted, shall be regarded as the validly appointed proxy.

MINUTES

MINUTES OF THE 58TH ANNUAL GENERAL MEETING OF MEMBERS HELD ON 28 NOVEMBER 2019 AT 14:00 HOURS AT THE RADISSON BLU HOTEL, LUSAKA

1 PRESENT

DIRECTORATE:
FM Banda (Chairman), RL Katowa (Managing Director), GB Dalgleish, NB Mbazima, A Mpungwe, DK Patel, GM Rolfe, Dr N Saayman and C Taylor.

SECRETARY:
MM Mutimushi
(Lists of members present as attached)

2 CALL TO ORDER/QUORUM

A quorum having been met, the meeting was called to order at 14:10 hours.

3 APOLOGIES FOR ABSENCE

No apologies for absence were recorded.

4 AGENDA

The notice and agenda were adopted as presented.

5 MINUTES OF THE PREVIOUS MEETING

The minutes of the Annual General Meeting of 22 November 2018 were received and noted as approved by the Board.

6 MATTERS ARISING

No matters arose for discussion from the minutes of the previous meeting.

7 THE DIRECTORS REPORT AND FINANCIAL STATEMENTS

The Directors' Report and Annual Financial Statements for the year ended 31 August 2019 were presented. It was resolved that the Directors' Report and Financial Statements for the year ended 31 August 2019 be approved and adopted and that all matters undertaken and discharged by the Directors on behalf of the Company be confirmed.

8 ELECTION OF DIRECTORS

It was resolved that Messer's NB Mbazima and C Taylor who were appointed by the Board as Directors be confirmed by the meeting and further, that Messer's GB Dalgleish, DK Patel and Dr N Saayman, who retired by rotation, be and were hereby re-elected as Directors.

9 DIRECTORS' FEES

It was resolved that the Directors be authorised to review the fees payable to the Independent Directors for the year ending 31 August 2019.

10 AUDITORS' REMUNERATION AND RE-APPOINTMENT

It was resolved that Messer's EY (Zambia) be re-appointed as Auditors of the Company until the conclusion of the next Annual General Meeting and that the Board of Directors be authorised to agree their fees.

11 SPECIAL RESOLUTION

It was resolved that the Special Resolution the amended Articles of Association in line with the Companies Act No.10 of 2017 be adopted.

12 DECLARATION OF FINAL DIVIDEND

It is noted that in terms of Company's Articles, the Company may only declare a dividend if the Directors had recommended a dividend.

The Directors recommended that a final dividend of K 0.08 per share, for the year ended 31 August 2019, be declared to all shareholders registered in the books of the Company. At the close of business on 18 December 2019, it was resolved that the recommendation of the Board of Directors regarding the payment of a final dividend of K 0.08 per share for the year ended 31 August 19 be and was hereby approved.

13 ANY OTHER BUSINESS

There being no further business to transact, the meeting closed at 15:30 hours.

Dated this ______________________________ day of______________________________2019

NOTES


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AN **ILLOVO SUGAR AFRICA** COMPANY

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Mazabuka,

Zambia

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