Zambia Sugar

AN ILLOVO SUGAR AFRICA COMPANY

ANNUAL REPORT **2018**

Embracing change for sustainable growth

VISION

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

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ANNUAL REPORT 2018


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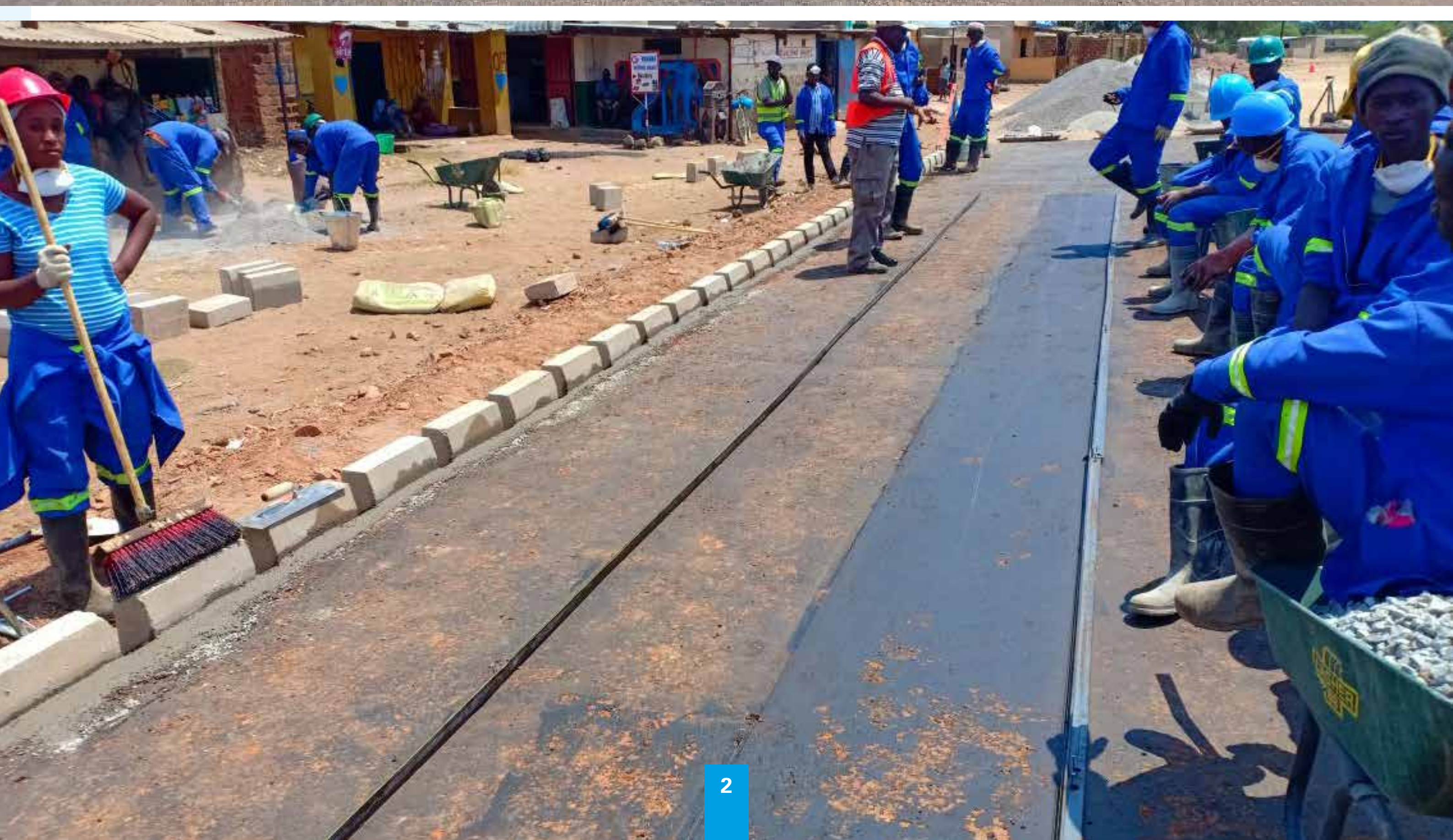


FINANCIAL HIGHLIGHTS

Profit For The Year
Million Kwacha

156.0
(5 months ended August 2017: 92)

Operating profit
Million Kwacha

388.0
(5 months ended August 2017: 263)

Earnings Per Share
Ngwee

48.2
(5 months ended August 2017: 28.1)

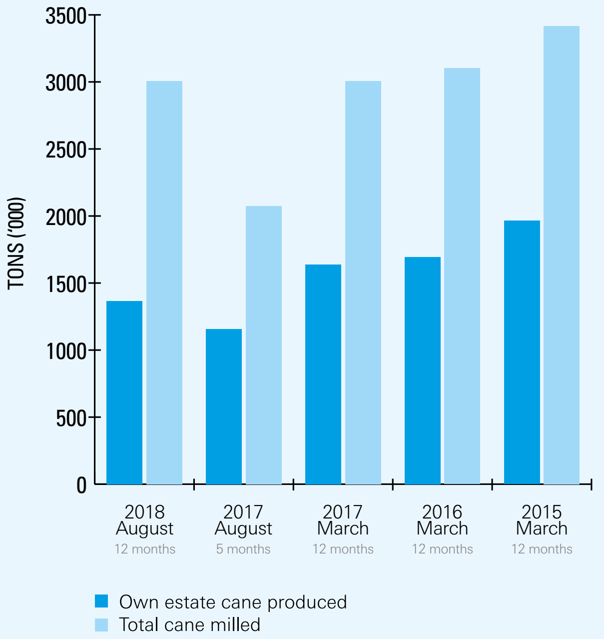
Sales Revenue
Billion Kwacha

2.4
(5 months ended August 2017: 0.9 billion)

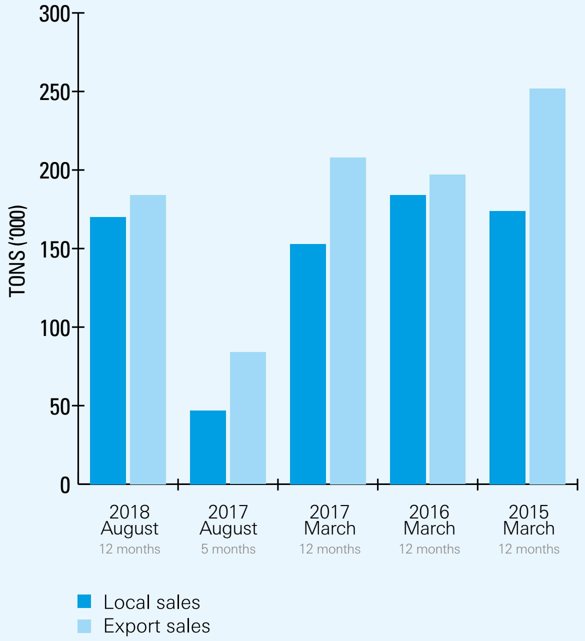
KEY FEATURES	12 months ended August 2018	5 months ended August 2017
Revenue (K'000)	2 362 468	912 829
Operating profit (K'000)	387 601	262 707
Profit for the year (K'000)	156 394	91 574
Earnings per share (ngwee)	48.2	28.1
Dividends per share (ngwee)	-	-
Number of shares in issue ('000)	316 571	316 571

FIVE YEAR REVIEW

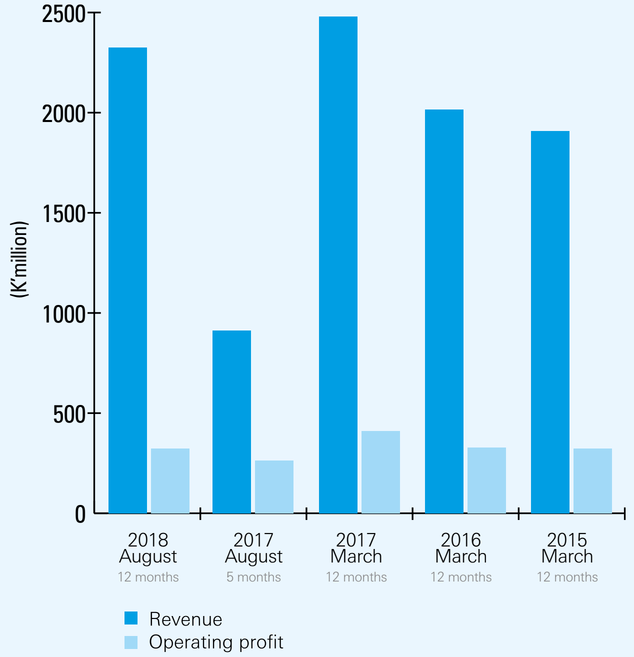
Sugar cane production



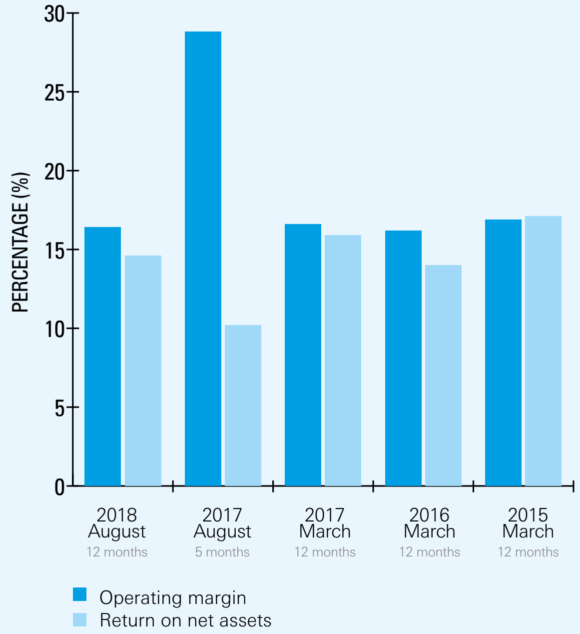
Sugar sales



Revenue



Profit



	Notes		12 months ended August 2018	5 months ended August 2017	12 months ended March 2017	Restated 12 months ended March 2016	Restated 12 months ended March 2015
Production & Sales (Tons '000)	Notes		Tons '000	Tons '000	Tons '000	Tons '000	Tons '000
Own estate cane produced			**1 367**	1 158	1 639	1 694	1 965
Total cane milled			**3 008**	2 074	3 007	3 102	3 417
Sugar production			**364**	249	359	380	424
Cane sugar ratio			**8.26**	8.33	8.38	8.16	8.06
Sugar sales			**354**	131	361	381	426
Local			**170**	47	153	184	174
Export			**184**	84	208	197	252
Molasses sales			**94**	36	104	103	111
Local			**44**	20	49	42	47
Export			**50**	16	55	61	64
Financial							
Statement of comprehensive income			K '000	K '000	K '000	K '000	K '000
Revenue			**2 362 468**	912 829	2 479 348	2 015 435	1 907 169
Operating profit			**387 601**	262 707	410 508	327 416	323 034
Net financing costs			**(242 530)**	(151 674)	(469 791)	(221 915)	(163 900)
Profit/(loss) before taxation			**145 071**	111 033	(59 283)	105 501	159 134
Taxation			**11 323**	(19 459)	(814)	(19 905)	(19 445)
Profit/(loss) for the year			**156 394**	91 574	(60 097)	85 596	139 689
Profit attributable to non-controlling interest			**(3 752)**	(2 507)	(6 512)	(5 461)	(4 216)
Profit/(loss) attributable to shareholders of Zambia Sugar Plc			**152 642**	89 067	(66 609)	80 135	135 473
Other comprehensive income/(loss)			**(45 433)**	13 517	39 802	19 938	(7 979)
Total comprehensive income/(loss) for the year attributable to shareholders of Zambia Sugar Plc			**107 209**	102 584	(26 807)	100 073	127 494
Reconciliation of headline earnings (K'000)							
Statement of financial position			K '000	K '000	K '000	K '000	K '000
Property, plant and equipment			**1 913 060**	1 920 001	1 931 227	1 826 528	1 325 296
Intangible asset			**67 902**	67 902	67 902	67 902	67 902
Current assets			**1 429 082**	1 634 257	1 376 091	1 308 641	939 318
Cash and bank balances			**200 666**	290 920	160 365	77 694	77 884
Borrowings			**(1 640 924)**	(1 680 260)	(1 647 914)	(1 582 439)	(923 623)
Deferred tax liability			**(121 262)**	(143 428)	(127 585)	(129 091)	(110 551)
Current liabilities			**(693 907)**	(1 045 737)	(816 796)	(601 169)	(462 912)
Net asset value			**1 154 617**	1 043 655	943 290	968 065	913 313
Profitability and asset management (%)							
Operating margin		%	**16.4**	28.8	16.6	16.2	16.9
Return on net assets	1	%	**14.6**	10.2	15.9	14.0	17.1
Liquidity and borrowings							
Current ratio	2	times	**2.3**	1.8	1.9	2.3	2.3
Interest cover	3	times	**1.6**	1.7	0.9	1.5	2.0
Net debt: equity	4	%	**125**	133	158	155	93
Gearing	5	%	**56**	57	61	61	48
Earnings and dividends per share							
Earnings per share	6	ngwee	**48.22**	28.13	(21.04)	25.31	42.79
Dividend per share	8	ngwee	**-**	-	-	-	23.00
Dividend cover	9	times	**-**	-	-	-	1.9
Dividend paid		K'000	**-**	-	-	47 486	63 314
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	**3.65**	3.3	2.98	3.06	2.89
Market price per share at year end		K	**2.71**	2.7	2.70	4.78	6.00
Dividend yield at year end 11%	11	%	**-**	-	-	-	3.8
Price: headline earnings ratio	12	%	**5.6**	9.6	(12.8)	13.2	13.4

NOTES TO THE FIVE YEAR REVIEW

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. **Dividend per share**
   Dividends for the year (interim: paid and declared; final: proposed) divided by number of shares in issue.

8. **Dividend cover**
   Headline earnings per share divided by dividend per share (interim: paid and declared; final: proposed).

9. **Net asset value per share**
   Total assets less total liabilities divided by the number of shares in issue.

10. **Dividend yield at year end**
    Dividends per share (interim: paid and declared: final: proposed) as a percentage of year-end market price.

11. **Price: headline earnings ratio at year end**
    Year-end market price divided by headline earnings per share.

VALUE ADDED STATEMENT

The value added statement reflects the wealth that the Group and the Company has been able to create through its agricultural, manufacturing and selling operations, and its subsequent distribution and reinvestment in the business.

During the year under review, K959 million (5 months to August 2017: K527 million) was created. Of this amount, K718 million (5 months to August 2017: K380 million) was distributed to employees, providers of capital and to government. Of the wealth created, 49% (5 months to August 2017: 41%) was paid to employees.

The balance of the wealth created was retained and reinvested in the company towards the reduction of debt and the ongoing working capital requirements.

	Group		**Company**	
	12 months ended August 2018	5 months ended August 2017	**12 months ended August 2018**	5 months ended August 2017
	K '000	K '000	K '000	K '000
Wealth Created				
Revenue	**2 362 468**	912 829	**2 362 468**	912 829
Dividend income	**-**	-	**-**	28 384
Paid to growers for cane purchases	**500 698**	(336 086)	**617 584**	(414 873)
Manufacturing and distribution costs	**(1 903 879)**	(49 346)	**(2 074 715)**	(1 689)
	959 287	527 397	**905 337**	524 651
Wealth distributed				
To employees as salaries, wages and other benefits	**469 813**	218 611	**447 229**	210 491
To lenders of capital as interest	**242 530**	151 674	**247 327**	155 258
To shareholders as dividends	**-**	4 725	**-**	-
To government as taxation	**5 795**	5 118	**673**	575
	718 138	380 128	**695 229**	366 324
Wealth reinvested				
Retained Profit/(loss)	**152 642**	89 067	**130 104**	101 308
Depreciation	**105 625**	43 861	**97 023**	40 435
Deferred taxation	**(17 118)**	14 341	**(17 019)**	16 584
	959 287	527 397	**905 337**	524 651
Amounts paid to government for taxation excludes the following:				
Employees tax deducted from remuneration	**78 873**	39 502	**77 885**	39 015
Net VAT amount paid to government	**101 579**	19 948	**100 332**	9 750
Customs and excise duties	**16 273**	18 773	**15 809**	18 773
Withholding taxes and Withholding VAT collected on behalf of government	**187 252**	107 529	**186 882**	107 365
	383 977	185 752	**380 908**	174 903

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present to you the 2018 Annual Report. Following the change in the financial year end, this report covers a full year's performance, unlike the previous report which was for the five transitional months.

I am pleased that management's resolve to arrest the run-away cost base in the last couple of years is starting to bear fruit.

The year under review (2017/2018) recorded improved technical performance, attainment of strategic milestones, and positive financial performance. Though progress was achieved, it was not enough to deliver improved shareholder value.

As you are aware, the business has been under stress for the past three years and the effects of this continued to impact on growth and productivity during the year under review. Suffice to say, management has been equal to the task and measures taken to mitigate the impact are beginning to bear fruit.

BUSINESS PERFORMANCE

In the year under review, a number of long-standing economic challenges facing the country abated to some extent and showed some signs of improvement across a number of areas. The stability in the exchange rates, interest rates and inflation rate provided a welcome economic boost for the business and the country's economy in general.

The company maximised on the favourable economic performance and posted K388 million operating profit of which K145 million was profit before taxation. However, due to high debt levels and the difficult commercial environment, the Board took a prudent view and a dividend has not been declared.

The Board is confident that with sustained improvements in economic fundamentals and a viable strategy that management is implementing, the business is positioning itself on firm ground for sustainable growth and profitability.

In doing this, focus on shareholder returns is at the heart of the strategy in the coming year. The Board believes that high-quality and sustainable long-term revenue and earnings growth, combined with a disciplined approach to capital allocation and progressive dividend policy, will drive superior returns for shareholders. I am pleased that management's resolve to arrest the run-away cost base in the last couple of years is starting to bear fruit.

AREAS OF IMPROVEMENT

The company continues to work on improvements in increasing its product distribution footprint. This is because we believe that improved

The company maximised on the favourable economic performance and posted K388 million operating profit of which K145 million was profit before taxation.

cane yields and production alone will not deliver on shareholder value if we do not get the product to the right markets, at the right mix, the right time and the right price. Therefore I congratulate management on the new Route to Consumer (RtC) strategy which is aimed at making quality products easily accessible to our customers.

We are also mindful that we are no longer the only sugar producer in the market. In this regard, the Board has mandated management to continue embracing change and continue to find solutions for sustainability. In combination with the long-standing structural and economic challenges facing the country, we are likely to see trade dynamics and trade patterns continue to evolve. In these changing and challenging times, the company is determined to remain competitive, to deliver a satisfactory financial performance and offer the highest levels of service to our consumers. This is fundamental to the success of Zambia Sugar remaining our customers' brand of choice.

OUTLOOK

Management is implementing various initiatives to further enhance the operational and financial performance to yield favourable growth and profitability. In particular, sugar production is therefore expected to recover, while the positive performance in the domestic market is expected to continue, as will the efforts to optimise the regional export market sales. Further, opportunity optimisation and debt management remain key objectives for the business going forward; this should give us optimism for a positive future.

As can be seen from the aforementioned, the year under review was a period of progress; – strategically, operationally and financially. There is, however, no complacency, and in such rapidly changing markets, we continue to focus our energies on shorter decision timelines, rapid distribution of products and strong customer focus.

GRATITUDE

The relative positive outcome of the business performance is a direct result of the commitment of our people. I would like to take this opportunity to thank you, the shareholders, for your continued support. I also wish to express gratitude to all our employees and management for their dedication and commitment to duty.

And finally I wish to thank the board members for their unequivocal support and valuable advice in the past year. I look forward with confidence to Zambia Sugar's future as it optimises its performance and delivers real value to shareholders.

FIDELIS M. BANDA
Board Chairman

BOARD OF DIRECTORS

The Company has a unitary board of directors comprising of 10.

Of the 10 directors, seven are non-executive directors. In accordance with the LuSE Corporate Governance Code the majority of the non-executive directors are independent and are chosen for their business acumen and skills pertinent to the business.

New appointments to the Board are carried out in a transparent manner and are made in accordance with the recommendations of the Nominations committee and, following approval of the Board, are subject to confirmation by shareholders at the next annual general meeting.

The Board responsibilities are set out by a Board Charter which requires that there is an appropriate balance of power and authority on the board. The Board Charter is reviewed annually and during the period under review, the board satisfied its responsibilities in compliance therewith. The Board is responsible for the overall stewardship of Zambia Sugar Plc. The Board's role consists of two fundamental elements: decision making and oversight. The decision making function is exercised through the formulation with management of fundamental policies and strategic goals and the approval of certain significant actions. The oversight function concerns the review of management decisions, the adequacy of systems and controls and the implementation of policies. In performing its role, the Board makes major policy decisions, participates in strategic planning, delegates to management authority and responsibility for day-to-day affairs and reviews management's performance and effectiveness.

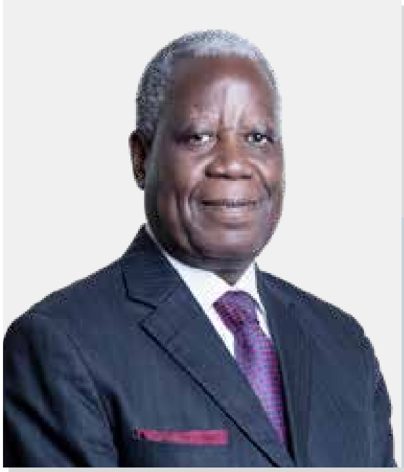
Principles of good governance are embedded in the way the Board, its sub-committees and the executive committees operate their business. The Board applies integrity, principles of good governance and accountability throughout its activities and each director brings independence of character and judgment to their role.

NON-EXECUTIVE, INDEPENDENT CHAIRMAN

FIDELIS M. BANDA (66), ACIS, FCMA, CGMA, FZICA
Chairman of Nomination Committee

Mr Banda, a seasoned accountant, is Chairman of the Board as well as Chairman of the Nomination Committee. He was appointed to the board in 2001 as a non-executive director. His association with Zambia Sugar started 43 years ago when he was appointed as management trainee and rose through the ranks to become Finance Director/Company Secretary in 1995. He took early retirement in 2002 but was retained on the Board as non-executive director. Mr Banda is also a director of other companies.

NON-EXECUTIVE, INDEPENDENT DIRECTORS



AMI R. MPUNGWE (66), BA (Hons)

Mr Mpungwe brings a wealth of experience gained as a non-executive director of two Illovo subsidiaries; Illovo Sugar (Malawi) Limited and Kilombero Sugar Company Limited in Tanzania.

He was appointed director of the company in 2006. He is also a 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 to 1985.

MONICA K. MUSONDA (43), LLB, LLM

Chairman of Remuneration Committee

Ms Musonda was appointed to the Board in July 2015. She holds a Bachelor of Laws degree from the University of Zambia and an LLM from the University of London. After working for a number of corporations, she started her own business, Java Foods, in Zambia.

She also serves as non-executive director on other board including African Life Assurance (a subsidiary of Sanlam), Dangote Industries Zambia Limited and serves on the Microsoft4Africa Advisory Council. She is a 2013 Young Global Leader (World Economic Forum) and Archbishop Desmond Tutu Leadership Fellow. She was named Forbes Magazine Africa Investor and leading Young Power Women in Business in Africa in 2013 and 2014 respectively.

DIPAK K. A. PATEL (64)

Mr Patel was appointed to the Board of Zambia Sugar in 2006. A businessman and chairman of various companies, Mr Patel previously served as 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.

EXECUTIVE DIRECTORS

REBECCA M. L. KATOWA (57), BA, MBA, DipM, MCIM, FZIM

Mrs. Katowa is the Managing Director of Zambia Sugar Plc. She joined the company in 1996 as Marketing Services Manager and in 2001 became company Marketing Director.
She was appointed to the board in 2002. She holds a Bachelor of Arts degree with double major in Economics, Geography and Library Science from University of Zambia (UNZA), a post graduate Diploma in Marketing from the Chartered Institute of Marketing (UK) and a Masters in Business Administration (MBA) from the Copperbelt University.
She is a professional marketer with a track record of delivering strong business performance. She is a member of the Chartered Institute of Marketing (CIM-UK) and a fellow of the Zambia Institute of Marketing.

GRAHAM M. ROLFE (57), B.Sc. Elec Eng, GCC, Pr Eng, MDP

Mr. Graham Rolfe was appointed to the Board in November 2016 following his appointment as Operations Director in October 2016. From 1987 to 1993 he worked in various positions within the power generating industry.
He joined the sugar industry in 1993 where he served in various operations roles within TSB Sugar. He was appointed General Manager of Komati Mill in 2002 and later served at two sugar mills for TBS sugar in the same capacity. He served as a member of the TSB Executive Team until 2014. Projects accredited to his career include the building and expansion of Komati Mill and the Zambia Sugar Product Alignment and Refinery (PAAR) which was successfully completed in June 2016.

FAITH MISOZI MUKUTU (37), BSc, FCCA, FZICA

Faith Misozi Mukutu joined Zambia Sugar as Finance Director on 19th February 2018. Ms Mukutu joined Zambia Sugar from Zambian Breweries plc a member of ABInBev where she held the position of Finance Director. Ms Mukutu has over 15 years' experience in Finance and Audit functions having started her career at PricewaterhouseCoopers. She was appointed as Finance Director of Zambian Breweries Plc, National Breweries Plc and Heinrich's syndicate ltd and took up seats on the three boards in November 2015.
This was after she moved from Maluti Mountain Brewery a SABMiller Plc subsidiary in Lesotho where she served in the same capacity from 2011. She originally joined Zambian Breweries Plc in June 2005 as a Management Accountant and was promoted to the position of Finance Director for the Malawi Operation – Chibuku Products Ltd in 2008. She comes with rich industry knowledge and experience. Ms Mukutu is a Chartered Accountant and is a fellow of ACCA and a member of ZICA.

NON-EXECUTIVE DIRECTORS

GAVIN B. DALGLEISH (51), MScChemEng

Mr Dalgleish is the Managing Director of Illovo Sugar Africa (Pty) Ltd. He was appointed to the Board of Zambia Sugar in 2012. He assumed the position of Operations Director for Illovo Sugar Limited (ISL) (now Illovo Sugar Africa (Pty) Ltd) in 2012, and was appointed Managing Director in September 2013.

He holds a master's degree in chemical engineering and first joined Illovo in 1988. He has since held a number of technical, business development, operational and generalbman-agement positions in Illovo. Most recently he 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.

MOHAMMED H. ABDOOL-SAMAD (46), BCom, CA (SA)
Chairman of Audit Committee

Mr Abdool-Samad is the Chairman of the Audit Committee. He was appointed to the Board in 2011 following his appointment as Group Finance Director of Illovo Sugar Limited (now Illovo Sugar Africa (Pty) Ltd).

He holds a BCom degree and qualified as a chartered accountant in 1996. From 1996 to 2000, he held various managerial positions at Deloitte & Touche. In 2001 he joined Anglo America Plc, providing risk management and treasury audit services. He was appointed Senior Finance Manager of Anglo Coal South Africa in 2005, Chief Financial Officer in 2006, and Chief Financial Officer of Anglo American Thermal Coal in 2009, responsible for Anglo America's global thermal coal assets.

DR. NELIS SAAYMAN (48), PhDChemEng

Dr Nelis Saayman was appointed to the Zambia Sugar Board on 1 May 2018. He is a qualified chemical engineer and previously served as Senior Vice President: Group Planning and Optimisation of Sasol Group.

He holds a PhD in Chemical Engineering from Stellenbosch University (1996), a Masters Degree in Business Leadership from the University of South Africa and B.Eng. (Chemical) (cum de laude) from Stellenbosch University. He has years of varied technical, operational and business experience in various roles including at top management level. He is currently Illovo Sugar Africa Group Operations Director.

MANAGING DIRECTOR'S STATEMENT

Dear Shareholders,

Over the previous two production seasons, I reported on the challenges that were adversely impacting on the performance of the business namely, pests and diseases, partial droughts and weak economic fundamentals.

Cane yields per hectare have averaged **124.7 tons per hectare** against an estimate of 122.4 tons per hectare.

Lubombo Road - 10 kilometres
Over **100 youths** have been given a lifeline through various job opportunities that the project provides.

The strategic focus in cane production is to consistently supply 3.56 million tons annually and consistently produce and market **445 000 tons of sugar.**

Cane production costs were further impacted by high input costs in respect of the procurement of both fertilisers and pesticides. These and other factors resulted in the poor financial performance in the 2016/17 and 2017/18 seasons.

I am pleased to say that, in experiencing both challenging and exciting times in the period under review, our business transformation efforts are beginning to bear fruit and we have achieved significant milestones thus far.

MILESTONES

I am encouraged by the performance and outcomes of our "P400" Transformation Project, a major cost resetting exercise deployed across the business. A number of the cost optimisation initiatives are now in the control phase, with constant engagements between the implementing office and line management teams aimed at embedding these benefits in our business.

The short term initiatives in Agriculture, Factory, Finance, Supply Chain and Marketing, implemented in the 2017/18 period, have resulted in positive improvements in the management of the challenges outlined above. As a direct result, cane yields per hectare have improved by 4.0% against the prior season.

While we have recorded an improvement in cane supply, with total throughput of 3.01 million tons in the 12 months to 31 August 2018, the strategic focus in cane production is to consistently supply 3.56 million tons cane to the mill annually, in order to consistently produce and market 445 000 tons of sugar.

For the business to deliver shareholder value, we require to constantly deliver on these numbers and to grow our domestic market year-on-year. This also requires that we achieve our production targets focused clearly on our costs of production, and becoming an efficient and agile business with aligned capabilities operating in a safe environment.

In our continued quest to serve our customers to their highest satisfaction, we have also embarked on a journey to optimize our distribution network through the implementation of a robust Route to Consumer (RtC) strategy. This strategy will enhance our response to our customers and consumer's needs.

VOLUNTARY SEPARATION PROGRAMME

The business partnered with employees in a Voluntary Separation Programme (VSP) with the intention of reducing our permanent labour base by 10%. This objective was successfully achieved with 163 employees effectively separating from the business during the period under review. Management will continue to optimise its complement with the objective of improving productivity and efficiency thus positioning the business for growth.

CREATING SHARED VALUE

Our Creating Shared Value (CSV) initiative is maturing with a number of community projects taking root in agriculture and in community infrastructure. The Kaleya Small Holders Company, Magobbo and Manyonyo out-grower schemes delivered 10% of the total cane supply to the mill in the period under review. This resulted in many job opportunities for the local community.

I am pleased to inform you that the construction of Lubombo Road has commenced. With support from the International Labour Organisation (ILO), Mazabuka Municipal Council, the government and other cooperating partners.

The project seeks to rehabilitate 10 kilometres of the Lubombo Road using a labour intensive business model. Over 100 youths have been given a lifeline through various job opportunities that the project provides. This unique project reduces community dependency on hand outs and will have a significantly positive multiplier socio–economic impact. The youths on the project will acquire skills that can be used in other projects country-wide. To this end, Zambia Sugar and the ILO intend to showcase the use of labour-based road paving technologies, while at the same time promoting skills and enterprise development as well as job creation for the rural communities in Mazabuka. This aligns well with Zambia Sugar's CSV strategy which uses business models to create socio-economic opportunities in the communities it operates.

SAFETY

Attaining a Target Zero safety culture remains the priority for the business and this means full compliance with cardinal safety rules and regulations aimed at achieving zero safety-related incidences. We have embarked on a number of safety initiatives and have implemented a number of measures that will ensure that every grain of sugar produced at our mill is done in a safe environment and adheres to the highest food safety standards.

CHALLENGES

Zambia has recorded an increase in smuggled imports of sugar trading at levels which are well below the cost of production of even the most efficient of global sugar producers. The negative impact of this activity has been compounded by the presence of counterfeit sugar in our domestic market. We commend efforts taken by the Government through its various agencies in attempting to curb these illegal activities. However, we look forward to the strengthening of the regulatory environment so that the sugar industry in Zambia as a whole is protected and revenue and jobs are assured for the Zambian population.

GOING FORWARD

In addition to the initiatives outlined above, I would like to share some thoughts around our strategy and strategic imperatives going forward. These are in line with our vision, "To be a diversified, consumer-centric, world-class sugar and sugar related business, delivering shareholder value and creating thriving communities". The business is redirecting its efforts to address those aspects of our performance where we have the greatest opportunities for production and/or financial improvements.

For our business to be consumer-centric it requires that we retain our position as a market leader through producing and supplying quality and affordable sugar products. We know that escalating costs of production continue to pose a challenge in attaining our balance sheet goals but we are confident that our initiatives to reset our cost base will go a long way towards helping us deliver on this aspiration.

I am confident that my management team and all employees are committed to ensuring that we deliver consistently on our vision.

REBECCA KATOWA
Managing Director

NAKAMBALA EXECUTIVE TEAM

REBECCA M. L. KATOWA
BA, MBA, DipM, MCIM, FZIM
Managing Director
Responsible to the Zambia Sugar board and shareholders for the delivery of the company's strategic goals and objectives as well as providing leadership across the business functions.

GRAHAM M. ROLFE
BSc - Eng, Pr - Eng, GCC, MDP
Operations Director
Responsible for agriculture and factory operations, as well as safety, health, environment and quality (SHEQ).

FAITH MISOZI MUKUTU
BSc, FCCA, FZICA
Finance Director
Responsible for financial, performance analysis (operational and financial), internal and external financial reporting, treasury and corporate finance functions, business development and information technology.

CHEMBE KABANDAMA
MBA, B.Eng, CIMA
Marketing Director
Responsible for sales and marketing operations in respect of domestic and export markets and new market opportunities.

MWANSA M. MUTIMUSHI
LLB, AHCZ, ASCZ, LLM MedArb
Company Secretary and Legal Counsel
Responsible for statutory and regulatory company secretarial functions, governance, and overseeing the legal, compliance and corporate citizenship functions.

Human Resources Director
Position vacant: Responsible for human resources policies, staffing and talent management, human resource development and training, industrial relations, retirement funding, compensation and benefits, human resource administration and payrolls, employee welfare and medical services.

STUART S. FORBES
BTech Mgt, ABP
Supply Chain Manager
Responsible for procurement, inventory, logistics and warehousing.

ANTHONY H. DOMLEO
BCom, NDA
Agriculture Manager
Responsible for agricultural operations and smallholder development.

MCLEAN DEBWE
BChemEng, ALChemE
Factory Manager
Responsible for Factory operations and manufacturing.

JAPHET BANDA
Mcom *(cum laude)* Rhodes, PDEM Rhodes, DJourn
Corporate Affairs and Communications
Responsible for advocacy, sustainability, stakeholder management and corporate communications.

SUSTAINABILITY REPORT

As a creator of wealth and a major employer, Zambia Sugar plays a significant economic role, contributing towards empowering emerging businesses and supporting efforts by different stakeholder and government in providing communities with social economic infrastructure and services.

We also create value in our production processes, from growing raw material to producing, distributing and marketing sugar for consumption as well as developing our employees. This value chain creates multiple benefits to suppliers, contractors, distributors, customers and employees, and contributes to government through both direct and indirect taxes.

In all this, safety remains a fundamental pillar of our sustainability efforts.

Creating Shared Value - **Lubombo Road Project**

Left to right: Mr. Mato Shimabale (Barclays Bank, Head of Marketing & Corporate Relations), Mrs. Rebecca Katowa (Zambia Sugar Managing Director), Mr. Alexio Musindo (ILO Country Director), Mr. William Katongo (Ministry of Infrastructure, Human Resource Director), Mr. Shadreck Mungalaba (Coorparative Development, Director) during a courtesy call by stakeholders at Chief Naluama.

Zambia Sugar has evolved its strategy for socio-economic interventions with the adoption of Creating Shared Value (CSV) approach as the company seeks to create employment and wealth creation opportunities to empower the communities in which it operates. The CSV approach employs business models with focus areas in enterprise development, trader capacitation, environmental management and alternative crops.

During the year under review, a CSV milestone was achieved through a community project in Mazabuka. Zambia Sugar invited the International Labour Organisation (ILO) to model a project to promote enterprise development. Thus, Zambia Sugar and ILO agreed to implement a project to upgrade a 10km section of the Lubombo Road in Mazabuka. This community infrastructure project seeks to showcase the use of labour-based road construction technologies as important aspects of job creation strategies, skills development and enterprise development.

K3 MILLION

Mobilised for the project

Contractors demonstrating the cape seal technology on the Lubombo Road

Kenyan trainer Johab Oteno Osika (with a watering can) showing contractors how to compact the cape seal during practical training session on the Lubombo Road.

The developmental objective for this project is to create partnerships for building Thriving Communities using the CSV approach in addressing societal and national developmental needs. Immediate outcomes include deriving the social licence to operate and reputational value, demonstrating multi-stakeholder approach as a tool for resource mobilisation, demonstrating enterprise development strategies for community empowerment as well as Public Private Partnership (PPP) for infrastructure development needs.

The primary beneficiaries of the project are the youth from Lubombo and contractors drawn from within Mazabuka, who were trained in the road construction technologies for which they were engaged on the demonstration works. The project trained 60 youths in cobblestone chiselling and paving technology while five (5) contractors each with two (2) foremen were trained in low-volume sealed road technology. The training also included some municipality workers and Zambia Sugar engineering staff.

Overall, the project engaged 165 youths from the Lubombo area for the demonstration phase. These youths will form cooperatives with support from the Department of Cooperative Development, and these structures will capacitate them to develop into entrepreneurs.

The Lubombo Road is a public infrastructure that connects farming and fishing communities in Mazabuka and is directly accessed by over 29 000 people living around Lubombo, Nanga, Magobbo, Neganega, Naluama and surrounding areas. It is also accessed by road users transiting between Mazabuka and Chikankata districts. Hence, the far-reaching benefits of the implementing of the project include contribution to poverty

Pavers laying cobbles during demonstration.

reduction and economic empowerment through creation of jobs and enterprise development opportunities. It will also impact on gender equality infrastructure development, community development and overall socio-economic development.

It was pleasing that this project generated a lot of interest from stakeholders and a number of partners came on board, including the Road Development Agency (RDA); the Mazabuka Municipal Council (MMC); Department of Cooperatives Development in the Ministry of Commerce, Trade and Industry (MCTI); Lafarge Zambia Plc; People's Action Forum (PAF); I AM Grafix and Advertising Solutions; Barclays Bank Zambia and ZESCO Limited. The project is supported by a Committee of Permanent Secretaries from Southern Province administration, Ministry of Commerce, Trade and Industry (MCTI), Ministry of Labour and Social Security (MLSS); and Ministry of Housing and Infrastructure Development (MHID).

These partners have contributed varying support to the project, including provision of equipment, financial, material and human resources. The contributions include training facilitated by ILO through the National Council for Construction (NCC), Barclays Bank and Department of Cooperatives Development; community mobilisation by PAF; signage by IAM Grafix; construction and supply of electricity infrastructure by ZESCO; provision of equipment and labour by MMC. Engagements with Lafarge were on-going for support in form of building materials such as cement, aggregates and quarry dust as well as mining of stones for production of cobblestones.

10KM

The developmental objective for this project is to create partnerships for building Thriving Communities using the CSV approach in addressing societal and national developmental needs.

During the year under review, a total of K3 million was mobilised by Zambia Sugar and ILO to commence the project. Zambia Sugar is still engaging more partners to mobilise support for the entire project.

CONTRACTOR DEVELOPMENT

Zambia Sugar makes deliberate efforts to support the small and medium enterprises through supply and contracting partnerships. However, the company realises the need to build capacities that empower local entrepreneurs for their development. In this regard, contractor development is a big part of the implementation of the Lubombo Road Project.

Five Mazabuka-based contractors and their workers were selected for development into road construction and were trained in basic fundamentals of road construction and low-volume sealed road technology by NCC and specialists from Kenya and South Africa under the auspices of the ILO. These were trained along with their foremen and supervisors, as part of the effort to skills capacitate and sustain their operations.

The trainee contractors shared experiences with their regional counterparts as the training also incorporated trainees from Mozambique and Tanzania.

They had to undertake practical demonstration of the training on the Lubombo Road demonstration stretch.

The capacity built will enable these contractors to undertake other road construction works beyond the Lubombo Road Project.

CSI

The company continues to support some Corporate Social Investments related to employee welfare services. Support to health, education, housing, sanitation, infrastructure and other employee-related social investments continued with a total of K42 million invested, of which K17 million was spent on health services and medical facilities serving employees and their immediate family members.

Change Agents training for Zambia Sugar employees at Nakambala Training Center

HUMAN CAPITAL

The company has human capital policies that attract the best talent and promote employee development and retention. Key human capital development programmes include learning and development, management training programme, apprenticeship and succession planning. The Learning and Development transformation was a key milestone during the year under review, which entailed moving from transactional to strategic approach in partnering with the business in addressing and providing the learning and development solutions. In addition, the Engaged Performance Management process was launched aimed at focusing an engaged process.

In terms of organisation effectiveness and systems compliance, the business implemented complement reviews and structure alignment to support the growth strategy.

MALARIA CONTROL

The Zambia Sugar malaria control programme continues to be identified as a success story in the national malaria elimination strategy having recorded zero malaria incidences for a period of more than three years in a row.

HIV AND AIDS

The HIV workplace programme continues to score positive results and in particular achieved reductions on new infections from 11% to less than 5% among the estimated population and in ART defaulter rate from 5% to less than

1% during the period under review. The business also implemented the HIV Testing Counselling Treatment (HTCT) by integrating them in major business activities.

SAFETY, HEALTH, ENVIRONMENT, RISK (SHER)

Safety, Health, Environment, Risk (SHER) policy is an integral element of our business and safety in particular.

OCCUPATIONAL HEALTH

Measures are in place to protect workers against occupational health hazards and to safe guard the general health and well-being of employees.

SAFETY

The management of operational safety risk at Zambia Sugar is conducted in compliance with national laws and a comprehensive set of Illovo Group Policies and standards to cover all aspects of operational risk control. SHER systems and processes are therefore in place to ensure sustainable performance. During the period under review, the company implemented a revision of the overall safety strategy to focus on preventative plans.

Safety harness training for employees who work at heights.

The company introduced the 4 Steps to Safety programme as a driving tool towards Target Zero safety culture. The 4 Steps to Safety is a personal risk assessment tool that encourages people to identify hazards associated with all tasks before starting a job, by identifying, assessing, implementing controls and routinely reviewing the risks involved with the task.

To further enhance safety, management has embarked on the People Driven Safety (PDS) journey at Zambia Sugar. This is a safety strategy aimed at internalising and transforming safety ownership and culture by addressing individual behaviour and actions towards safety through coaching, as opposed to policing.

ENVIRONMENT

The company is subject to environmental regulations on air, land, water, ecology and noise. The company, through its monitoring and performance mechanisms, measures performance against environmental regulations and environmental best practices and reports issues of importance to the Health, Safety and Environment (HSE) Committee and thereafter on to the Board.

To mitigate these non-conformances, the company has finalised the five (5) year Water and Effluent Strategic Plan

Assistant Production Manager –Packing Station, Alfred Mukisi (in green hardhat) explaining some quality techniques in the Packing Station in the factory to Southern Province Permanent Secretary Mr Mwangala Liomba (right)

which will lead to improved water and effluent management processes. A governance process is in place to close out these strategic actions and progress against these plans now forms part of the environment lead indicators measures in the company's performance evaluation scorecard.

QUALITY AND FOOD SAFETY

The Quality and Food Safety performance was satisfactory for the period under review and resulted in certification by major audits. These included the FSSC 22000 Food Safety certification being granted by the South African Bureau of Standards (SABS), customer audits by Coca Cola and Heineken as well as the Coca Cola SGP (Ethics) and the Zambia Compulsory Standards Agency (ZCSA). Overall, the business is on course in consolidating the Quality Management System and Food Safety standards to ensure compliance at all times. The essence of these efforts is to create a Food Safety Culture at Zambia Sugar.

CONTINUOUS IMPROVEMENT

In the year under review, Foundational Best Practices of the CI programme were rolled out in Agriculture, Factory, Supply Chain and Marketing departments.

Ms. Ruth Simucho at the visual management board during a sectional meeting - a critical component of continuous improvement

THE YEAR IN PICTURES

Captions

1. Part of the Sugar Industry participants on Day 2 of the Sugar Industry Stakeholders' Workshop at the Nakambala Training Centre
2. Grand prize winner of the Zambia Sugar Beula Nafuti promotion Ms. Correta Matete (in blue dress) pose for a picture with Zambia Sugar Managing Director Mrs. Rebecca Katowa and Head of Corporate Affairs Japhet Banda.
3. The top three prize winners of the Zambia Sugar Beula Nafuti Promotion pose with their cheques after the prize giving ceremony.

4. David Phiri - explaining agricultural operations at a newly harvested field in Lubombo Farm Area to the visiting Tanzania Defence College entourage.
5. Zambia Sugar MD - Mrs Rebecca Katowa made a presentation titled "Socio-Economic Impact of the Sugar Industry in Zambia Challenges and Opportunities". This was during the British Chamber of Commerce Zambia Breakfast Meeting.
6. Zambia Sugar Supply Chain Manager Stuart Forbes talks to Zambia Railways CEO Christopher Musonda after a meeting on the SI to ship bulk goods using rail
7. Illovo Director of Corporate and External Affairs Larry Riddle confers with British High Commissioner H.E Fergus Cochrane-Dyet (OBE). Listening in is Zambia Sugar Managing Director Rebecca Katowa.
8. Southern Province Permanent Secretary, Mr. Mwangala Liyomba being welcomed by Zambia Sugar Operations Director, Graham Rolfe during a visit to Zambia Sugar.

CORPORATE GOVERNANCE REPORT

Zambia Sugar Plc. ("the Company") remains committed to achieving exemplary standards of corporate governance by applying the best management practices which reflect its emphasis on principles of transparency, integrity, accountability and fairness.

Zambia Sugar believes that a corporate culture of compliance with applicable laws, regulations, internal policies and procedures as well as adherence to relevant codes of best practice non-binding rules and standards are core components of good corporate governance. The Company continues to enforce and foster the Declaration of Gifts and Ethics policies and endeavours to ensure that standards of ethical and responsible conduct are met throughout the organisation.

The Company draws guidance from the Lusaka Securities Exchange (LuSE), Governance Code, the LuSE Listing Rules and the Securities and Exchange Commission (SEC) Rules and Regulations, principles contained in the United Nations Global Compact (UNGC), the United Nations Global Compact and Human Rights, The International Bill of Human Rights and International Labour Organisation (ILO) Declaration on fundamental Principles and Rights at Work.

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 duplicity of information the 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 10 directors, including three independent non-executive directors. The Board is mandated in terms of its Charter, which requires that there is an appropriate balance of skill 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 an independent non-executive director.

THE BOARD COMPOSITION

At the date of this report, the board comprised the following directors;

Director	Title	Date of Appointment
Fidelis Banda	Chairman	17 May 2001
Rebecca Katowa	Managing Director	5 April 2001
Ami Mpungwe	Non-Executive Director	27 October 2006
Dipak K A Patel	Independent Non-Executive Director	8 December 2006
Monica K Musonda	Independent Non-Executive Director	1 July 2015
Gavin B Dalgleish	Non-Executive Director	29 August 2012
Mohammed H Abdool-Samad	Non-executive Director	13 March 2012
Nelis Saayman	Non-Executive Director	1 May 2018
Faith M Mukutu	Executive	20 February 2018
Graham M Rolfe	Executive	9 November 2016

Brief curricula vitae of the directors appear on pages 10 - 13 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 board meets formally four times annually and the company's Articles of Association makes provision for decisions to be taken between meetings through written resolutions where necessary. The meetings of the Board are presided over by the chairman. Written notices of board meetings, agendas and other management reports are circulated timeously. The minutes of the meetings are appropriately recorded by the company secretary, circulated and approved at subsequent board meetings.

Four meetings were convened in 2017 and attendance was as shown by table below;

BOARD MEETING ATTENDANCE SCHEDULE 2017

Directors' Name	248th Board Meeting (24/11/2017)	249th Board Meeting (19/02/2018)	250th Board Meeting (10/05/2018)	251st Board Meeting (22/08/18)	Total Meetings Attended	Total Meetings Held
F M Banda	✓	✓	✓	✓	4	4
GB Dalgleish	✓	✓	✓	✓	4	4
JP Hulley	✓	RS	RS	RS	1	4
N Saayman	BA	BA	✓	✓	2	4
MH Abdool-Samad	✓	✓	✓	✗	3	4
AR Mpungwe	✓	✓	✓	✓	4	4
DK Patel	✓	✓	✓	✓	4	4
MK Musonda	✓	✓	✗	✓	3	4
RL Katowa	✓	✓	✓	✓	4	4
GM Rolfe	✓	✓	✓	✓	4	4
FM Mukutu	BA	BA	✓	✓	2	4

KEY

✓ Attended	**BA** Before Appointment
✗ Absent	**RS** Resigned

BOARD COMMITTEES

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

- the Audit Committee
- the Risk Committee
- the Remuneration and Nomination Committee

The Board committees operate under approved mandates and terms of reference, which define their functions and responsibilities. The Company's Executive committee, 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 regard 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 back at the Audit committee meetings and has unrestricted access to the chairperson of the Audit committee. The internal audit department has a robust and continuing training program.

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 appropriate the composition of the Audit committee.

AUDIT COMMITTEE ATTENDANCE SCHEDULE

Name	Category	May Audit Meeting (30/05/17)	Aug Audit Meeting (22/08/17)
MH Abdool-Samad	Non-Executive Chairman	✓	✓
AR Mpungwe	Non-Executive Director	✓	✓
MK Musonda	Non-Executive Director	✓	✗

RISK COMMITTEE

The committee is responsible for reviewing the company's risk philosophy, strategy and policies; ensuring compliance with such policies; reviewing the adequacy and overall effectiveness of the company's risk management function; ensuring the implementation of an on-going process of risk identification, mitigation and management; ensuring the establishment of a comprehensive system of controls, pursuing measures for increasing risk awareness, reviewing significant legal matters, reviewing adequacy of insurance coverage and providing reports to the board.

During the year under review, the committee satisfied its responsibilities.

RISK MANAGEMENT COMMITTEE ATTENDANCE SCHEDULE

Name	Category	May (30/05/17)	Aug (22/08/17)
N Saayman	Non-Executive Chairman	BA	✓
AR Mpungwe	Non-Executive Director	✓	✓
JP Hulley	Non-Executive Director	✓	RS
GB Dalgleish	Non-Executive Director	✓	✓
MH Abdool-Samad	Non-Executive Director	✓	✓
RML Katowa	Executive Director	✓	✓

REMUNERATION COMMITTEE

The committee provided oversight over the remuneration and compensation for senior management so as to retain and motivate staff to perform at the level of the quality required. The committee consists of five members all of whom are non-executive. It is chaired by an independent non-executive director, appointed by the board.

REMUNERATION COMMITTEE ATTENDANCE SCHEDULE

Name	Category	February 2018 Meeting	August 2018 Meeting
MK Musonda	Non-Executive Independent Chairperson	✓	✓
GB Dalgleish	Non-Executive Director	✓	✓
FM Banda	Non-Executive Director	✓	✓
AR Mpungwe	Non-Executive Director	✓	✓
MH Abdool-Samad			

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 non-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 continues 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.

EXECUTIVE COMMITTEE OF MANAGEMENT

The Company's executive committee of management, also known as Nakambala Executive Team (NET), is headed by the Managing Director and is responsible for the day-to-day management of the Company. NET provides the Board with sound information, advice and recommendations on the organisational structure, objectives, strategies, plans and policies of Zambia Sugar to enable the board to make informed decisions.

COMPANY SECRETARY

The company secretary acts as a focal point for communications on matters of corporate responsibility. 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 business. All Directors have direct access to the company secretary.

STAFF DEVELOPMENT, TRAINING AND INFORMATION TECHNOLOGY

Zambia Sugar is committed to staff 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 of our 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 & distribution and finally payment system for our goods and services. All the outlining Depots, in the country, are connected via satellite.

STAKEHOLDER RELATIONS

Zambia Sugar places considerable importance in maintaining active investor relations through open, fair and transparent communications. The Company ensures timely dissemination of information to its investors and other stakeholders through various media. A dedicated shareholder 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 websites. 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.

Internally the Board and Management consider effective communication as being critical to the success of the business. To this effect, the Corporate Affairs department produces a quarterly magazine which is circulated to all employees. The magazine highlights key issues affecting the business be it financial performance, corporate governance, risk management, human resource, production, sales and distribution.

INTERNAL AUDITORS

Zambia Sugar has an internal audit function designed to add value to the Company and improve operations.

The Internal Audit function provides an independent assurance service to the board, the audit committee and management. The Internal audit function is formally defined and confirms the effectiveness of the governance, risk management and control processes that management has put into place. The head of the internal audit function attends the audit committee meetings and has unrestricted access to the chairperson of the audit committee.

EXTERNAL AUDITORS

External Auditors are appointed by the shareholders and are subject to reappointment at the AGM. The current external auditors of the Company are EY. As a reassurance, EY confirms in a formal report to the Audit committee that processes to ensure compliance with the policy are in place and that these processes are monitored regularly.

The Company together with External Auditors ensures that quality and independent audits are undertaken through regular and systematic Audit Planning and also rotation of client staff engaged on the audits.

ORGANISATIONAL INTEGRITY

In its continued efforts to foster integrity within the organisation, the Company continues to enforce the Ethics policy and encourages all employees to make a declaration of their outside interests and/or external business involvements' every year.

Employees are also encouraged to declare all the gifts received in the course of employment by way of a gift register.

INTERNAL CONTROL

The control systems are designed to safeguard the Company's assets, maintain proper accounting records and ensure the reliability of management and financial information produced by the Company. Control systems are based on established Illovo group policies and procedures and are implemented by trained personnel, with an appropriate segregation of duties.

The effectiveness of these internal controls and systems is monitored by the internal audit department, with the aid of self-assessment audit checklists. The independent external auditors, through the audit work they perform, confirm that the above mentioned monitoring procedures are being effectively applied.

Nothing has come to the attention of the Directors or the independent external auditors to indicate that any material breakdown in the functioning of above mentioned internal controls and systems has occurred during the year under review.

ETHICS

The Company's fundamental policy is to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. The Company has a Code of Conduct and Business Practices, determining the minimum standards required of all staff, which is disseminated throughout the Company and reviewed annually by senior management, and is also available on the group website: www.illovosugarafrica.com. All managers are required to give written assent to this Code. In any instance where ethical standards are called into question, the circumstances are investigated and resolved by the appropriate executive.

FRAUD CONTROL

The Company has in place a Tip-Offs Anonymous ("Hotline"), inviting people from within and outside the Company to anonymously report any wrongdoings. The service is operated by independent forensic accountants, and all matters arising are then appropriately investigated and reported upon.

ANTI BRIBERY AND CORRUPTION

The Company has rolled out an Anti-Bribery and Corruption Policy (ABC). The ABC policy is embedded in the Company's operations and widely disseminated, with employees required to assent that they understand and abide by the provisions of the policy. Appropriate ABC training for employees is on-going and visibility of the policy is sustained in communication briefs. The Company has embarked on embedding the relevant ABC provisions in supply agreements and suppliers, transporters, sugar distributors and agents are required to assent to these provisions. The Company liaises with the national Anti-Corruption Commission (ACC) where required.

LEGAL COMPLIANCE AND COMPETITION

The board requires management to submit an annual declaration confirming that the Company's operations complied with the applicable Laws of Zambia. In addition, the Company complies with the competition requirements of the Competition and Consumer Protection Act, No. 24 of 2010 and all relevant employees make annual declarations confirming that they were not involved in any anti-competitive practices. The Company has recourse to the group company secretary and external legal advice on matters of legal compliance.

INSIDER TRADING

Directors and officers of the Company are prohibited from dealing in the shares of the Company, during defined restricted periods, including those periods immediately prior to the announcement of interim and final financial results.

SHARE DEALING

In terms of the Company's Code of Conduct for Dealing in Securities, the directors and company secretary are required to obtain clearance from either the Chairman or Managing Director before dealing in the securities of the company. Additionally the Company has a formal Share Dealing policy approved by the board and implemented by the company secretary.

MARKET DISCLOSURE

The Company prepares interim and final results as required by the Lusaka Stock Exchange and SEC rules and also prepares a detailed narrative statement to accompany the results. Our results are disseminated widely through the LuSE, news wires and our own distribution lists.

CONTROLLING SHAREHOLDER

The Company's controlling shareholder has reduced its holding in the Company in compliance with the LuSE requirement of 25% free float.

MWANSA M. MUTIMUSHI
Company Secretary
30 October 2018


Brown Sugar

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 August 2018

FINANCIAL CONTENTS

REPORT OF THE DIRECTORS

The directors have 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 2018.

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, 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 2 909 million tons, with our operations supplying 1 625 million tons and growers supplying a total of 1 284 million tons. In general the late season cane yields in 2017 were disappointing owing to reduced harvest age coupled with the damage caused by pest and disease infestations, however the 2018 crop has recovered, with cane yields performing at an average of 120 tons cane per hectare which is 4% above the previous season.

Cane supply and quality has been trending above that of the past three years mainly due to improved bulk water supply and infield irrigation, better aphid and black maize beetle control measures as well as an increased area planted to green manure crop and improved field specific nutrition program.

Production

Total sugar production was 351 050 tons compared to 249 276 tons reported over the 5 months period to August 2017.

The business is committed to maximising production and is focusing on continuous improvement, cost optimisation, quality, and plant reliability.

Commercial

Total revenue for the year was K2 362 million. This performance was impacted negatively by the surplus world sugar supply, which is finding its way into the Company's primary regional markets, which in turn is affecting demand and putting pressure on margins. The domestic market has not been spared as the country recorded increased incidences of smuggled sugar in the first half of the year.

However, despite these headwinds, the Company's performance in the domestic market has been positive owing to improved route to consumer capabilities and sales execution in trade.

Supply Chain

The procurement of goods and services through a strategic plan of local supplier development continues to be a key focus in line with the Company's Creating Shared Value strategy.

Sales and Operations Planning continues to add value to the business with the process resulting in alignment between market demand and operational supply. One of the key changes in the year was the in-sourcing of logistics and procurement under Project 400 – path to building a thriving business cost optimisation project.

Human Resources

The company continued to be a significant provider of employment, with an average workforce of 5 199 during the year with numbers peaking at 6 427.

Prospects

The implementation of various agro practices and improved climatic conditions have had a positive impact on cane yields and quality. We expect to end the season on a positive note and these good practices are expected to continue to impact favourably on the next season's sugar cane yields. Sugar production is therefore expected to exceed this year's production.

The positive performance in the domestic market experienced in the second half of the year is expected to continue, and is a positive reflection of measures management has taken to protect market share.

In addition, management remains resolved towards maximising production, lowering the cost base and reducing debt levels within the business.

Growth is expected to continue in the regional export markets although margins will remain under pressure from low global sugar prices.

Financial Results

The Group's results are as follows:

		12 months ended August	5 months ended August
Group		2018	2017
	Notes	K'million	K'million
Revenue	5	2 362	913
Operating profit	6	388	263
Net financing costs	7	(243)	(152)
Profit before taxation		145	111
Taxation credit/(charge)	8	11	(19)
Profit for the year		156	92
Profit attributable to:			
Non-controlling interest		4	3
Shareholders of Zambia Sugar Plc		153	89
Earnings per share (ngwee per share)	9	48.2	28.1

Dividends

Owing to the major capital investment in the new refinery, high debt levels, and continued difficult commercial environment, a dividend has not been declared.

Directorate and Secretary

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

Fidelis M. Banda	Independent Chairman
Ami R. Mpungwe	Non-Executive Independent Director
Dipak K. A. Patel	Non-Executive Independent Director
Monica K. Musonda	Non-Executive Independent Director
Gavin B. Dalgleish	Non-Executive Director
Mohammed H. Abdool-Samad	Non-Executive Director
Nelis Saayman	Non-Executive Director
Rebecca M. L. Katowa	Managing Director
Graham M. Rolfe	Operations Director
Faith Mukutu	Finance Director
Mwansa M. Mutimushi	Company Secretary

Appointments and Resignations

During the year under review the following changes were made:

Mr John P. Hulley retired from the board as a non executive director, effective 22 February 2018.

Ms. Faith Mukutu was appointed to the board as an executive director, effective 20 February 2018.

Mr. Nelis Saayman was appointed to the board as a non executive director, effective 1 May 2018.

Directors' Interests

None of the directors had any interest in any contract with the group during the year under review. The Directors that held beneficial interests in the issued ordinary share capital of the company as at 31 August 2018 were as follows:

	August 2018	August 2017
	No. of shares	No. of shares
Fidelis M. Banda	7 176	7 176

Property, Plant and Equipment

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

	August 2018	August 2017
	K'000	K'000
Opening Capital Work in Progress	23 092	20 616
Additions to Capital Work in Progress	40 226	14 634
	63 318	35 250
Items Capitalised during the year		
- Buildings	(7 248)	-
- Plant & equipment	(20 927)	(12 158)
- Motor vehicles	(5 184)	-
	(33 359)	(12 158)
Closing Capital work in progress	29 959	23 092

During the year, expenditure valued at K40 million (5 months to August 2017: K15 million) were added to property, plant and equipment as capital work in progress. Of this, K33 million (5 months to August 2017: K12 million) was completed and transferred to the relevant category of assets.

During the year, K27 million (5 months to August 2017: K18 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	2 395	843 238.00	0.30%
1001-5 000	583	1 269 708	0.40%
5 001-10 000	120	865 167	0.30%
10 001-100 000	102	3,146,870	1.00%
100 001-1 000 000	14	5 591 880	1.80%
>1 000 001-100 000 000	6	67 425 983	21.30%
>100 000 001	1	237 428 539	75.00%
Totals	3 221	316 571 385	100%

Classification	Number of Holders	Number of shares	%
Illovo Group Holdings Ltd	1	237 428 539	75.0%
Pension Funds	51	55 951 548	17.7%
Local Companies	55	18 615 780	5.9%
Local Individuals	2 754	3 562 738	1.1%
Foreign Individuals	331	677 674	0.2%
Foreign Companies	29	335 106	0.1%
Totals	3 221	316 571 385	100.0%

Significant Shareholding

As at 31 August 2018, 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	16 806 004	5.31%

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

The Lusaka Stock Exchange (LuSE) regulations require that all listed companies must have a minimum of 25% of its shares held by public investors in terms of a free-float. As a result Illovo Group Holdings Limited (IGHL) reduced its shareholding in Zambia Sugar Plc from 81.55% to 76.40% in September 2014. The shares were offered and sold to local Zambian institutional investors. Further, as agreed with the LuSE, the remaining 1.4% were offered and sold to a local Zambian Institutional investor on 5 December 2017. The shareholding for Illovo Group Holdings Limited (IGHL) at 31 August 2018 was 75% of the total shareholding.

Employees

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

	August 2018	August 2017
Sept	5 628	6 335
Oct	6 083	6 430
Nov	6 076	6 469
Dec	4 783	6 270
Jan	4 493	4 946
Feb	4 093	3 513
Mar	4 069	3 374
Apr	3 444	3 943
May	5 498	5 922
Jun	5 950	5 941
Jul	5 846	5 948
Aug	6 427	6 477

The total remuneration paid in respect of the above employees was K470 million (Five months to August 2017: K219 million).

Exports

The value of products exported by the Group during the year was K949 million (Five months to August 2017: K514 million).

Donations

The Group made donations to the value of K86 000 (Five months to August 2017: K16 000) in respect of various charitable activities. No donation was of a political nature.

Occupational Health

Providing a safe and healthy working environment is a priority and is underpinned by a robust Health and Safety policy. As part of enhancing safety culture and creating sustainability we launched the People Driven Safety program (PDS). Access to health care is provided to all our employees and their dependants. We operate a hospital and three clinics with a focus on primary and secondary health, HIV and AIDS, malaria and other communicable diseases. The Health, Safety and Environment performance was satisfactory at 83%, an overall improvement of 18% over the previous year.

Environment

Zambia Sugar, like other industries is subjected to environmental regulations in respect of air, land, water, ecology and noise. The company, through its monitoring and performance mechanisms, measures performance against environmental regulations and environmental best practices and reports issues of importance to the Health, Safety and Environment Committee and thereafter on to the Board. Our underlying philosophy in environment management is to continually investigate means to reduce the impact on the environment as a result of our operations. The business did not recorded contraventions on all regulated environment aspects during the year 2017/18.

Quality and Food Safety

The company continues to look at ways of enhancing our food safety and quality procedures and ensuring that we maintain our food safety management system which meets the requirements of Food Safety System Certification (FSSC).

Technology, Research and Development

In order to optimise the return on existing installed capacity, the business continues to benefit from well-established resources from within the Illovo group, which provide technical expertise in agricultural and sugar production and downstream product manufacturing. A centralised core of expertise exists to ensure technical standards are optimised and maintained for both existing equipment and new agricultural and factory installations. 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.

Auditors

In accordance with the provisions of section 171(3) of the Zambian Companies Act, the auditors, Messrs EY Zambia, will retire as auditors of the Company at the forthcoming Annual General Meeting, and 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
MWANSA MULUMBA MUTIMUSHI
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 164(6) of the Companies Act, 1994 (as amended) 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, 1994 (as amended). In addition, the Directors are responsible for the preparing the directors report. The independent external auditors, Messrs EY Zambia, have audited the annual financial statements and their report is set out on page 40 to 42.

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 2018;
- 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 2018;
- 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 year.
  (ii) the state of affairs of the Company and its subsidiary as at the end of the financial year; and
- the financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1994 (as amended).

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 2018 and are signed on its behalf by:

FIDELIS M BANDA
Chairman

REBECCA KATOWA
Managing Director

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zambia Sugar Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Zambia Sugar Plc and its subsidiary set out on pages 43 to 94, which comprise the consolidated and company statement of financial position as at August 31, 2018, 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 August 31, 2018, 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 Zambia Companies Act, 1994.

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). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code. 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 MATTER	HOW A KEY AUDIT MATTER WAS ADDRESSED IN THE AUDIT
CONTINGENT LIABILITIES	
The Company had various active legal cases with two regulators, namely the Competition and Consumer Protection Commission (CCPC) and the Zambia Revenue Authority (ZRA). The recognition and measurement of provisions or contingent liabilities requires the application of judgement by management in determining the expected outcome as there are uncertainties affecting the determination of whether the amounts related to these cases should be recognised in the financial statements or disclosed as contingent liabilities. The assessments and claims involve judgement by management of the amounts and uncertainties, the outcomes of which could be significant to the financial statements and were considered significant to the audit. The Company's disclosures on contingent liabilities are included in Note 32, which specifically explains the uncertainties which give rise to the classification of the impact of these legal matters as contingent liabilities.	**Our audit procedures included, among others:** ▪ Making inquiries of internal and external legal counsel. ▪ Reviewing communication between the Company and the Regulators. ▪ Evaluating the status of the court process and objections filed by the Company relating to the legal cases with Competition and Consumer Protection Commission (CCPC) and the Zambia Revenue Authority (ZRA). ▪ Evaluating the judgements made by management on whether to recognise the provision or to disclose an amount as a contingent liability. This included evaluating the arguments put forward by the Company in each case. ▪ Re-computing management's calculation of the potential exposure/ contingent liabilities and considering the appropriateness of the expected outcome considerations applied in the calculation. ▪ Assessing the adequacy of the Company's disclosures about those uncertainties to which the outcome of the case is most sensitive, that is, those that have the most significant effect in the determination of the whether the matter should be recorded. ▪ We involved our tax specialists in the interpretation the tax regulations and to assess the Company's compliance with the tax regulations.

KEY AUDIT MATTER	HOW A KEY AUDIT MATTER 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. At 31 August 2018, the fair value of growing cane was estimated at K302 million. We considered this as a key audit matter as the determination of the fair value involves significant judgement and estimates. The Company's disclosures about significant judgements and estimates are included in Note 18 which details the assumptions and key inputs used by management.	**Our procedures included, among others:** ▪ Evaluating the sucrose price per ton, the direct costs per ton (Haulage, harvest and crop removal costs) against the approved 2018/2019 budget and to the industry norms. ▪ Evaluating the production inputs utilised in the calculation of the fair value such as Sucrose content to the signed factory production report at the beginning of December 2017. ▪ Performing a retrospective review of the inputs above by assessing the August 2017 forecast to the actual and investigating of any material difference. ▪ Inspecting the contract agreements between the Company and the third party growers and ensure that the share of growers has been correctly accounted for in the net sucrose prices and quantities used in the valuation process. ▪ 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 valuation calculation.

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, the Chairman's Statement, Managing Director's Statement, Sustainability Report, Financial Highlights, Five year review and related notes, Value Added Statement, Corporate Governance Report, Report of the Directors and the Director's 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 Zambia Companies Act, 1994, 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 the Companies Act of Zambia we report to you, based on our audit, that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

b. in our opinion proper books of accounts, other records and registers have been kept by the company, so far as appears from our examination of those books and registers; and

c. the consolidated and company's statement of financial position and profit and loss account are in agreement with the books of account.

EY Zambia

EY Zambia
Chartered Accountants
The engagement partner on the audit resulting in this independent auditor's report is;

Mark M Libakeni 31 October 2018

Partner - Practising certificate number: AUD/F000397
Lusaka

Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 August 2018 (comparatives are for the five months ended 31 August 2017)

		Group		Company	
		12 months ended August 2018	5 months ended August 2017	**12 months ended August 2018**	5 months ended August 2017
	Notes	K'000	K'000	K'000	K'000
Revenue	5	**2 362 468**	912 829	**2 362 468**	912 829
Cost of sales		**(1 354 388)**	(387 533)	**(1 387 667)**	(407 283)
Gross profit		**1 008 080**	525 296	**974 801**	505 546
Profit on disposal of plant and equipment		**15 025**	-	**15 025**	-
Distribution expenses		**(236 092)**	(120 627)	**(236 092)**	(120 627)
Administration expenses		**(399 412)**	(141 962)	**(392 649)**	(139 578)
Operating profit	6	**387 601**	262 707	**361 085**	245 341
Dividend income		**-**	-	**-**	28 384
Net finance costs	7	**(242 530)**	(151 674)	**(247 327)**	(155 258)
Interest paid		**(243 505)**	(151 833)	**(248 264)**	(155 405)
Interest received		**975**	159	**937**	147
Profit before taxation		**145 071**	111 033	**113 758**	118 467
Taxation credit/(expense)	8	**11 323**	(19 459)	**16 346**	(17 159)
Profit for the year		**156 394**	91 574	**130 104**	101 308
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent years:					
Adjustments in respect of cash flow hedges	27	**(50 481)**	15 019	**(50 481)**	15 019
Taxation effect of cash flow hedges	27	**5 048**	(1 502)	**5 048**	(1 502)
Other comprehensive income for the year, net of income tax		**(45 433)**	13 517	**(45 433)**	13 517
Total comprehensive income for the year		**110 961**	105 091	**84 671**	114 825
Profit for the year attributable to:					
Shareholders of Zambia Sugar Plc		**152 642**	89 067	**130 104**	101 308
Non-controlling interest		**3 752**	2 507	**-**	-
		156 394	91 574	**130 104**	101 308
Total comprehensive income for the year attributable to:					
Shareholders of Zambia Sugar Plc		**107 209**	102 584	**84 671**	114 825
Non-controlling interest		**3 752**	2 507	**-**	-
		110 961	105 091	**84 671**	114 825
Earnings per share (ngwee per share)	9	**48.2**	28.1	**41.1**	32.0

Consolidated and Separate Statements of Financial Position

as at 31 August 2018

		Group		Company	
		August 2018	August 2017	August 2018	August 2017
	Notes	K'000	K'000	K'000	K'000
Assets					
Non-current assets		1 980 962	1 987 903	1 949 428	1 958 532
Property, plant and equipment	13	1 913 060	1 920 001	1 793 804	1 802 908
Intangible asset	15	67 902	67 902	-	-
Investment in subsidiaries	16	-	-	155 624	155 624
Current assets		1 622 850	1 915 573	1 556 528	1 851 817
Inventories	17	666 486	710 595	655 881	700 698
Growing cane	18	302 495	303 806	256 683	253 209
Trade and other receivables	20	447 024	558 896	433 782	552 506
Derivative financial instruments	27	-	40 231	-	40 231
Taxation receivable	8	1 744	2 001	5 631	5 921
Amounts due from related parties	26.4	4 435	9 124	4 435	9 124
Cash and bank balances	21	200 666	290 920	200 116	290 128
Assets classified as held for sale	14	6 898	9 604	6 898	9 604
Total assets		3 610 710	3 913 080	3 512 854	3 819 953
Equity and Liabilities					
Equity attributable to shareholders of Zambia Sugar Plc		1 113 888	1 006 679	1 023 760	939 089
Share capital and premium	22	247 338	247 338	247 338	247 338
Capital redemption reserve		40	40	40	40
Hedging reserve	27	(9 231)	36 202	(9 231)	36 202
Retained earnings		875 741	723 099	785 613	655 509
Non-controlling interest		40 729	36 977	-	-
Total equity		1 154 617	1 043 656	1 023 760	939 089
Non-current liabilities		1 503 131	1 371 805	1 480 600	1 349 175
Long-term borrowings	23	1 381 869	1 228 377	1 381 869	1 228 377
Deferred tax liability	24	121 262	143 428	98 731	120 798
Current liabilities		952 962	1 497 619	1 008 494	1 531 689
Trade and other payables	25	443 269	595 150	427 489	573 410
Short-term borrowings	23	232 318	304 339	232 318	304 339
Amounts due to related parties	26.4	189 877	434 858	261 189	490 668
Derivative financial instruments	27	10 258	8	10 258	8
Bank overdraft	21	26 737	147 544	26 737	147 544
Provisions	28	50 503	15 720	50 503	15 720
Total liabilities		2 456 093	2 869 424	2 489 094	2 880 864
Total equity and liabilities		3 610 710	3 913 080	3 512 854	3 819 953

The responsibilities of the company's directors with regard to the preparation of the financial statements are set out on page 39. The financial statements on pages 43 to 94 were approved and authorised for issue by the board of directors on 30 October 2018 and were signed on its behalf by:

FIDELIS M BANDA
Chairman

REBECCA KATOWA
Managing Director

Consolidated and Separate Statements of Changes in Equity

for the year ended 31 August 2018 (Comparatives are for the five months ended 31 August 2017)

	Share capital and premium	Capital redemption reserve	Hedging reserve	Retained earnings	Attributable to share holders of Zambia Sugar Plc	Non-controlling interest	Total
Group							
Balance at 1 April 2017	247 338	40	22 685	634 032	904 095	39 195	**943 290**
Total comprehensive loss for the year	-	-	13 517	89 067	102 584	2 507	**105 091**
Profit for the year	-	-	-	89 067	89 067	2 507	**91 574**
Cash flow hedges	-	-	13 517	-	13 517	-	**13 517**
Dividends paid	-	-	-	-	-	(4 725)	**(4 725)**
Balance at 31 August 2017	247 338	40	36 202	723 099	1 006 679	36 977	**1 043 656**
Total comprehensive income for the year	-	-	(45 433)	152 642	107 209	3 752	**110 961**
Profit for the year	-	-	-	152 642	152 642	3 752	**156 394**
Cash flow hedges	-	-	(45 433)	-	(45 433)	-	**(45 433)**
Balance at 31 August 2018	247 338	40	(9 231)	875 741	1 113 888	40 729	**1 154 617**
Company							
Balance at 1 April 2017	247 338	40	22 685	554 201	824 264	-	**824 264**
Total comprehensive income for the year	-	-	13 517	101 308	114 825	-	**114 825**
Profit for the year	-	-	-	101 308	101 308	-	**101 308**
Cash flow hedges	-	-	13 517	-	13 517	-	**13 517**
Balance at 31 August 2017	247 338	40	36 202	655 509	939 089	-	**939 089**
Total comprehensive income for the year	-	-	(45 433)	130 104	84 671	-	**84 671**
Profit for the year	-	-	-	130 104	130 104		**130 104**
Cash flow hedges	-	-	(45 433)	-	(45 433)	-	**(45 433)**
Balance at 31 August 2018	247 338	40	(9 231)	785 613	1 023 760	-	**1 023 760**

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.

No dividends were paid during the year ended 31 August 2018 (August 2017: Nil) and therefore the dividend per share, calculated on a cash basis, was nil (August 2017: Nil).

Consolidated and Separate Statements of Cash Flows

for the year ended 31 August 2018 (Comparatives are for the five months ended 31 August 2017)

		Group		Company	
		12 months ended August 2018	5 months ended August 2017*	12 months ended August 2018	5 months ended August 2017*
	Note	K'000	K'000	K'000	K'000
Cash generated from operations	11	**296 024**	296 074	**285 143**	261 683
Net financing costs	7	**(242 530)**	(151 674)	**(247 327)**	(155 258)
Taxation paid	8	**(5 538)**	(842)	**(383)**	(291)
Dividends paid to non-controlling shareholder		**-**	(4 725)	**-**	-
Net cash inflows from operating activities		**47 956**	138 833	**37 433**	106 134
Cash flows from investing activities					
Purchase of property, plant and equipment	13	**(99 309)**	(32 635)	**(88 544)**	(28 690)
Dividends received		**-**	-	**-**	28 384
Proceeds from disposal of assets held for sale		**1 423**	-	**1 423**	-
Proceeds from disposal of plant and equipment		**15 492**	-	**15 492**	-
Net cash outflows from investing activities		**(82 394)**	(32 635)	**(71 629)**	(306)
Net cash (out)/inflows before financing activities		**(34 438)**	106 198	**(34 196)**	105 828
Cash flows from financing activities					
Borrowings raised	26.2.1	**383 420**	161 755	**383 420**	161 755
Repayment of borrowings		**(301 949)**	(214 986)	**(301 949)**	(214 986)
Net cash inflows/(outflows) from financing activities		**81 471**	(53 231)	**81 471**	(53 231)
Net increase in cash and cash equivalents		**47 033**	52 967	**47 275**	52 597
Net cash and cash equivalents at beginning of year		**143 376**	98 398	**142 584**	97 976
Net foreign exchange differences		**(16 480)**	(7 989)	**(16 480)**	(7 989)
Net cash and cash equivalents at end of year	21	**173 929**	143 376	**173 379**	142 584
Comprising of:					
Cash and bank balances		**200 666**	290 920	**200 116**	290 128
Bank overdraft		**(26 737)**	(147 544)	**(26 737)**	(147 544)

*The statement of Cash Flow has been disaggregated to show the net foreign exchange differences as required by IAS7.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 August 2018 (Comparatives are for the five months ended 31 August 2017)

1. GENERAL INFORMATION

Zambia Sugar Plc is a public limited company incorporated in Zambia. Its parent company is Illovo Sugar Africa Proprietary 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 35 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 Companies Act, 1994 (as amended), 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 as 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 Plc (its subsidiary). 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of consolidation (Continued)

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 recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the title to the goods has passed, which usually coincides with the date of delivery, at which time all the following conditions are satisfied: the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

2.3 Leases

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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and separate 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 year 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 2.17 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 year 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 year. 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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Taxation (Continued)

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.

2.8 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.

Fixtures 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
Furniture, fittings and equipment	5 - 12 years
Plant and machinery	15 - 50 years
Vehicles	5 - 15 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Property, plant and equipment (Continued)

In Zambia, land is held on lease from the Government of the Republic of Zambia for a period of 99 years. In line with the requirements of IAS 17 - Leases, since the lease does not transfer substantially all the risks and ownership of the land, the lease is treated as an operating 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 recognized 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 capitalized 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.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cashflows 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 cost of harvesting the sugar cane and transporting it from the field to the mill. The sucrose content is estimated in tons 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 reflect 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 cost necessarily incurred to farm sugar cane until the commencement of the following season and the expected profit margin on the cane growing activity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

De-recognition of intangible assets

An intangible asset is de-recognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition 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 de-recognised.

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.

2.14 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial instruments

Financial assets and financial liabilities are recognised on the group's consolidated statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when the group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets

A financial asset is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity. Financial assets are initially measured at fair value plus transaction costs. However, transaction costs in respect of financial assets designated as held "at fair value through profit or loss" are expensed.

Financial assets are accounted for "at fair value through profit or loss" where the financial asset is either held-for-trading or is designated as "at fair value through profit or loss". Trade and other receivables are classified as "loans and receivables" and are measured at amortised cost, using the effective interest rate method, less any impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are classified as "loans and receivables" and measured at amortised cost.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all financial assets other than available-for-sale equity instruments, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation, or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period , as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial instruments (Continued)

Impairment of financial assets (Continued)

in the carrying amount of the allowance account are recognised in profit or loss. When a financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the year.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition of financial assets

The Group de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On de-recognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

A financial liability is a contractual obligation to deliver cash, or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Interest-bearing bank loans and overdrafts are measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of the borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs.

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised costs, using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial instruments (Continued)

Equity

Debt and equity instruments are classified as either financial liabilities or as equity based on the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Equity instruments issued by the group are recorded at the value of the proceeds received, net of direct issue costs.

2.16 Derivative financial instruments

The group enters into derivative financial instruments to manage its exposure to foreign exchange rate risks and this includes foreign exchange forward contracts.

The use of financial derivatives is governed by the group's policies, which provide written principles on the use of financial derivatives consistent with the group's risk management strategy. The group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivative financial instruments embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

2.17 Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 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. Inter segment 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 year 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;
Sugar production - the manufacture of sugar from sugar cane.

2.19 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.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 International Financial Reporting Standards affecting amounts reported and/or disclosed in the financial statements

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:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require Group to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period.

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Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. There was no impact on the Group as there is no subsidiary classified as held for sale.

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

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

At the date of approval of these financial statements, the following relevant standards applicable to the Group and Company were in issue, but not yet effective:

IFRS 9 Financial Instruments: Classification and Measurement

The standard introduces new requirements for classifying and measuring financial instruments. Under the new classification requirements, all financial assets will be recognised at either amortised cost or fair value as determined by the contractual cash flows of the assets. In terms of the new measurement requirements, changes in fair value of financial liabilities measured "at fair value through profit or loss" that are attributable to changes in credit risk of the liability will be recognised in other comprehensive income. The amendment will be effective for the year ending 31 August 2019.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2018, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2019 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Group will implement changes in classification of certain financial instruments.

(a) Classification and measurement
The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the

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

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

IFRS 9 Financial Instruments: Classification and Measurement (Continued)

criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment
IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined that this will have minimal impact on the balance sheet.

(c) Hedge accounting
The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

(d) Other adjustments
In addition to the adjustments described above, on adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, assets held for sale and liabilities associated with them, investments in the associate and joint venture, will be adjusted as necessary. The exchange differences on translation of foreign operations will also be adjusted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations. This standard will be effective for the year ending 31 August 2019.

The Group plans to adopt the new standard on the required effective date. During 2017, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2018. The Group is involved in the growing of sugar cane and the production of sugar and other speciality products for sale into domestic and export markets. Sugar is sold in separate identified contracts with customers and together as a bundled package

(a) Sale of goods
For contracts with customers in which the sale of sugar or sugar related products is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.
In preparing to adopt IFRS 15, the Group is considering the following:

Variable consideration
Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved.

Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group expects that application of the constraint will result in more revenue being deferred than under current IFRS.

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

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

IFRS 15 Revenue from Contracts with Customers (Continued)

- Rights of return
  The Group accepts return of sugar sold that does not meet customer requirements. This is rare. When the goods are returned, a credit note is issued and both cost of sales and inventory is adjusted. This practice does not necessarily relate to the right of return and is not expected to significantly impact the financial statements.

- Volume rebates
  The Group provides retrospective volume rebates to its customers on all products purchased by the customer once the quantity of products purchased during the year exceeds a threshold specified in the contract. Under its existing accounting policy, the Group estimates the expected volume rebates using the probability-weighted average amount of rebates approach and includes them in Trade and other payables. These amounts may subsequently be repaid in cash to the customer or are offset against amounts payable by customer. Under IFRS 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group considered that the most likely amount method better predicts the amount of variable consideration for contracts with only a single volume threshold while for contracts with more than one volume threshold it would apply either the expected value method or the most likely amount method, depending on which of them better predicts the amount of variable consideration for the particular type of contract. The Group applied the requirements in IFRS 15 and the effect of these changes are not expected to be material for the Group.

(b) Advances received from customers

Generally, the Group receives only short-term advances from its customers. They are presented as part of Trade and other payables. The Group does not receive from customers long-term advances. Under the current accounting policy, the Group presents such advances as Deferred revenue under the current liabilities heading in the statement of financial position. No interest was accrued on these advances received under the current accounting policy. Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of promised Sugar to a customer and when the customer pays for that sugar will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is significant. Based on the nature of the goods and services offered and the purpose of payment terms, the Group determined that for the vast majority of the contracts that require customers to advances, the payment terms were structured primarily for reason other than the provision of finance to the Group, i.e. advances are generally required from new customers, export customers as well as customers with a history of late payments, they do not provide customers with an alternative to pay in arrears. In addition, the length of time between when the customer pays for the goods and the Group transfers goods to the customer is relatively short. Therefore, the Group has concluded that there is not a significant financing component in these contracts.

(c) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures are expected as a result of the significant judgement made when assessing the contracts where the Group has concluded that: it acts as an agent instead of a principal, there is a significant financing component, and service-type warranties are provided. In addition,

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

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

IFRS 15 Revenue from Contracts with Customers (Continued)

as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2018 the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

(d) Other adjustments

In addition to the major adjustments described above, on adoption of IFRS 15, other items of the primary financial statements such as deferred taxes and assets held for sale, will be affected and adjusted as necessary. Furthermore, exchange differences on translation of foreign operations would also be adjusted. The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

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. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements. The standard will be effective for the year ending 31 August 2020.

IFRIC 22 Foreign currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction 'for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue.

The interpretation specifies that the date of the transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of the transaction for each payment or receipt in advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's financial statements. This is because the Group already accounts for transactions

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

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

IFRIC 22 Foreign currency Transactions and Advance Consideration (Continued)

involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

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
- 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 will apply interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

4. CRITICAL ACCOUNTING JUDGEMENTS 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 judgements, 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, 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 assets

In making its judgement, 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

4.1 Critical judgements in applying accounting policies (Continued)

4.1.2 Impairment losses on trade receivables

Impairment losses are based upon historical patterns of losses. In determining whether an impairment loss should be recorded in the income statement, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade receivables before a decrease can be identified with an individual trade receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of trade receivables in their company, or local economic conditions that correlate with defaults on assets in that company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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 13 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 cost 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 forecast 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 18 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 year 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.

	Group		Company	
	12 months ended August 2018	5 months ended August 2017	12 months ended August 2018	5 months ended August 2017
	K'000	K'000	K'000	K'000

5. REVENUE

Revenue represents proceeds receivable from the following primary business segments:				
Sugar production	1 754 074	457 851	1 863 370	536 638
Cane growing	608 394	454 978	499 098	376 191
	2 362 468	912 829	2 362 468	912 829
From secondary business segments as follows:				
Local market	1 413 150	399 297	1 413 150	399 297
Export market	949 318	513 532	949 318	513 532
	2 362 468	912 829	2 362 468	912 829
From geographical business segments as follows:				
Zambia	1 414 381	381 252	1 414 381	381 252
Rest of Africa	937 932	531 577	937 932	531 577
Europe	10 155	-	10 155	-
	2 362 468	912 829	2 362 468	912 829

6. OPERATING PROFIT

Operating profit has been determined after charging/(crediting) the following:				
Employees remuneration expenses	432 279	202 466	412 022	194 703
Exchange loss (trading balances)	2 064	7 821	1 084	7 989
Depreciation expense (see note 13)	105 625	43 861	97 023	40 435
Factory overhaul costs expensed (see note 19)	65 643	45 456	65 643	45 456
Employer contributions to pension funds (see note 31)	37 534	16 145	35 207	15 788
Operational support fees (see note 26.1.2)	38 042	12 500	38 042	12 500
Operating lease charges	26 259	7 089	26 259	7 089
- Property	22 496	4 406	22 496	4 406
- Plant and equipment	3 763	2 683	3 763	2 683
Directors' emoluments for services as directors	1 394	554	1 372	545
Auditors' remuneration	1 685	1 235	1 170	1 059
- Audit fees	1 551	1 196	1 036	1 020
- Fees for other services	24	36	24	36
- Other expenses	110	3	110	3
Profit on disposal of plant and equipment	(15 025)	-	(15 025)	-
Charitable donations	86	16	34	2
Fair value adjustments				
- growing cane (see note 18)	1 311	114 848	(3 474)	93 465

7. NET FINANCING COSTS

Interest charged on:				
Long-term borrowings	54 604	48 136	54 604	48 136
Related party borrowings (see note 26.3 and 26.5)	164 076	90 100	168 857	93 641
Bank overdraft and short-term facilities	24 825	13 441	24 803	13 441
Other	-	156	-	187
Total interest charged	243 505	151 833	248 264	155 405
Interest received on loans and deposits	(975)	(159)	(937)	(147)
	242 530	151 674	247 327	155 258

8. TAXATION

	Group		Company	
	12 months ended August 2018	5 months ended August 2017	12 months ended August 2018	5 months ended August 2017
	K'000	K'000	K'000	K'000
Current tax				
- current year charge	5 868	4 796	693	253
- (over)/under provision in prior year	(73)	322	(20)	322
Deferred taxation (see note 24)				
- current year charge	2 320	17 196	2 419	19 439
- over provision in prior year	(19 438)	(2 855)	(19 438)	(2 855)
Total taxation (credit)/charge	(11 323)	19 459	(16 346)	17 159
Included under current assets:				
Taxation receivable at beginning of year	2 001	6 277	5 921	6 205
Current year charge	(5 868)	(4 796)	(693)	(253)
(Over)/under provision in prior year	73	(322)	20	(322)
	(3 794)	1 159	5 248	5 630
Taxation paid during the year	5 538	842	383	291
Taxation receivable at end of year	1 744	2 001	5 631	5 921
Reconciliation of taxation rate:	%	%	%	%
Statutory taxation rate applicable to agricultural entities	10.0	10.0	10.0	10.0
(Decrease)/increase in charge due to:				
- Over provision in prior years	(17.1)	(2.3)	(17.1)	(2.1)
- Expenses disallowed for tax purposes	3.7	1.3	1.5	1.2
- Tax rate differential on non-farming income	4.4	0.5	0.4	0.3
- Other - blended rate adjustment on first expansion assets	(9.2)	8.0	(9.2)	7.5
- Dividends received	-	-	-	(2.4)
Effective rate of taxation	(7.8)	17.5	(14.4)	14.5

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 Group and the Company are showing a negative effective tax rate due to the decision by the Zambia Revenue Authority to grant twelve months worth of capital allowances for the five months financial year ended 31 August 2017. As a consequence, a prior year adjustment has been made in the current year to align the tax losses.

Subject to agreement with the Zambia Revenue Authority, the Group and Company has estimated tax losses of K381.7 million (August 2017: K266.2 million) available to carry forward for a period of not more than 5 years from the charge year in which they were incurred, for set off against future taxable profits from the same source as follows:

	Group		Company	
Ageing of tax losses				
March 2016 tax losses available until August 2020	101 010	-	101 010	-
March 2017 tax losses available until August 2021	280 708	266 224	280 708	266 224
	381 718	266 224	381 718	266 224

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.

	Group		Company	
	12 months ended August 2018	5 months ended August 2017	12 months ended August 2018	5 months ended August 2017
	K'000	K'000	K'000	K'000
Earnings per share (ngwee per share)	48.2	28.1	41.1	32.0

	Group		Company	
	Shares	Shares	Shares	Shares
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of 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 attributable to shareholders of Zambia Sugar Plc	152 642	89 067	130 104	101 308
Earnings for the purposes of earnings per share	152 642	89 067	130 104	101 308

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

No dividends were declared or paid in either the current year or the prior period by the Company.				
Number of ordinary shares in issue ('000)	316 571	316 571	316 571	316 571

11. CASH FLOWS FROM OPERATING ACTIVITIES

	Note	Group		Company	
		12 months ended August 2018	5 months ended August 2017	12 months ended August 2018	5 months ended August 2017
	Note	K'000	K'000	K'000	K'000
Cash flows from operating activities					
Operating profit		387 601	262 707	361 085	245 341
Adjustments for:					
Depreciation	13	105 625	43 861	97 023	40 435
Impairment of assets held for sale	14	1 120	-	1 120	-
Assets classified as held for sale expensed	14	321	-	321	-
Change in fair value of growing cane	18	1 311	114 848	(3 474)	93 465
Net foreign exchange differences		16 480	7 989	16 480	7 989
Provisions raised during the year	28	50 503	15 720	50 503	15 720
Provisions utilised during the year	28	(15 720)	(14 168)	(15 720)	(14 168)
Profit on disposal of property and equipment		(15 025)	-	(15 025)	-
Cash operating profit		532 216	430 957	492 313	388 782
Working capital movements		(236 192)	(134 883)	(207 170)	(127 099)
Decrease/(Increase) in inventories		44 109	(463 152)	44 817	(462 943)
Decrease in amounts due to/from related parties		(240 292)	(54 834)	(224 790)	(35 887)
Decrease in trade and other receivables		111 872	106 698	118 724	109 460
(Decrease)/Increase in trade and other payables		(151 881)	276 405	(145 921)	262 271
Cash generated from operations		296 024	296 074	285 143	261 683

Notes To The Annual Financial Statements (Continued)
for the year ended 31 August 2018 (Comparatives are for the five months ended 31 August 2017)

12. SEGMENTAL ANALYSIS

	Group			Company		
	Sugar production	Cane growing	TOTAL	Sugar production	Cane growing	TOTAL
Year ended 31 August 2018	K'000	K'000	K'000	K'000	K'000	K'000
Revenue	1 754 074	608 394	**2 362 468**	1 863 370	499 098	**2 362 468**
Operating profit/(loss)	390 622	(3 021)	**387 601**	392 474	(31 389)	**361 085**
Property, plant and equipment	1 431 506	481 554	**1 913 060**	1 418 713	375 091	**1 793 804**
Balance at beginning of year	1 439 716	480 285	**1 920 001**	1 426 923	375 985	**1 802 908**
Additions at cost	56 488	42 821	**99 309**	56 488	32 056	**88 544**
Depreciation charge for the year	(64 073)	(41 552)	**(105 625)**	(64 073)	(32 950)	**(97 023)**
Net book value of disposals	(625)	-	**(625)**	(625)	-	**(625)**
Intangible assets	-	67 902	**67 902**	-	-	**-**
Investment in subsidiary	-	-	**-**	-	155 624	**155 624**
Current assets	1 235 679	394 069	**1 629 748**	1 239 566	323 860	**1 563 426**
Inventories	601 088	65 398	**666 486**	601 088	54 793	**655 881**
Growing cane	-	302 495	**302 495**	-	256 683	**256 683**
Trade and other receivables	421 398	25 626	**447 024**	421 398	12 384	**433 782**
Taxation receivable	1 744	-	**1 744**	5 631	-	**5 631**
Amounts due from related parties	4 435	-	**4 435**	4 435	-	**4 435**
Assets classified as held for sale	6 898	-	**6 898**	6 898	-	**6 898**
Cash and bank balances	200 116	550	**200 666**	200 116	-	**200 116**
Current liabilities	757 745	195 217	**952 962**	829 056	179 438	**1 008 494**
Trade and other payables	341 991	101 278	**443 269**	341 991	85 498	**427 489**
Short-term borrowings	151 007	81 311	**232 318**	151 007	81 311	**232 318**
Amounts due to related parties	189 877	-	**189 877**	261 189	-	**261 189**
Derivative financial instruments	10 258	-	**10 258**	10 258	-	**10 258**
Bank overdrafts	26 737	-	**26 737**	26 737	-	**26 737**
Provisions	37 875	12 628	**50 503**	37 874	12 629	**50 503**
Non-current liabilities	996 946	506 185	**1 503 131**	996 946	483 654	**1 480 600**
Long-term borrowings	898 215	483 654	**1 381 869**	898 215	483 654	**1 381 869**
Deferred tax liability	98 731	22 531	**121 262**	98 731	-	**98 731**
Net asset value	912 494	242 123	**1 154 617**	832 277	191 483	**1 023 760**

12. SEGMENTAL ANALYSIS (Continued)

	Group			Company		
	Sugar production	Cane growing	TOTAL	Sugar production	Cane growing	TOTAL
Period ended 31 August 2017	K'000	K'000	K'000	K'000	K'000	K'000
Revenue	457 851	454 978	**912 829**	536 638	376 191	**912 829**
Operating profit	176 274	86 433	**262 707**	177 045	68 296	**245 341**
Property, plant and equipment	1 439 716	480 285	**1 920 001**	1 426 923	375 985	**1 802 908**
Balance at beginning of year	1 458 144	473 083	**1 931 227**	1 445 351	369 302	**1 814 653**
Additions at cost	8 221	24 414	**32 635**	8 221	20 469	**28 690**
Depreciation charge for the period	(26 649)	(17 212)	**(43 861)**	(26 649)	(13 786)	**(40 435)**
Intangible assets	-	67 902	**67 902**	-	-	**-**
Investment in subsidiary	-	-	**-**	-	155 624	**155 624**
Current assets	1 531 800	393 377	**1 925 177**	1 535 720	325 701	**1 861 421**
Inventories	644 106	66 489	**710 595**	644 106	56 592	**700 698**
Growing cane	-	303 806	**303 806**	-	253 209	**253 209**
Trade and other receivables	541 044	22 290	**563 334**	541 044	15 900	**556 944**
Derivative financial instruments	40 231	-	**40 231**	40 231	-	**40 231**
Taxation receivable	2 001	-	**2 001**	5 921	-	**5 921**
Amounts due from related parties	4 686	-	**4 686**	4 686	-	**4 686**
Assets classified as held for sale	9 604	-	**9 604**	9 604	-	**9 604**
Cash and bank balances	290 128	792	**290 920**	290 128	-	**290 128**
Current liabilities	1 250 748	246 871	**1 497 619**	1 306 557	225 132	**1 531 689**
Trade and other payables	458 728	136 422	**595 150**	458 728	114 682	**573 410**
Short-term borrowings	197 820	106 519	**304 339**	197 820	106 519	**304 339**
Amounts due to related parties	434 858	-	**434 858**	490 668	-	**490 668**
Derivative financial instruments	8	-	**8**	8	-	**8**
Bank overdrafts	147 544	-	**147 544**	147 544	-	**147 544**
Provisions	11 790	3 930	**15 720**	11 789	3 931	**15 720**
Non-current liabilities	919 243	452 562	**1 371 805**	919 243	429 932	**1 349 175**
Long-term borrowings	798 445	429 932	**1 228 377**	798 445	429 932	**1 228 377**
Deferred tax liability	120 798	22 630	**143 428**	120 798	-	**120 798**
Net asset value	801 525	242 131	**1 043 656**	736 843	202 246	**939 089**

13. 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 April 2017	742 127	1 476 903	109 379	21 797	199 197	20 616	2 570 019
Additions	-	-	-	-	18 001	14 634	32 635
Transfers	-	12 158	-	-	-	(12 158)	-
Balance at 31 August 2017	742 127	1 489 061	109 379	21 797	217 198	23 092	2 602 654
Additions	-	31 922	-	-	27 161	40 226	99 309
Transfers	7 248	20 927	5 184	-	-	(33 359)	-
Disposals	(775)	(1 524)	(3 442)	-	-	-	(5 741)
Reclassified as held for sale	(352)	-	-	-	-	-	(352)
Balance at 31 August 2018	748 248	1 540 386	111 121	21 797	244 359	29 959	2 695 870
Accumulated depreciation							
Balance at 1 April 2017	101 215	361 859	60 864	15 200	99 654	-	638 792
Charge for period	5 323	24 039	4 465	716	9 318	-	43 861
Balance at 31 August 2017	106 538	385 898	65 329	15 916	108 972	-	682 653
Charge for year	12 809	58 583	10 244	1 824	22 165	-	105 625
Disposals	(445)	(1 524)	(3 305)	-	-	-	(5 274)
Reclassified as held for sale	(194)	-	-	-	-	-	(194)
Balance at 31 August 2018	118 708	442 957	72 268	17 740	131 137	-	782 810
Net carrying amount							
Balance at 31 August 2018	629 540	1 097 429	38 853	4 057	113 222	29 959	1 913 060
Balance at 31 August 2017	635 589	1 103 163	44 050	5 881	108 226	23 092	1 920 001
COMPANY							
Cost							
Balance at 1 April 2017	658 111	1 444 442	107 680	21 031	160 205	15 143	2 406 612
Additions	-	-	-	-	16 988	11 702	28 690
Transfers	-	8 137	-	-	-	(8 137)	-
Balance at 31 August 2017	658 111	1 452 579	107 680	21 031	177 193	18 708	2 435 302
Additions	-	31 922	-	-	21 612	35 010	88 544
Transfers	5 989	18 137	4 021	-	-	(28 147)	-
Disposals	(775)	(1 524)	(3 442)	-	-	-	(5 741)
Reclassified as held for sale	(352)	-	-	-	-	-	(352)
Balance at 31 August 2018	662 973	1 501 114	108 259	21 031	198 805	25 571	2 517 753
Accumulated depreciation							
Balance at 1 April 2017	100 164	337 723	59 916	14 715	79 441	-	591 959
Charge for year	5 242	22 376	4 368	712	7 737	-	40 435
Balance at 31 August 2017	105 406	360 099	64 284	15 427	87,178	-	632 394
Charge for period	12 597	54 485	9 916	1 815	18 210	-	97 023
Disposals	(445)	(1 524)	(3 305)	-	-	-	(5 274)
Reclassified as held for sale	(194)	-	-	-	-	-	(194)
Balance at 31 August 2018	117 364	413 060	70 895	17 242	105,388	-	723 949
Net carrying amount							
Balance at 31 August 2018	545 609	1 088 054	37 364	3 789	93 417	25 571	1 793 804
Balance at 31 August 2017	552 705	1 092 480	43 396	5 604	90 015	18 708	1 802 908

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 Section 193 of the Companies Act, 1994 (as amended) 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 for 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 23.

The Directors consider that the fair value of the property, plant and equipment as at 31 August 2018 is at least equal to their carrying values as reflected in the statement of financial position.

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 2 055 ha. The leases are treated as operating leases and will be charged to profit or loss over the lease period as follows:

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Within one year	9 526	4 406	9 526	4 406
More than one year but less than five years	38 104	31 551	38 104	31 551
More than five years	47 630	53 011	47 630	53 011
	95 260	88 968	95 260	88 968

14. 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 resulted in a loss. An impairment loss of K1.120 million was recognised on the subsequent measurement of the held for sale assets. This amount is shown in the Note below.

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, 26 houses were not sold. 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 year. Management are actively seeking buyers and expect to finalise the sale by the 31 August 2019. Management have plans in place to sell the assets and an active programme to locate buyers and complete the plan are in place. The assets are actively being marketed for sale.

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

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
Property, Plant & Equipment	K'000	K'000	K'000	K'000
Balance at start of year	9 604	9 604	9 604	9 604
Additions during the year	158	-	158	-
Disposals during the year	(1 423)	-	(1 423)	-
Assets previously reclassified as held for sale expense	(321)	-	(321)	-
Impairment charge during the year	(1 120)	-	(1 120)	-
Balance at end of year	6 898	9 604	6 898	9 604

15. INTANGIBLE ASSET

	Group		Company	
	August 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	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 2018 and 2017. 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 15.8%. 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 the Gordon growth method to calculate the terminal value, as it looks to hold the asset and continue to earn cash flows through use of the asset. 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

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 7%. 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. Management have used the average for the past six years to forecast the. 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 7% 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.

16. INVESTMENTS IN SUBSIDIARIES

	Issued capital K'000	Effective percentage holding %	Shares at cost K'000	Amounts due by subsidiary K'000	Amounts due to subsidiary K'000
The principal subsidiaries of Zambia Sugar Plc are as follows:					
August 2018					
Direct Investment					
Tukunka Agriculture Ltd	10 000	100.0	10	-	-
Indirect Investment					
Nanga Farms Plc	487	85.7	155 624	-	71 714
August 2017					
Direct Investment					
Tukunka Agriculture Ltd	10 000	100.0	10	-	-
Indirect Investment					
Nanga Farms Plc	487	85.7	155 624	-	57 649

17. INVENTORIES

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Maintenance stores (at cost)	87 990	114 951	80 815	109 297
Provision for obsolescence	(3 312)	(1 748)	(2 732)	(1 748)
	84 678	113 203	78 083	107 549
Livestock	4 010	4 243	-	-
Factory overhaul costs (Note 19) at cost	25 838	23 282	25 838	23 282
Finished goods - sugar (at lower of cost and net realisable value)	551 960	569 867	551 960	569 867
Total inventories at the lower of cost and net realisable value	666 486	710 595	655 881	700 698

Movement in the provision for obsolescence

	Group August 2018	Group August 2017	Company August 2018	Company August 2017
Balance at beginning of year	1 748	2 008	1 748	1 525
Amounts provided for during the year	1 564	223	984	223
Provision released during the year	-	(483)	-	-
Balance at end of year	3 312	1 748	2 732	1 748

During 2018, K1 549 million (5 months to August 2017: K649 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

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 23.

18. GROWING CANE

The carrying value of growing cane is reconciled as follows:

	Group		Company	
	August 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	K'000
Carrying value at beginning of year	**303 806**	418 654	**253 209**	346 674
Change in fair value	**(1 311)**	(114 848)	**3 474**	(93 465)
Carrying value at end of year	**302 495**	303 806	**256 683**	253 209
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)	**16 251**	16 504	**13 568**	13 780
Estimated yield (tons cane per hectare)	**116.29**	116.8	**115.57**	115.9
Sucrose content in cane (%)	**14.43**	14.47	**14.43**	14.47
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	**3 226**	5 075	**2 715**	4 225
Estimated sucrose price	**4 116**	6 885	**3 416**	5 711

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 23.

19. FACTORY OVERHAUL COSTS

	Group		Company	
	August 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	K'000
Balance at beginning of year	**23 282**	54 812	**23 282**	54 812
Capitalised during the year	**68 199**	13 926	**68 199**	13 926
	91 481	68 738	**91 481**	68 738
Amortised during the year	**(65 643)**	(45 456)	**(65 643)**	(45 456)
Balance at end of year	**25 838**	23 282	**25 838**	23 282

Factory overhaul costs are classified under Inventory in Note 17 as they satisfy the definition of inventory in the form of materials or supplies to be consumed in the production process or in the rendering of service.

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.

20. TRADE AND OTHER RECEIVABLES

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

	Group		Company	
	August 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	K'000
Gross trade receivables	**225 530**	349 038	**225 530**	349 038
Allowance for doubtful debts	**(6 824)**	(314)	**(6 824)**	(314)
	218 706	348 724	**218 706**	348 724
VAT receivable	**197 161**	184 567	**184 330**	178 337
Other receivables	**31 157**	25 605	**30 746**	25 445
Balance at end of year	**447 024**	558 896	**433 782**	552 506
Movement in the allowance for doubtful debts				
Balance at beginning of year	**314**	314	**314**	314
Amounts raised during the year	**6 510**	-	**6 510**	-
Balance at end of year	**6 824**	314	**6 824**	314

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 30.4

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 23.

21. 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 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	K'000
Bank and cash balances	**200 666**	290 920	**200 116**	290 128
Bank overdraft - unsecured	**(26 737)**	(147 544)	**(26 737)**	(147 544)
Cash and cash equivalents at end of year	**173 929**	143 376	**173 379**	142 584

Notes To The Annual Financial Statements (Continued)
for the year ended 31 August 2018 (Comparatives are for the five months ended 31 August 2017)

22. SHARE CAPITAL AND PREMIUM

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
Authorised	K'000	K'000	K'000	K'000
350 000 000 (August 2017: 350 000 000) ordinary shares of K0.01 each (August 2017: K0.01 each)	3 500	3 500	3 500	3 500
Issued and fully paid:				
316 571 385 (August 2017: 316 571 385) ordinary shares of K0.01 each (August 2017: K0.01 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

23. BORROWINGS

	Note	Years of repayment	Effective Interest rate (%)				
Syndicated bank loan	a	2018 - 2020	14.21	280 656	420 850	280 656	420 850
Related party loans	b			1 333 531	1 111 866	1 333 531	1 111 866
Total borrowings				1 614 187	1 532 716	1 614 187	1 532 716
Less:							
Current portion - Syndicated bank loan	a			140 387	142 584	140 387	142 584
Short-term related party loans	b			91 931	161 755	91 931	161 755
Short-term borrowings				232 318	304 339	232 318	304 339
Long-term borrowings				1 381 869	1 228 377	1 381 869	1 228 377
The amounts are due for repayment in the following years ending 31 August:							
2018				-	304 339	-	304 339
2019				232 318	545 584	232 318	545 584
2020				1 090 380	682 793	1 090 380	682 793
2021				291 489	-	291 489	-
				1 614 187	1 532 716	1 614 187	1 532 716

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 financial year is 14.21% (August 2017: 23.15%). The loan is 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.

b. Loans from related parties are disclosed in Note 26.2.1.

24. DEFERRED TAX LIABILITY

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Balance at beginning of year	143 428	127 585	120 798	102 712
Charged to profit or loss:				
- Current year income statement charge	2 320	17 196	2 419	19 439
- Prior year income statement relief	(19 438)	(2 855)	(19 438)	(2 855)
- Current year other comprehensive income (relief)/charge	(5 048)	1 502	(5 048)	1 502
Balance at end of year	121 262	143 428	98 731	120 798
Analysis of liability:				
Property, plant and equipment	118 245	127 327	109 232	116 786
Intangible asset	6 790	6 790	-	-
Factory overhaul costs	2 584	2 328	2 584	2 328
Growing cane	30 249	30 381	25 668	25 321
Tax losses	(38 172)	(26 622)	(38 172)	(26 622)
Other	1 566	3 224	(581)	2 985
Balance at end of year	121 262	143 428	98 731	120 798

25. TRADE AND OTHER PAYABLES

Trade payables comprise amounts outstanding for trade purchases and on-going costs.

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Trade payables	119 049	132 774	110 689	125 142
Growers	115 406	131 264	115 406	131 264
Deferred Income	93 874	157 328	93 874	157 328
Accruals	76 029	118 036	76 029	118 036
Other payables	38 911	55 748	31 491	41 640
Balance at end of year	443 269	595 150	427 489	573 410

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.

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES

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

26.1 Holding Companies

The Group is controlled by the following entities:

		Ownership Interest in Zambia Sugar Plc	
Names	Type	August 2018	August 2017
Illovo Group Holdings Limited, incorporated in Mauritius	Immediate holding Company	75%	76.4%
Illovo Sugar Africa Proprietary Limited (IGHL), incorporated in South Africa	Illovo holding Company	75%	76.4%
Associated British Foods plc (ISAPL), incorporated in United Kingdom	Ultimate holding Company	75%	76.4%

26.1.1 Ultimate Holding Company

Associated British Foods plc (ABF) holds 100% of the issued share capital of ISAPL and therefore held an effective ownership interest of 76.4% in the Group at the start of the financial year. On 5th December 2017, IGHL sold the remaining 1.4% of its issued shares in Zambia Sugar plc in order to be fully compliant with the minimum free float requirement, where 25% of the shares should be in public hands. This reduced ownership interest in Zambia Sugar plc by the holding company from 76.4% to 75%. There were no transactions between the Group and Associated British Foods plc in either the current year or the previous year.

26.1.2 Illovo Holding Company

Illovo Sugar Africa Proprietary Limited ("ISAPL") holds 100% of the issued share capital of Illovo Group Holdings Limited and therefore has an effective ownership interest of 75% in the Group.

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

	Group		Company	
	August 2018 K'000	August 2017 K'000	August 2018 K'000	August 2017 K'000
Trading balances owing by the Group	44 751	99 625	44 349	97 786
Procurement of goods and services	127 541	176 366	127 541	175 302
Interest paid: procurement	290	2 446	290	2 446

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.

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES (Continued)

26.1 Holding Companies (Continued)

26.1.2 Illovo Holding Company (Continued)

Other transactions and balances with Illovo Sugar Africa Proprietary Limited:

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Trading balances owing by the Group	90 682	44 682	90 682	44 682
Operational support fees	38 042	12 500	38 042	12 500
Cost reimbursement (general)	15 925	655	15 925	655
Directors fees	886	299	886	299
Export agency commission	10 830	-	10 830	-

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%.

Various third party costs incurred by the Group are paid for by ISAPL and for which ISAPL is reimbursed with no mark-up charged. ISAPL is also compensated for the services rendered by G.B. Dalgleish, N. Saayman and M.H. Abdool-Samad as directors of the company.

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.

Illovo Group Marketing Services Limited ("IGMS") used to be the Group's appointed agent to coordinate and manage the marketing, sale and distribution of all the Group's export sugar and molasses for which it received a commission of 1% of export revenue. Effective 1 September 2017, the Group appointed Illovo Sugar Africa Proprietary Limited ("ISAPL") as the agent to co-ordinate and manage the marketing, sale and distribution of all the Group's export sugar and molasses for which it received a commission of 1% of export revenue. The cost incurred in the year 1 September 2017 to 31 August 2018 is the product of the export revenue achieved.

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES (Continued)

26.2 Fellow Subsidiaries of the Group

26.2.1 Illovo Group Financing Services ("IGFS")

	Years of repayment	Effective Interest rate (%)	Group August 2018 K'000	Group August 2017 K'000	Company August 2018 K'000	Company August 2017 K'000
Funding balances owing by the Group						
Aggregation A Loans			645 460	547 111	645 460	547 111
Loan A1 - Zambian Kwacha	2020	15.76	182 000	182 000	182 000	182 000
Loan A2 - Zambian Kwacha	2020	15.76	182 000	182 000	182 000	182 000
Loan A3 - Zambian Kwacha	2020	15.76	183 111	183 111	183 111	183 111
Loan A4 - Zambian Kwacha	2020	14.13	98 349	-	98 349	-
Aggregation B Loans			596 140	403 000	596 140	403 000
Loan B1 - Zambian Kwacha	2019	15.90	202 000	202 000	202 000	202 000
Loan B2 - Zambian Kwacha	2019	15.90	201 000	201 000	201 000	201 000
Loan B3 - Zambian Kwacha	2019	13.50	193 140	-	193 140	-
Loan 3 - US Dollar	2018	5.11	91 931	161 755	91 931	161 755
Total related party borrowings			1 333 531	1 111 866	1 333 531	1 111 866
Short-term portion - Loan 3			91 931	161 755	91 931	161 755
Short-term borrowings			91 931	161 755	91 931	161 755
Long-term borrowings			1 241 600	950 111	1 241 600	950 111
Trading balances owing by the Group						
Aggregation A Loans			10 427	118 944	10 427	118 944
Accrued interest - Loan A1			2 674	39 567	2 674	39 567
Accrued interest - Loan A2			2 674	39 567	2 674	39 567
Accrued interest - Loan A3			2 802	39 810	2 802	39 810
Accrued interest - Loan A4			2 277	-	2 277	-
Aggregation B Loans			27 150	155 178	27 150	155 178
Accrued interest - Loan B1			9 205	77 839	9 205	77 839
Accrued interest - Loan B2			13 659	77 339	13 659	77 339
Accrued interest - Loan B3			4 286	-	4 286	-
			37 577	274 122	37 577	274 122
Interest paid: funding						
Aggregation A Loans			90 890	49 164	90 890	49 164
Interest paid - Loan A1			28 677	16 353	28 677	16 353
Interest paid - Loan A2			28 677	16 353	28 677	16 353
Interest paid - Loan A3			28 852	16 458	28 852	16 458
Interest paid - Loan A4			4 684	-	4 684	-
Aggregation B Loans			72 870	38 479	72 870	38 479
Interest paid - Loan B1			32 126	19 290	32 126	19 290
Interest paid - Loan B2			31 957	19 189	31 957	19 189
Interest paid - Loan B3			8 787	-	8 787	-
Interest paid - Loan 3			26	11	26	11
			163 786	87 654	163 786	87 654

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES (Continued)

26.2 Fellow Subsidiaries of the Group (Continued)

26.2.1 Illovo Group Financing Services ("IGFS") (Continued)

A Loans

In the prior financial period, the long-term loan identified as Loan 1 was restructured into three separate loan agreements of approximately equal value (i.e. Loan A1, Loan A2 and Loan A3). With effect from 30 April 2018, the unpaid, accrued interest on Loan A1 (K32.7 million), Loan A2 (K32.7 million) and Loan A3 (K32.9 million) was capitalised as Loan A4 totalling K98.3 million. The restructuring allowed the Group greater flexibility in determining its long-term capital structure. The terms and conditions of the loans remain unchanged.

The balance owing on the A Loans comprises K645 million capital (August 2017: K547 million) and K10 million accrued interest (August 2017: K119 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 31 March, 30 June, 30 September, and 31 December each year or if that date is not a business day, the next business day. The repayment date of loans A1, A2 and A3 is 31 March 2020 or such date as agreed in writing by the parties. The repayment date of loan A4 is 31 March 2023 or such date as agreed in writing by the parties. These loans are subordinate to the syndicated loan detailed in note 23.

B Loans

In the prior financial period, the long-term loan identified as Loan 2 was restructured into two separate loan agreements of approximately equal value (i.e. Loan B1 and Loan B2). The restructuring allowed the Group greater flexibility in determining its long-term capital structure. With effect from 30 April 2018, the unpaid, accrued interest on Loan B1 (K96.9 million) and Loan B2 (K96.2 million) was capitalised and became Loan B3 totalling K193.1 million. The terms and conditions of the loans remain unchanged.

The balance owing on the B Loans comprises K596 million capital (August 2017: K403 million) and K27 million accrued interest (August 2017: K155 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 31 March, 30 June, 30 September, and 31 December each year of if that date is not a business day, the next business day. The repayment date of loans B1 and B2 is 25 October 2019 or such date as agreed in writing by the parties. The repayment date of loan B3 is 30 April 2023 or such date as agreed in writing by the parties. These loans are subordinate to the syndicated loan detailed in note 23.

Loan 3

Loan 3 is short-term facility that is utilised to assist with the Group's working capital funding requirements at period end. The balance owing comprises K92 million capital (August 2017: K162 million). The loan outstanding at the end of August 2017 was repaid in full during September 2017. The loan is denominated in US Dollars, is unsecured and attracts interest at the ruling 1 month USD LIBOR inter-bank Offer Rate plus a 3.00% margin. The US Dollar denominated loan will be repaid using future foreign currency export proceeds to minimise any realised exchange losses.

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES (Continued)

26.2 Fellow Subsidiaries of the Group (Continued)

26.2.2 Illovo Group Marketing Services Limited ("IGMS")

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Trading balance owing by the Group	**14 741**	16 166	**14 741**	16 166
Trading balance owing to the Group	**-**	398	**-**	398
Export sugar sales	**48 281**	-	**48 281**	-
Export agency commission	**1 920**	5 012	**1 920**	5 012
Logistics cost reimbursement	**11 842**	2 891	**11 842**	2 891

Illovo Group Marketing Services Limited ("IGMS") used to be the Group's appointed agent to coordinate and manage the marketing, sale and distribution of all the Group's export sugar and molasses for which it received a commission of 1% of export revenue. Effective 1 September 2017, the Group appointed Illovo Sugar Africa Proprietary Limited ("ISAPL") as the agent to co-ordinate and manage the marketing, sale and distribution of all the Group's export sugar and molasses. During the year, the Group also appointed IGMS as the agent to coordinate and manage the marketing, sale and distribution of the Group's export sugar into Rwanda for which it received a commission of 3% of gross export revenue.

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.

IGMS is the agent for Zambia Sugar plc on export of sugar to Rwanda. Zambia Sugar pays a commission as indicated above.

Trading balance owing by the Group to IGMS represent amounts outstanding for commissions and logistics costs yet to be reimbursed. 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.

26.2.3 East African Supply Proprietary Limited ("EAS")

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Trading balance owing by the Group	164	153	164	153
Air services	1 050	358	1 050	358

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.

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES (Continued)

26.2 Fellow Subsidiaries of the Group (Continued)

26.2.4 Illovo Sugar (South Africa) Proprietary Limited ("ISSA")

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Trading balance owing to the Group	-	3 810	-	3 810
Trading balance owing by the Group	1 962	110	1 962	110
Export sugar sales	36 238	3 810	36 238	3 810
Sale of Equipment	1 856	-	1 856	-
Distribution cost reimbursement	1 583	954	1 583	954

During the current year and prior period, sugar was sold to ISSA on either the same commercial terms and conditions that would be available to third party customers or on more favourable commercial terms to the Group (e.g. pre-export funding).
Certain distribution costs incurred by the Group are paid for on its behalf by ISSA and for which ISSA is reimbursed with no mark-up charged.

The trading balance owing to the Group in the prior year represented the value of export sugar sales invoiced to ISSA, but which was not paid to the Group at the time. The trading balances are unsecured, but have 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 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.

26.2.5 Czarnikow Group Limited

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Trading balance owing to the Group	4 435	4 438	4 435	4 438
Export sugar sales	26 578	22 567	26 578	22 567

During the current year and prior period, 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 represents the value of export sugar sales invoiced to Czarnikow Group Limited, but which is not yet due to the Group. The trading balances are unsecured, but have 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 will be settled by cash payments.

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES (Continued)

26.2.6 Other fellow subsidiaries

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Trading balance owing to the Group				
- Illovo Sugar (Malawi) plc	-	265	-	265
- Kilombero Sugar Company Limited ("KSC")	-	213	-	213
Cost recoveries (general)				
- Illovo Sugar (Malawi) plc	404	265	404	265
- Kilombero Sugar Company Limited ("KSC")	788	213	788	213
Cost reimbursement				
- Ubombo Sugar Limited	189	-	189	-

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.

26.3 Subsidiary of Zambia Sugar Plc.

The Company holds 100% of the ordinary share capital for Tukunka Agricultural Ltd. Tukunka Agricultural Ltd owns 85.73% of the ordinary share capital for Nanga Farms plc. The Company, therefore has an effective ownership interest of 85.73% in Nanga Farms plc. The Company has entered into a long-term agreement with Nanga Farms plc for the supply of sugar cane.

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Nanga Farms plc				
Trading balance owing by the Company	-	-	71 714	57 649
Operational support fees received	-	-	2 266	761
Cane purchases	-	-	113 838	78 787
Dividend income	-	-	-	28 384
Interest paid on overdue balances	-	-	4,781	3 541

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 sugar cane. 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.

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES (Continued)

26.4 Related Party Balances - Summary

	Note	Group August 2018 K'000	Group August 2017 K'000	Company August 2018 K'000	Company August 2017 K'000
Long-term borrowings					
Illovo Group Financing Services	26.2.1	1 241 600	950 111	1 241 600	950 111
Short-term borrowings					
Illovo Group Financing Services	26.2.1	91 931	161 755	91 931	161 755
Amounts due from related parties					
Illovo Group Marketing Services Limited	26.2.2	-	398	-	398
Illovo Sugar (South Africa) Proprietary Limited	26.2.4	-	3 810	-	3 810
Czarnikow Group Limited	26.2.5	4 435	4 438	4 435	4 438
Kilombero Sugar Company Limited	26.2.6	-	213	-	213
Illovo Sugar (Malawi) plc	26.2.6	-	265	-	265
		4 435	9 124	4 435	9 124
Amounts due to related parties					
Illovo Sugar Africa Proprietary Limited - Procurement Division	26.1.2	44 751	99 625	44 349	97 786
Illovo Sugar Africa Proprietary Limited - Corporate Division	26.1.2	90 682	44 682	90 682	44 682
Illovo Group Financing Services	26.2.1	37 577	274 122	37 577	274 122
Illovo Group Marketing Services Limited	26.2.2	14 741	16 166	14 741	16 166
Illovo Sugar (South Africa) Proprietary Limited	26.2.4	1 962	110	1 962	110
East African Supply Proprietary Limited	26.2.3	164	153	164	153
Nanga Farms plc	26.3	-	-	71 714	57 649
		189 877	434 858	261 189	490 668

Notes To The Annual Financial Statements (Continued)
for the year ended 31 August 2018 (Comparatives are for the five months ended 31 August 2017)

26. AMOUNTS DUE TO/(FROM) RELATED PARTIES (Continued)

26.5 Related Party Transactions - Summary

	Note	Nature of transaction	Group August 2018 K'000	Group August 2017 K'000	Company August 2018 K'000	Company August 2017 K'000
Income						
Illovo Group Marketing Services Limited	26.2.2	Export revenue	48 281	-	48 281	-
Illovo Sugar (South Africa) Proprietary Limited	26.2.4	Export revenue	36 238	3 810	36 238	3 810
Illovo Sugar (South Africa) Proprietary Limited	26.2.4	Sale of Equipment	1 856	-	1 856	-
Czarnikow Group Limited	26.2.5	Export revenue	26 578	22 567	26 578	22 567
Kilombero Sugar Company Limited	26.2.6	Cost recoveries	788	213	788	213
Illovo Sugar (Malawi) plc	26.2.6	Cost recoveries	404	265	404	265
			114 145	26 855	114 145	26 855
Expenditure						
Illlovo Sugar Africa Proprietary Limited - Procurement Division	26.1.2	Goods and services procured	127 541	176 366	127 541	175 302
Illovo Sugar Africa Proprietary Limited - Corporate Division	26.1.2	Operational support	38 042	12 500	38 042	12 500
Illovo Sugar Africa Proprietary Limited - Corporate Division	26.1.2	Cost reimbursement	15 925	655	15 925	655
Illovo Sugar Africa Proprietary Limited - Corporate Division	26.1.2	Directors fees	886	299	886	299
Illovo Sugar Africa Proprietary Limited - Corporate division	26.1.2	Export agency commission	10 830	-	10 830	-
Illovo Group Marketing Services Limited	26.2.2	Export agency commission	1 920	5 012	1 920	5 012
Illovo Group Marketing Services Limited	26.2.2	Cost reimbursement	11 842	2 891	11 842	2 891
East African Supply Proprietary Limited	26.2.3	Air services	1 050	358	1 050	358
Illovo Sugar (South Africa) Proprietary Limited	26.2.4	Cost reimbursement	1 583	954	1 583	954
Ubombo Sugar Limited	26.2.6	Cost reimbursement	189	-	189	-
			209 808	199 035	209 808	197 971
Financing costs						
Illovo Sugar Africa Proprietary Limited - Procurement Division	26.1.2	Overdue trading balances	290	2 446	290	2 446
Illovo Group Financing Services	26.2.1	Funding balances	163 786	87 654	163 786	87 654
			164 076	90 100	164 076	90 100

26.6 Compensation of key management

26.6a Compensation for the 12 months period to 31 August 2018

	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)	Retirement Benefit (K'000)	Phantom Shares Option Scheme (K'000)
Non-Executive									
Fidelis Banda	221	-	-	-	-	-	-	-	-
Monica Musonda	193	-	-	-	-	-	-	-	-
Ami Mpungwe	193	-	-	-	-	-	-	-	-
Dipak Patel	186	-	-	-	-	-	-	-	-
Gavin Dalgleish [1]	193	-	-	-	-	-	-	-	-
Mohammed Abdool-Samad [1]	193	-	-	-	-	-	-	-	-
Nelis Saayman [1 & 5]	98	-	-	-	-	-	-	-	-
John Hulley [4]	95		-	-	-	-	-	-	-
		-							
Executive									
Rebecca Katowa	1 456	-	431	Company Car	-	Company Medical	69 [6]	212	233
Graham Rolfe	1 452	944	Company House	Company Car	41	23	69 [6]	158	53
Faith Mukutu[3]	690	-	Company House	Company Car	-	Company Medical	- [6]	3	-

26.6b Compensation for the period 1 April 2017 to 31 August 2017

	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)	Retirement Benefit (K'000)	Phantom Shares Option Scheme (K'000)
Non-Executive									
Fidelis Banda	88		-	-	-	-	-	-	-
Monica Musonda	77		-	-	-	-	-	-	-
Ami Mpungwe	77		-	-	-	-	-	-	-
Dipak Patel	74		-	-	-	-	-	-	-
Gavin Dalgleish	77		-	-	-	-	-	-	-
Mohammed Abdool-Samad	77		-	-	-	-	-	-	-
John Hulley [4]	77		-	-	-	-	-	-	-
Executive									
Rebecca Katowa	580		174	Company Car	-	Company Medical	-	86	200
Graham Rolfe	636	394	Company House	Company Car	31	9	-	66	50
Henry K. Mambwe[2]	461		Company House	Company Car	-	Company Medical	-	575	163

1 - Fees earned by these directors, who are nominated by the Group's majority shareholder, are paid to ISAPL.
2 - Resigned as Finance Director on 22 August 2017
3 - Appointed as Finance Director on 20 February 2018.
4 - Resigned as a Non Executive Director of the Board on 22 February 2018.
5 - Appointed as a Non Executive Director of the Board on 1 May 2018.
6 - 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 2017. The values relating to performance as at 31 August 2018 have yet to be finally determined and have thus been excluded from compensation disclosed above. They will be disclosed in the ensuing reporting period and are expected to be in the range 5 - 10% of annual salary.

27. DERIVATIVE FINANCIAL INSTRUMENTS

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 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	K'000
Balance at start of year	**36 202**	22 685	**36 202**	22 685
Adjustment in respect of cashflow hedges	**(50 481)**	15 019	**(50 481)**	15 019
Tax effect on cashflow hedges	**5 048**	(1 502)	**5 048**	(1 502)
Balance at end of year	**(9 231)**	36 202	**(9 231)**	36 202
Forward exchange contracts - designated as cash flow hedges	**(10 258)**	40 223	**(10 258)**	40 223
Comprising:				
Assets	**-**	40 231	**-**	40 231
Liabilities	**(10 258)**	(8)	**(10 258)**	(8)
	(10 258)	40 223	**(10 258)**	40 223
Due within 6 months	**(6 750)**	35 292	**(6 750)**	35 292
Due between 6 months and 1 year	**(3 508)**	4 931	**(3 508)**	4 931
	(10 258)	40 223	**(10 258)**	40 223

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 30.3.

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 below.

	Group		Company	
	August 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	K'000
Hedging gains	**16 858**	(32 188)	**16 858**	(32 188)

The amount removed from OCI during the year and included in the carrying amount of the hedged items as a basis adjustment for 2018 is detailed above. The amounts retained in OCI at 31 August 2018 are expected to mature and affect the statement of profit or loss in 2019.

The cash flow hedges of the expected future sales in 2019 were assessed to be ineffective and a net unrealised loss of K51 million, with a deferred tax asset of K5 million relating to the hedging instruments, is included in OCI. Comparatively, the cash flow hedges of the expected future sales in 2018 were assessed to be highly effective and an unrealised gain of K15 million with a deferred tax liability of K1.5 million was included in OCI in respect of these contracts.

28. PROVISIONS

	Group		Company	
	August 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	K'000
At beginning of year	**15 720**	14 168	**15 720**	14 168
Provisions made during the year	**50 503**	15 720	**50 503**	15 720
Utilised during the year	**(15 720)**	(14 168)	**(15 720)**	(14 168)
At end of year	**50 503**	15 720	**50 503**	15 720
Analysed as follows:				
Provision for leave pay	**17 558**	15 720	**17 558**	15 720
Provision for voluntary separation	**32 945**	-	**32 945**	-
	50 503	15 720	**50 503**	15 720

The company recorded a restructuring provision relating to Voluntary separation of some employees. The restructuring plan was drawn up and announced to the employees before year end when the provision was recognised in the financial statements. The restructuring is expected to be completed by October 2018. Assumptions used to calculate the provision for voluntary separation program were based on current pay rates and period of service of respective employees along with a prescribed specific formula.

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.

29. CAPITAL COMMITMENTS

	Group		Company	
	August 2018	August 2017	**August 2018**	August 2017
	K'000	K'000	K'000	K'000
Approved but not contracted	**40 511**	26 749	**40 511**	26 393
Contracted	**5 416**	7 106	**5 416**	7 098
	45 927	33 855	**45 927**	33 491

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

30. 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.

Categories of financial instruments

		Group		Company	
		August 2018	August 2017	August 2018	August 2017
		K'000	K'000	K'000	K'000
	Fair value hierarchy:				
Financial assets					
Loans and receivables	Level 2	455 338	858 940	454 641	851 758
Derivative financial instruments designated as cash flow hedges	Level 2	-	40 231	-	40 231
Financial liabilities					
Derivative financial instruments designated as cash flow hedges	Level 2	(10 258)	8	(10 258)	8
Financial liabilities measured at amortised cost	Level 2	2 273 677	2 710 269	2 323 737	2 744 339
Reconciliation to the statement of financial position:					
Trade and other receivables	Level 2	250 237	558 896	250 090	552 506
Amounts due from related parties	Level 2	4 435	9 124	4 435	9 124
Cash and bank balances	Level 1	200 666	290 920	200 116	290 128
Loans and receivables	Level 2	455 338	858 940	454 641	851 758
Long-term borrowings	Level 2	1 381 869	1 228 377	1 381 869	1 228 377
Short-term borrowings	Level 2	232 318	304 339	232 318	304 339
Trade and other payables	Level 2	442 876	595 150	421 624	573 410
Amounts due to related parties	Level 2	189 877	434 858	261 189	490 668
Bank overdraft	Level 1	26 737	147 544	26 737	147 544
Financial liabilities measured at amortised cost	Level 2	2 273 677	2 710 268	2 323 737	2 744 338

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.

30. FINANCIAL RISK MANAGEMENT (Continued)

30.1 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	Group
	August 2018	August 2017
	K'000	K'000
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount utilised	26 737	147 544
- Amount unutilised	261 763	140 956
Total local bank overdraft facilities	288 500	288 500

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 16% of the Group's debt will mature in less than one year at 31 August 2018 (2017: 27%) 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:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Year ended 31 August 2018					
Interest-bearing loans and borrowings (other than convertible preference shares)	-	91 931	-	1 522 256	1 614 187
Other financial liabilities	50 503	-	-	-	50 503
Trade and other payables	-	443 269	-	-	443 269
Amounts due to related parties	-	189 877	-	-	189 877
Provisions	-	26 737	-	-	26 737
Derivatives and embedded derivatives	-	-	10 258	-	10 258
	50 503	751 814	10 258	1 522 256	2 334 831
Year ended 31 August 2017					
Interest-bearing loans and borrowings (other than convertible preference shares)	-	161 755	-	1 370 961	1 532 716
Other financial liabilities	147 544	-	-	-	147 544
Trade and other payables	-	595 150	-	-	595 150
Amounts due to related parties	-	434 858	-	-	434 858
Provisions	-	15 720	-	-	15 720
Derivatives and embedded derivatives	-	-	8	-	8
	147 544	1 207 483	8	1 370 961	2 725 996

30. FINANCIAL RISK MANAGEMENT (Continued)

30.2 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 2018 is as follows:

	Floating rate		
	Less than one year	Greater than one year	Total borrowings
Borrowings (K'million)	259	1 382	1 641
% total borrowings	16%	84%	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	
	12 months ended August 2018	5 months ended August 2017	**12 months ended August 2018**	5 months ended August 2017
	K'000	K'000	K'000	K'000
If interest rates had been 50 basis points higher/lower and all other variables held constant, profit before tax for the year would (decrease)/increase by:	**(7 201)**	(2 894)	**(7 204)**	(2 896)

30.3 Currency risk management

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 2018	August 2017	**August 2018**	August 2017
Group	K'000	K'000	K'000	K'000
US Dollars	**(93 287)**	132 389	**47 371**	184 241
SA Rands	**10 644**	4 841	**143 113**	150 966
Euros	**(47)**	499	**3 607**	3 304
Company				
US Dollars	**(93 287)**	132 389	**42 629**	180 194
SA Rands	**10 644**	4 841	**142 709**	149 054
Euros	**(47)**	499	**3 607**	3 304

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

30. FINANCIAL RISK MANAGEMENT (Continued)

30.3 Currency risk management (Continued)

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 2018	August 2017	**August 2018**	August 2017	**August 2018**	August 2017
Group						
Monetary assets	**9 329**	(13 239)	**(1 064)**	(484)	**5**	(50)
Monetary liabilities	**4 737**	18 424	**14 311**	15 097	**361**	330
	14 066	5 185	**13 247**	14 613	**366**	280
Company						
Monetary assets	**9 329**	(13 239)	**(1 064)**	(484)	**5**	(50)
Monetary liabilities	**4 263**	18 019	**14 271**	14 905	**361**	330
	13 592	4 780	**13 207**	14 421	**366**	280

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

	Rates at year end		Average for year	
	August 2018	August 2017	**August 2018**	August 2017
Kwacha/Rand	**0.70**	0.71	**0.76**	0.70
Kwacha/US dollar	**10.24**	9.20	**9.85**	9.18
Kwacha/Euro	**11.93**	10.93	**11.76**	10.36

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 2019 financial year.

	Group August 2017			Group March 2017		
	Foreign currency million	Average rate	Amount in K'million	Foreign currency million	Average rate	Amount in K'million
Foreign currency sold						
US Dollar	59.8	10.09	603.4	70.0	10.25	717.4

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.

30.4 Credit risk management

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy customers. Trade receivables comprise a widespread customer base, and the Group undertakes ongoing credit evaluations of the financial condition of their customers. Despite the increase in trade receivables overdue in excess of 120 days, at 31 August 2018, the Group does not consider there to be any material credit risk that has not been insured or adequately provided for. Subsequent to the year end, management interventions have resulted in a significant reduction in the overdue receivables balance.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The carrying amount of the financial assets recorded in the financial statements, grossed up for any allowances for losses, represents the Group and the

30. FINANCIAL RISK MANAGEMENT (Continued)

30.4 Credit risk management (Continued)

Company's maximum exposure to credit risk. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

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 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Not past due	**64 704**	146 309	**64 704**	146 309
Past due by 30 days	**6 079**	59 528	**6 079**	59 528
Past due by 60 days	**8 439**	26 832	**8 439**	26 832
Past due by 90 days	**21 647**	12 778	**21 647**	12 778
Past due over 120 days	**124 661**	103 591	**124 661**	103 591
	225 530	349 038	**225 530**	349 038
less: allowance for doubtful debts	**(6 824)**	(314)	**(6 824)**	(314)
Total trade receivables	**218 706**	348 724	**218 706**	348 724

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

30.5 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 year was as follows:

	Group		Company	
	August 2018	August 2017	August 2018	August 2017
	K'000	K'000	K'000	K'000
Debt (see note i)	**1 651 764**	1 806 838	**1 651 764**	1 806 838
Bank overdraft	**26 737**	147 544	**26 737**	147 544
Cash and bank balances	**(200 666)**	(290 920)	**(200 116)**	(290 128)
Net Borrowings	**1 477 835**	1 663 462	**1 478 385**	1 664 254
Equity (see note ii)	**1 154 617**	1 043 656	**1 023 760**	939 089
Net debt to equity ratio	**128.0%**	159.4%	**144.4%**	177.2%

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.

30. FINANCIAL RISK MANAGEMENT (Continued)

30.6 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:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	K'000	K'000	K'000	K'000
Financial Assets				
Trade and other receivables	250 237	250 237	558 896	558 896
Forward exchange contracts	-	-	40 231	40 231
Amounts due from related parties	4 435	4 435	9 124	9 124
Total	254 672	254 672	608 251	608 251
Financial Liabilities				
Long term borrowings	1 381 869	974 276	1 228 377	745 014
Short term borrowings	232 318	197 072	304 339	255 747
Trade and other payables	442 876	442 876	595 150	595 150
Forward exchange contracts	10 258	10 258	8	8
Amounts due to related parties	189 877	189 877	434 858	434 858
Total	2 257 198	1 814 359	2 562 732	2 030 777

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 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 2018, 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 2018 was assessed to be insignificant.

30.7 Changes in liabilities arising from financing activities

	1 September 2017	Cash flows	Exchange rate	Interest capitalised	Other	31 August 2018
Current interest bearing loans and borrowings	304 339	(210 018)	-	-	137 997	232 318
Non current interest bearing loans and borrowings	1 228 377	-	-	291 489	(137 997)	1 381 869
Total liabilities from financing activities	1 532 716	(210 018)	-	291 489	-	1 614 187

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.

31. 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 K20.4 million (Five months to August 2017: K8.6 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 K17.1 million (Five months to August 2017: K7.5 million) during the year in respect of this scheme.

32. CONTINGENT LIABILITIES

There is a contingent liability estimated at K1.692 million (August 2017: K1.636 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 K184 Million as at 31 August 2018. 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 11th October 2017, following a 4 year investigation, the Competition and Consumer Protection Commission (CCPC) announced that it was imposing a fine of ZMK76m 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 2018.

33. 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.

NOTICE OF MEETING

Notice is hereby given that the 57th annual general meeting of the members of the company will be held at the Radisson Blu Hotel, Lusaka, Zambia on Thursday 22 November 2018 at 14h00 to transact the following business:

1. Minutes of the previous meeting

To receive and note the minutes of the 56th Annual General Meeting held on 27 November 2017 duly approved by the Chairman in accordance with the Companies Act.

2. Financial statements

To table the annual financial statements for the year ended 31 August 2018.

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 directors – Faith M Mukutu and Nelis Saayman

To confirm the appointment of Ms Faith M Mukutu, who was appointed by the board as an executive director with effect from 20 February 2018 and Mr Nelis Saayman who was appointed by the board as director with effect from 1 May 2018.

3.2 Ordinary resolution number 2 – Re-election of retiring directors retiring by rotation

To re-elect each of Messrs Fidelis M Banda and A Mpungwe who retire by rotation in terms of Companies Act, and who, being eligible, offer themselves for re-election.

Based on the recommendations of the Nomination Committee, which has conducted a formal assessment of each of the above mentioned candidates, the board recommends their re-election to shareholders.

3.3 Ordinary resolution number 3 – Approval of directors' fees

That the directors be authorised to review the fees payable to the independent directors for the year ending 31 August 2019.

3.4 Ordinary resolution number 4 – 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 2019 and to authorise the directors to determine their remuneration.

4. Declaration of final dividend

The directors recommend that no dividend be paid for the financial year-ending 31 August 2018. 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 registered office or the transfer secretaries before the Annual General Meeting.

Queries pertaining to shareholder 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) 256 969/70
Facsimile: +260 (211) 256 975
Email: info@corpservezambia.com.zm

By order of the Board
MWANSA MULUMBA MUTIMUSHI
Company Secretary

CORPORATE INFORMATION

Secretary:	Mwansa M Mutimushi
Business address and Registered office:	Nakambala Estate, Mazabuka, Zambia
Postal address:	P O Box 670240, Mazabuka, Zambia
Telephone:	+260 21 3 231 106
Fax:	+260 21 3 230 385
Email address:	mmutimushi@zamsugar.zm
Website address:	www.illovosugarafrica.com
Transfer secretaries:	Corpserve Transfer Agents Ltd 2760, Lubu Road, Long Acres, Lusaka, Zambia
Postal address:	P.O. Box 37522, Lusaka, Zambia
Telephone:	+260 21 1 256 969, 256 970
Fax:	+260 21 1 256 975
E-mail address:	corpservezambia@corpservezambia.com.zm
Auditors:	Ernst & Young
Bankers:	Barclays Bank of Zambia, Citibank Zambia, FNB Zambia, Stanbic Bank Zambia, Standard Chartered Bank Zambia, Zambia National Commercial Bank, Ecobank Finance Bank.

ZAMBIA SUGAR PLC | FORM OF PROXY

FOR THE 57TH ANNUAL GENERAL MEETING

I/We ____

(Name/s in block letters)

of ____

(address)

being the shareholder/member of the above named Company and entitled to do hereby appoint

1. ______________________ of ____________ or failing him/her

2. ______________________ of ____________ or failing him/her

3. The chairman of the meeting

Number of votes

(1 share = 1 vote)

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at the Radisson Blu Hotel, Lusaka, Zambia on Thursday 22 November, 2018 at 14h00 and at any adjournment thereof as follows:

		Mark with X where applicable		
Resolution No.	Agenda Item	For	Against	Abstain
1.	Confirmation of Appointment of Directors:- i. Faith Mukutu ii. Nelis Saayman			
2.	Re-election of directors i. FM Banda ii. AR Mpungwe			
3.	To authorise the Directors to determine the fees payable to the independent directors for the year ending 31 August 2019.			
4.	Pursuant to Sec. 257 of the Companies Act: To reappoint EY as the independent auditors and authorise the directors to determine the auditors fees			

Unless otherwise instructed, the proxy will vote as he thinks fit

Signed at ______________ on this ________________ day of __________ 2018

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. In order to be effective, proxy forms must reach the registered office of the Company or the transfer secretaries before the Annual General Meeting.
6. 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.
7. 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.

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