

DIRECTORS' RESPONSIBILITIES AND APPROVAL

LEVEL OF ASSURANCE

These consolidated and separate annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa, 71 of 2008 (Companies Act).

PREPARER

These consolidated and separate annual financial statements were prepared under the supervision of: GCD Stoltz CA(SA) Chief Financial Officer.



Gerald Stoltz CA(SA)
Chief Financial Officer

28 September 2020

The directors are required in terms of the Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate annual financial statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditor is engaged to express an independent opinion on the consolidated and separate annual financial statements.

The consolidated and separate annual financial statements are prepared in accordance with International Financial Reporting Standards and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors (Board) sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring that the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within pre-determined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated and separate annual financial statements. Any system of internal financial control however, can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group and Company's cash flow forecast for the year to 30 June 2021 and, in light of this review and the current financial position, they are satisfied that the Company has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently auditing and reporting on the Group's consolidated and separate annual financial statements. The consolidated and separate annual financial statements have been examined by the Group's external auditor and their report is presented on [pages 30 to 35](#).

The consolidated and separate annual financial statements set out on [pages 36 to 94](#), which have been prepared on the going concern basis, were authorised in accordance with a round robin resolution by the Board on 28 September 2020 and were signed on their behalf by:

Approval of consolidated and separate annual financial statements



Sue Hsieh
Company Secretary

28 September 2020



Dr Jim Myers
Chairman

28 September 2020



Pieter van Zyl
Chief Executive Officer

COMPANY SECRETARY'S CERTIFICATE

In terms of section 88(2)(e) of the Companies Act, I certify that the Group has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

AUDIT COMMITTEE REPORT

MANDATE AND TERMS OF REFERENCE

The Group's Audit Committee has adopted formal terms of reference, delegated to it by the Board of directors, as its mandate. The mandate is in line with the Companies Act of South Africa, 71 of 2008 (Companies Act), the King IV Report on Corporate Governance for South Africa, 2016 (King IV) and the JSE Limited Listings Requirements (JSE Listings Requirements). During the year, the Audit Committee discharged the functions delegated to it in its mandate.

The Audit Committee performed the following statutory and regulatory duties:

- Reviewed and recommended for adoption by the Board the publicly disclosed financial information which comprised the Group's consolidated interim results for the six months ended 31 December 2019 and the consolidated and separate annual financial statements for the year ended 30 June 2020;
- Ensured that the appointment of the auditor (including the audit partner) is presented and included as a resolution at the annual general meeting pursuant to section 61(8) of the Companies Act;
- Satisfied itself that the external auditor, PricewaterhouseCoopers Inc. and its audit partner, complied with the suitability criteria for re-appointment as required by paragraph 3.84(g)(iii) as read with paragraph 22.15(h) of the JSE Listings Requirements, are properly accredited and independent and assessed the quality of the audit;
- Approved the external auditor's fees and terms of engagement for the 2020 financial year;
- Determined the nature and extent of the non-audit services that may be provided by the external auditor and pre-approved any proposed agreements with them for the provision of such services;
- Resolved to continue to source the internal audit function from Tereo Krino Business Assurance Consultants Proprietary Limited and approved the internal audit plan and budgeted fee for the 2020 financial year;
- Reviewed the Audit Committee charter in line with King IV recommendations;
- Held separate meetings with management and the external and internal auditors to discuss relevant matters;
- Noted that it had not received any complaints, from either within or outside the Company, relating to the accounting practices, the internal audits, the content or auditing of the annual financial statements, the internal financial controls or any other related matters;
- Confirmed that a whistle-blowing facility was in place and considered the actions taken in regard to incident reports;
- Evaluated and satisfied itself as to the appropriateness of the expertise and experience of the Chief Financial Officer, as required by paragraph 3.84(g)(i) of the JSE Listings Requirements;
- Satisfied itself as to the expertise, resources and experience of the Company's finance function;
- Considered the Group's liquidity and solvency positions;
- Confirmed, with reference to reporting by management and the internal audit function, that the Group had established appropriate financial reporting procedures and satisfied itself that those procedures were operating;
- Satisfied itself that the adoption of the going concern basis by York Timber Holdings Limited in preparing the consolidated annual financial statements was appropriate;
- Satisfied itself that the combined assurance provided is effective and monitors the relationship between external assurance providers and the Company; and
- Satisfied itself through management representations and findings by the external auditor, as well as work performed by the internal auditors that the key audit matters relating to goodwill, the valuation of biological assets and the accounting treatment of the Land Bank debt have been presented fairly in the consolidated and separate annual financial statements.

AUDIT COMMITTEE REPORT continued

MEMBERSHIP

In terms of section 94(2) of the Companies Act, the Audit Committee is a statutory committee and in terms of the JSE Listings Requirements and King IV, comprises at least three independent non-executive members, elected by the shareholders at each annual general meeting. The members of the Audit Committee for the 2020 financial year were:

- AW Brink CA(SA) (Independent non-executive committee Chairman);
- KM Nyanteh CA(SA) (Independent non-executive); and
- Dr AP Jammie BSc Hons Mathematical Statistics (Wits), BA Hons Economics cum laude (Wits), MSc Economics (London School of Economics), PhD Economics (London Business School), Post-Doctoral Fellowship Centre for Business Strategy (London Business School) (Independent non-executive).

The members of the Audit Committee have the necessary academic qualifications and experience to adequately fulfil their duties as members of the Audit Committee.

The Chief Executive Officer, Chief Financial Officer, the heads of External and Internal Audit, and other relevant parties attend Audit Committee meetings by invitation.

The internal and external auditors have unlimited access to the Chairman of the Audit Committee.

Audit Committee meeting attendance	4 September 2019	12 November 2019	9 March 2020	10 June 2020
AW Brink (<i>Chairman</i>)	Yes	Yes	Yes	Yes
KM Nyanteh	Yes	Yes	Yes	Yes
Dr AP Jammie	Yes	Yes	Yes	Yes

INTERNAL CONTROLS

Internal controls comprise the methods and procedures adopted by management to provide reasonable assurance of the safeguarding of assets, prevention and detection of errors, accuracy and completeness of accounting records, and reliability of the consolidated and separate annual financial statements of all entities in the Group.

The internal audit function performs independent evaluations of the adequacy and effectiveness of the Group's controls, financial reporting mechanisms, information systems and operations, and provides a degree of assurance in regard to safeguarding of assets and the integrity of financial information.

Management continuously reviews the adequacy of the internal control environment and addresses any shortcomings identified. The Audit Committee is of the view that the internal controls are designed and implemented effectively and nothing has come to the attention of the Audit Committee, or to the attention of the internal or external auditors, to indicate that any material breakdown in the functioning of the internal controls and systems occurred during the period under review.

RECOMMENDATION OF THE

CONSOLIDATED AND SEPARATE

ANNUAL FINANCIAL STATEMENTS

Based on the information provided to the Audit Committee by management, and considering the reports of the external and internal auditors, the Audit Committee is satisfied that the annual financial statements comply, in all material respects, with the requirements of the Companies Act, International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the JSE Listings Requirements. The Audit Committee recommended the consolidated and separate annual financial statements to the Board for adoption by round robin resolution on 28 September 2020. These consolidated and separate annual financial statements will be open for discussion at the forthcoming annual general meeting.

The Chairman of the Audit Committee, or in his absence, the other members of the Audit Committee, will attend the annual general meeting to answer questions falling within the mandate of the Audit Committee.



Andries Brink

Chairman of the Audit Committee

28 September 2020

DIRECTORS' REPORT

The directors have pleasure in submitting their report on the consolidated and separate annual financial statements of York Timber Holdings Limited (York, the Company or the Group) for the year ended 30 June 2020.

NATURE OF BUSINESS

York was incorporated in South Africa with interests in investment holding. The activities of the Group are undertaken through the subsidiaries with interests in forestry, sawmills, plywood, wholesale and the hospitality industry. The Group operates in South Africa, the Southern Africa Development Community and international market.

There have been no material changes to the nature of the Group's business from the prior year.

REVIEW OF THE FINANCIAL RESULTS AND ACTIVITIES

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act. The accounting policies to the consolidated and separate annual financial statements have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the Group are set out in the consolidated and separate annual financial statements.

SHARE CAPITAL

	2020 R'000	2019 R'000	2020 Number of shares	2019 Number of shares
Issued				
Ordinary shares	15 802	15 802	316 048 013	316 048 013

There have been no changes to the authorised or issued share capital during the year under review.

DIVIDENDS

The Board has resolved not to declare a dividend for the year ended 30 June 2020.

DIRECTORATE

The directors in office during the financial period:

Director	Office	Designation
AW Brink		Independent non-executive
Dr AP Jammie		Independent non-executive
HM Mbanyele-Ntshinga		Independent non-executive
SAU Meer		Non-executive
DM Mncube		Independent non-executive
Dr JP Myers	Chairman	Independent non-executive
KM Nyanteh		Independent non-executive
GCD Stoltz	Chief Financial Officer	Executive
PP van Zyl	Chief Executive Officer	Executive

DIRECTORS' SHAREHOLDING

As at 30 June 2020, the directors of the Company held direct beneficial interests in 1,36% (2019: 1,36%) of its issued ordinary shares, as set out below. No non-executive director holds any of the ordinary shares of the Group.

Interests in shares

Director	2020 Direct	2019 Direct	2020 Direct %	2019 Direct %
PP van Zyl	4 507 410	4 507 410	1,36	1,36
GCD Stoltz	12 000	12 000	–	–
	4 519 410	4 519 410	1,36	1,36

Interests in share incentive scheme (units)

Director	2020 Direct	2019 Direct
GCD Stoltz (equity-settled share-based payment)	751 880	751 880

DIRECTORS' REPORT continued

The register of interests of directors and others in shares of the Company is available to the shareholders on request.

The directors held no indirect beneficial interest in the Company's shares.

There have been no changes in beneficial interests that occurred between the end of the reporting period and the date of this report.

BORROWING LIMITATIONS

In terms of the memorandum of incorporation, the Board may raise debt from time to time for the purposes of the Group.

The Group's subsidiary, York Timbers Proprietary Limited, is subject to externally imposed capital requirements in the form of a debt-equity ratio requirement of below 1:1, in terms of the Land Bank loan facility (refer to note 19).

At 30 June 2020, the interest cover ratio was breached. The Lender had not notified the Company that it had to remedy the breach within the remedy period. Notwithstanding this, the Company's rights under the Facility Agreement entitled it to remedy the breach with some of the available remedies being under the control of the Company. At the reporting date, no Event of Default had thus occurred and as a result the Lender had no right to demand repayment of the debt. As such, the Company continued to have an unconditional right in terms of the contract to defer settlement of the liability for at least 12 months after the reporting date.

Based on the conclusion noted above, it therefore follows that the portion of debt which under the terms of the Facility Agreement is repayable after 12 months from the reporting date, has been classified as non-current whereas the portion that is payable within 12 months after the reporting date, has been classified as current.

SPECIAL RESOLUTIONS

During the year, two special resolutions were passed by the shareholders of York Timber Holdings Limited and its subsidiaries. The resolutions were for general authority to repurchase shares and financial assistance in terms of sections 44 and 45 of the Companies Act.

EVENTS AFTER THE REPORTING

PERIOD

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

GOING CONCERN

The South African economy was affected by the news of the first confirmed cases of the Corona virus (COVID-19) in the country and this led to the President declaring a national state of disaster on 15 March 2020. The President made a further announcement on 23 March 2020 that the country will effectively be placed in lockdown from midnight on 26 March 2020 (National Lockdown) and measures were put in place since then to contain the virus.

The Group was affected by the National Lockdown implemented by the South African Government as the sawmilling and plywood operations were not in full production due to a decrease in market demand as a result of the lockdown regulations. The Group developed health and safety protocols with a prevention and mitigation plan in place for COVID-19 and focus was placed on selling from available stock. As the reopening of sectors came into effect with the changes in lockdown regulations, a staggered reopening was introduced where all operations were back to capacity levels from 1 July 2020 to meet the change in market demand.

The Group reported a loss for the period of R217 million compared to a loss of R36 million in the preceding year. The loss is mainly attributable to the fair value adjustment on the biological asset as well as a decrease in sales volumes due to the National Lockdown, and dumping of Brazilian plywood in the South African market.

In response to the decrease in economic activity as a result of the lockdown regulations the Group has taken the following actions:

- The Group's total amount of facilities available for operating activities and commitments increased by R20 million.
- The Group received a three month repayment holiday from Absa Bank and Land Bank.
- The Group received a waiver of the interest cover ratio covenant from Land Bank that arose due to the impact of COVID-19. Based on the 12-month forecast, the Group does not expect to breach the loan covenants. Refer to Financial instruments and risk management, note 38, for detail on loan covenants.
- The Group reduced cost, and reassessed capital projects to manage cash flow.
- The Group received rent relief and deferral of rent payments on warehouse facilities.
- A staggered reopening of operations was brought into effect to manage working capital levels.
- A section 189A, in terms of the Labour Relations Act, restructuring is in progress at one of the sawmills and a property that operated as a lodge will be converted to office space.
- In anticipation of the slow down in market demand, post COVID-19, the Group has reduced production capacity.
- In order to generate cash, sales from stock resulted in a reduction in stock levels of R112,4 million from March 2020 to June 2020.

Management assessed the impact of the outbreak and the appropriateness of the use of the going concern assumption in the preparation of these annual financial statements through a review of the 2021 forecasted budget, cash flow forecast and arrangements made with financial institutions and key suppliers. Given the headroom between the fair value of total assets over total liabilities, the Group is solvent. To address the liquidity constraints during the lockdown period a temporary overdraft facility of R80 million (R20 million above original facility) was secured with Absa Bank and a repayment holiday of three months with Absa Bank and Land Bank. The working capital levels are monitored on a monthly basis to address the risk of cash pressure faced by the Group over the short term. As at 30 June 2020, the Group had cash and cash equivalents of R3 million and available facilities of R80 million.

Based on the assessment performed, management is of the view that the doubt associated with the current uncertainties related to the COVID-19 virus currently does not result in a material uncertainty related to such events or conditions that may cast doubt on the Group's ability to continue as a going concern.

AUDITOR

PricewaterhouseCoopers Inc. was appointed as auditor for the Group for 2020. The engagement partner appointed is Schalk Barnard.

SECRETARY

The Company Secretary is Sue Hsieh.

Business address: York Corporate Office
3 Main Road
Sabie
1260

INTEREST IN SUBSIDIARIES

Details of the Group's investment in subsidiaries are set out in note 8 to the consolidated and separate annual financial statements.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of York Timber Holdings Limited

Report on the audit of the consolidated and separate financial statements.

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of York Timber Holdings Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED

York Timber Holdings Limited's consolidated and separate financial statements set out on pages 36 to 94 comprise:

- the statements of financial position as at 30 June 2020;
- the statements of profit or loss and other comprehensive income for the year then ended;
- the statements of changes in equity for the year then ended;
- the statements of cash flows for the year then ended;
- the accounting policies; and
- the notes to the consolidated and separate annual financial statements.

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 consolidated and separate financial statements* section of our report.

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

INDEPENDENCE

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including *International Independence Standards*).

OUR AUDIT APPROACH

Overview



Overall Group materiality

- R14,3 million, which represents 1% of consolidated revenue.

Group audit scope

- We performed full scope audits on all the trading entities within the Group.
- Dormant entities were subject to independent reviews performed by another firm. These entities are insignificant to the Group.

Key audit matters

- Valuation of biological assets;
- Impairment assessment of the Forestry Cash Generating Unit (CGU), including goodwill; and
- Accounting considerations in relation to the loan with the Land Bank.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R14,3 million.
How we determined it	1% of consolidated revenue.
Rationale for the materiality benchmark applied	We chose consolidated revenue as the benchmark because, in our view, it is a benchmark against which the performance of the Group can be consistently measured in circumstances of volatility and near break-even earnings, and it is a generally accepted benchmark. We chose 1%, which is consistent with quantitative materiality thresholds used for companies in this sector.

HOW WE TAILORED OUR GROUP AUDIT SCOPE

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The consolidated financial statements are a consolidation of the Company and 17 subsidiaries, which consist of 8 trading entities and 9 dormant entities. All trading entities were subject to full scope audits based on their financial significance to the Group due to their contribution to consolidated revenue. We performed analytical review procedures on the dormant entities.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the group's engagement team, as well as the component auditors on our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.



INDEPENDENT AUDITOR'S REPORT continued

Key audit matter	How our audit addressed the key audit matter
Valuation of biological assets Refer to notes 5 and 39 to the consolidated financial statements. Biological assets comprise planted pine and eucalyptus trees. As at 30 June 2020, the Group recognised biological assets with a fair value of R2,391 billion in consolidated non-current assets and R516 million in consolidated current assets. The Group measures its biological assets at fair value less costs to sell with any resultant gain or loss recognised through profit and loss. Refer to accounting policy 1.5 for further detail in this regard. Biological assets are classified as level 3 in the accounting standard IFRS 13 – <i>Fair Value Measurement</i>. This implies that fair value is determined with reference to unobservable inputs. The Group has used the discounted cash flow method to value the biological assets. This method is complex, highly judgmental and subject to significant assumptions. The most significant judgements and assumptions applied in determining the fair value of biological assets include: • determination of a discount rate which is calculated as an after tax weighted average cost of capital ("WACC"); • determination of expected yields per log class calculated based on relevant growth models (growth rate); • determination of a volume adjustment factor due to the susceptibility of the plantations to the environment; • determination of the price per cubic meter based on the current and future expected market prices per log class; and • determination of operational costs based on unit costs of the forest management activities. The valuation of the Group's biological assets was considered to be a matter of most significance to our current year audit due to: • the valuation being subject to complexity, significant judgement and management assumptions; • biological assets forming a key metric in the Group's business; and • the magnitude of the balance in relation to the consolidated statement of financial position.	Our audit addressed the key audit matter as follows: We evaluated the appropriateness and consistency of the significant judgements and assumptions applied by management in the discounted cash flow calculation by performing the procedures below: • Making use of our valuations expertise, we independently calculated the WACC using external data sources, including a recalculation of the biological asset value at year end. We found the discount rate used by management to be within an acceptable range of our independent calculation. • We tested the mathematical accuracy of management's valuation model. No material differences were noted. We evaluated the reasonableness of: • The projected volumes, including yields, that the existing plantations are predicted to produce, through assessment against the Group's historical production volumes; • The volume adjustment factor with reference to actual deviations based on harvested results; • The price per cubic meter against actual results and current market prices; and • The operational costs of the forest management activities based on our understanding of the business, past results and the economic outlook. Based on the results of our work performed, we accepted management's projected volumes, yields, volume adjustment factor and price per cubic meter and operational costs used in their assessment. We performed an independent sensitivity analysis of the fair value assessment to assess the reasonableness of management's calculation, taking in account reasonable changes in the assumed growth rates and cash flows. We did not note any aspect in this regard which required further consideration. We assessed management's significant judgements and assumptions against historical practices and the biological asset management plans. We noted no material inconsistencies in this regard.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the Forestry Cash Generating Unit (CGU), including goodwill The Group recognised goodwill with a carrying amount of R357,6 million as at 30 June 2020. As set out in note 6 to the consolidated financial statements, goodwill is tested for impairment at each year end. For purposes of impairment testing, goodwill has been allocated to the forestry cash generating unit ("CGU"). Management performs an annual impairment assessment in respect of the CGU. The recoverable amount of the CGU is determined with reference to fair value less costs to sell. Assumptions made by management in determining the fair value less costs to sell are disclosed in note 6 to the consolidated financial statements and include projected cash flows, inflation rates, expected yields per log class, volume adjustment factors and price per cubic metre. We considered the impairment assessment of the forestry CGU, including its related goodwill, to be a matter of most significance to the current year audit due to the significant judgement, assumptions and estimation applied by management in determining the fair value less costs to sell.	Our audit addressed the key audit matter as follows: - We evaluated the appropriateness of the level at which impairment is assessed, being the Group's CGU's. We also assessed the level at which goodwill is monitored for impairment to evaluate whether it was tested at the appropriate CGU level in accordance with International Accounting Standard (IAS) 36 – <i>Impairment of Assets</i>. We performed the following in addressing the key audit matter: We evaluated the appropriateness and consistency of the significant judgements and assumptions applied by management in the discounted cash flow calculation by performing the procedures below: - Making use of our valuations expertise, we independently calculated the WACC using external data sources, including a recalculation of the fair value less cost to sell of the CGU at year end. We found the discount rate used by management to be within an acceptable range of our independent calculation. - We tested the mathematical accuracy of management's valuation model. No material differences were noted. - We performed an independent sensitivity analysis of the fair value assessment to assess the reasonableness of management's calculation, taking into account a reasonable change in the assumed growth rates and cash flows. We did not note any aspect in this regard which required further consideration. We evaluated the reasonableness of: - The future log prices by comparing it to actual results and current market prices; - The expected yields from the plantation based on rotation which includes replantings and associated costs with reference to the Group's historical production volumes; and - The forecasted growth rates by comparing it to historical actual growth and market expectations.

INDEPENDENT AUDITOR'S REPORT continued

Key audit matter	How our audit addressed the key audit matter
Accounting considerations in relation to the loan with the Land Bank Refer to note 19 and the capital risk management section included in note 38 to the consolidated financial statements. We considered the accounting considerations of the Group's loan with the Land Bank to be a matter of most significance to our current year audit due to the impact that the potential breach of the loan covenants relating to the fourth quarter of the 2020 financial year has on the classification of the loan in the consolidated financial statements. As disclosed in note 38 to the consolidated financial statements, the Group became aware of a potential breach of its interest cover ratio covenant for the fourth quarter of the 2020 financial year. The fourth quarter was significantly impacted by the national lockdown imposed by the government due to the COVID-19 pandemic, which resulted in lower earnings for the quarter. The Group, in accordance with the Term Loan Facility agreement (the "agreement"), notified the Land Bank about the potential breach. Under the terms of the agreement, the Group has a right to remedy the breach within 20 business days after being notified by the Land Bank to do so. A failure to remedy the breach in accordance with the options prescribed in the agreement would result in an event of default occurring, that would provide the Land Bank with the right to demand payment of the outstanding debt. The remedies available to the Group under the agreement are disclosed in note 38 to the consolidated financial statements. In addition, as set out in the agreement no event of default would occur if the Land Bank waives the breach. As at 30 June 2020, the Group did not receive any notification from the Land Bank to remedy the breach and as a result no event of default occurred. As such, the Group had an unconditional right in terms of the agreement to defer settlement of the liability for at least 12 months. Subsequent to year-end, the Land Bank waived the breach. As a result, the portion of the debt which is repayable after 12 months has been classified as a non-current liability in the consolidated statement of financial position.	Our audit addressed the key audit matter as follows: • Making use of our legal expertise and through inspection of the agreement, we obtained an understanding of the requirements of the agreement with regard to the potential covenant breaches identified. • We inspected the notification sent by the Group to the Land Bank on 9 June 2020 and noted that it related to the potential breach of the interest cover ratio covenant for the fourth quarter of the 2020 financial year. • Making use of our accounting expertise, we evaluated whether the potential breach of interest cover ratio covenant at year end resulted in an event of default, in the absence of any notification from the Land Bank, and whether the Group has the unconditional right to defer payment of the loan at the reporting date. • Making use of our accounting expertise, we evaluated the classification of the loan as a non-current liability by considering whether the Group has an unconditional right to defer payment, as well as the waiver of breach received after year-end. • We inspected the notification from the Land Bank a waiver of the breach subsequent to year end.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "*York Timber Holdings Limited Consolidated and Separate Annual Financial Statements for the year ended 30 June 2020*", and the document titled "*York Timbers Annual Report for the year ended 30 June 2020*", which includes the Directors' report, the Audit Committee Report and the Company secretary's certification as required by the Companies

Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read

the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and 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 directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement

and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 the Group's and the Company'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 Group's and 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 consolidated and separate 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 the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial

information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of York Timber Holdings Limited for two years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Schalk Barnard
Registered Auditor
Mbombela

28 September 2020

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2020

	Note	GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Assets					
Non-current assets					
Property, plant and equipment	3	844 129	893 891	–	–
Investment property	4	30 740	30 740	–	–
Biological assets	5	2 391 304	2 639 014	–	–
Goodwill	6	357 630	357 630	–	–
Intangible assets	7	6 076	3 616	–	–
Investments in subsidiaries	8	–	–	1 122 502	1 120 970
Loans to Group companies	9	–	–	1 345 428	1 345 673
Other financial assets at amortised cost	10	53 331	61 903	–	–
Deferred tax	11	7 353	7 899	37	37
		3 690 563	3 994 693	2 467 967	2 466 680
Current assets					
Biological assets	5	515 586	515 543	–	–
Inventories	12	229 191	374 553	–	–
Trade and other receivables	13	164 796	221 243	156	49
Current tax receivable	14	477	11 000	–	–
Cash and cash equivalents	15	48 430	89 003	–	–
		958 480	1 211 342	156	49
Total assets		4 649 043	5 206 035	2 468 123	2 466 729
Equity and liabilities					
Equity					
Share capital	16	1 480 232	1 480 232	1 521 914	1 521 914
Reserves	17, 18	4 148	2 356	4 759	3 227
Retained income		1 396 492	1 614 129	939 898	939 894
Total equity		2 880 872	3 096 717	2 466 571	2 465 035
Liabilities					
Non-current liabilities					
Borrowings	19	417 922	530 865	–	–
Lease liability	20	4 971	9 995	–	–
Retirement benefit obligation	21	26 910	26 764	–	–
Deferred tax	11	848 624	930 875	–	–
Provisions	22	16 249	15 738	–	–
		1 314 676	1 514 237	–	–
Current liabilities					
Trade and other payables	23	234 769	434 279	1 550	1 677
Borrowings	19	165 976	152 571	–	–
Lease liability	20	7 331	8 152	–	–
Current tax payable		2	17	2	17
Bank overdraft	15	45 417	62	–	–
		453 495	595 081	1 552	1 694
Total liabilities		1 768 171	2 109 318	1 552	1 694
Total equity and liabilities		4 649 043	5 206 035	2 468 123	2 466 729

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Note	GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Revenue	24	1 438 825	1 600 522	4 606	6 668
Cost of sales		(1 180 758)	(1 140 167)	–	–
Gross profit		258 067	460 355	4 606	6 668
Other operating income	25	15 049	31 940	–	–
Other operating gains	26	8 287	21 351	–	–
Impairment of goodwill		–	(207 812)	–	–
Other operating expenses		(363 511)	(412 148)	(4 602)	(6 669)
Operating (loss)/profit	27	(82 108)	(106 314)	4	(1)
Investment income	28	3 017	5 269	2	5
Finance cost	29	(61 049)	(77 537)	–	–
Fair value adjustments	30	(159 301)	207 901	–	–
(Loss)/profit before taxation		(299 441)	29 319	6	4
Taxation	31	81 804	(65 587)	(2)	(1)
(Loss)/profit for the year		(217 637)	(36 268)	4	3
Other comprehensive income:					
<i>Items that will not be reclassified to profit or loss:</i>					
Re-measurements on net defined benefit liability		361	133	–	–
Taxation related to re-measurements on defined benefit liability		(101)	(37)	–	–
Defined benefit plan reserve		260	96	–	–
Other comprehensive income for the year net of taxation		260	96	–	–
Total comprehensive (loss)/income for the year		(217 377)	(36 172)	4	3
Earnings per share					
Per share information					
Basic loss per share (cents)	42	(69)	(11)	–	–
Diluted loss per share (cents)	42	(69)	(11)	–	–

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Share capital R'000	Share premium R'000	Total share capital R'000	Share-based payment reserve R'000	Defined benefit plan reserve R'000	Total reserves R'000	Retained income R'000	Total equity R'000
GROUP								
Balance as at 1 July 2018	15 802	1 464 430	1 480 232	614	(967)	(353)	1 650 397	3 130 276
Loss for the year	–	–	–	–	–	–	(36 268)	(36 268)
Other comprehensive income	–	–	–	–	96	96	–	96
Total comprehensive income/ (loss) for the year	–	–	–	–	96	96	(36 268)	(36 172)
Employees' share option scheme	–	–	–	2 613	–	2 613	–	2 613
Total contributions by and distributions to owners of the Company recognised directly in equity	–	–	–	2 613	–	2 613	–	2 613
Balance as at 1 July 2019	15 802	1 464 430	1 480 232	3 227	(871)	2 356	1 614 129	3 096 717
Loss for the year	–	–	–	–	–	–	(217 637)	(217 637)
Other comprehensive income	–	–	–	–	260	260	–	260
Total comprehensive income/ (loss) for the year	–	–	–	–	260	260	(217 637)	(217 377)
Employees' share option scheme	–	–	–	1 532	–	1 532	–	1 532
Total contributions by and distributions to owners of the Company recognised directly in equity	–	–	–	1 532	–	1 532	–	1 532
Balance as at 30 June 2020	15 802	1 464 430	1 480 232	4 759	(611)	4 148	1 396 492	2 880 872
Note	16	16	16	17	18			

	Share capital R'000	Share premium R'000	Total share capital R'000	Share- based payment reserve R'000	Defined benefit plan reserve R'000	Total reserves R'000	Retained income R'000	Total equity R'000
COMPANY								
Balance as at 1 July 2018	16 562	1 505 352	1 521 914	614	–	614	939 891	2 462 419
Profit for the year	–	–	–	–	–	–	3	3
Total comprehensive income for the year	–	–	–	–	–	–	3	3
Employees' share option scheme	–	–	–	2 613	–	2 613	–	2 613
Total contributions by and distributions to owners of the Company recognised directly in equity	–	–	–	2 613	–	2 613	–	2 613
Balance as at 1 July 2019	16 562	1 505 352	1 521 914	3 227	–	3 227	939 894	2 465 035
Profit for the year	–	–	–	–	–	–	4	4
Total comprehensive income for the year	–	–	–	–	–	–	4	4
Employees' share option scheme	–	–	–	1 532	–	1 532	–	1 532
Total contributions by and distributions to owners of the Company recognised directly in equity	–	–	–	1 532	–	1 532	–	1 532
Balance as at 30 June 2020	16 562	1 505 352	1 521 914	4 759	–	4 759	939 898	2 466 571
Note	16	16	16	17				

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2020

	Note	GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash flows from operating activities					
Cash generated from/(used in) operations	32	96 191	223 822	(230)	(5 293)
Interest received		3 017	5 269	2	5
Finance cost	29	(59 002)	(74 152)	–	–
Tax refunded/(paid)	33	10 506	(8 659)	(17)	1
Net cash from operating activities		50 712	146 280	(245)	(5 287)
Cash flows from investing activities					
Purchase of property, plant and equipment	3	(42 085)	(81 170)	–	–
Proceeds from disposal of property, plant and equipment	3	5 002	27 399	–	–
Purchase of investment property	4	–	(30)	–	–
Proceeds from sale of investment property	4	–	250	–	–
Purchase of intangible assets	7	(2 603)	(3 479)	–	–
Proceeds from sale of other intangible assets	7	–	2	–	–
Loans to Group companies repaid	9	–	–	–	5 284
Loans advanced to Group companies	9	–	–	245	–
Purchase of other financial assets at amortised cost	10	(36 680)	(22 415)	–	–
Proceeds from other financial assets at amortised cost	10	45 252	219	–	–
Net cash (applied to)/from investing activities		(31 114)	(79 224)	245	5 284
Cash flows from financing activities					
Proceeds from borrowings		11 580	39 655	–	–
Repayment of borrowings		(111 542)	(162 121)	–	–
Repayment of lease liability		(10 106)	(9 622)	–	–
Net cash applied to financing activities		(110 068)	(132 088)	–	–
Cash movement for the year		(90 470)	(65 032)	–	(3)
Cash at the beginning of the year		88 941	152 030	–	3
Effect of exchange rate movement on cash balances		4 542	1 943	–	–
Cash at the end of the year	15	3 013	88 941	–	–

ACCOUNTING POLICIES

For the year ended 30 June 2020

CORPORATE INFORMATION

York Timber Holdings Limited is a public company incorporated and domiciled in South Africa.

The consolidated and separate annual financial statements for the year ended 30 June 2020 were authorised for issue in accordance with a round robin resolution passed by the directors on 28 September 2020.

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate annual financial statements are set out below.

1.1 Basis of preparation

The consolidated and separate annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these consolidated and separate annual financial statements and the Companies Act of South Africa, 71 of 2008, as amended.

These consolidated and separate annual financial statements comply with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council.

The consolidated and separate annual financial statements have been prepared on historical cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in South African Rand, which is the Group and Company's functional currency and rounded to the nearest R'000.

All subsidiaries use uniform accounting policies.

These accounting policies are consistent with the previous period, except where new standards were adopted.

1.2 Segmental reporting

The Group determines and presents operating segments based on the information that is internally provided to the Group's Chief Operating Decision-Maker (CODM), comprising senior management and Executive Committee members.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and in which it may incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and to assess its performance where salient financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

1.3 Consolidation

Basis of consolidation

Acquisitions on or after 1 July 2009

For acquisitions on or after 1 July 2009, the Group measures goodwill as the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree, less the net identifiable assets being recognised at the acquisition date fair values. If, in the case of a bargain purchase, the result of this formula is negative, then the difference is recognised directly in profit or loss.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business

combination (see below). If a business combination results in the termination of a pre-existing relationship between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

When share-based payment awards are exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) related to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in the consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably. The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Acquisitions prior to 1 July 2009

For acquisitions prior to 1 July 2009, the Group measures goodwill as the excess of the cost of the acquisition over the Group's interest in the recognised amount of the identifiable assets, liabilities and contingent liabilities of the acquiree at the acquisition date fair value. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

ACCOUNTING POLICIES continued

for the year ended 30 June 2020

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated annual financial statements.

Investments in subsidiaries in the separate annual financial statements

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated annual financial statements from the date that control commences until the date that control ceases. They are de-consolidated from the date that control is lost. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Investments in subsidiaries are initially carried at cost and subsequently at cost less impairment.

1.4 Significant judgements and sources of estimation uncertainty

The preparation of consolidated and separate annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty

For details of judgements and estimates that have a significant effect on the consolidated annual financial statements, refer to:

- Note 3 – Property, plant and equipment;
- Note 4 – Investment property;

- Note 5 – Biological assets;
- Note 6 – Goodwill;
- Note 11 – Deferred tax;
- Note 13 – Trade and other receivables;
- Note 17 – Share-based payment reserve;
- Note 20 – Lease liability;
- Note 21 – Retirement benefit obligation; and
- Note 22 – Provisions.

1.5 Biological assets

Biological assets are pine and eucalyptus trees planted, where the Group controls the assets, future economic benefits are probable and the fair value can be reliably measured.

Biological assets are measured at fair value less costs to sell, with any resultant gain or loss recognised in profit or loss. Costs to sell are the costs of harvesting and bringing the timber to roadside.

Biological assets that are expected to be consumed in the next 12 months are disclosed under current assets. Biological assets are transferred to inventory upon harvesting.

1.6 Investment property

Investment property is initially recognised at cost and subsequently measured at fair value. Transaction costs are included in the initial measurement of investment property.

Any gain or loss arising from a change in fair value is recognised in profit or loss. An external, independent valuation company, having an appropriate, recognised professional qualification and recent experience in the location and category of property being valued, is used to value the portfolio. The valuations in-between the professional valuations are done internally by the directors. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion.

Rental income from investment property is accounted for as described in accounting policy 1.22.

When an item of property is transferred to investment property following a change in its use, any differences arising at the date

of transfer between the carrying amount of the item immediately prior to transfer and its fair value is, to the extent that the re-measurement of an investment property on the date of classification results in a gain, applied first to reducing any impairment loss that was previously recognised in profit or loss and the remaining increase is recognised in other comprehensive income. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in profit or loss.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, measured in terms of the fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

A gain or loss arising from a change in fair value is included in profit before taxation for the period in which it arises.

1.7 Property, plant and equipment

Owned assets

Items of property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised interest and any other costs directly attributable to bringing the asset to a working condition for its intended use. The cost of self-constructed and acquired assets includes:

- the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing items and restoring the site on which they are located; and
- changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligations or from changes in the discount rate.

When parts of an item of property, plant and equipment have different useful lives, those components are accounting for as separate items of property, plant and equipment.

Capital work in progress is carried at cost less any impairments.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The replaced part is subsequently derecognised. All other costs are recognised in profit or loss as an expense as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation of an item of property, plant and equipment commences when it is available for use and ceases on the earlier of the date it is classified as held for sale or the date it is derecognised upon disposal. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and is recognised net within other income/other expenses in profit or loss.

The residual values, depreciation methods and useful lives are re-assessed annually at the reporting date. The current estimated useful lives are as follows:

Item	Depreciation method	Useful life
Land	–	Indefinite
Buildings	Straight-line	10 – 49 years
Roads (included in buildings in note 3)	Straight-line	40 years
Right of use asset	Straight-line	2 – 5 years
Plant and machinery	Straight-line	5 – 12 years
Other equipment	Straight-line	3 – 15 years

1.8 Leases

Where the Group is the lessee, a right of use asset and lease liability is recognised.

Payments made under leases are recognised against the lease liability over the period of the lease.

The right of use assets are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The Company has elected to apply the practical expedient not to recognise right of use assets and liabilities for short term leases that have lease terms of 12 months or less and leases for which the underlying asset and liability is of low value.

The right of use assets and liabilities consist mainly of warehouses leased for a period between two to five years and are measured at the present value of lease payments over the lease term at the Group's incremental borrowing rate adjusted for asset specific risks and the lease term. Lease modifications that result in the addition of one or more assets are accounted for as a newly acquired asset and lease liability. Lease modifications that do not result in the addition of one or more assets i.e. rent reductions and amendment of lease terms are accounted for as a right of use asset and lease liability adjustment at the adjusted incremental borrowing rate on the effective date of the modification.

The lease agreements are re-negotiated at the termination of each lease contract.

The Company early adopted the IFRS 16 practical expedient to carry out an assessment to determine whether rent concessions received, as a direct result of the COVID-19 pandemic, will result in a lease modification.

For leases where a reduction was received that will not be recovered by the lessor, the difference in lease payments were accounted for in other operating expenses as a variable lease payment. For leases where rent reductions were deferred to future periods, the lease liability at the end of the period where increased payments were accounted for would be the same as if payments had not been altered.

1.9 Intangible assets

Goodwill

Initial measurement

Goodwill is measured at cost.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill has an indefinite life. Goodwill is tested annually for impairment and when impairment indicators exist.

Other intangible assets

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Useful life

For all other intangible assets, amortisation is provided on a straight-line basis over their useful lives commencing when the asset is available for use and ceasing when the asset is disposed of or no longer generates benefits for the entity.

Re-assessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite, is an indicator that the asset may be impaired. As a result, the asset is tested for impairment when an impairment indicator exists and the remaining carrying amount is amortised over its useful life.

Subsequent measurement

The Group recognises in the carrying amount of an item of intangible assets, the cost of replacing part of such an item if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The replaced part is subsequently derecognised. All other costs are recognised in profit or loss as an expense as incurred.

ACCOUNTING POLICIES continued

for the year ended 30 June 2020

Amortisation

The residual values, depreciation methods and useful lives are re-assessed annually at the reporting date. Amortisation is provided to write down intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

1.10 Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of IFRS 9: *Financial Instruments*. Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows:

Financial assets which are debt instruments:

- Amortised cost (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows).

Financial liabilities:

- Amortised cost.

Note 38 Financial instruments and risk management presents the financial instruments held by the Group based on their specific classifications.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group and Company are presented below:

Loans receivable at amortised cost

Classification

Loans to Group companies (note 9) are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses (lifetime ECL) is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group measures the loss allowance at an amount equal to lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12-month expected credit losses (12-month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12-month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Group considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, value added tax (VAT)

and prepayments, are classified as financial assets subsequently measured at amortised cost (note 13).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Group calculated the expected credit loss under the simplified approach using a provision matrix. The expected credit loss is calculated by applying an expected loss ratio to each age receivable Group. The loss ratio is calculated as the historical payment profile and adjusted for macro-economic forecasts. A default credit loss ratio is applied to ageing periods of 90 days and over.

Derecognition

Any gains or losses arising on the derecognition of trade and other receivables is included in profit or loss in the derecognition gains (losses) on financial assets at amortised cost.

Borrowings

Classification

Borrowings (note 19) are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

Borrowings are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value less transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Interest expense, calculated on the effective interest method, is included in profit or loss in finance cost (note 29). Borrowings expose the Group to liquidity risk and interest rate risk. Refer to note 38 for details of risk exposure and management thereof.

Trade and other payables

Classification

Trade and other payables (note 23), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

They are recognised when the Group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts)

through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance cost (note 29).

Trade and other payables expose the Group to liquidity risk and possibly to interest rate risk. Refer to note 38 for details of risk exposure and management thereof.

Derecognition

Any gains or losses arising on the derecognition of trade and other payables is included in profit or loss in the derecognition gains (losses) on financial assets at amortised cost.

Cash and cash equivalents

Cash and cash equivalents are classified as financial assets initially and subsequently measured at amortised cost. Cash and cash equivalents consist of bank balances and petty cash.

1.11 Tax

Current tax assets and liabilities

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax assets and liabilities

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- differences relating to investments in subsidiaries and jointly-controlled entities, to the extent that it is probable that they will not reverse in the foreseeable future, and the Group is able to control the timing of the reversal; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be raised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax on investment property is provided for at the tax rate expected to apply to the proceeds on sale of the property.

Tax expenses

Income tax expense for the year comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case, it is recognised in equity or other comprehensive income.

1.12 Inventories

Raw materials, work in progress and finished goods of timber and timber-related products, and consumable stores, are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is based on the weighted average cost method.

The cost of harvested timber is its fair value at the date of harvest, determined in accordance with the accounting policy for biological assets. Any change in value at the date of harvest is recognised in profit or loss.

ACCOUNTING POLICIES continued

for the year ended 30 June 2020

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of assets

Financial assets

A financial asset, other than financial assets at fair value through profit or loss, is assessed at each reporting date to determine whether there is any objective evidence that it should be impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

Individually significant financial assets at amortised cost are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets

measured at amortised cost, the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated.

The recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the expected future cash flows from the asset 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.

When an asset does not generate cash inflows that are largely independent from other assets, its recoverable amount is determined by assessing the recoverable amount of the cash-generating unit to which the asset belongs.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the acquirer's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Impairment losses recognised in terms of cash-generating units are allocated first to reduce the carrying value of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the cash-generating unit on a pro rata basis. An impairment loss is recognised in profit or loss whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any

indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.14 Share capital and equity

Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends are recognised as a deduction from equity and a liability is raised in the period in which they are declared.

1.15 Share-based payments

Equity-settled transactions

The grant date fair value of options allocated to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

1.16 Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised in the period in which the employee renders the related service.

The accrual/liability for employee entitlements to wages, salaries and annual leave represents the amount which the Group has a present obligation to pay as a result of employees' services provided up to the reporting date. The accruals have been calculated at undiscounted amounts based on expected wage and salary rates.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss as incurred.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Group's policy is not to provide post-retirement medical aid benefits to its employees. The provision is made for a closed group of existing and former employees.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment

is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The expense is included under administration expenses.

1.17 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of any discount is recognised as a finance cost.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

1.18 Revenue from contracts with customers

The Group recognises revenue from the following major sources:

- Sale of logs
- Sale of timber products
- Rendering of services – transport
- Rendering of services – treating
- Revenue charge for forestry machinery and vehicles
- Sale of food and beverages
- Accommodation income

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it

transfers control of a product or service to a customer.

Sale of logs

Revenue is recognised at a point in time for the sale of logs.

For the sale of logs to customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods. Payment of the transaction price is due immediately at the point the customer purchases the goods, or within 30 days for account holding customers. A receivable is recognised for account holding customers. No financing element is recognised as the payment terms are within 30 days.

Sale of timber products

Revenue is recognised at a point in time for local and export sales of timber products.

For local timber sales, revenue is recognised when the goods leave the premises at the standalone selling prices. When the customer collects the goods at the premises, York no longer directs the use of the goods and the client accepts responsibility. For international plywood sales, the Group recognises the revenue for goods when the original shipping documents, for clearance at the destination port, are released. Due to the nature of the exportation of plywood, and the timing difference between the expected date of receipt of payment and the actual payment receipt date, this could result in the recognition of contract liabilities.

Rendering of services – transport

Revenue derived from transport services to external customers where York acts as a principal is recognised in the accounting period in which the services are rendered at the gross amount receivable, and recognised at the point in time. When York acts in the capacity of an agent, the transport provider insures the freight and York can no longer direct the use of the goods and the customer has the present obligation to pay for goods. The revenue recognised when York acts as an agent is recognised at the net amount receivable.

Rendering of services – treating

Revenue relating to treating services is recognised in the accounting period in which the services are rendered.

ACCOUNTING POLICIES continued

for the year ended 30 June 2020

Revenue charge for forestry machinery and vehicles

Revenue is derived principally from revenue charged for transport performed by forestry machinery and vehicles, and is measured at the transaction price received or receivable after deducting VAT. Revenue is recognised at the point in time the service has been rendered.

Sale of food and beverages

Revenue from sale of goods is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and VAT.

Accommodation income

Revenue is derived from accommodation income and is measured at the transaction price received or receivable after deducting VAT based on an overnight rate for accommodation. Revenue is recognised as performance obligations are met over time as services are rendered.

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, including self constructed assets, are capitalised as part of the cost of those assets. All other borrowing costs are expensed.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

1.20 Translation of foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the rate of exchange ruling on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at rates of exchange ruling at the reporting date (spot rate).

Any foreign exchange differences are recognised in profit or loss in the year in which the difference occurs. The profits are included under other income and the losses are included under other operating gains/(losses).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

1.21 Investment income and finance cost

Investment income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets at fair value through profit or loss.

Interest income is recognised as it accrues, using the effective interest method.

Finance cost comprises interest expenses on borrowings, interest expenses on finance leases, the unwinding of discounts on provisions, and changes in the fair value of financial assets at fair value through profit or loss.

1.22 Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Other rental income is recognised in profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2020

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/interpretation	Effective date: Years beginning on or after	Expected impact
• IFRIC 23: <i>Uncertainty over Income Tax Treatments</i>	1 January 2019	There was no financial impact
• Amendments to IAS 40: <i>Transfers of Investment Property</i>	1 January 2018	There was no financial impact
• IFRIC 22: <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018	There was no financial impact

3. PROPERTY, PLANT AND EQUIPMENT

	GROUP					
	2020			2019		
	Cost or revaluation R'000	Accumu- lated depreciation R'000	Carrying value R'000	Cost or revaluation R'000	Accumu- lated depreciation R'000	Carrying value R'000
Land	111 928	–	111 928	113 133	–	113 133
Buildings	295 210	(76 536)	218 674	289 659	(67 576)	222 083
Right of use asset	34 563	(24 914)	9 649	34 381	(19 717)	14 664
Plant and machinery	597 170	(219 595)	377 575	602 855	(175 611)	427 244
Other equipment*	186 640	(90 688)	95 952	191 488	(85 094)	106 394
Capital – work in progress	30 351	–	30 351	10 373	–	10 373
Total	1 255 862	(411 733)	844 129	1 241 889	(347 998)	893 891

* Other equipment refers to furniture and fittings, motor vehicles, computer equipment and spare parts. They have been grouped together as the total net carrying value for these assets is less than 20% of the total net carrying value of property, plant and equipment.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

3. PROPERTY, PLANT AND EQUIPMENT continued

	GROUP						
	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Depreciation R'000	Impairment loss R'000	Total R'000
2020							
Reconciliation of property, plant and equipment							
Land	113 133	–	(5)	(1 200)	–	–	111 928
Buildings	222 083	12 352	(14)	(5 270)	(10 477)	–	218 674
Right of use asset	14 664	3 019	–	–	(7 879)	(155)	9 649
Plant and machinery	427 244	15 371	(25)	(10 987)	(54 028)	–	377 575
Other equipment*	106 394	14 385	(1 209)	(2 546)	(21 072)	–	95 952
Capital – work in progress	10 373	(25)	–	20 003	–	–	30 351
	893 891	45 102	(1 253)	–	(93 456)	(155)	844 129
2019							
Reconciliation of property, plant and equipment							
Land	116 052	–	(2 919)	–	–	–	113 133
Buildings	215 507	–	(3 532)	20 419	(10 311)	–	222 083
Right of use asset	19 063	3 293	–	–	(7 692)	–	14 664
Plant and machinery	471 407	104	(1 314)	16 751	(59 589)	(115)	427 244
Other equipment*	87 540	3 061	(226)	37 145	(21 126)	–	106 394
Capital – work in progress	10 696	78 005	–	(74 315)	–	(4 013)	10 373
	920 265	84 463	(7 991)	–	(98 718)	(4 128)	893 891

* Other equipment refers to furniture and fittings, motor vehicles, computer equipment and spare parts. They have been grouped together as the total net carrying value for these assets is less than 20% of the total net carrying value of property, plant and equipment.

Property, plant and equipment encumbered as security

As per note 5, landholdings amounting to 58 050 (2019: 58 050) hectares were encumbered in favour of Micawber 558 Proprietary Limited as security for loans and borrowings, as per note 19.

Assets are encumbered in terms of instalment sale agreements.

Assets comprising the plywood plant with a carrying value of R293,7 million (2019: R325,3 million) are subject to a notarial bond.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Carrying value of plant and equipment under instalment sale agreement obligation				
Plant and machinery	28 097	31 187	–	–
Other property, plant and equipment	76 097	79 599	–	–

The Group has entered into instalment sale agreements with WesBank, Absa, Mercedes-Benz Financial Services and Toyota Financial Services for plant, equipment and vehicles (refer to note 19).

The present value of minimum instalment sale agreement payments due at year-end were R76,8 million (2019: R99,0 million) (refer to note 19).

3. PROPERTY, PLANT AND EQUIPMENT continued

Impairment

The impairment in the prior year relates to cost incurred on a project of which the future benefits have become doubtful. It is included in other operating expenses.

The impairment loss in the current year is due to warehouses being vacated.

Registers with details of land and buildings are available for inspection by shareholders or their duly authorised representatives at the registered office of the Company and its respective subsidiaries.

4. INVESTMENT PROPERTY

	GROUP					
	2020			2019		
	Valuation R'000	Accumulated depreciation R'000	Carrying value R'000	Valuation R'000	Accumulated depreciation R'000	Carrying value R'000
Investment property	30 740	–	30 740	30 740	–	30 740

	GROUP	
	Opening balance R'000	Total R'000
2020		
Reconciliation of investment property		
Investment property	30 740	30 740

	GROUP				
	Opening balance R'000	Additions R'000	Disposals R'000	Fair value adjustments R'000	Total R'000
2019					
Reconciliation of investment property					
Investment property	26 731	30	(250)	4 229	30 740

Lease agreements for investment properties are at market-related rentals and are renewed annually.

Registers with details of investment properties are available for inspection by shareholders or their duly authorised representatives at the registered office of the Company.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

4. INVESTMENT PROPERTY continued

Details of valuation

The effective dates of the revaluations were 16 April 2019 and 1 May 2019. Revaluations were performed by independent valuers, Tetragon Valuers Proprietary Limited and Value Tec Property Valuations. These valuers are not connected to the Group and have recent experience in location and category of the investment property being valued. The valuation was based on the open market value for existing use. Directors have assessed that the 2020 fair value has not moved significantly since the prior year.

The fair value measurement for investment property of R30,7 million (2019: R30,7 million) has been categorised as a level 2 fair value based on the inputs to the valuation technique used.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Amounts recognised in profit or loss for the year excluding fair value adjustments				
Rental income from investment property	1 804	1 508	–	–
Direct operating expenses on rental generating property	(912)	(809)	–	–
Total	892	699	–	–

Level 2 fair value

The valuation is based on market value. The comparable sales approach is used to determine market value. This approach consists of comparing the subject property to similar properties that were sold in the recent past in an open market situation, and making appropriate adjustments to the value for market trends. This results in a market value for the subject property. A 1% change in the value of investment property would result in a R0,3 million (2019: R0,3 million) adjustment to profit or loss.

5. BIOLOGICAL ASSETS

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Reconciliation of biological assets				
Opening balance	3 154 557	2 918 550	–	–
Reconciliation of biological assets due to changes in standing volume:				
– Increase due to growth and enumerations ¹	176 181	515 384	–	–
– Adjustment to standing timber values to reflect changes to sales price, cost and discount rate assumptions ²	(143 329)	(4 570)	–	–
Decrease due to harvesting and disposal	(192 153)	(336 242)	–	–
Standing timber purchased	44 880	133 246	–	–
Standing timber harvested	(133 246)	(71 811)	–	–
Closing balance	2 906 890	3 154 557	–	–
Classified as non-current assets	2 391 304	2 639 014	–	–
Classified as current assets ³	515 586	515 543	–	–
Closing balance	2 906 890	3 154 557	–	–

¹ Enumerations refer to updates that are made to the merchandising model's data due to more accurate information being collected about the trees in the plantations. These are used to adjust the model's theoretical yields to actual yields and are done systematically over the life of the plantations.

² Being the movement after the increases in growth and enumeration and decreases due to harvesting from the opening balance value and consists of the impact of changes to the discount rate, log sales prices and operating costs from the prior year balance.

³ The biological assets to be harvested and sold in the 12 months after year-end.

5. BIOLOGICAL ASSETS continued

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Change in discounted cash flow value (DCF) attributable to				
Opening balance	3 154 557	2 918 550	–	–
Change in product mix and age ^{*4}	233 049	(61 687)	–	–
Revenue and price ^{*5}	(348 350)	(6 452)	–	–
Operating costs [*]	85 485	(79 685)	–	–
Discount rate [*]	30 209	78 293	–	–
Standing timber purchased	44 880	133 246	–	–
Standing timber harvested	(133 246)	(71 811)	–	–
Disposals	–	(29 100)	–	–
Change in volume ^{*6}	(159 694)	273 203	–	–
Closing balance	2 906 890	3 154 557	–	–

^{*} The total of these amounts equals the fair value adjustment disclosed in note 30.

⁴ Represents the cash flow profile change from the prior year yield forecast.

⁵ Revenue and price changes relate to inflationary adjustments over the next year, the following year and over the long term.

⁶ Change in volume in the DCF model refers to changes in the forecast yield at maturity of planted trees. Temporary unplanted hectares increased by 637 hectares from the prior year. The DCF volumes over the 20-year period decreased by 5%. An accuracy factor is used to calculate the accounting estimated volume. This is a downwards adjustment of harvestable volume.

	GROUP		COMPANY	
	2020	2019	2020	2019
Reconciliation of standing volume (m³)				
Opening balance	6 277 972	5 946 639	–	–
Increase due to growth and enumeration ⁷	367 998	953 231	–	–
Decrease due to harvesting and sales	(401 363)	(621 898)	–	–
	6 244 607	6 277 972	–	–
Landholding (hectares)				
Pine ⁸	54 648	55 077	–	–
Eucalyptus ⁸	343	551	–	–
Temporary unplanted areas ⁸	3 772	3 135	–	–
Conservancy areas ⁸	30 816	30 816	–	–
	89 579	89 579	–	–

⁷ Enumerations refer to updates that are made to the merchandising model's data due to more accurate information being collected about the trees in the plantations. These are used to adjust the model's theoretical yields to actual yields and are done systematically over the life of the plantations.

⁸ The planted pine and eucalyptus trees are valued in determining the fair value of the biological assets. The temporary unplanted and conservation areas are carried at cost and included under land in note 3.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

5. BIOLOGICAL ASSETS continued

Methodology and assumptions used in determining fair value

Volumes: The expected yields per log class are calculated with reference to the yield curves of the species and growth sites relevant to the planted area. The growth models are derived from actual trial data that has been measured annually since 1976. A merchandising model, using the modelled tree shapes at various ages, is used to divide the trees into predefined products as a basis for calculating log yields.

Volume adjustment factor: In a manner consistent to prior years, volumes expected from York plantations in MicroForest are adjusted with 8% (2019: 8%). In the 2020 financial year the harvesting volumes expected from York plantations in MicroForest were further reduced by a weighted average of 4% (2019: 2%), based on the most recent actual yield reconciliation data. The further reduction in volumes were done in an effort to acknowledge deviations such as the impact from baboon damage and other natural elements, genetic defects and pest and diseases from the planned harvesting volumes.

Log prices: The price per cubic metre per log class is based on current and future expected market prices per log class. It was assumed that prices will increase at 4,60% over the next year, 4,40% over the following year, and at 4,80% over the long term (2019: 5% over the next year, 4,90% over the following year, and at 5,20% over the long term). Log prices are computed at a weighted average of external market prices and internal prices charged to the Group's processing operations. Internal prices are generally lower than external prices and are based on an internationally recognised log paying capability calculation. This calculation references the final product value derived from the log, as well as a level of profitability of the processing operation required for sustainability.

Operating costs: The costs are based on the unit cost of the forestry management activities required for the trees to reach the age of felling. The costs include the current and expected future costs of harvesting, maintenance and risk management, as well as associated fixed overhead costs. The costs exclude the costs necessary to get the asset to the market. An inflation rate of 4,60% over the next year, 4,40% over the following year, and at 4,80% over the long term (2019: 5% over the next year, 4,90% over the following year, and at 5,20% over the long term) was used.

Costs to sell: Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Costs to sell include the harvesting cost and the cost to bring logs to roadside, that are part of the operating cost.

Discount rate: In determining the weighted average cost of capital (WACC), a comparable Group of forestry companies' Beta is used to determine the Beta applied in WACC.

Level 3 fair value

The valuation model considers the present value of the net cash flows expected to be generated from the plantations. The cash flow projections include specific estimates for 20 years (2019: 20 years). The expected cash flows are risk adjusted for current economic conditions. The expected net cash flows are discounted using a risk-adjusted discount rate that takes into account the Beta factors of a comparable Group of forestry companies. York applied the debt/equity ratio of the market participants included in its comparable company basket.

	GROUP		COMPANY	
	2020	2019	2020	2019
Key assumptions used in the calculation of the discount rate				
Beta factor	1,13	1,17	—	—
Risk-free rate ⁹ (%)	9,26	8,84	—	—
Cost of equity (%)	16,48	16,46	—	—
Pre-tax cost of debt (%)	7,25	10,25	—	—
After-tax weighted average cost of capital (%)	13,17	13,28	—	—
Debt/equity ratio ¹⁰	29:71	35:65	—	—

⁹ In the current year, the GSAB10YR was used (2019: annualised yield of the bootstrapped zero coupon perfect fit bond curve). The reason for the change in the referenced risk-free rate is due to the volatility in the annualised yield of the bootstrapped zero coupon perfect fit bond curve as a result of fluctuations experienced in the market since March 2020. This is a change in estimate that resulted in an upwards adjustment of R186,4 million.

¹⁰ York applied the debt/equity ratio of the market participants included in its comparable company basket. The ratio changed from the prior year's targeted debt/equity ratio to that of market participants. The prior year's target debt/equity ratio was in line with the market participant ratio.

5. BIOLOGICAL ASSETS continued

The Group is exposed to a number of risks relevant to its commercial tree plantations, namely:

Regulatory and environmental risk: The Group has established environmental policies and procedures aimed at compliance with environmental legislation. Management performs regular reviews to identify environmental risks and to ensure that the management systems in place are adequate. The Group manages its plantations in compliance with the international Forest Stewardship Council's requirements for sustainable forestry.

Supply and demand risks: The Group is exposed to risks arising from fluctuations in the price and demand for log products. When possible the Group manages these risks by aligning its harvest volumes to market demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with expected demand on a sustainable basis.

Climate and other risks: The Group's plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks. The Group subscribes to various national fire prevention associations which use differing weather conditions to indicate fire risk. The Group insures itself against natural disasters such as fires and floods. Refer to note 10.

Pledged as security

Landholdings amounting to 58 050 (2019: 58 050) hectares, including those on which the plantations are planted, and the fixed property referred to in note 3, were encumbered in favour of Micawber 558 Proprietary Limited, as security for borrowings, as per note 19.

Certain additional freehold land and biological assets are pledged as security for mortgage and notarial covering bonds of R1,4 billion (2019: R1,4 billion).

	GROUP		COMPANY	
	2020	2019	2020	2019
Forecast volume of trees in the plantations at maturity, as used in the DCF valuation (sum of maturity volumes over the 20-year cycle) (m³)				
Balance at year-end	20 054 497	21 173 651	–	–

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Sensitivity analysis				
100 basis points increase in the current log price	45 075	48 034	–	–
25 basis points increase in forecast log prices (Years 1 and 2 and long term)	90 380	104 337	–	–
25 basis points increase in the forecast cost inflation rate	(25 124)	(28 105)	–	–
50 basis points increase in the pre-tax cost of debt	(26 392)	(36 531)	–	–
25 basis points increase in the discount rate	(61 779)	(71 908)	–	–
100 basis points increase in projected volumes	37 025	39 890	–	–

The above sensitivity analysis shows how the present value of the discounted cash flows would be affected if the key valuation parameters were attributed other values than those that form the basis of the current valuation of the discounted cash flows. A decrease by the same percentage would have the opposite effect on the valuation.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

6. GOODWILL

	GROUP					
	2020			2019		
	Cost R'000	Accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated impairment R'000	Carrying value R'000
Goodwill	565 442	(207 812)	357 630	565 442	(207 812)	357 630

Goodwill arose from the business combination that took place in July 2007 and represents the difference between the fair value of the net assets purchased and the then acquisition price.

Goodwill is tested for impairment at each year-end. For the purpose of impairment testing, goodwill has been allocated to the Forestry segment. The segment net assets are compared to the fair value less cost to sell (2019: fair value less cost to sell) that are expected to flow from forestry segment cash flows only.

The fair value less cost to sell (2019: fair value less cost to sell) was determined based on the assumptions detailed below. The cash flows have been based on the approved budget for the 2021 financial year as well as a forecast to 2036 using a long-term inflation rate of 4,80% (2019: 5,20%). The period is longer than would normally be the case due to the nature of the underlying assets. The plantations are managed in rotation based on a clearfell age for pine of 20 years (2019: 20 years). The plantations are managed to harvest approximately 3 000 hectares per annum.

Volumes: The expected yields per log class are calculated with reference to the yield curves of the species and growth sites relevant to the planted area. The growth models are derived from actual trial data that has been measured annually since 1976. A merchandising model, using the modelled tree shapes at various ages, is used to split the trees into predefined products.

Volume adjustment factor: In a manner consistent to prior years, volumes expected from York plantations in MicroForest are adjusted with 8% (2019: 8%). In the 2020 financial year the harvesting volumes expected from York plantations in MicroForest were further reduced by a weighted average of 4,3% (2019: 2,9%) for the first rotation period, based on the most recent actual yield reconciliation data, and in the residual period the volumes were adjusted for the expected yield. The further reduction in volumes were done in an effort to acknowledge deviations such as the impact from baboon damage and other natural elements, genetic defects and pest and diseases from the planned harvesting volumes.

Log prices: The price per cubic metre is based on current and future expected market prices per log class. It was assumed that prices will increase at 4,60% over the next year, 4,40% over the following year, and at 4,80% over the long term (2019: 5% in the first year, at 4,90% in the following year and at 5,20% over the long term).

Operating costs: The costs are based on the unit cost of the forestry management activities required to enable the trees to reach the age of felling. The costs include the current and future expected costs for establishment, harvesting, maintenance and risk management, as well as associated fixed overhead costs. Costs include all costs associated to delivering the product to roadside (point of sale). A long-term inflation rate of 4,80% (2019: 5,2%) was used.

Discount rate: The Group's after-tax weighted average cost of capital (WACC) was applied to the after-taxation net cash flow.

6. GOODWILL continued

Level 3 fair value

The valuation model considers the present value of net cash flows expected to be generated from the segment. The cash flow projections include specific estimates for 15 years, thereafter a terminal value is determined. The expected net cash flows are discounted using a risk-adjusted discount rate that takes into account the Beta factors of a comparable group of forestry companies. York applied the debt/equity ratio of the market participants included in its comparable company basket.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Results of impairment testing				
Carrying amount of segment assets	2 579 689	2 820 776	–	–
Fair value less cost to sell ¹	(2 743 925)	(2 612 964)	–	–
Net result: impairment/(no impairment)	(164 236)	207 812	–	–

¹ The present value of the segment was impacted by the following:

- Increase in volume accuracy adjustment;
- Decrease in harvesting due to higher temporary unplanted area (TUP);
- Decrease in cost structure; and
- Decrease in the biological asset valuation included in the carrying amount of the segment assets.

	GROUP		COMPANY	
	2020	2019	2020	2019
Key assumptions used in the calculation of the discount rate				
Risk-free rate ² (%)	9,26	8,84	–	–
Cost of equity (%)	16,48	16,46	–	–
Pre-tax cost of debt (%)	7,25	10,25	–	–
Debt/equity ratio ³	29:71	35:65	–	–
After-tax weighted average cost of capital (%)	13,17	13,28	–	–
Beta factor	1,13	1,17	–	–

² In the current year, the GSAB10YR was used (2019: annualised yield of the bootstrapped zero coupon perfect fit bond curve). The reason for the change in the referenced risk-free rate is due to the volatility in the annualised yield of the bootstrapped zero coupon perfect fit bond curve as a result of fluctuations experienced in the market since March 2020.

³ York applied the debt/equity ratio of the market participants included in its comparable company basket. The ratio changed from the prior year's targeted debt/equity ratio to that of market participants. The prior year's target debt/equity ratio was in line with the market participant ratio.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

6. GOODWILL continued

The following sensitivity analysis shows how the present value of the segment's future cash flows would be affected if the key valuation parameters were attributed other values than those that form the basis of the current valuation of the segment's future cash flows. A decrease by the same percentage would have the opposite effect on the valuation.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Sensitivity analysis⁴				
100 basis points increase in the current log price	118 282	142 068	–	–
25 basis points increase in forecast log prices	140 217	153 816	–	–
25 basis points increase in forecast cost inflation rate	(71 182)	(38 539)	–	–
50 basis points increase in the pre-tax cost of debt	(43 337)	(53 116)	–	–
25 basis points increase in discount rate	(100 455)	(103 662)	–	–
100 basis points increase in projected volumes	39 862	49 160	–	–

⁴ When comparing the sensitivity analysis above to note 5, the biological asset valuation, the key differences in the valuation methodologies should be taken into account. The valuation above reflects the Forestry segment as a stand-alone business with the plantations in rotation and therefore includes a residual period. The fair valuation of the biological assets (note 5) is calculated on the assumption that no replanting of the plantations is done and therefore relates to a finite period.

7. INTANGIBLE ASSETS

	GROUP					
	2020			2019		
	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	3 311	(2 881)	430	2 876	(2 739)	137
Capital – work in progress	5 646	–	5 646	3 479	–	3 479
Total	8 957	(2 881)	6 076	6 355	(2 739)	3 616

	GROUP			
	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
2020				
Reconciliation of intangible assets				
Computer software	137	436	(143)	430
Capital – work in progress	3 479	2 167	–	5 646
	3 616	2 603	(143)	6 076

	GROUP				
	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Total R'000
2019					
Reconciliation of intangible assets					
Computer software	463	–	(2)	(324)	137
Capital – work in progress	–	3 479	–	–	3 479
	463	3 479	(2)	(324)	3 616

Other information

None of the intangible assets are internally generated.

8. INVESTMENTS IN SUBSIDIARIES

The following table lists the entities which are controlled by the Group, either directly or indirectly through subsidiaries:

Name of company	COMPANY			
	% holding 2020	% holding 2019	Carrying amount 2020 R'000	Carrying amount 2019 R'000
South African Plywood Proprietary Limited*	100,00	100,00	–	–
Global Forests Products Proprietary Limited*	100,00	100,00	1 117 743	1 117 743
York Timbers Proprietary Limited	100,00	100,00	4 759	3 227
Agentimber Proprietary Limited	100,00	100,00	–	–
Madiba Forest Products Proprietary Limited	100,00	100,00	–	–
Madiba Timbers Proprietary Limited	100,00	100,00	–	–
York Timbers Chile Limitada	100,00	100,00	–	–
York Timbers Energy (RF) Proprietary Limited	100,00	100,00	–	–
York Timbers Botswana Proprietary Limited	100,00	100,00	–	–
York Fleet Solutions Proprietary Limited	100,00	100,00	–	–
York Carbon Proprietary Limited	51,00	51,00	–	–
Mbulwa Estate Proprietary Limited	100,00	100,00	–	–
York Power (RF) Proprietary Limited	100,00	100,00	–	–
Sonrach Properties Proprietary Limited	100,00	100,00	–	–
York Agri Proprietary Limited	100,00	–	–	–
			1 122 502	1 120 970

* The Company has a direct investment in these companies. All other companies are indirect investments.

Subsidiaries detail

The carrying amount of subsidiaries is shown net of impairment losses.

All of the companies are incorporated and domiciled in the Republic of South Africa, except for York Timbers Chile Limitada and York Timbers Botswana Proprietary Limited which are incorporated and domiciled in Chile and Botswana respectively.

Increase of investment in subsidiary through share-based payment scheme

The Company granted certain employees of its subsidiary, York Timbers Proprietary Limited, the right to receive 4 360 902 shares. The options will vest at the end of three years at no consideration to the employees. Refer to note 17.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Fair value of assets acquired				
Value of options	–	–	1 532	2 613

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

9. LOANS TO GROUP COMPANIES

Subsidiaries

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
York Timbers Proprietary Limited				
The loan to the Group company is unsecured, bears no interest and has a notice period of at least 367 days.	–	–	1 345 428	1 345 673
Split between non-current and current portions				
Non-current assets	–	–	1 345 428	1 345 673

Exposure to credit risk

Loans receivable inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if counterparties fail to make payments as they fall due.

The carrying amount reasonably approximates its fair value.

Repayment of the loan has been subordinated as security for borrowings as per note 19.

10. OTHER FINANCIAL ASSETS AT AMORTISED COST

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Other financial assets at amortised cost	53 331	61 903	–	–
At amortised cost				
Self-insurance fund	53 331	61 903	–	–
The fund is fully funded at R115 million and is reassessed annually to take into account changing insurance cover requirements. For periods where the Experience Account balance is positive, the investment accrues interest at the 32-day call rate average for FNB, Absa and Nedbank as published on the first business day of each month. Where the Experience Account balance is negative, interest is charged at the prime lending rate plus 200 basis points.				
	53 331	61 903	–	–
Split between non-current and current portions				
Non-current assets	53 331	61 903	–	–

Risk exposure

The investments held by the Group expose it to interest rate risk. Refer to note 38 Financial instruments and risk management for details of risk exposure and the processes and policies adopted to mitigate these risks.

The carrying amount reasonably approximates its fair value.

11. DEFERRED TAX

The deferred tax asset and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Deferred tax liability	(848 624)	(930 875)	–	–
Deferred tax asset	7 353	7 899	37	37
Total net deferred tax liability	(841 271)	(922 976)	37	37
Reconciliation of deferred tax (liability)/asset				
At the beginning of the year	(922 976)	(858 368)	37	37
Increase in tax losses available for set-off against future taxable income ¹	36 647	3 415	–	–
Taxable/(deductible) temporary differences ¹	45 335	(67 986)	–	–
Changes to other comprehensive income	(101)	(37)	–	–
Deferred tax asset not recognised	(176)	–	–	–
Closing balance	(841 271)	(922 976)	37	37
The balance comprises the following items:				
Capital allowances	(100 860)	(108 434)	–	–
Biological assets	(801 363)	(845 968)	–	–
Provisions	17 160	24 179	37	37
Estimated tax loss	43 554	6 908	–	–
Defined benefit plan reserve	238	339	–	–
	(841 271)	(922 976)	37	37
Deferred tax asset not recognised				
Assessed loss not recognised	10 089	–	–	–
Potential tax benefit on assessed loss	2 825	–	–	–

¹ Based on forecast data, the Group considers it probable that there will be sufficient future taxable profits available to utilise these tax losses and other temporary differences.

12. INVENTORIES

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Raw materials	17 449	45 237	–	–
Work in progress	36 998	72 882	–	–
Timber products	126 078	204 836	–	–
Merchandise	202	255	–	–
Consumables	51 019	52 199	–	–
	231 746	375 409	–	–
Write-downs	(2 555)	(856)	–	–
Total inventory	229 191	374 553	–	–
The total movement in cost of sales regarding inventory write downs was an expense of R1,7 million (2019: income of R1,3 million).				
Finished goods at net realisable value				
Finished goods carried at net realisable value	32 592	28 957	–	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

13. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Financial instruments				
Trade receivables	156 624	205 326	178	178
Loss allowance	(13 547)	(8 768)	(178)	(178)
Trade receivables at amortised cost	143 077	196 558	–	–
Deposits	2 343	2 560	20	20
Employee costs paid in advance	1 668	1 533	–	–
Other receivables	7 254	8 589	–	–
Non-financial instruments				
Value added taxation	744	1 760	–	29
Prepayments	9 710	10 243	136	–
Total trade and other receivables	164 796	221 243	156	49

Trade and other receivables pledged as security

At year-end, trade receivables and Credit Guarantee Insurance Corporation of Africa Limited (CGIC) insurance had been ceded to Absa Bank as security for banking facilities (refer note 15).

Exposure to credit risk

Trade receivables inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if customers fail to make payments as they fall due.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period. The carrying amount reasonably approximates its fair value.

	2020		2019	
	Estimated gross carrying amount at default R'000	Loss allowance (lifetime expected credit loss) R'000	Estimated gross carrying amount at default R'000	Loss allowance (lifetime expected credit loss) R'000
Expected credit loss				
GROUP				
Current	112 536	(1 701)	142 474	(1 803)
30 days	18 842	(289)	41 884	(519)
60 days and over	25 246	(11 557)	20 968	(6 446)
Total expected credit loss	156 624	(13 547)	205 326	(8 768)
COMPANY				
60 days and over	178	(178)	178	(178)

13. TRADE AND OTHER RECEIVABLES continued

Exposure to credit risk continued

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) based on the simplified approach for trade and other receivables:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening balance	(8 768)	(6 813)	(178)	(178)
Provision raised on new trade receivables	(4 779)	(1 955)	–	–
Closing balance	(13 547)	(8 768)	(178)	(178)

A 1,13% – 1,52% (2019: 1% – 1,5%) credit loss ratio is applied to current up to 60 days debtors, taking into account macro- economic factors such as the inflation rate and economic outlook. If the customer's payment history does not indicate an expected credit loss, the customer was excluded from the credit loss allowance calculation.

An additional credit loss ratio of 0,25% was raised due to the economic uncertainty arising from the outbreak of COVID-19 and the lockdown regulations imposed.

A default loss ratio of 20% (2019: 10%) was applied to debtors ageing over 90 days if they are covered by credit insurance. Debtors not covered by credit insurance are reviewed individually to determine the risk of expected credit losses. Debtors not covered by CGIC relates to cash accounts or debtors accounts where credit insurance was not applied for.

All other receivables are neither past due nor impaired.

14. CURRENT TAX RECEIVABLE

Income tax receivable relates to an over estimate and payment of provisional taxes.

15. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash and cash equivalents consist of:				
Cash on hand	171	160	–	–
Bank balances	48 257	47 163	–	–
Short-term deposits	2	41 680	–	–
Bank overdraft	(45 417)	(62)	–	–
	3 013	88 941	–	–
Current assets	48 430	89 003	–	–
Current liabilities	(45 417)	(62)	–	–
	3 013	88 941	–	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

15. CASH AND CASH EQUIVALENTS continued

The carrying amount reasonably approximates its fair value.

At year-end, the banking facility granted by Absa Bank was secured by a cession of trade receivables, Credit Guarantee Insurance Corporation of Africa Limited (CGIC) insurance (refer note 13), and cross-suretyships of R154 million with Absa Bank, from within the Group, cession of bank accounts with FNB, cession of the customer foreign currency account, cession of Agentimber Proprietary Limited bank accounts held with FNB and assets currently under agreement in terms of the commercial asset finance credit Line facility. The general banking facility is available to all companies in the Group. Refer to note 38 for credit ratings on the various banks.

The total facilities and guarantees available to the Group are as follows:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
The total amount of facilities available for operating activities and commitments	80 000	60 000	–	–
Guarantees	6 000	6 000	–	–
Letters of credit	1 000	20 000	–	–
Guarantees to Eskom Holdings Limited	3 334	3 334	–	–
Forward exchange contracts	1 000	10 000	–	–
Foreign exchange settlement limit	5 000	10 000	–	–
Absa asset and vehicle finance facility	90 000	120 000	–	–

16. SHARE CAPITAL

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Authorised				
600 000 000 (2019: 600 000 000) ordinary shares of R0,05 each	30 000	30 000	30 000	30 000
Issued				
331 240 597 (2019: 331 240 597) ordinary shares of R0,05 each	16 562	16 562	16 562	16 562
15 192 584 (2019: 15 192 584) treasury shares of R0,05 each	(760)	(760)	–	–
Share premium	1 464 430	1 464 430	1 505 352	1 505 352
Total issued share capital	1 480 232	1 480 232	1 521 914	1 521 914

All issued shares are fully paid.

The Group repurchased shares, during the 2016 and 2017 financial year, in the open market in order to benefit from the discount between the share price and the tangible net asset value per share. A total of 15,2 million shares (2019: 15,2 million shares) were held by the subsidiary at 30 June 2020 and are treated as treasury shares for accounting purposes.

17. SHARE-BASED PAYMENT RESERVE

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening balance	3 227	614	3 227	614
Share-based payment movement	1 532	2 613	1 532	2 613
Closing balance	4 759	3 227	4 759	3 227

	GROUP		COMPANY	
	2020 Units	2019 Units	2020 Units	2019 Units
Opening balance	4 360 902	3 759 398	4 360 902	3 759 398
Units awarded	—	601 504	—	601 504
Closing balance	4 360 902	4 360 902	4 360 902	4 360 902

During the 2018 financial year York Timbers Proprietary Limited granted certain employees, the right to receive 3 759 398 shares in York Timber Holdings Limited and in the 2019 financial year 601 504 shares were awarded. The maximum number of shares which may be issued and allocated under the 2015 Share Plan shall not exceed 9 000 000 shares.

The Company estimates the expected vesting rate at 80% for the rewards granted in 2019 and 61% granted in 2018 based on historical practices. The fair value of the options is estimated at grant date using a binominal pricing model, taking into account the terms and conditions upon which the instruments were granted. Due to the entity not expecting a dividend flow within the next three years and no consideration payable at exercise date, the grant date fair value is deemed to be equal to the share price at award date. Any changes in the equity settled payment reserve were recognised as part of the investment in York Timbers Proprietary Limited.

	GROUP		COMPANY	
	2020	2019	2020	2019
Key assumptions used in first award				
York share price at reporting date (R)	1,38	1,60	1,38	1,60
Number of shares awarded	3 759 398	3 759 398	3 759 398	3 759 398
Award date	05/04/2018	05/04/2018	05/04/2018	05/04/2018
Expiry/vesting date	05/04/2021	05/04/2021	05/04/2021	05/04/2021
Fair value of options at grant date (R)	2,60	2,60	2,60	2,60
Exercise price (R)	—	—	—	—
Expected vesting rate (%)	61	80	61	80
Key assumptions used in second award				
York share price at reporting date (R)	1,38	1,60	1,38	1,60
Number of shares awarded	601 504	601 504	601 504	601 504
Award date	19/06/2019	19/06/2019	19/06/2019	19/06/2019
Expiry/vesting date	19/06/2022	19/06/2022	19/06/2022	19/06/2022
Fair value of options at grant date (R)	1,90	1,90	1,90	1,90
Exercise price (R)	—	—	—	—
Expected vesting rate (%)	80	80	80	80

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

18. DEFINED BENEFIT PLAN RESERVE

The reserve is a result of the actuarial gains/(losses) on the defined benefit plan.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening balance	(871)	(967)	–	–
Movement through other comprehensive income/(loss)	260	96	–	–
Closing balance	(611)	(871)	–	–

19. BORROWINGS

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Held at amortised cost				
Secured				
Land Bank term loan	317 258	337 966	–	–
Land Bank Plywood Expansion Project loan	159 386	208 751	–	–
Land Bank Press loan	23 294	27 562	–	–
Instalment sale agreements	76 767	99 001	–	–
Loan raising fee	(786)	(1 210)	–	–
Absa Capital fund loan	7 979	8 861	–	–
Unsecured				
Fulcrum Group Proprietary Limited	–	2 505	–	–
	583 898	683 436	–	–
Split between non-current and current portions				
Non-current liabilities	417 922	530 865	–	–
Current liabilities	165 976	152 571	–	–
	583 898	683 436	–	–

Land Bank and Absa Bank granted a three-month repayment holiday due to the impact of COVID-19.

Land Bank term loan: This loan bears interest at an interest rate of prime less 0,5% (2019: prime less 0,5%) per annum and is payable monthly in arrears over seven years of which six are remaining.

Refer to financial instruments and risk management, note 38, for detail on loan covenants.

Land Bank Plywood Expansion Project loan: This loan bears interest at an interest rate of prime less 0,5% (2019: prime less 0,5%) per annum and is payable monthly in arrears, after interest and capital holiday for the first 12 months and capital holiday for the second 12 months, over seven years, of which two are remaining.

Refer to financial instruments and risk management, note 38, for detail on loan covenants.

Land Bank Press loan: This loan bears interest at an interest rate of prime less 0,5% (2019: prime less 0,5%) per annum and is payable monthly in arrears, over five years and six months, of which four years and nine months are remaining.

Refer to financial instruments and risk management, note 38, for detail on loan covenants.

19. BORROWINGS continued

Security over the Land Bank term loan and Land Bank Plywood Expansion Project loan:

- Guarantee by security special purpose vehicle (SPV) in respect of all of the Group's obligations under the loan.
- Indemnity by the Group in favour of the security SPV limited to R720 million in respect of any claim under the guarantee.
- Mortgage covering bonds for an amount of R1,4 billion, limited to the indemnity of R720 million, and limited to the land-holding of 58 050 (2019: 58 050) hectares as recorded in note 5.
- Cession of insurance policy.
- Subordination of the shareholder's loan from York Timber Holdings Limited. The facility is held in York Timbers Proprietary Limited.
- A notarial covering bond(s) over the movable assets of the borrower, in respect of the Sabie plywood plant for an amount of R306 million in favour of the security SPV guarantor.
- Certain additional freehold land and biological assets of the borrower as agreed by the Land Bank and the borrower secured by the existing mortgage and notarial collateral covering bonds of R1,4 billion.

Loan raising fees: The Land Bank loan raising fee is amortised over the period of the loan using the effective interest rate method. The amortised amount is included in finance expenses (refer to note 29).

Absa Capital fund loan: This loan bears interest at an interest rate of prime less 0,75% (2019: prime less 0,75%) per annum and is payable in monthly instalments of R125 180 in arrears, over a period of 10 years of which six are remaining.

The carrying amount reasonably approximates its fair value.

Exposure to liquidity risk

Refer to note 38 Financial instruments and financial risk management for details of liquidity risk exposure and management.

Exposure to interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, while borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group does not have a policy to hedge long term interest rate risk and will only make use of hedging instruments to reduce the short term sensitivity of the Group to interest rate changes.

There have been no significant changes in the interest rate risk management policies and processes since the prior reporting period.

Interest rate sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only loans held at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period. The sensitivity analysis was calculated based on 1% higher and lower than the actual rate.

	GROUP			
	Increase 2020 R'000	Decrease 2020 R'000	Increase 2019 R'000	Decrease 2019 R'000
Increase or decrease in rate				
Impact on profit or loss				
Borrowings	5 037	(5 037)	3 201	(3 201)
Taxation	(1 410)	1 410	(896)	896
	3 627	(3 627)	2 305	(2 305)

	GROUP	
	2020 R'000	2019 R'000
Instalment sale agreement obligation		
– within one year	38 070	45 899
– in second to fifth year inclusive	45 741	67 326
Total	83 811	113 225
Less: future finance charges	(7 044)	(14 224)
Present value of minimum instalment sale agreement payments	76 767	99 001

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

19. BORROWINGS continued

These liabilities consist of 170 (2019: 187) instalment sale agreements, payable over a period of four to five years at effective interest rates of between 6% – 10% (2019: 7,88% – 10,25%) per annum. These liabilities are secured by plant and equipment and motor vehicles with a carrying value of R104,2 million (2019: R110,7 million), refer to note 3. These instalment sale agreements have no escalation clauses. Repayments are based on the outstanding debt at the prevailing interest rate.

	GROUP			
	Quantity 2020	Interest rate 2020 %	Quantity 2019	Interest rate 2019 %
Instalment sale providers				
Absa Bank	125	6 – 9	130	7,88 – 9,75
Mercedes-Benz Financial Services	14	6,25 – 7,25	14	9,75
Toyota Financial Services	30	6,25 – 9	27	9,25
WesBank	1	6,30	16	9 – 10,25

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Present value of minimum instalment sale agreement payments				
– within one year	33 904	38 065	–	–
– in second to fifth year inclusive	42 863	60 936	–	–
	76 767	99 001	–	–

20. LEASE LIABILITY

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Non-current liabilities	4 971	9 995	–	–
Current liabilities	7 331	8 152	–	–
	12 302	18 147	–	–
Contractual undiscounted cash flows				
Less than one year	8 122	10 004	–	–
One to five years	5 195	8 229	–	–
	13 317	18 233	–	–

The lease liability relates to the warehouse facilities rented by the Company for two to five years.

The lease liability is measured at the present value of the lease payments, discounted using the Group's incremental borrowing rate adjusted for asset specific risk and lease term. The lease liability is measured at amortised cost using the effective interest method.

	GROUP		COMPANY	
	2020	2019	2020	2019
Assumptions used				
Lease terms	2 – 5 years	2 – 5 years	–	–
Group's incremental borrowing rate (%)	9,50 – 9,75	9,75	–	–
Adjustment to asset specific risk – unsecured debt (%)	0,25	0,25	–	–
Adjustment over the lease term (%)	0,25	0,25	–	–
Effective interest rate (%)	10,00 – 10,25	10,25	–	–

Refer to note 3 for disclosure around the right of use assets, accumulated depreciation, impairment and depreciation, note 27 for the depreciation, variable lease payments, short term leases and leases of low value assets and note 29 for finance cost on leases.

21. RETIREMENT BENEFIT OBLIGATION

Defined benefit plan

The Group's policy is not to provide post-retirement medical aid benefits to its employees. However, a provision is made for a closed Group of current and former employees in respect of legacy post-retirement medical scheme contribution subsidies. Independent actuaries determine the value of this obligation and the annual costs of the benefits. The assumptions used are consistent with those adopted by the actuaries in determining pension costs, and in addition, include long-term estimates of the increases in medical costs and appropriate discount rates. An actuarial valuation was carried out at year-end.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Present value of defined benefit obligation				
Opening balance	(26 764)	(26 430)	–	–
Service cost	(4)	(5)	–	–
Interest cost	(2 703)	(2 669)	–	–
Actuarial gain	361	133	–	–
Benefits paid	2 200	2 207	–	–
Closing balance	(26 910)	(26 764)	–	–

The closing balance is the present value of the defined benefit obligation and is wholly unfunded. There is no asset-funding plan in place.

The actuarial loss for the current year consists of two factors, demographic and financial. The demographic factors contributed a gain of R0,4 million (2019: loss of R1 million) and the financial factors a loss of R61 thousand (2019: gain of R1,2 million).

Sensitivity analysis

Assumed healthcare cost trend rates have a significant effect on the amount recognised in profit or loss. A 1% change in the medical inflation rate would have the following effects:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
A 1% change in the medical inflation rate would have the following effects:				
100 basis points increase: Aggregate of the service and interest cost	257	271	–	–
100 basis points increase: Defined benefit obligation	2 247	2 348	–	–
A 1% change in the investment discount rate would have the following effects:				
100 basis points increase: Aggregate of the service and interest cost	(227)	(170)	–	–
100 basis points increase: Defined benefit obligation	(1 936)	(2 013)	–	–

Limitations to sensitivity analysis

The limitations that apply to the valuation's assumptions and methodology also apply to the sensitivity analysis. Furthermore, the sensitivity analysis changes a single variable without considering the impact of that change on other variables. The individual assumptions of the discount rate and healthcare inflation are less important than the gap between them. It is also important to recognise that the assumptions chosen are assumed to prevail over the long term based on market conditions at the time, whereas short-term fluctuations occur. A decrease by the same percentage would have the opposite effect on the valuation.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

21. RETIREMENT BENEFIT OBLIGATION continued

Limitations to sensitivity analysis continued

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Contributions towards defined benefit plan				
Contributions paid	2 389	2 263	–	–

	GROUP		COMPANY	
	2020	2019	2020	2019
Key assumptions used				
Average number of members	8	9	–	–
Retired number of members	38	39	–	–
Total number of members	46	48	–	–
Expected rate of return on reimbursement rights (%)	7,90	8,00	–	–
Average expected remaining working lifetime (years)	2,75	4,00	–	–
Discount rate (estimated corporate bond yield) (%)	11,40	10,10	–	–
Medical contribution inflation rate (%)	9,40	8,10	–	–

Defined contribution plan: Retirement fund

The Group has three provident fund schemes, York Timbers Provident Fund, the Hospitality and the General Provident Fund and the Alexander Forbes Provident Fund, for all employees. Pensioners under these schemes have had their pensions bought from insurers in the form of annuities and there is no ongoing liability to the Group. The schemes are governed by the Pensions Fund Act, 24 of 1956, as amended.

	GROUP		COMPANY	
	2020	2019	2020	2019
Number of members of each scheme at year-end				
Hospitality and General Provident Fund	194	194	–	–
York Timbers Provident Fund	2 034	2 269	–	–
Alexander Forbes Provident Fund	566	351	–	–

Defined contribution plan: Pension fund

	GROUP		COMPANY	
	2020	2019	2020	2019
The Group has one pension fund, with the following number of members at year-end:				
Alexander Forbes Pension Fund	7	10	–	–

21. RETIREMENT BENEFIT OBLIGATION continued

Defined contribution plan: Medical aid fund

The Group facilitates contributions to a defined medical aid scheme for the benefit of its permanent employees and their dependants. In terms of the Group's policy there is no post-retirement medical aid obligation for current or retired employees, other than the closed group referred to above. The Group is under no obligation to cover any unfunded benefits.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Contributions towards defined contribution funds				
Hospitality and General Provident Fund	1 373	1 630	–	–
York Timbers Provident Fund	19 897	21 286	–	–
Alexander Forbes Provident Fund	11 650	12 903	–	–
Alexander Forbes Pension Fund	817	757	–	–
	33 737	36 576	–	–
Expected contributions for the next year				
Hospitality and General Provident Fund	1 455	1 728	–	–
York Timbers Provident Fund	21 091	22 563	–	–
Alexander Forbes Provident Fund	12 349	13 677	–	–
Alexander Forbes Pension Fund	866	802	–	–
	35 761	38 770	–	–

These amounts are included in salary, wages and other employee costs per note 27.

Below is the undiscounted maturity analysis. The weighted average duration is 18,5 years for pensioners and 2,0 years for active members (2019: 17,5 years for pensioners and 2,3 years for active members).

	Pensioners R'000	Active members R'000	Total R'000
2020			
Less than a year	2 606	53	2 659
1 – 2 years	2 759	20	2 779
2 – 5 years	9 156	26	9 182
More than 5 years	97 564	3	97 567
	112 085	102	112 187
2019			
Less than a year	2 445	44	2 489
1 – 2 years	2 567	50	2 617
2 – 5 years	8 389	38	8 427
More than 5 years	80 437	4	80 441
	93 838	136	93 974

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

22. PROVISIONS

	GROUP			
	Opening balance R'000	Additions R'000	Utilised during the year R'000	Total R'000
2020				
Reconciliation of provisions				
Environmental rehabilitation	15 738	598	(87)	16 249

	GROUP		
	Opening balance R'000	Additions R'000	Total R'000
2019			
Reconciliation of provisions			
Environmental rehabilitation	14 623	1 115	15 738

Environmental liability

The provision of R15,9 million arose from a business combination during the 2007 financial year. It comprised contingent amounts assessed at the date of the transaction. At each financial period-end the amount is re-assessed. The expected timing of the outflow of economic benefits is estimated to be during the next two to five years. The re-assessment in the current year comprises an inflation adjustment only. The inflation rate applied during the year was 3,9% (2019: 4,8%).

R0,3 million originated from an environmental liability at the closure of a treating facility in 2019 and will be settled in the next two years.

23. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Financial instruments				
Trade payables	142 837	341 173	131	103
Payroll related accruals	83 081	89 916	1 281	1 574
Solidarity Fund and TERS payments	3 507	–	–	–
Accruals	587	159	–	–
Deposits received	82	52	–	–
Other payables	976	74	–	–
Non-financial instruments				
Value added taxation	3 699	2 905	138	–
Total trade and other payables	234 769	434 279	1 550	1 677

Exposure to liquidity risk

Refer to note 38 Financial instruments and financial risk management for details of liquidity risk exposure and management. The carrying amount reasonably approximates its fair value.

24. REVENUE

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Revenue from contracts with customers				
Sale of goods	1 428 840	1 579 709	–	–
Rendering of services	8 849	19 710	4 606	6 668
Rental income	1 136	1 103	–	–
Total revenue	1 438 825	1 600 522	4 606	6 668

Disaggregation of revenue from contracts with customers

The Group disaggregates revenue from customers as follows:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Sale of goods				
Food and beverage sales	2 120	854	–	–
Lumber sales*	887 144	880 056	–	–
Plywood sales*	456 846	570 779	–	–
Sundry income**	29 720	54 101	–	–
Log sales^	53 010	76 431	–	–
	1 428 840	1 582 221	–	–
Rendering of services				
Administration and management fees received	–	–	4 606	6 668
Transport income**	2 672	11 050	–	–
Treating income*	4 313	2 132	–	–
Accommodation income	1 864	4 016	–	–
	8 849	17 198	4 606	6 668
Other revenue				
Rental income	1 136	1 103	–	–
Total revenue from contracts with customers	1 438 825	1 600 522	4 606	6 668
Timing of revenue recognition				
At a point in time				
Sale of goods	1 428 840	1 582 221	–	–
Rendering of services	6 985	13 182	4 606	6 668
	1 435 825	1 595 403	4 606	6 668
Over time				
Rendering of services	1 864	4 016	–	–
Other revenue	1 136	1 103	–	–
	3 000	5 119	–	–
Total revenue from contracts with customers	1 438 825	1 600 522	4 606	6 668

* A portion of the lumber and plywood sales, sundry income, transport income and treating income is disclosed as part of the external sales of the processing and wholesale operating segment in note 34.

^ The log sales and a portion of the transport income is included in the external sales of the Forestry and Fleet operating segment in note 34.

Sundry income mainly consists of sawdust and chips income.

Refer to note 34 for revenue per geographical area.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

25. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Profit on sale of assets	216	13	–	–
Other rental income*	4 849	3 597	–	–
Bad debts recovered	44	125	–	–
Sundry income	3 524	7 370	–	–
Insurance claims	5 532	17 990	–	–
Scrap sales	884	2 845	–	–
Total other operating income	15 049	31 940	–	–

* Other rental income relates to income derived from rental income on telecommunication satellites and other property rental.

26. OTHER OPERATING GAINS

	Note	GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Gains on disposals, scrappings and settlements					
Property, plant and equipment	3	3 749	19 408	–	–
Foreign exchange gains					
Net foreign exchange gains		4 538	1 943	–	–
Total other operating gains		8 287	21 351	–	–

27. OPERATING (LOSS)/PROFIT

Operating (loss)/profit for the year is stated after charging (crediting) the following, among others:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Auditor's remuneration – external				
Audit fees	3 649	3 918	–	–
Other consultation services	40	1	–	–
Total auditor's remuneration	3 689	3 919	–	–
Remuneration, other than to employees				
Administrative and managerial services	3 805	12 471	517	1 659
Consulting and professional services	9 613	12 130	–	–
Total remuneration other than to employees	13 418	24 601	517	1 659

27. OPERATING (LOSS)/PROFIT continued

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Employee costs				
Salaries, wages, bonuses and other benefits	146 371	181 823	2 823	3 924
Employee cost included in cost of sales	196 858	198 702	–	–
Retirement benefit plans: defined benefit expense	2 770	2 640	–	–
Equity settled share-based payment expense	1 532	2 613	–	–
Total employee costs	347 531	385 778	2 823	3 924
Leases				
Variable lease payments	(358)	–	–	–
Short term leases	724	2 375	–	–
	366	2 375	–	–
Depreciation and amortisation				
Depreciation of property, plant and equipment	93 456	98 718	–	–
Amortisation of intangible assets	144	324	–	–
Total depreciation and amortisation	93 600	99 042	–	–
Depreciation of property, plant and equipment that forms part of the production process is included in cost of sales and all other depreciation and amortisation are included in operating expenses.				
Impairment losses				
Property, plant and equipment	155	4 128	–	–
Goodwill	–	207 812	–	–
Total impairment losses	155	211 940	–	–

Expenses by nature

The total cost of sales, selling and distribution expenses, marketing expenses, general and administrative expenses, research and development expenses, maintenance expenses and other operating expenses are analysed by nature as follows:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Changes in inventories of finished goods and work in progress	983 900	941 465	–	–
Employee costs	347 531	385 778	2 823	3 924
Operating lease charges	366	2 375	–	–
Depreciation, amortisation and impairment (excluding impairment on goodwill)	93 755	107 298	–	–
Other expenses	118 717	115 399	1 779	2 745
Total expenses by nature	1 544 269	1 552 315	4 602	6 669

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

28. INVESTMENT INCOME

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Interest income				
Investments in financial assets				
Bank and other cash	570	2 360	2	5
Other financial assets	2 447	2 909	–	–
Total interest income	3 017	5 269	2	5

Interest was generated from financial assets at amortised cost.

29. FINANCE COST

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Trade and other payables	2	2	–	–
Lease liabilities	1 622	2 077	–	–
Interest on borrowings held at amortised cost	55 404	72 554	–	–
Loan raising fee – amortised	425	1 308	–	–
Other interest paid	3 596	1 596	–	–
Total finance costs	61 049	77 537	–	–

30. OTHER NON-OPERATING GAINS

	Note	GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Fair value (losses)/gains					
Biological assets	5	(159 301)	203 672	–	–
Investment property		–	4 229	–	–
Total other non-operating (losses)/gains		(159 301)	207 901	–	–

31. TAXATION

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Major components of the tax expense				
Current				
Local income tax: current period	2	1 024	2	1
Deferred				
Deferred tax: current period	(81 806)	64 563	–	–
Total	(81 804)	65 587	2	1
	GROUP		COMPANY	
	2020 %	2019 %	2020 %	2019 %
Reconciliation of the tax expense				
Reconciliation between the applicable tax rate and the average effective tax rate				
Applicable tax rate	(28,00)	28,00	28,00	28,00
Legal fees, fines, penalties and impairment of goodwill	0,20	205,26	–	–
Learnership agreements	(0,78)	(5,90)	–	–
Assessed loss not recognised	1,34	–	–	–
Capital gains tax	(0,09)	(3,62)	–	–
	(27,33)	223,74	28,00	28,00
The corporate income tax rate of 28% remains unchanged.				
Taxation related to components of other comprehensive income				
Re-measurements of defined benefit liability (R'000)	(101)	(37)	–	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

32. CASH GENERATED FROM/(USED IN) OPERATIONS

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
(Loss)/profit before taxation	(299 441)	29 319	6	4
Adjustments for:				
Depreciation and amortisation	93 600	99 042	–	–
Gains on disposal of assets	(3 749)	(19 408)	–	–
Profit on foreign exchange	(4 538)	(1 943)	–	–
Interest income	(3 017)	(5 269)	(2)	(5)
Finance cost	61 049	77 537	–	–
Fair value losses/(gains)	159 301	(207 901)	–	–
Impairments of property, plant and equipment and goodwill	155	211 940	–	–
Purchase of biological assets	(44 880)	(133 246)	–	–
Harvesting of purchased biological assets	133 246	100 911	–	–
Movements in retirement benefit liabilities	507	467	–	–
Movements in provisions	129	1 115	–	–
Share-based payment expense: equity-settled	1 532	2 613	–	–
Changes in working capital				
Inventories	145 362	(74 197)	–	–
Trade and other receivables	56 443	37 488	(107)	(29)
Trade and other payables	(199 508)	105 354	(127)	(5 263)
	96 191	223 822	(230)	(5 293)

32. CASH GENERATED FROM/(USED IN) OPERATIONS continued

	Borrowings R'000	Lease liabilities R'000	Total R'000
Changes in liabilities arising from financing activities			
Balance as at 1 July 2019	683 436	18 147	701 583
Cash flow movements			
Proceeds from borrowings	11 580	–	11 580
Repayment of borrowings	(111 542)	–	(111 542)
Lease payments	–	(10 106)	(10 106)
Non-cash flow movements			
Loan raising fee	424	–	424
Finance cost	–	1 622	1 622
Increase in lease liabilities	–	2 997	2 997
Variable lease payments	–	(358)	(358)
Balance as at 30 June 2020	583 898	12 302	596 200
Balance as at 1 July 2018	804 595	22 399	826 994
Cash flow movements			
Proceeds from borrowings	39 655	–	39 655
Repayment of borrowings	(162 122)	–	(162 122)
Lease payments	–	(9 622)	(9 622)
Non-cash flow movements			
Loan raising fee	1 308	–	1 308
Finance cost	–	2 077	2 077
Increase in lease liabilities	–	3 293	3 293
Balance as at 30 June 2019	683 436	18 147	701 583

33. TAX REFUNDED/(PAID)

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Balance at the beginning of the year	10 983	3 348	(17)	(15)
Current tax recognised in profit or loss	(2)	(1 024)	(2)	(1)
Balance at the end of the year	(475)	(10 983)	2	17
Total	10 506	(8 659)	(17)	1

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

34. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic divisions. Management has identified the segments based on the internal reports reviewed monthly by the Group's Chief Operating Decision-maker (CODM). The CODM at the reporting date is senior management and the Executive Committee members. The responsibility of the CODM is to assess performance and to make resource allocation decisions related to the individual operations of the Group. The segment financial information provided to and used by the CODM forms the basis of the segment disclosure in these financial statements.

The business is considered from an operating perspective based on the products cultivated or produced and sold. The operating segments comprise:

- **Processing plants:** The Group has aggregated two divisions. These divisions produce timber-related products and have therefore been assessed as one segment by management. The cash-generating units are:
 - **Sawmilling:** Four sawmills located in close proximity to Sabie, Graskop, White River and Warburton that produce and sell a broad range of structural and industrial sawn timber products.
 - **Plywood:** A plant in Sabie that manufactures and sells plywood timber products.
- **Forestry and Fleet:** The Group owns plantations in the Mpumalanga Province on which it grows pine and eucalyptus trees that are cultivated and managed on a rotational basis. The segment sells its products to its Processing segment and to external customers. Fleet Solutions owns heavy motor vehicles used to transport logs.
- **Wholesale:** The Group has eight distribution centres located in Pretoria, Germiston, Polokwane, Bloemfontein, Port Elizabeth, Durban, Uptington and Cape Town, that sell timber-related products from the sawmills, plywood plant and external suppliers. During the year the Bloemfontein and Uptington facilities were no longer being used. The lease liability expires in the 2021 financial year.

The Group operates in three geographical areas, namely South Africa, countries in the Southern Africa Development Community (SADC) and non-SADC regions. Refer to the section on credit risk in note 38 for disclosure on major customers.

Performance in internal management reports is measured based on earnings before interest, taxation, depreciation and amortisation (EBITDA). Management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate in the industry.

The amounts included in the internal management reports are measured in a manner consistent with the financial statements. The segment assets and liabilities are not separately disclosed as this information is not presented to the CODM. All non-current assets owned by the Group are located in South Africa.

Transactions between segments are done at arm's length. The segment information for the year ended 30 June 2020:

	GROUP			
	Processing plants R'000	Wholesale R'000	Forestry and Fleet R'000	Total R'000
2020				
Revenue: External sales	933 437	448 816	53 119	1 435 372
Revenue: Inter-segment sales	218 883	–	645 376	864 259
	1 152 320	448 816	698 495	2 299 631
Depreciation, amortisation and impairments	(61 117)	(8 386)	(18 780)	(88 283)
Reportable segment profit/(loss)*	8 187	9 147	(4 977)	12 357
Material non-cash item:				
– Fair value adjustment to biological assets	–	–	(159 301)	(159 301)
Capital expenditure	27 457	409	13 379	41 245

* Being earnings before interest, taxation, depreciation and amortisation (EBITDA) and fair value adjustments.

34. OPERATING SEGMENTS continued

	GROUP			
	Processing plants R'000	Wholesale R'000	Forestry and Fleet R'000	Total R'000
2019				
Revenue: external sales	955 009	562 402	77 247	1 594 658
Revenue: inter-segment sales	351 099	–	708 813	1 059 912
	1 306 108	562 402	786 060	2 654 570
Depreciation, amortisation and impairments	(61 583)	(8 202)	(231 667)	(301 452)
Reportable segment profit/(loss)*	51 838	(1 051)	122 843	173 630
Material non-cash item:				
– Fair value adjustment to biological assets	–	–	203 672	203 672
Capital expenditure	37 657	392	36 197	74 246

* Being earnings before interest, taxation, depreciation and amortisation (EBITDA) and fair value adjustments.

	GROUP	
	2020 R'000	2019 R'000
Reconciliation of reportable segment revenue and profit		
Revenue		
Total revenue for reportable segments	2 299 631	2 654 570
Other revenue	12 797	5 864
Elimination of inter-segment revenue	(873 603)	(1 059 912)
Consolidated revenue	1 438 825	1 600 522
Profit		
Total EBITDA for reportable segments	12 357	173 630
Depreciation and amortisation for reportable segments	(88 283)	(93 640)
Impairment of goodwill allocated to forestry	–	(207 812)
Depreciation and amortisation and impairment for other segments	(5 472)	(9 530)
Non-reporting segments EBITDA	(710)	31 038
Operating loss	(82 108)	(106 314)

Refer to note 38 where sales to the three largest customers are disclosed. Refer also to note 27, where the components of operating profit are disclosed.

	GROUP	
	2020 R'000	2019 R'000
Revenue per geographical area		
South Africa	1 177 936	1 384 318
Southern Africa Development Community (SADC)	167 823	158 725
International (non-SADC)**	93 066	57 479
Total	1 438 825	1 600 522

** International sales refer to plywood sales to the United Kingdom, Belgium, China and the United States of America.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

35. COMMITMENTS

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Authorised capital expenditure				
Already contracted for but not provided for				
– Property, plant and equipment	20 322	6 502	–	–
Not yet contracted for				
– Property, plant and equipment	91 694	28 199	–	–

This committed expenditure will be financed through existing cash resources, available loan facilities and funds generated internally.

Capital commitments are based on capital projects approved to date and the budget approved by the Board. Major capital projects require further approval before they commence.

36. RELATED PARTIES

Relationships

Subsidiaries

York Timbers Proprietary Limited
 Agentimber Proprietary Limited
 Sonrach Properties Proprietary Limited
 Global Forest Products Proprietary Limited*
 Madiba Forest Products Proprietary Limited
 Madiba Timbers Proprietary Limited
 South African Plywood Proprietary Limited*
 York Timbers Energy (RF) Proprietary Limited
 York Fleet Solutions Proprietary Limited
 York Timbers Botswana Proprietary Limited
 York Timbers Chile Limitada
 Mbulwa Estates Proprietary Limited York Power (RF)
 York Power (RF) Proprietary Limited
 York Carbon Proprietary Limited**
 York Agri (RF) Proprietary Limited

Other related entities

York Timbers Community Proprietary Limited
 York Timbers Staff Proprietary Limited

Directors

Refer to note 37

* The Company has a direct investment in these companies. All other companies are indirect investments.

** Non-controlling interest in the subsidiary amounts to 49% for York Carbon Proprietary Limited (equivalent to an amount of R49 (2019: R49)). Non-controlling interest is not disclosed in the Group's consolidated annual financial statements as this amount is less than one thousand Rand.

All of the companies are incorporated and domiciled in the Republic of South Africa, except for York Timbers Chile Limitada and York Timbers Botswana Proprietary Limited which are incorporated and domiciled in Chile and Botswana, respectively. The holdings in and voting power of York Timber Holdings Limited in all subsidiaries is 100%, except in York Carbon Limited, where it is 51%.

Transactions between York Timber Holdings Limited and the respective subsidiaries, which are related parties, have been eliminated on consolidation.

Related party balances

Refer to note 9.

36. RELATED PARTIES continued

Related party transactions

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Recoveries received from				
York Timbers Proprietary Limited	–	–	(4 606)	(6 668)

The directors held 4 519 410 shares (2019: 4 519 410 shares) in York Timber Holdings Limited.

37. DIRECTORS' EMOLUMENTS

		Emoluments R'000	Other benefits* R'000	Total R'000	
2020					
Executive					
GCD Stoltz		2 322	210	2 532	
PP van Zyl		5 145	1 050	6 195	
		7 467	1 260	8 727	
		Emoluments R'000	Other benefits* R'000	Retention payment** R'000	Total R'000
2019					
Executive					
GCD Stoltz		2 186	220	–	2 406
PP van Zyl		5 253	1 046	10 000	16 299
		7 439	1 266	10 000	18 705

* Relates to expense allowance and pension fund contributions.

** The retention payment was awarded in lieu of share appreciation rights that expired at maturity date at no value.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

37. DIRECTORS' EMOLUMENTS continued

	Directors' fees R'000	Total R'000
2020		
Non-executive		
AW Brink	389	389
Dr AP Jammie	392	392
HM Mbanyele-Ntshinga	319	319
SAU Meer	203	203
DM Mncube	412	412
Dr JP Myers	740	740
KM Nyanteh	324	324
	2 779	2 779
2019		
AW Brink	168	168
Dr AP Jammie	442	442
HM Mbanyele-Ntshinga	114	114
DM Mncube	439	439
Dr JP Myers	1 093	1 093
SAU Meer	276	276
T Mokgatla	146	146
KM Nyanteh	136	136
M Mouyeme	146	146
PC Botha	188	188
G Tipper	188	188
	3 336	3 336

Equity-settled share-based payment

	Awards held at the beginning of the year '000	Awards held at the end of the year '000	Fair value of options at grant date R	Total value provided at the end of the year R'000
2020				
GCD Stoltz	752	752	2,60	889
2019				
GCD Stoltz	752	752	2,60	644

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure consists of debt, which includes borrowings (excluding derivative financial liabilities) disclosed in note 19, cash and cash equivalents disclosed in note 15, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing percentage.

Covenants compliance

Under the conditions of the Term Loan Facility Agreement (the Facility Agreement) with the Landbank (the Lender), the Company must notify the Lender immediately once it becomes aware of a potential breach of any of the financial covenants under the facility agreement, one of which is the interest cover ratio.

On 9 June 2020, the Company informed the Lender of a potential breach of its interest cover ratio for the measurement period ending 30 June 2020. This financial covenant is measured quarterly, on a rolling 12-month basis. There was no breach of this financial covenant for the first three quarters of the 2020 financial year. The fourth quarter was significantly impacted by the national lockdown imposed by Government due to the COVID-19 pandemic. This resulted in lower earnings and the resultant breach.

Under the Facility Agreement, the Company has the contractual right to remedy a breach within 20 business days after being notified by the Lender to do so. Alternatively, the Lender can waive the breach.

Should the Company not be able to remedy the breach within the 20-business day period (the remedy period) or the breach is not waived by the Lender, an Event of Default occurs at this time which amongst others, provides the Lender with the right to demand payment of the outstanding debt.

At 30 June 2020, the interest cover ratio was breached. The Lender had not notified the Company that it had to remedy the breach within the remedy period as noted above. Notwithstanding this, the Company's rights under the Facility Agreement entitled it to remedy the breach with some of the available remedies being under the control of the Company. At the reporting date, no Event of Default had thus occurred and as a result the Lender had no right to demand repayment of the debt. As such, the Company continued to have an unconditional right in terms of the contract to defer settlement of the liability for at least 12 months after reporting date.

Based on the conclusion noted above, it therefore follows that the portion of debt which under the terms of the Facility Agreement is repayable after 12 months from the reporting date, has been classified as non-current whereas the portion that is payable within 12 months after the reporting date, has been classified as current.

After year-end the Lender opted to waive the interest cover ratio breach.

The capital structure and gearing ratio of the Group at the reporting date were as follows:

	Note	GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Borrowings repayable within one year	19	165 976	152 571	–	–
Borrowings repayable after one year	19	417 922	530 865	–	–
Total borrowings		583 898	683 436	–	–
Cash and cash equivalents	15	(3 012)	(88 941)	–	–
Net borrowings		580 886	594 495	–	–
Equity		2 880 872	3 096 717	–	–
Gearing ratio (%)		20	19	–	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Financial risk management

Overview

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

This note presents information about the Group and Company's financial risk management framework, objectives, policies and processes for measuring and managing risk, and the Group and Company's exposure to these financial risks, and the Company's management of capital. Furthermore, quantitative disclosures are included throughout the annual financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Group and Company's executives are responsible for developing and monitoring the Group and Company's risk management policies. The Group's executives report regularly to the Board of Directors on these activities.

The Group and Company's risk management policies are established to identify and analyse the risks faced by the Group and Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group and Company's activities. The Group and Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board has a Risk and Opportunity Committee, which oversees how management monitors compliance with the Group and Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Risk and Opportunity Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures.

The Group and Company monitors its forecasted financial position on a regular basis. The Group and Company's executive meets regularly and considers cash flow projections for the following 12 months in detail, taking into consideration the impact of market conditions. The Group and Company's executive also receives reports from independent consultants and receives presentations from advisors on current and forecasted economic conditions.

The Group and Company's objectives, policies and processes for managing risks arising from financial instruments have not changed from the previous reporting period.

From time to time, the Group uses derivative financial instruments to hedge certain identified risk exposures, as deemed necessary by the Group's Executive Committee.

The Group and Company's forecasted financial risk position with respect to key financial objectives and compliance with treasury practice are regularly reported to the Board.

Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group and Company's receivables from customer and investment securities.

Management has established a centralised receivables department and a credit policy. Under the credit policy, each new customer is analysed individually for creditworthiness before the Group and Company's standard payment and delivery terms and conditions are offered. The Group and Company's review includes external ratings, when available, and in some cases bank references. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The utilisation of credit limits is regularly monitored. Customers that fail to meet the Group's benchmark on creditworthiness may transact with the Group only on a pre-payment basis. The Group does not require collateral in respect of trade and other receivables.

Credit guarantee insurance is purchased from Credit Guarantee Insurance Corporation of Africa Limited (CGIC). The total credit limit guaranteed by CGIC is R100 million, with a deductible annual aggregate of R0,5 million.

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Credit risk continued

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		2020			2019		
	Note	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost R'000	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost R'000
GROUP							
Other financial assets at amortised cost	10	53 331	–	53 331	61 903	–	61 903
Trade and other receivables	13	167 889	(13 547)	154 342	218 008	(8 768)	209 240
Cash and cash equivalents	15	48 430	–	48 430	89 003	–	89 003
		269 650	(13 547)	256 103	368 914	(8 768)	360 146
COMPANY							
Loans to Group companies	9	1 345 428	–	1 345 428	1 345 673	–	1 345 673
Trade and other receivables	13	198	(178)	20	198	(178)	20
		1 345 626	(178)	1 345 448	1 345 871	(178)	1 345 693

Trade receivables comprise a widespread customer base. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 29% (2019: 32%) of the Group's revenue is attributable to sales transactions with three (2019: three) multi-national customers. These are customers of the processing plants and wholesale.

	GROUP		COMPANY	
	2020 %	2019 %	2020 %	2019 %
Customer				
A	12	15	–	–
B	9	9	–	–
C	8	8	–	–
	29	32	–	–

The risk rating grade of cash and cash equivalents is set out below. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

	Credit ratings of financial institution	Cash and cash equivalents R '000
FirstRand Bank Limited	P -3	27 372
Standard Bank	P -2	72
Absa Bank	P 3	(24 602)
		2 842

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Liquidity risk

Liquidity risk is the risk that the Group and Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Group and Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group and Company's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate level of committed credit facilities and ensuring an ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines. Refer to note 15.

The Group and Company's liquidity risk is a function of the funds available to cover future commitments. The Group and Company manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are maintained and monitored.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The table below analyses the Group and Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Note	GROUP				
		Less than 1 year R'000	1 to 2 years R'000	2 to 5 years R'000	Over 5 years R'000	Total R'000
2020						
Non-current liabilities						
Borrowings	19	–	160 638	193 749	64 321	418 708
Current liabilities						
Trade and other payables	23	231 070	–	–	–	231 070
Borrowings	19	165 976	–	–	–	165 976
Bank overdraft	15	45 417	–	–	–	45 417
		442 463	160 638	193 749	64 321	861 171
2019						
Non-current liabilities						
Borrowings	19	–	149 709	257 623	124 743	532 075
Current liabilities						
Trade and other payables	23	431 374	–	–	–	431 374
Borrowings	19	152 571	–	–	–	152 571
Bank overdraft	15	62	–	–	–	62
		584 007	149 709	257 623	124 743	1 116 082

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Liquidity risk continued

	Note	COMPANY	
		Less than 1 year R'000	Total R'000
2020			
Current liabilities			
Trade and other payables	23	1 411	1 411
2019			
Current liabilities			
Trade and other payables	23	1 677	1 677

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Foreign currency risk

The Company operates in three geographical segments, namely South Africa, countries within the Southern African Development Community (SADC) and non-SADC regions. All transactions with customers in the SADC countries are denominated in SA Rand and do not expose the Company to currency risks. Transactions with non SADC countries are denominated in United States Dollar (USD).

The Company sells to foreign customers in USD and collects the money in the USD-denominated bank account. Future commitments as well as recognised assets and liabilities that are denominated in a currency that is not the functional currency, expose the Company to currency risks. Most of the Company's purchases are denominated in SA Rand. However, certain engineering machinery and equipment denominated in US Dollar (USD) was purchased during the year. This exposed the Company to changes in the foreign exchange rates. Sales denominated in foreign currency provides a natural hedge to purchases denominated in foreign currency. This is done on an *ad hoc* basis, as deemed appropriate or when required by the supplier. A net profit of R4,5 million (2019: R1,9 million) was realised.

The Company's borrowings and cash deposits are all denominated in SA Rand and USD.

Exposure in foreign currency amounts

The net carrying amounts, in foreign currency of the above exposure was as follows:

	GROUP	
	2020 USD'000	2019 USD'000
US Dollar exposure:		
Current assets		
Cash and cash equivalents	2 047	676

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Foreign currency sensitivity analysis

The following information presents the sensitivity of the Company to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period. The sensitivity analysis was calculated based on 1% higher and lower than the actual rate.

Increase or decrease in rate	GROUP			
	2020		2019	
	Increase R'000	Decrease R'000	Increase R'000	Decrease R'000
Impact on profit or loss				
South African Rand	373	(373)	95	(95)

Interest rate risk

Interest rate risk is the risk that the Group's financial position will be adversely affected by movements in interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk, while borrowings at fixed rates expose the Group to fair value interest rate risk. The Group does not have a policy to hedge long term interest rate risk and will only make use of hedging instruments to reduce the short-term sensitivity of the Group to interest rate changes.

The sensitivity analysis of interest is disclosed in note 19.

Interest rate profile

The interest rate profile of interest-bearing financial instruments at the end of the reporting period was as follows:

	Note	GROUP			
		Average effective interest rate		Carrying amount	
		2020 %	2019 %	2020 R'000	2019 R'000
Liabilities					
Borrowings	19	6 – 9	7,88 – 10,25	584 684	684 646

39. FAIR VALUE INFORMATION

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Group can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Levels of fair value measurements

		GROUP		COMPANY	
Level 2	Note	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Recurring fair value measurements					
Assets					
Investment property	4	30 740	30 740	–	–
Total		30 740	30 740	–	–

Levels of fair value measurements

		GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Level 3	Note				
Recurring fair value measurements					
Assets					
Biological assets					
Trees in a plantation forest	5	2 906 890	3 154 557	–	–
Goodwill					
Goodwill	6	357 630	357 630	–	–
Total		3 264 520	3 512 187	–	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

40. GOING CONCERN

The South African economy was affected by the news of the first confirmed cases of COVID-19 in the country and this led to the President declaring a national state of disaster on 15 March 2020. The President made a further announcement on 23 March 2020 that the country will effectively be placed in lockdown from midnight on 26 March 2020 (National Lockdown) and measures were put in place since then to contain the virus.

The Group was affected by the national lockdown implemented by the South African Government as the sawmilling and plywood operations were not in full production due to a decrease in market demand as a result of the lockdown regulations. The Group has developed health and safety protocols with a prevention and mitigation plan in place for COVID-19 and focus was placed on selling from available stock. As the reopening of sectors came into effect with the changes in lockdown regulations, a staggered reopening was introduced where all operations were back to capacity levels from 1 July 2020 to meet the change in market demand.

The Group reported a loss for the period of R217 million compared to a loss of R36 million in the preceding year. The loss is mainly attributable to the fair value adjustment on the biological asset as well as a decrease in sales volumes due to the national lockdown, and dumping of Brazilian plywood in the South African market.

In response to the decrease in economic activity as a result of the lockdown regulations the Group has taken the following actions:

- The Group's total amount of facilities available for operating activities and commitments increased by R20 million.
- The Group received a three-month repayment holiday from Absa Bank and Land Bank.
- The Group received a waiver of the interest cover ratio covenant from Land Bank that arose due to the impact of COVID-19. Based on the 12 month forecast, the Group does not expect to breach the loan covenants. Refer to financial instruments and risk management, note 38, for detail on loan covenants.
- The Group reduced cost, and reassessed capital projects to manage cash flow.
- The Group received rent relief and deferral of rent payments on warehouse facilities.
- A staggered reopening of operations was brought into effect to manage working capital levels.
- A section 189A, in terms of the Labour Relations Act, restructuring is in progress at one of the sawmills and a property that operated as a lodge will be converted to office space.
- In anticipation of the slowdown in market demand, post COVID-19, the Group has reduced production capacity.
- In order to generate cash, sales from stock resulted in a reduction in stock levels of R112,4 million from March 2020 to June 2020.

Management assessed the impact of the outbreak and the appropriateness of the use of the going concern assumption in the preparation of these financial statements through a review of the 2021 forecasted budget, cash flow forecast and arrangements made with financial institutions and key suppliers. Given the headroom between the fair value of total assets over total liabilities, the Group is solvent. To address the liquidity constraints during the lockdown period a temporary overdraft facility of R80 million (R20 million above original facility) was secured with Absa Bank and a repayment holiday of three months with Absa Bank and Land Bank. The working capital levels are monitored on a monthly basis to address the risk of cash pressure faced by the Group over the short term. As at 30 June 2020, the Group had cash and cash equivalents of R3 million and available facilities of R80 million.

Based on the assessment performed, management is of the view that the doubt associated with the current uncertainties related to COVID-19 currently does not result in a material uncertainty related to such events or conditions that may cast doubt on the Group's ability to continue as a going concern.

41. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any material events not in the ordinary course of business that occurred after the reporting date and up to the date of this report.

42. EARNINGS PER SHARE

	GROUP		COMPANY	
	2020	2019	2020	2019
Earnings per share				
Basic loss per share (cents)	(69)	(11)	–	–
Diluted basic loss per share (cents)	(69)	(11)	–	–

The bonus element of the share-based payment did not have a dilutive effect on the shares (2019: did not have a dilutive effect).

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Reconciliation of profit or loss for the year to basic earnings				
Profit/(loss) for the year attributable to equity holders of the Parent	(217 637)	(36 268)	4	3
Reconciliation of weighted average number of ordinary shares used for earnings per share to weighted average number of ordinary shares used for diluted earnings per share				
Weighted average number of ordinary shares used for basic earnings per share	316 048	316 048	331 241	331 241
Adjusted for:				
Bonus element of share-based payment	2 825	1 391	2 825	1 391
	318 873	317 439	334 066	332 632

	GROUP		COMPANY	
	2020	2019	2020	2019
Headline earnings and diluted headline earnings per share				
Headline earnings per share (cents)	(70)	50	–	–
Diluted headline earnings per share (cents)	(70)	50	–	–

The bonus element of the share-based payment did not have a dilutive effect on the shares (2019: had a dilutive effect).

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Reconciliation between (loss)/earnings and headline earnings				
Basic (loss)/earnings	(217 637)	(36 268)	4	3
Adjusted for:				
Profit on sale of assets	(3 749)	(19 408)	–	–
Tax on profit on sale of assets	1 050	5 434	–	–
Impairment of property, plant and equipment	155	4 128	–	–
Tax on impairment of property, plant and equipment	(43)	(1 156)	–	–
Fair value adjustment of investment property	–	(4 229)	–	–
Tax on fair value adjustment of investment property	–	1 184	–	–
Impairment of goodwill	–	207 812	–	–
Headline (loss)/earnings	(220 224)	157 497	4	3

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

42. EARNINGS PER SHARE continued

	GROUP		COMPANY	
	2020	2019	2020	2019
Core earnings per share				
Core (loss)/earnings per share (cents)	(33)	8	–	–
Diluted core (loss)/earnings per share (cents)	(33)	8	–	–
	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Reconciliation between (loss)/earnings and core earnings				
Basic (loss)/earnings	(217 637)	(36 268)	4	3
Adjusted for:				
Fair value adjustment on biological assets	159 301	(203 672)	–	–
Tax on fair value adjustment on biological assets	(44 604)	57 028	–	–
Impairment of goodwill	–	207 812	–	–
Core (loss)/earnings	(102 940)	24 900	4	3