



6 April 2020

Ms Kathrine Brown
Investor Relations Manger
Zimplats Holdings Limited
Suite 702
275 Alfred Street
North Sydney
NSW 2060

By email: kathrine.brown@zimplats.com.au

Dear Ms Brown

Zimplats Holdings Limited ('ZIM'): Queries regarding Accounts

ASX refers to:

- A. ZIM's half year accounts for the half year ended 31 December 2019 lodged with ASX Market Announcements Platform and released on 27 February 2020 ('Half Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Half Year Accounts ('Auditor's Report') contains a qualified opinion:

"Qualified opinion on prior year audited financial statements

The financial statements of the Group for the year ended 30 June 2019, were audited by another auditor who expressed a qualified opinion. The basis for qualified opinion as presented in the prior year condensed consolidated financial statements is as follows;

"The Group transacted using a combination of United States Dollars (US\$), bond notes and coins, Real Time Gross Settlement (RTGS) system and mobile money platforms in the 2019 financial year. During the year there was a significant divergence in market perception of the relative values between the bond note, bond coin, mobile money platforms, RTGS Foreign Currency Accounts (FCA) in comparison to the US\$.

In October 2018, banks were instructed by the Reserve Bank of Zimbabwe ("RBZ") to separate and create distinct bank accounts for depositors, namely, RTGS FCA and Nostro FCA accounts. This resulted in a separation of transactions on the local RTGS payment platform from those relating to foreign currency (e.g. United States Dollar, British Pound, and South African Rand). Prior to this date, RTGS FCA and Nostro FCA transactions and balances were co-mingled.

As a result of this separation, there was an increased proliferation of multi-tier pricing practices by suppliers of goods and services, indicating a significant difference in purchasing power between the RTGS FCA and Nostro FCA balances, against a legislative framework mandating parity. These events were indicative of economic fundamentals that would require a reassessment of the functional currency as required by International Accounting Standard (IAS) 21 - "The Effects of Changes in Foreign Exchange Rates."

In order to comply with IAS 21, management performed a reassessment of its functional currency and concluded that the US\$ remained as the functional currency of the Group. Consequently from 1 October 2018, management manually separated transactions between RTGS and US\$ in order to convert RTGS transactions to US\$ using the Old Mutual Implied Rate ("OMIR").

In the absence of a detailed ledger account reflecting the transactions split by currency, management applied judgment by assuming that the foreign currency payments to suppliers equalled the foreign currency portion of the expenditure recorded in the statement of profit or loss. Furthermore, the OMIR fluctuated significantly during the period from October 2018 to June 2019. The manual separation of transactions has some inherent

limitations in terms of precision of the amounts recognised, which could result in a material misstatement in expenditure and the corresponding exchange gain or loss recognised in the condensed consolidated statement of profit and loss and other comprehensive income.

In addition, included in inventory on hand and property, plant and equipment additions as at 30 June 2019, were RTGS transactions which were incurred between 1 October 2018 and 22 February 2019 and were recorded as if they had been incurred in US\$. In accordance with IAS 21, these transactions should have been converted to US\$ using another rate other than 1:1.

It was not practicable for management to split the transactions between RTGS and US\$ as the amounts were capitalised at parity in the accounting records. Exchange gains and losses resulting from the conversion of foreign currencies should have been expensed as and when they were incurred. During the period 1 October 2018 and 22 February 2019, exchange losses were recognised in inventory which may have resulted in a material misstatement in the inventory balance.

Similarly, additions to property, plant and equipment incurred in RTGS between 1 October 2018 and 22 February 2019 should have been converted to US\$. As a result of this, property, plant and equipment additions recognised during this period and the corresponding depreciation charge may have been materially misstated”.

As it was not practicable to determine the financial effects of the matters, consequently the predecessor auditors were unable to determine whether any adjustments to the expenditure, property, plant and equipment, inventory and related profit or loss movements and foreign exchange losses were necessary.

Accordingly, our conclusion on the six month period’s financial statements is also modified because of the above carry over effects in the current six month period which cannot be determined.”

- C. ZIM’s Corporate Governance Statement for 2019 lodged on the ASX Market Announcements Platform on 1 November 2019 which provides confirmation that ZIM complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

“The board of a listed entity should, before it approves the entity’s financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.”

- D. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

- E. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX accounts, the following rules apply.

- (a) *If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the accounts must be consolidated accounts.*
- (b) *The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*
- (c) *If the listing rule requires audited accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the*

entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.

- (d) *If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).*
- (e) *If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.*
- (f) *If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.*

Request for Information

In light of the information contained in the Half Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is ZIM able to confirm that in the Directors' Opinion the Half Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of ZIM's financial performance and position?
2. Given the qualified conclusion relates to the Auditor's inability to obtain sufficient information to determine whether prior year adjustments to expenditure, property, plant and equipment, inventory, and related profit or loss movements and foreign exchange losses were necessary, please explain how the directors satisfied themselves that the carrying values are appropriate and adheres to the relevant Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.
3. What steps has ZIM taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statements?
4. In relation to the Half Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of ZIM's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of ZIM have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of ZIM and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
5. If the answer to Question 4 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of ZIM's Corporate Governance Disclosure?
6. What enquiries did the Board make of management to satisfy itself that the financial records of ZIM have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of ZIM?
7. Commenting specifically on the qualified opinion, does the board consider that ZIM has a sound system of risk management and internal control which is operating effectively?
8. Please confirm that ZIM is complying with the Listing Rules and, in particular, Listing Rule 3.1.

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9. Please confirm that ZIM's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of ZIM with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and ZIM's response to the market. Accordingly, ZIM's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **9 am AEDT Thursday, 9 April 2020**.

Any response should be sent to me by return email at ListingsComplianceSydney@asx.com.au. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Kind regards

Lin Kang
Adviser, Listings Compliance (Sydney)