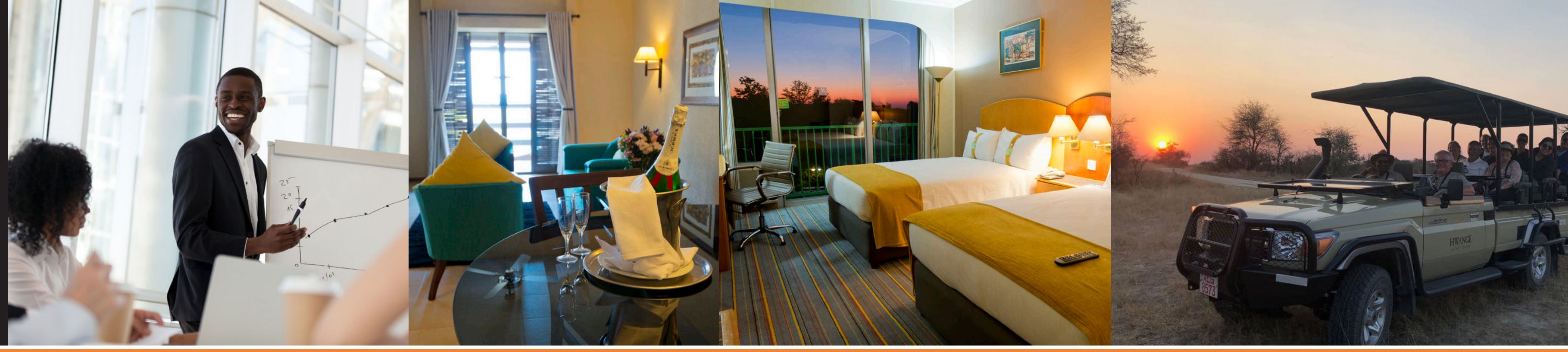
AFRICAN SUN
LIMITED



AUDITED CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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Financial highlights

Revenue: **32%** up to **US$68.50 mln**

Profit for the year: **US$10.14 mln** from **US$4.81 mln**

Occupancy: **7 p.p.** up to **59%**

Total Rev PAR: **33%** up to **US$115**

Rooms RevPAR: **32%** up to **US$64**

EBITDA: **US$17.13 mln** from **US$9.60 mln**

Finance costs: **37%** down to **US$0.66 mln**

Operating expense: **23%** up to **US$37.62 mln**

ADR: **17%** up to **US$109**

Basic EPS: **1.18 cents** from **0.56 cents**

Staff Compliment: **8%** up to **1 199**

MESSAGE FROM THE CHAIRMAN

INTRODUCTION

It gives me great pleasure to present to you, the 2018 abridged financial report for African Sun Limited.

OPERATING ENVIRONMENT

The year 2018 was that of two distinct halves. The first half was that of hope and anticipation as a spillover from the political changes of November 2017 and a peaceful campaign period for the harmonized general election in July 2018. The second half of the year was impacted by the post-election violence and the adoption of far-reaching economic policy interventions in October 2018. Economic activity remained constrained by the shortages of hard currency, the tight liquidity and shortages of consumer goods which dampened festive season hotel bookings.

The cumulative impact of these macroeconomic developments on our business is reflected in price increases of imported inputs thereby putting pressure on our profit margins. There was a sharp increase in year-on-year inflation from 5.4% in September 2018 to 42.09% at the end of the year under review. Regional currencies, in particular the South African Rand ("ZAR") remained relatively weak against the United States of America Dollar ("US$") affecting arrivals from these countries. On a positive note, there was a remarkable 12% growth in domestic tourism with all our hotels benefitting from elections, conferencing and corporate activities. The international market performed strongly in line with the global tourism trends, registering a growth of 12% during the year under review.

The policy changes introduced by the Reserve Bank of Zimbabwe in October 2018 and February 2019 will assist the Group going forward, in particular the interbank rate which will remove the distortions between the United States of America dollar and RTGS dollar. The full impact of the ongoing fiscal reforms and policies is still being assessed. See note 14 and 15 for detailed assessment of the economic environment, and post balance sheet events.

FINANCIAL REVIEW

Group revenue for the year ended 31 December 2018 was US$68.50 million; a 32% growth from US$51.82 million reported last year. The growth was spurred by a 7-percentage points (13%) increase in occupancy from 52% last year to 59%. The revenue growth was also augmented by 17% growth in average daily rate ("ADR") from US$93 recorded last year to US$109 as the hotels continued to align domestic rates to the implied exchange rate between US$ and RTGS dollar. Occupancy growth was driven by a strong performance from all our source markets with room nights sold for domestic, international and regional increasing by 12%, 14% and 7% respectively. The improvement in ADR and growth in occupancy spurred a 33% growth in rooms revenue per available room ("RevPAR") from US$48 recorded last year to close at US$64. Total RevPAR also increased by 34% from US$86 last year to US$115 in 2018 responding to the 32% growth in revenue.

The Group posted EBITDA of US$17.13 million. This was 78% above last year in response to the growth in revenue and continued cost management. Net financing costs for the year amounted to US$0.66 million, a 37% decrease from US$1.05 million reported last year due to loan repayments and lower average borrowing rates.

Profit before income tax for the year from operations was at US$13.60 million; a 132% growth from US$5.86 million reported in the prior year driven by the strong revenue performance and cost management. Profit for the year was a 110% growth from last year to US$10.14 million.

SIGNIFICANT FINANCIAL MATTERS

Adoption of new accounting standards

During the year ended 31 December 2018, the Group changed its accounting policy relating to measurement and impairment of trade receivables by adopting IFRS 9 "Financial instruments". This accounting standard provides for impairment of receivables based on expected credit losses rather than incurred losses. The reclassification and adjustments arising from the new impairment rules were not reflected in the Statement of Financial Position ("SFP") as at 31 December 2017 but were recognized in the opening SFP on 1 January 2018 in line with the provision of the standard represented. To this end, the opening balance of credit loss allowance on trade receivables and other financial assets at amortized cost increased by US$1.0 million and deferred tax liabilities decreased by US$0.23 million. The net impact of the change in accounting policy was a US$0.77 million reduction in retained earnings as at 1 January 2018. As at 31 December 2018, the increase in credit loss allowances relating to trade receivables of US$0.15 million and decrease in credit loss allowance on other financial assets at amortized cost of US$0.02 million were presented in statement of comprehensive income as net loss allowance on financial assets.

The Group also adopted IFRS 15, "Revenue from contracts with customers", whose impact to the statement of comprehensive income is nil. However, the standard requires additional disclosures in the notes to the financial statements which have been adopted.

Changes in functional currency

On 20 February 2019, the Reserve Bank of Zimbabwe announced a new currency called RTGS dollar ("ZWL"). This new currency would be recognized as an official currency and that the interbank foreign exchange market would be established to formalise trading in RTGS dollar balances with other currencies. The Group has therefore made an assessment and concluded that its functional currency is no longer the US$ (foreign currency) but the ZWL, see note 14 and 15 for details.

OUTLOOK

Occupancies for the first two months of 2019 were weak compared to same period last year as January was affected by violent strikes and demonstrations. This resulted in cancellations of bookings, mainly from corporate customers and deferrals without concrete dates. Going forward, we anticipate the business to improve supported by the positive changes and sentiments brought about by the Economic Stabilisation Programme ("ESP"), and the recently announced monetary policy statement. In addition, the Group has embarked on a refurbishment plan to ensure that we continue to offer value to our guests and improve our yields. With regards to capacity/rooms, the Group is completing two campsites at Great Zimbabwe, and Caribbea Bay Hotel with a combined capacity of 75 rooms accommodating a maximum of 150 people. These will further enhance tour series offering and the capacity to earn foreign currency.

The Victoria Falls area will continue to benefit from the international traffic that is expected to grow by between 2 and 3% in line with global tourism trends. This will go a long way to augment the local market that we expect to shrink in response to the austerity measures at a national level.

DIRECTORATE CHANGES

As previously reported, Mr. Herbert Nkala resigned as Chairman and director on 28 June 2018. On behalf of the Board, I would like to take this opportunity to thank Mr. Nkala for his invaluable contribution to the Board during his tenure. I also take this opportunity to thank my fellow Directors for the confidence in nominating me as Chairman and look forward to working with them and other stakeholders.

We welcome Mrs. T M Ngwenya and Mrs. G Chikomo who were appointed to the Board on 30 August 2018. On behalf of the board, I take this opportunity to welcome new members and wish them well during their tenure.

DIVIDEND DECLARATION

A second interim dividend was declared in February 2019 giving a total dividend of US$3,329,044 (0.3863 US cents per shares) for the year ended 31 December 2018. No further dividend was declared.

APPRECIATION

I would like to commend fellow directors, management and staff for their sterling job during the year despite the challenges they faced. The same commitment will serve us well in the realisation of African Sun's potential in 2019 and beyond. I would also like to thank all our stakeholders for their continued support to African Sun. I look forward to your unwavering support throughout the year 2019 and beyond.

A Makamure
Chairman

21 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

All figures in US$	Note	Audited 31 December 2018	Audited 31 December 2017
Assets			
Non-current assets			
Property and equipment		24 131 483	21 284 122
Biological assets		227 995	159 198
Deferred tax assets		-	79 630
Other financial assets at amortised cost		372 794	-
Other receivables		-	343 683
		24 732 272	**21 866 633**
Current assets			
Inventories		3 043 287	2 087 639
Trade receivables		3 159 325	3 421 586
Other financial assets at amortised cost		2 707 315	-
Other receivables		-	2 999 888
Cash and cash equivalents	6	13 877 327	8 362 551
		22 787 254	**16 871 664**
Total assets		**47 519 526**	**38 738 297**
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		8 617 716	8 617 716
Share premium		25 123 685	25 123 685
Foreign currency translation reserve		(3 554 078)	(3 468 047)
Accumulated losses		(10 498 300)	(18 764 635)
Total equity		**19 689 023**	**11 508 719**
Liabilities			
Non-current liabilities			
Trade and other payables		-	1 130 148
Borrowings	7	2 594 561	4 187 512
Deferred tax liabilities		3 789 942	4 195 643
		6 384 503	**9 513 303**
Current liabilities			
Trade and other payables		16 560 045	12 810 807
Current income tax liabilities		542 527	515 959
Provisions for other liabilities		2 705 709	2 367 312
Borrowings	7	1 637 719	2 022 197
		21 446 000	**17 716 275**
Total liabilities		**27 830 503**	**27 229 578**
Total equity and liabilities		**47 519 526**	**38 738 297**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

All figures in US$	Note	Audited 31 December 2018	Audited 31 December 2017
Revenue from contracts with customers	9	68 170 820	51 646 512
Net gaming income		328 591	180 720
Total revenue		**68 499 411**	**51 827 232**
Cost of sales	10	(19 141 018)	(15 444 453)
Gross profit		**49 358 393**	**36 382 779**
Other income		2 473 674	1 589 689
Operating expenses	10	(37 749 686)	(30 751 889)
Other expenses		(25 366)	(358 007)
Net impairment gain on financial assets		129 910	42 962
Operating profit		**14 186 925**	**6 905 534**
Finance income		72 373	7 276
Finance costs		(660 028)	(1 053 399)
Profit before income tax	8	**13 599 270**	**5 859 411**
Income tax expense	11	(3 463 411)	(1 042 888)
Profit for the year		**10 135 859**	**4 816 523**
Other comprehensive income / (loss) net of tax:			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		(86 031)	32 399
Total comprehensive income for the year		**10 049 828**	**4 848 922**
Earnings per share attributable to:			
Owners of the parent : US cents			
Basic and diluted earnings	12	1.18	0.56
Headline earnings per share	12	1.17	0.56

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

All figures in US$	Audited 31 December 2018	Audited 31 December 2017
Cash flows from operating activities		
Cash generated from operations	18 554 838	8 447 008
Interest received	72 373	7 276
Interest paid	(714 579)	(984 915)
Tax paid	(3 529 748)	-
Net cash generated from operating activities	**14 382 884**	**7 469 369**
Cash flows from investing activities		
Purchase of property and equipment	(5 899 758)	(2 846 665)
Proceeds from sale of property and equipment	144 563	899 681
Net cash used in investing activities	**(5 755 195)**	**(1 946 984)**
Cash flows from financing activities		
Proceeds from borrowings	-	5 175 000
Dividend paid	(1 101 344)	-
Repayment of borrowings	(1 977 427)	(7 234 831)
Cash used in financing activities	**(3 078 771)**	**(2 059 831)**
Net increase in cash and cash equivalents	**5 548 918**	**3 462 554**
Cash and cash equivalents at beginning of the year	8 362 551	4 885 160
Exchange (loss) / gain on cash and cash equivalents	(34 142)	14 837
Cash and cash equivalents at end of the year	**13 877 327**	**8 362 551**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

All figures in US$	Notes	Share capital	Share premium	Foreign currency translation reserve	Accumulated losses	Total equity
Year ended 31 December 2017						
Balance as at 1 January 2017		8 617 716	25 123 685	(3 500 446)	(23 581 158)	**6 659 797**
Profit for the year		-	-	-	4 816 523	**4 816 523**
Other comprehensive loss:						
Currency translation differences		-	-	32 399	-	**32 399**
Total comprehensive income for the year		-	-	32 399	4 816 523	**4 848 922**
Balance as at 31 December 2017		**8 617 716**	**25 123 685**	**(3 468 047)**	**(18 764 635)**	**11 508 719**
Year ended 31 December 2018						
Balance as previously stated		8 617 716	25 123 685	(3 468 047)	(18 764 635)	**11 508 719**
Restatement as a result of adoption of IFRS 9	5	-	-	-	(768 180)	**(768 180)**
Balance as at 1 January 2018 as restated		**8 617 716**	**25 123 685**	**(3 468 047)**	**(19 532 815)**	**10 740 539**
Profit for the year		-	-	-	10 135 859	**10 135 859**
Other comprehensive income:						
Currency translation differences		-	-	(86 031)	-	**(86 031)**
Total comprehensive income for the year		-	-	(86 031)	10 135 859	**10 049 828**
Transactions with owners in their capacity as owners:						
Dividends declared and paid		-	-	-	(1 101 344)	**(1 101 344)**
		-	-	-	(1 101 344)	**(1 101 344)**
Balance as at 31 December 2018		**8 617 716**	**25 123 685**	**(3 554 078)**	**(10 498 300)**	**19 689 023**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1 REPORTING ENTITY

African Sun Limited ("the Company") and its subsidiaries (together "the Group") lease and manage eleven hotels in Zimbabwe, and operate a sales office in South Africa which focuses on international and regional sales.

The Company is incorporated and domiciled in Zimbabwe, and listed on the Zimbabwe Stock Exchange.

The parent of the Company is Brainworks Capital Management (Private) Limited ("Brainworks"), which owns 57.67% (2017: 57.67%) of the ordinary share capital of the Company.

The Company's registered address is Monomotapa Hotel, Number 54 Park Lane Road, Harare, Zimbabwe.

These condensed financial statements were approved for issue by the Directors on 21 March 2019.

Directors: A. Makamure (Chairman), E. T. Shangwa (Managing Director)*, B. H. Dirorimwe (Finance Director)*, G. Chikomo, B. Childs, E. A. Fundira, N. G. Maphosa, T. M. Ngwenya, P. Saungweme. * Executive
Registered Office: Monomotapa Hotel, Number 54 Park Lane, Harare, Zimbabwe. Email: venon.musimbe@africansunhotels.com, Web: www.africansunhotels.com
Auditors: PricewaterhouseCoopers Chartered Accountants (Zimbabwe), Building No. 4 Arundel Office Park, Norfolk Road, Mount Pleasant, Harare, Zimbabwe.

AUDITED CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards ("IFRS"), the Zimbabwe Stock Exchange Listing Requirements, and in the manner required by the Zimbabwe Companies Act (Chapter 24:03).

3 AUDIT OPINION

These financial statements should be read in conjunction with the complete set of financial statements for the year ended 31 December 2018, which have been audited by PricewaterhouseCoopers Chartered Accountants (Zimbabwe). An adverse audit opinion has been issued because of non compliance with International Accounting Standard ("IAS") 21 'The Effects of Foreign Exchange Rates'. The independent audit report includes a section on key audit matters. Key audit matters included impairment of Group financial instruments. The auditor's report on the financial statements is available for inspection at the Company's registered office.

4 GOING CONCERN

The Group recorded a 32% increase in revenues to US$68,5 million from same period last year revenues of US$51,8 million. The growth was driven by both an increase in prices and volumes. ADR went up 17% and occupancy went up by 7 percentage to 59% from the 52% recorded same period last year as domestic market recovered from the 2017 position. EBITDA was US$17.13 million, an improvement of 78% from the 2017 position. The EBITDA position resulted in an increase of 119% in cash generated from operations from last year. Profit for the period went up by 111% closing the year at US$10.14 million.

The Group also managed to close the working capital gap and recorded a positive working capital balance of US$1.34 million as at 31 December 2018, an improvement of 52% from negative capital of US$0.84 million as at 31 December 2017. Related to this, the cash and cash equivalents of the Group improved by 66% to US$13.88 million from US$8.36 million. Of these balances, US$6.41 million (2017: US$0.66 million) was in foreign currency accounts (FCAs).

In light of the recent policy announcements, the group is in sound position to generate enough revenue in 2019 to sustain its operations and declare profits. This is further augmented by the Group's refurbishment program to ensure that hotels are in line with international standards and comply with franchisors' brand standards where required. With regards to foreign currency generation, management are optimistic that the trend of at least 45% revenue in foreign currency will sustain supported by the growth in foreign arrivals which is expected to increase by between 2 and 3% in line with global trends. To leverage this sustained global tourism growth, the group is in the process of increasing capacity in the safari sector, starting with 75 rooms in campsites at Great Zimbabwe Hotel and Carribbea Bay Hotel with a combined capacity of 150 beds.

Based on the aforementioned, the Directors have assessed the ability of the Group to continue as going concerns and are of the view that, the preparation of these financial statements on a going concern basis is appropriate.

5 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, unless otherwise stated.

These condensed financial statements are presented in United States of America dollars ("US$") in order to comply with laws and regulations particularly Statutory Instrument 33 of 2019 (SI33) and after taking into account guidance on the matter by the Public Accountants and Auditors Board (PAAB) issued on 21 March 2019 and are prepared on the historical cost basis modified by revaluation of biological assets.

A number of new and amended IFRS became applicable for the current reporting period and the Group had to change its accounting policies. The amended accounting policies are outlined below;

(i) Revenue from contracts with customers

The Group adopted IFRS 15, "Revenue from contracts with customers" from 1 January 2018 which resulted in changes in accounting policies.

New accounting policies on revenue for contracts with customers are summarised below;

Revenue is derived from sale of room nights, food, beverages, gaming, conferencing and other sundry revenues. Revenue is recognised when or as the Group satisfies performance obligations by transferring a good or service to a customer. The Group has determined that it generates all its revenues at a point in time. Revenue is measured based on the consideration specified in the different contracts with customers and net of value-added tax, rebates and discounts.

(a) Revenue from sale of room nights

This revenue is recognised every night when we have satisfied the performance obligations relating to the revenue. This entails us providing the specified room to the customer at which point we satisfy the performance obligation to the customer. The transaction price is specified to the customer when they make a reservation or a booking. Customers pay upfront for the service with the exception of customers on account who pay in accordance with the pre-agreed conditions.

(b) Revenue from sale of food and beverages

The Group recognizes revenue when a customer takes possession of the food or beverage ordered. The obligation would have been satisfied at that point. The transaction price is specified on the price list provided at the various points of sale or menus. The contract with the customer is in line with customary business practice for the sale of food and beverages.

(c) Revenue from gaming

In terms of gaming, a contract exists in terms of customary business practice where the transaction is approved by the customer's acceptance of the relevant entity of a wager. The performance obligations are dependent on the game being played. For each of the games, the Casino has a performance obligation to honour the outcome of any game played. The revenue is then measured on a net basis considering the number of wins against the number of losses for the gaming house. The revenue is recognised at the point when we earn it, that is when the performance obligation is satisfied.

(d) Revenue from conferencing

We provide conference facilities at our respective hotels and derive revenue from that. The revenue is recognised when the performance obligation is satisfied which is when we have provided a conference facility to the customer as per their request and our capability. The conference package may contain food and beverages. However, these will be allocated to revenue from sale of food and beverages.

(e) Sundry revenue

This comprises a number of ancillary activities that we perform at the various hotels. The nature of the revenue is such that the performance obligations, though different, are satisfied at a point in time. The activities comprise inter alia, guest laundry, horse riding and game drives. The transaction price in each of the activities is specified on the price list accessible to the customer before they utilise the given service.

The new standard on revenue recognition resulted in changes in narratives for accounting policies for revenue but did not change the basis for recognising revenue

The changes in accounting policies relating to revenue from contracts with customers did not require changes to the opening balance sheet.

(ii) Financial instruments

The Group adopted IFRS 9, "Financial instruments" from 1 January 2018 which resulted in changes in accounting policies.

IFRS 9 replaced the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has 4 types of financial assets that are subject to IFRS 9's new expected credit loss model as listed below;

- trade receivables from sale of rooms, food, beverages, conferencing, gaming and other related activities.
- staff receivables
- other receivables
- cash and cash equivalents

The Group revised its impairment methodology under IFRS 9 for each of these classes of financial assets.

The credit loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The impact on classification and measurement of the classes of financial assets of the Group as at 1January 2018 on adoption of the new accounting policies is outlined below;

	IAS 39		IFRS 9	
Financial Assets	Classification	Carrying amount (US$)	Classification	Carrying amount (US$)
Trade receivables	Amortised cost (loans and receivables)	3 421 586	Amortised cost	2 732 040
Other receivables	Amortised cost (loans and receivables)	2 739 894	Amortised cost	2 523 938
Staff receivables	Amortised cost (loans and receivables)	603 677	Amortised cost	507 832
Cash and cash equivalents	Amortised cost (loans and receivables)	8 362 551	Amortised cost	8 362 551

The reclassifications and adjustments arising from the new impairment rules are not reflected in the balance sheet as at 31 December 2017 but are recognised in the opening balance sheet on 1 January 2018.

Adjustments recognised for each individual line item of the statement of financial position are shown below. Line items that were not affected by the changes have not been included.

All figures in US$	Gross Carrying As at 31 Dec 2017	IAS 39 Impairment	Net Carrying As at 31 Dec 2017	IFRS 9 Impairment adjustment	Adjusted As at 1 January 2018
Balance sheet extract					
Non-current assets					
Other financial assets at amortised cost	**343 683**	-	**343 683**	(1 912)	**341 771**
Current assets					
Trade receivables	**3 762 714**	(341 128)	**3 421 586**	(689 546)	**2 732 040**
Other financial assets at amortised cost	**2 999 888**	-	**2,999,888**	(309 889)	**2 689 999**
	6 762 602	(341 128)	**6 421 474**	(999 435)	**5 422 039**
Total Assets	**7 106 285**	(341 128)	**6 765 157**	(1 001 347)	**5 763 810**
Non-current liabilities					
Deferred tax liabilities	**4 107 803**	(87 840)	**4 019 962**	(233 167)	**3 786 795**
Net assets	**2 998 482**	(253 288)	**2 745 195**	(768 180)	**1 977 015**
Equity					
Accumulated losses	**19 017 923**	(253 288)	**18 764 635**	(768 180)	**17 996 456**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the credit loss allowance for trade receivables as at 1 January 2018 was determined as follows;

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120+ days past due	Total
Average expected loss rate	6%	8%	8%	50%	100%	**27%**
Gross carrying amount	1 522 638	723 088	513 773	324 826	673 189	**3 757 514**
Loss allowance	96 402	57 847	41 102	162 413	673 189	**1 030 953**

The credit loss allowance for trade receivables as at 31 December 2018 was determined as follows;

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120+ days past due	Total
Average expected loss rate	7%	5%	5%	50%	100%	**22%**
Gross carrying amount	1 674 378	875 410	632 240	321 996	539 119	**4 043 143**
Loss allowance	112 863	41 062	29 774	160 998	539 119	**883 817**

Other financial assets at amortised cost include staff debtors, receivables from related parties and other receivables. Applying the expected credit risk model resulted in the recognition of a loss allowance of US$312,143 on 1 January 2018 (previous credit loss allowance was nil) and decrease in the allowance by US$129,910 in the year ending 31 December 2018.

The other amendments to IFRS did not have material impact on the Group's accounting policies and did not require any adjustments.

6 CASH AND CASH EQUIVALENTS

All figures in US$	Audited 31 December 2018	Audited 31 December 2017
RTGS$ balances	7 463 704	7 706 194
Nostro balances	6 413 623	656 357
	13 877 327	**8 362 551**

7 BORROWINGS

All figures in US$	Audited 31 December 2018	Audited 31 December 2017
Non-current:		
Local bank loans	**2 594 561**	**4 187 512**
Current:		
Local bank loans	1 637 719	2 022 197
Total borrowings	**4 232 280**	**6 209 709**

Borrowings bear an average interest rate of 9.98% annually (2017: 10.37%) and were secured by a guarantee from Brainworks and freehold property valued at US$3.87 million.

8 SEGMENT ANALYSIS

Management has determined the operating segments based on the reports reviewed by the executive committee (executive management team), that makes strategic decisions for the purpose of allocating resources and assessing performance.

The Group does not rely on any one specific customer as none of its customers contribute a minimum of 10% of its revenue.

All revenues are recognised at a point in time

The segments are made up of two strategic business segments which are;

1. Hotels under management

These are hotels managed by Legacy Hospitality Management Services Limited ("Legacy"), and comprise Elephant Hills Resort and Conferencing Centre, Troutbeck Resort, Hwange Safari Lodge, The Kingdom at Victoria Falls and Monomotapa Harare.

2. African Sun managed operations

African Sun managed operations are split into sub-segments which are;

(i) Hotels under franchise (Holiday Inn): These are hotels under the InterContinental Hotels Group ("IHG") Holiday Inn brand, and comprise Holiday Inn Harare, Holiday Inn Bulawayo and Holiday Inn Mutare.
(ii) Hotels operating under stand alone brands, comprising Great Zimbabwe Hotel and Carribbea Bay Resort.
(iii) Partnership, which is The Victoria Falls Hotel which is jointly operated with Meikles Hospitality (Private) Limited, and is an affiliate of the Leading Hotels of the World ("LHW").
(iv) Other complementary operations, that comprise Central office, Sun Casinos, and the Branch in South Africa.

The performance of these segments for the period under review is analysed below;

All figures in US$	Audited 31 December 2018	Audited 31 December 2017
Revenue		
Hotels under management	35 180 596	26 172 206
African Sun managed operations	34 958 169	29 443 719
-Hotels under franchise	20 706 964	14 481 429
-Hotels under stand alone brands	4 149 371	3 541 995
-Partnership	8 133 888	7 450 882
-Other complementary operations	1 967 946	3 969 413
Intersegment transactions	(1 639 355)	(3 788 693)
	68 499 411	**51 827 232**
Gross profit		
Hotels under management	25 140 410	18 161 497
African Sun managed operations	24 217 983	18 221 282
-Hotels under franchise	14 759 724	9 791 748
-Hotels under stand alone brands	2 914 934	2 472 504
-Partnership	6 228 918	5 794 119
-Other complementary operations	314 407	162 911
	49 358 393	**36 382 779**
Earnings / (loss) before interest, tax, depreciation and amortization ("EBITDA")		
Hotels under management	7 202 141	2 122 730
African Sun managed operations	9 927 121	7 478 449
-Hotels under franchise	6 424 314	2 032 895
-Hotels under stand alone brands	927 004	490 420
-Partnership	3 438 944	3 295 047
-Other complementary operations	(863 141)	1 660 087
	17 129 262	**9 601 179**
Profit / (loss) before income tax		
Hotels under management	5 953 083	928 710
African Sun managed hotels	7 646 187	4 930 701
-Hotels under franchise	5 370 287	1 168 389
-Hotels under stand alone brands	801 088	361 376
-Partnership	3 113 316	2 982 069
-Other complementary operations	(1 638 504)	418 867
	13 599 270	**5 859 411**
Total assets		
Hotels under management	16 552 840	15 250 776
African Sun managed hotels	30 966 686	23 487 521
-Hotels under franchise	12 906 321	10 213 348
-Hotels under stand alone brands	2 574 105	2 123 026
-Partnership	4 399 503	3 797 575
-Other complementary operations	11 086 757	7 353 572
	47 519 526	**38 738 297**
Total liabilities		
Hotels under management	9 502 044	7 196 458
African Sun managed hotels	18 328 459	20 033 120
-Hotels under franchise	3 445 453	2 498 548
-Hotels under stand alone brands	1 042 828	934 135
-Partnership	1 673 724	1 707 205
-Other complementary operations	12 166 454	14 893 232
	27 830 503	**27 229 578**

9 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services at a point in time in the following major product lines:

	Sale of room nights	Sale of food and beverages	Management fees and commisions	Conferencing	Other income	Total
Year ended 31 December 2018						
Segment revenue	37 983 682	27 097 556	1 639 355	944 633	2 144 949	69 810 175
Inter-segment transactions	-	-	(1 639 355)	-	-	(1 639 355)
Revenue from external customers	**37 983 682**	**27 097 556**	**-**	**944 633**	**2 144 949**	**68 170 820**
Timing of revenue recognition						
At a point in time	**37 983 682**	**27 097 556**	**-**	**944 633**	**2 144 949**	**68 170 820**
Year ended 31 December 2017						
Segment revenue	29 018 984	20 402 455	3 788 693	598 260	1 626 813	55 435 205
Inter-segment transactions	-	-	(3 788 693)	-	-	(3 788 693)
Revenue from external customers	**29 018 984**	**20 402 455**	**-**	**598 260**	**1 626 813**	**51 646 512**
Timing of revenue recognition						
At a point in time	**29 018 984**	**20 402 455**	**-**	**598 260**	**1 626 813**	**51 646 512**

Directors: A. Makamure (Chairman), E. T. Shangwa (Managing Director)*, B. H. Dirorimwe (Finance Director)*, G. Chikomo, B. Childs, E. A. Fundira, N. G. Maphosa, T. M. Ngwenya, P. Saungweme. * Executive
Registered Office: Monomotapa Hotel, Number 54 Park Lane, Harare, Zimbabwe. Email: venon.musimbe@africansunhotels.com, Web: www.africansunhotels.com
Auditors: PricewaterhouseCoopers Chartered Accountants (Zimbabwe), Building No. 4 Arundel Office Park, Norfolk Road, Mount Pleasant, Harare, Zimbabwe.

AFRICAN SUN LIMITED

AUDITED CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

10 EXPENSES BY NATURE

All figures in US$	Audited 31 December 2018	Audited 31 December 2017
Inventory recognised in cost of sales	7 338 805	5 600 596
Outside laundry in cost of sales	542 180	554 318
Employee costs in costs of sales	7 587 924	6 347 997
Other cost of sales	3 672 109	2 941 542
Employee costs in operating expenses	10 189 430	8 113 092
Depreciation expense	2 942 337	2 695 649
Operating lease costs	7 666 844	6 085 780
Repairs and maintenance	2 770 135	2 456 526
Electricity and water	2 702 263	2 497 764
Sales and marketing	2 289 477	1 841 113
Other expenses	9 189 200	7 019 003
Total cost of sales and operating expenses	**56 890 704**	**46 153 380**

11 INCOME TAX EXPENSE

Income tax (expense) / credit is made of the following;		
Current income tax expense	(3 556 316)	(544 748)
Deferred tax	92 905	(498 140)
Income tax expense	**(3 463 411)**	**(1 042 888)**

12 EARNINGS AND NET ASSET VALUE PER SHARE

(i) Earnings per share

Basic and diluted earnings per share (US cents)	1.18	0.56
Headline earnings per share (US cents)	1.17	0.56
Reconciliation of earnings used in calculating earnings per share is as follows,		
Earnings attributable to owners of the parent	10 135 859	4 816 523
Adjustments for;		
Loss from disposal of property, plant and equipment	25 366	44 482
Fair value adjustment of biological assets	(68 797)	5 939
Headline earnings attributable to owners of the parent	10 092 428	4 866 944
Weighted average number of shares used as the denominator is as follows;		
Number of shares in issue	861 771 777	861 771 777
Weighted average number of shares in issue for earnings and net asset value per share	861 771 777	861 771 777

The Group do not have dilutive potential ordinary shares (2017: Nil)

(ii) Net assets value and net tangible asset value per share

All figures in US$	Audited 31 December 2018	Audited 31 December 2017
Net asset value per share (US cents)	2.28	1.34
Net tangible asset value per share (US cents)	2.72	1.81
Reconciliation of net tangible asset value used in calculating net tangible asset value per share is as follows,		
Net asset value as per statement of financial position	19 689 023	11 508 719
Adjust for intangible assets and liabilities		
Deferred tax asset	-	(79 630)
Deferred tax liabilities	3 789 942	4 195 643
Net tangible assets	**23 478 965**	**15 624 732**

13 CAPITAL COMMITMENTS

Authorised by Directors and contracted for	-	-
Authorised by Directors, but not contracted for	16 760 061	4 963 957
	16 760 061	**4 963 957**

Capital commitments relate to refurbishments and acquisition of property and equipment. These commitments will be financed mainly from normal operating cash flows.

14 KEY RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

(i) Operating lease rentals

African Sun Limited leases seven of its hotels from Dawn Properties Limited (“Dawn”). The company and Dawn have one common major shareholder; Brainworks which holds 66.81% (2017: 66.81%) of the issued share capital of Dawn.

The Group was charged US$3.96 million (2017: US$2.92 million) by Dawn in rentals during the year under review.

(ii) Guarantee from Brainworks Capital Management (Private) Limited for loan facilities

Borrowings amounting to US$4.23 million (2017: US$5.57 million) are secured partly by a US$7 million guarantee from Brainworks.

Guarantee commission amounting to US$125 574 (2017: US$105 135) were charged to statement of comprehensive income during the year ended 31 December 2018.

(b) Balance arising from transactions with related parties

All figures in US$	Audited 31 December 2018	Audited 31 December 2017
Payables to related parties		
Payables to Dawn	676 946	409 945
Payables to Brainworks	7 662	121 993
	684 608	**531 938**

The payables to Dawn arose from lease rentals and are due one month after billing. Over due amounts are charged interest at prevailing market rates.

Payables to Brainworks relate to guarantee commission on borrowings and do not carry interest.

All balances due to and from related parties are unsecured.

15 MACRO ECONOMIC ENVIRONMENT

In 2009, Zimbabwe adopted the multi-currency system to replace the sole use of the Zimbabwean dollar (ZW$). Consequently, the Group adopted the United States of America Dollar (US$) as its functional and presentation currency. In 2016, Zimbabwe witnessed significant monetary and exchange control policy changes, and increasingly through to 2018. The monetary changes were as a result of continued economic challenges faced by the country that let to among other things, foreign currency shortages. In response to the economic challenges, the Reserve Bank of Zimbabwe (“RBZ”) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks from 2016 to 2018 as outlined below:

- Introduction of $200 million worth of bond notes in November 2016 in addition to the bond coins initially issued on 18 December 2014. The bond notes were introduced at fixed exchange rate of 1:1 to the US$ and were both transacted in the same bank account;
- Introduction of government directives to open the Real Time Gross Settlement System (“RTGS”) to use other currencies (i.e. ZAR etc.) and the requirement for entities to further adopt and embrace multi-currencies;
- However the official and legal exchange rate remained fixed at 1:1 and the balances in the two types of accounts continued to be referred to as the United States of American dollar (“US$”);
- Promulgation of Statutory Instrument 122A of 2017, that defines currency to include bond notes and coins only for purposes of regulation;
- In February 2018 RBZ instructed banks to ring fence foreign currency deposits by exporters and allowed foreign currency earners to retain export proceeds for only 14 days.

Due to shortages of foreign currency, the RTGS and bond notes became the most used and dominant currency towards the end of 2017 into 2018. There was also constrained exchangeability between the RTGS FCA and the US$ FCA accounts as non-exporter failed to settle offshore liabilities. In addition, the problem was worsened by the absence of a reliable exchange rate, though on the parallel market there was a premium charged on the US$.

In October 2018, the RBZ introduced the separation of local RTGS FCA accounts from the US$ FCA accounts. This further confirmed the substance that already existed that, the RTGS was not a par to the US$. The consequence of this announcement was a rampant parallel exchange rate between the RTGS and US$ going as high as four times.

In response, most businesses responded by increasing prices denominated in RTGS, with some insisting on the US$. Given the nature of our business, where 50%+ is local, it was not possible to solely price in US$. To that end, the Group started adjusting the RTGS$ prices in response to the disparities, though not to the levels of the parallel market rates.

The shift in the economic fundamentals during the last quarter of 2018 increased the practice by retailers of charging goods and services based on multi-tier pricing system, where a single transaction had different prices depending on the mode of payment for example US$ cash, mobile money and bond notes. Majority of the transactions in the economy were largely conducted in local electronic money and bond The notes at implied parallel market rates of 3.0 to 3.5 to the US$.

To protect profit margins, the Group continued to price its goods and services in foreign currency for its foreign guests and some local guests who were willing to pay in foreign currency, and increased prices when charging in RTGS/Bond notes to match the average increase in prices of local inputs. The price differential for RTGS prices compared to US$ during the last quarter was 55% which resulted in our local ADR increasing to US$132 for the last quarter ended 31 December 2018 from US$85 for the 9 months ended 30 September 2018. However, this was only 6% above the average US$ rates of US$124 for the last quarter of the year, indicating the premium the Group was putting on the local prices, and how price sensitive the local market is.

The Group generated sufficient foreign currency to meet its foreign currency obligations, and never accessed foreign currency at a premium during the period under view.
The macroeconomic developments and fiscal and monetary policy changes mentioned above which affected the Group, lead to the reassessment of whether the US$ still met the primary and secondary indicators of the functional currency of the Group, in accordance with the provisions of IAS 21, with effect from 1 October 2018.The Directors of the Group concluded that there was a change in functional currency, however this could not be effected because at law there was no local currency in Zimbabwe until 22 February 2019. The Reserve Bank of Zimbabwe Act defined a bond note or coin as a unit of legal tender whose par value in relation to the United States of America dollar is backed by a guarantee extended to the RBZ by one or more international financial institutions prior to the currency changes announced on 22 February 2019.The RTGS was also legally not recognised as a currency prior to the currency changes announced on 22 February 2019. The Directors of the Group, in compliance with Statutory Instrument 41 of 2019, which prescribed that where IFRS is not aligned to local laws, then local laws take precedence, therefore resolved not to effect the change in functional currency as at and for the year ended 31 December 2018.

Consequently, the pronouncements highlighted above significantly impacted the financial statements of the Group. The Group elected to maintain the US$ as its reporting currency for the year ended 31 December 2018 while disclosing the effect of the above mentioned pronouncements in its financial statements. However in terms of International Accounting Standard (“IAS”) 21 ‘Foreign currency transactions’, the Group was required to make use of the closing exchange rates to measure assets and liabilities and average exchange rate to translate income statement transactions. Where exchangeability between two currencies is temporarily unavailable at a transaction date or a subsequent balance sheet date, paragraph 26 of IAS 21 requires the Group to use the rate on the first subsequent date at which exchanges could be made. The effective date for the exchanges was 22 February 2019 and accordingly, an exchange rate that could be obtained on that day or subsequently could have been used for the translation of balances as at 1 October 2018. Alternatively, the Group was supposed to translate the balance for the period 1 October 2018 to 31 December 2018 using a rate than the official US$ rate of 1:1 in order to comply with the requirements of IAS 21.

16 EVENTS AFTER REPORTING DATE

16.1 (a) Change in functional currency

On the 22 February 2019, a statutory instrument (S.I) 32 of 2019 was issued as an amendment to the Reserve Bank of Zimbabwe Act that introduced a new currency called the RTGS Dollar. An Exchange Control Directive RU 28 of 2019 was also issued on the same day which introduced an interbank exchange rate for the RTGS Dollar to the US$ as well as other existing currencies in the multi-currency regime. In addition, Statutory Instrument 33 of 2019 was issued on 22 February 2019 makes reference to the following matters among other key provisions:

- That the RBZ has, with effect from 22 February 2019 (“effective date”) issued an electronic currency called the Real Time Gross Settlement (“RTGS”) dollar;
- RTGS balances expressed in US$ immediately before 22 February 2019, shall from the effective date be deemed to be opening balances in RTGS dollar at par with the US$;
- That the RTGS dollar shall be legal tender within Zimbabwe from the effective date;
- For accounting and other purposes, all assets and liabilities that were valued and expressed in US$ immediately before 22 February 2019 shall be deemed to be values in RTGS dollars at rate of one-to one to the US$;
- That after the effective date any variance from the opening parity rate shall be determined from time to time by the rate at which authorised dealers under the Exchange Control Act exchange the RTGS dollar for the United States dollar on a willing-seller willing-buyer basis; and
- That every enactment in which an amount is expressed in US$ shall, on the and after effective date, be construed as reference to the RTGS dollar, at parity with the US$, that is to say, at a one-to-one rate.

Based on the foregoing, and the assessment done by the Group, its functional and reporting currency has changed from the US$ to RTGS$ prospectively (2019 onwards).

(b) Financial Impact

Below is a sensitivity analysis performed at various RTGS$:US$ rates on major elements of the statement of financial position as at 31 December 2018;

					Sensitivity Analysis			
Translation to RTGS$	**Monetary Assets/liabilities RTGS$**	**Monetary Assets/ liabilities US$**	**Non monetary Assets/ liabilities RTGS$**	**Non monetary Assets/ liabilities US$**	**Total US$ 1:1**	**Total RTGS$ 1:2.5**	**Total RTGS$ 1:3.0**	**Total RTGS$ 1:3.5**
Assets								
Non-current assets								
Property and equipment	-	-	24 126 018	5 465	24 131 483	24 139 680	24 142 413	24 145 145
Biological assets	-	-	227 995	-	227 995	227 995	227 995	227 995
Other financial assets at amortised cost	372 794	-	-	-	372 794	372 794	372 794	372 794
	372 794	**-**	**24 354 013**	**5 465**	**24 732 272**	**24 740 469**	**24 743 202**	**24 745 934**
Current assets								
Inventories	-	-	3 043 287	-	3 043 287	3 043 287	3 043 287	3 043 287
Trade receivables	1 515 762	1 643 563	-	-	3 159 325	5 624 670	6 446 452	7 268 234
Other financial assets at amortised cost	645 055	114 140	1 948 120	-	2 707 315	2 878 525	2 935 595	2 992 665
Cash and cash equivalents	7 463 704	6 413 623	-	-	13 877 327	23 497 763	26 704 574	29 911 386
	9 624 521	**8 171 327**	**4 991 407**	**-**	**22 787 254**	**35 044 245**	**39 129 908**	**43 215 572**
Total Assets	**9 997 315**	**8 171 327**	**29 345 420**	**5 465**	**47 519 526**	**59 784 714**	**63 873 110**	**67 961 506**
Liabilities								
Non-current liabilities								
Trade and other payables	-	-	-	-	-	-	-	-
Borrowings	2 594 561	-	-	-	2 594 561	2 594 561	2 594 561	2 594 561
Deferred tax liabilities	-	-	3 789 002	940	3 789 942	3 791 352	3 791 822	3 792 292
	2 594 561	**-**	**3 789 002**	**940**	**6 384 503**	**6 385 913**	**6 386 383**	**6 386 853**
Current liabilities								
Trade and other payables	11 335 082	5 224 965	-	-	16 560 047	24 397 495	27 009 977	29 622 460
Current income tax liabilities	535 620	6 907	-	-	542 527	552 887	556 341	559 794
Provisions	2 341 242	364 467	-	-	2 705 709	3 252 410	3 434 643	3 616 877
Borrowings	1 637 719	-	-	-	1 637 719	1 637 719	1 637 719	1 637 719
	15 849 663	**5 596 339**	**-**	**-**	**21 446 002**	**29 840 510**	**32 638 680**	**35 436 849**
Total Liabilities	**18 444 224**	**5 596 339**	**3 789 002**	**940**	**27 830 505**	**36 226 423**	**39 025 063**	**41 823 702**
Net assets	**(8 446 910)**	**2 574 988**	**25 556 418**	**4 525**	**19 689 021**	**23 558 291**	**24 848 047**	**26 137 804**

					Sensitivity Analysis			
Translation to US$	**Monetary Assets/liabilities RTGS$**	**Monetary Assets/ liabilities US$**	**Non monetary Assets/ liabilities RTGS$**	**Non monetary Assets/ liabilities US$**	**Total US$ 1:1**	**Total RTGS$ 1:2.5**	**Total RTGS$ 1:3.0**	**Total RTGS$ 1:3.5**
Assets								
Non-current assets								
Property and equipment	-	-	24 126 018	5 465	24 131 483	9 655 872	8 047 471	6 898 613
Biological assets	-	-	227 995	-	227 995	91 198	75 998	65 141
Other financial assets at amortised cost	372 794	-	-	-	372 794	149 118	124 265	106 513
	372 794	**-**	**24 354 013**	**5 465**	**24 732 272**	**9 896 188**	**8 247 734**	**7 070 267**
Current assets								
Inventories	-	-	3 043 287	-	3 043 287	1 217 315	1 014 429	869 511
Trade receivables	1 515 762	1 643 563	-	-	3 159 325	2 249 868	2 148 817	2 076 638
Other financial assets at amortised cost	645 055	114 140	1 948 120	-	2 707 315	1 151 410	978 532	855 047
Cash and cash equivalents	7 463 704	6 413 623	-	-	13 877 327	9 399 105	8 901 525	8 546 110
	9 624 521	**8 171 327**	**4 991 407**	**-**	**22 787 254**	**14 017 698**	**13 043 303**	**12 347 306**
Total Assets	**9 997 315**	**8 171 327**	**29 345 420**	**5 465**	**47 519 526**	**23 913 886**	**21 291 037**	**19 417 573**
Liabilities								
Non-current liabilities								
Trade and other payables	-	-	-	-	-	-	-	-
Borrowings	2 594 561	-		-	2 594 561	1 037 824	864 854	741 303
Deferred tax liabilities	-	-	3 789 002	940	3 789 942	1 516 541	1 263 941	1 083 512
	2 594 561	**-**	**3 789 002**	**940**	**6 384 503**	**2 554 365**	**2 128 794**	**1 824 815**
Current liabilities								
Trade and other payables	11 335 082	5 224 965	-	-	16 560 047	9 758 998	9 003 326	8 463 560
Current income tax liabilities	535 620	6 907	-	-	542 527	221 155	185 447	159 941
Provisions	2 341 242	364 467	-	-	2 705 709	1 300 964	1 144 881	1 033 393
Borrowings	1 637 719	-	-	-	1 637 719	655 088	545 906	467 920
	15 849 663	**5 596 339**	**-**	**-**	**21 446 002**	**11 936 204**	**10 879 560**	**10 124 814**
Total Liabilities	**18 444 224**	**5 596 339**	**3 789 002**	**940**	**27 830 505**	**14 490 569**	**13 008 354**	**11 949 629**
Net assets	**(8 446 910)**	**2 574 988**	**25 556 418**	**4 525**	**19 689 021**	**9 423 316**	**8 282 682**	**7 467 944**

The Group also performed an exchange rate sensitivity analysis on revenue for the year ended 31 December 2018 as outlined below;

	9 months 30 September 2018 US$	3 months 31 December 2018 US$	Year ended 31 December 2018 RTGS$	Total US$ 1:2.5	Total US$ 1:3.0	Total US$ 1:3.5
Revenue from contracts with customers	44 442 603	7 731 968	15 996 249	58 573 071	57 506 654	56 744 928
Net gaming income	191 711	-	136 880	246 463	237 338	230 820
	44 634 314	**7 731 968**	**16 133 129**	**58 819 534**	**57 743 992**	**56 975 747**

Inflationary increase in cost of sales was diluted as the Group directly imports a sizeable amount of inputs to manage costs. To that end, the increase in cost of sales of 24% from 2017 was mainly in response to revenue and occupancy as opposed to the group taking prices increases (inflation). This was also explained by a decrease in cost of sales margin to 28% in 2018 from the 30% recorded last year. Increase in operating expenses of 23% was to a greater extend spurred by increase in operating lease costs; management fees and other occupancy related costs which are variable in nature and primarily driven by revenue patterns.

16.2 Dividend declaration

On 21 March 2019 the Board declared a final dividend of US$2,828,335 being US$0.003282 per share (0.3282 US cents per share) for the year ended 31 December 2018. A second interim dividend of US$2,828,335 being US$0.003282 (0.3282 US cents) per share was declared in February 2019 giving a total dividend of US$3,329,044 (0.3863 US cents per shares) for the year ended 31 December 2018.

Directors: A. Makamure (Chairman), E. T. Shangwa (Managing Director)*, B. H. Dirorimwe (Finance Director)*, G. Chikomo, B. Childs, E. A. Fundira, N. G. Maphosa, T. M. Ngwenya, P. Saungweme. * Executive
Registered Office: Monomotapa Hotel, Number 54 Park Lane, Harare, Zimbabwe. Email: venon.musimbe@africansunhotels.com, Web: www.africansunhotels.com
Auditors: PricewaterhouseCoopers Chartered Accountants (Zimbabwe), Building No. 4 Arundel Office Park, Norfolk Road, Mount Pleasant, Harare, Zimbabwe.

Independent auditor's report

to the Shareholders of African Sun Limited

Adverse opinion

In our opinion, because of significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the consolidated and separate financial statements do not present fairly, in all material respects, the consolidated and separate financial position of African Sun Limited (the "Company") and its subsidiaries (together "the Group") as at 31 December 2018, and the Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Zimbabwe Companies Act (Chapter 24:03).

What we have audited

African Sun Limited's financial statements, set out on pages X to X, comprise:

- the consolidated statement of financial position as at 31 December 2018, and statement of financial position of the Company standing alone as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for adverse opinion

The Reserve Bank of Zimbabwe issued a monetary policy statement on 1 October 2018, which directed a separation of FCA Accounts into two categories, Nostro FCA and RTGS FCA and these would be denominated at parity i.e. an exchange rate of 1:1. As described in notes 2.4, 4(1)(a), 28 and 29 to the financial statements, during the year ended 31 December 2018, the Group and Company transacted using a combination of the Nostro FCA (US$) and RTGS FCA (electronic payment) as well as mobile money, bond notes and bond coins and therefore the statements of operations, comprehensive income and cash flows have a mix of these transactions denominated at parity; i.e. at an exchange rate of 1:1. As at 31 December 2018, the statements of financial position for the Group and Company has a mix of balances denominated owing and receivable in US$ and RTGS FCA, mobile money, bond notes and bond coins also at parity. This has resulted in transactions and balances bearing similarities to what one would expect with transactions that are undertaken in different currencies to which IAS 21 The Effects of Changes in Foreign Exchange Rates (IAS 21) would apply. Had the financial statements been prepared in accordance with the requirements of IAS 21, we believe that it would have had a material and pervasive effect on the consolidated and separate financial statements.

The directors have performed a sensitivity analysis of how different exchange rates would have impacted the consolidated and separate financial statements as at 31 December 2018 and disclosed this sensitivity analysis in note 29 to the financial statements.

In February 2019, an electronic currency called the RTGS Dollar was introduced through Statutory Instrument 33 of 2019 (S.I 33) with an effective date of 22 February 2019 and the currency commenced trading at a rate of RTGS dollar 2.5 to the US$ 1. In addition S.I. 33 fixed the exchange rate between the RTGS dollar and the US$ at a rate of 1:1 for periods before the effective date. The rate of 1:1 is consistent with the rate mandated by the Reserve Bank of Zimbabwe (RBZ) at the time it issued the bond notes as currency and the time that the bank account balances were split between RTGS FCA bank balances and Nostro FCA bank balances in October, through 22 February 2019. .

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 Consolidated and Separate the 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 adverse opinion.In addition to the matter described in the Basis for Adverse Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B) (the "IESBA Code"). We have fulfilled our ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

Overall group materiality
US$xxx which represents xxx% of consolidated revenue.

Group audit scope
Our scoping included:

- operations in Zimbabwe and South Africa.
- two subsidiaries the main one being African Sun Zimbabwe (Private) Limited, that operates eleven hotels in Zimbabwe.
- The other subsidiary, African Sun (Proprietary) Limited Branch operates a central reservations office in South Africa.
- The Group audit team visited the significant hotel operations in Zimbabwe.
    - The Group audit team worked on both the components

Key audit matters
Applicable to the consolidated and separate financial statements

- Implementation of IFRS 9, "Financial instruments"

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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 about 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the 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	US$xxx
How we determined it	xxx% of consolidated revenue.
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group is measured by users, and is a generally accepted benchmark for the hospitality industry. We chose xx% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Implementation of IFRS 9, "Financial Instruments" The Group adopted IFRS 9 - *Financial Instruments* for the first time in the 2018 reporting period (previously IAS 39 - *Financial Instruments: Recognition and Measurement* was applied). As a result, the accounting policies applicable to financial instruments have been amended accordingly and this impacted the classification and measurement of financial instruments. The total financial assets as at 1 January 2018 on implementation of IFRS 9 for the Group amounted to $15 million and the financial liabilities amounted to $21 million. The Group made use of an independent expert in the implementation of IFRS 9 over classification and measurement of financial instruments including the impairement of financial assets. (a) Classification Since implementation, the Group's financial assets are now being classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The Group classified its financial assets and financial liabilities in the categories: i) Financial assets measured: - at amortised cost; or - subsequently at fair value (either through other comprehensive income("FVOCI") or through profit or loss("FVPL")) ii) Financial liabilities measured: - at amortised cost (b) Measurement The Group's financial instruments are recognised initially at fair value, including transaction costs in the case of a financial asset or financial liability not at fair value through profit or loss. i) Financial assets After initial recognition, the Group measures	Our audit addressed the implementation of IFRS 9 including the expected credit losses on financial assets by performing the following procedures: (a) Classification and measurement (excluding impairment) We reviewed the work performed by management expert against the IFRS 9 requirements. We verified that the entity applied IFRS 9 retrospectively but chose not to restate comparative prior periods and differences between previous carrying amounts and those determined under IFRS 9 as at 1 January 2018 (the date of initial application) are adjusted for and included in opening retained earnings. We traced the opening adjustments to the amounts as per the work performed by the management expert. We evaluate the appropriateness of management's assessment of the business model for the entity's financial instruments portfolios. We evaluated management's assessment of the contractual cash flow characteristics of the financial assets (i.e., the contractual cash flow or SPPI assessment). Based on our procedures,we found that management's implementation of IFRS 9 in relation to classification and measurement (excluding impairment) was appropriate. (b) Impairment We considered the appropriateness of accounting policies and evaluated the impairment methodologies applied by the Group in accordance with the requirements of IFRS 9. We obtained an understanding of and tested the relevant controls relating to financial assets

Key audit matter	*How our audit addressed the key audit matter*
financial assets either at amortised cost or at fair value (FVTPL or FVOCI) on the basis of both: 1) the Group's business model for managing the financial assets; and 2) the contractual cash flow characteristics of the financial asset (solely payments of principal and interest ("SPPI") test). ii) Financial liabilities After initial recognition, the Group measures financial liabilities at amortised cost, unless it is either held for trading or designated as at FVTPL. iii) Expected credit losses IFRS 9 requires the recognition of expected credit losses ("ECLs") on all financial assets within the scope of its impairment model. At reporting date the Group has assessed the ECLs for the following financial assets: trade receivables from sale of room nights, food, beverages, conferencing, gaming and other related activities; staff receivables; other receivables; and cash and cash equivalents (while cash and cash equivalents are also subject to the impairment requirements of IFRS 9, identified impairment loss was immaterial). The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all financial assets within the scope of the impairment model. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the current liquidity crisis and foreign currency shortages to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. We considered the implementation of IFRS 9 and the related expected credit losses on financial assets as a matter of most significance	subject to impairment, mainly the trade receivables, that included: • the processes over credit approval for trade receivables; • the monitoring process of the trade and lease receivables including the monthly debtors assessment meetings; and • the approval framework for write-offs; We obtained an understanding of the payment terms offered by the entity and verified that the terms are less than 1 year, therefore the simplified approach (i.e., lifetime expected credit losses) to measure impairment used was considered appropriate. We evaluated the lifetime expected credit loss provision by performing the following: • Evaluated how the entity has grouped accounts receivable balances (Corporates; Tour Operators; Government; Non-Governmental organisations; Parastatal; and Debtors in residence) and assessed its reasonableness based on the drivers of credit risk; • Verified that expected credit losses have been calculated on a lifetime basis; • Evaluated reasonableness of historical balances and loss rates within the calculation, including agreeing to supporting evidence; • Evaluated the appropriateness of adjustments for forward looking information (including macroeconomic factors) to historical balances, loss rates and other information, including agreeing to supporting evidence; • Verified the mathematical accuracy of the expected credit loss calculation; • Assessed the completeness and accuracy of data used in calculating the expected credit losses; • Evaluated the appropriateness of the assumptions and judgements used by management to estimate how much of the balance is recoverable We found the parameters to be consistent and noted no significant differences.

Key audit matter	How our audit addressed the key audit matter
to our current year audit due to the significance of the amounts subject to IFRS 9; the assumptions and estimates applied by management in developing the credit losses model; and the fact that the Company has no previous experience in developing such credit loss models as IFRS 9 is a new standard. Refer to Note 3.1 and Note 5 in the financial statements for the related disclosure.	

Separate statement of financial position

We have determined that there are no key audit matters in respect of the separate statement of financial position.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements on pages xx to xx and our auditor's report thereon on pages xx to xx.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Group and Company have not applied IAS 21 in preparing the consolidated and separate financial statements. We have concluded that the other information is materially misstated for the same reason, with respect to the amounts or other items as described in the Basis of adverse opinion section above.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required the Zimbabwe Companies Act (Chapter 24:03), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Company's ability to continue as going concerns, 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 has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the statements. We are responsible for the direction, supervision and performance of the 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Clive K Mukondiwa
Registered Public Auditor
Partner for and on behalf of
PricewaterhouseCoopers Chartered Accountants (Zimbabwe)
Public Accountants and Auditors Board, Public Auditor Registration Number 0439
Institute of Chartered Accountants of Zimbabwe, Public Practice Certificate Number 253168

Date

Harare, Zimbabwe