FIRST MUTUAL PROPERTIES
Go Beyond

It's time to Go Beyond

Get real value through our expertise
in property development and management.

Audited Abridged Financial Results

FOR THE YEAR ENDED 31 DECEMBER 2018

CHAIRMAN'S STATEMENT

THE ECONOMY

The period under review was characterised by persistent cash, foreign currency, fuel shortages, fiscal and current account deficits. Financing of the fiscal deficit through domestic borrowings negatively affected the country's price stability. As a result, annual inflation closed the year at 42% up from 2.9% in January 2018. The operating environment remained largely uncertain due to rising inflationary pressures and foreign currency constraints. Therefore, your Group focused on preserving shareholder value through various strategic interventions.

The fiscal and monetary policy measures introduced in 2018, including the Transitional Stabilisation Programme, are critical to enhancing the country's recovery prospects. Further, Zimbabwe requires investments and production across all economic sectors. It is, therefore, imperative that policies should be investor-friendly given the importance of investment in stimulating growth and development. Rising economic activities are key to the sustainable growth of the real estate sector.

THE PROPERTY MARKET

In 2018, the Zimbabwean property market remained subdued, typified by available space supply exceeding demand, and the resultant low investment in commercial developments in the market. Most businesses were cautious on their expansion or set up plans in Zimbabwe, leading to limited uptake of the space. Infrastructure, particularly in the Central Business District (CBD) and industrial areas, is in dire need of refurbishment. The departure of a significant number of businesses from the CBD has seen occupancy levels continue to decline.
Furthermore, rentals remained flat during the year. This has had negative effects on the real yields against the backdrop of rising inflation. Despite the general low demand for space, retail assets were the exception to the trend with high occupancy levels. Landlords, including your Group, continued to explore innovative ways to preserve value in the face of the rising inflation.
Transactions within the property market were concentrated around the residential sector, where property investors achieved quicker financial closures on smaller transactions and obtained scale through volumes. Currency volatility triggered a rise in the demand for properties as investors sought to preserve value. However transactions remained low as sellers were not willing to dispose for the very same reason; value preservation and currency risk.
In addition the commercial real estate market was characterised by the following:

- An aging stock;
- Limited availability of new product offering;
- Growing sentiment for the development of new stock despite the excess supply
of space; and
- Speculative developments within the office sector as some investors took a long-term view and provided new product offering to the market.

FUNCTIONAL CURRENCY

The Group has in previous financial periods used the United States of America Dollar ("US$") as its presentation currency and functional currency. The fiscal and monetary policy pronouncements made in October 2018, led to a reassessment of the functional currency and a justification to conclude that, under IAS 21 Effects of Foreign Exchange Rates, 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 inconsistency between the legal requirements and International Financial Reporting Standards ("IFRS") resulted in auditors expressing an adverse opinion on the financial statements, which is a market wide phenomenon.

FINANCIAL PERFORMANCE

The Group had a positive performance for the year in spite of the tough operating environment. An increase in profit after tax of 139.57% was realised in addition to improved occupancy levels. Investment property grew by 6.32% driven by acquisitions and fair value gains.

Rental income increased by 8.86% to US$ 8.014 million (FY2017: US$ 7.362 million) driven mainly by new lettings, with occupancy levels improving by 5% to 76.10% (FY2017: 70.94%) and an increase in turnover rentals on retail space. Property expenses, at US$1.988 million, were up 24.93% for the year driven by investment in maintenance programmes to improve the quality of space aimed at attracting new tenants and retaining existing ones. Net property income marginally fell by 2.03% to US$6.034 million (FY 2017: US$6.159 million) due to ongoing investment in maintaining the infrastructure. Administration expenses rose by 27.71% to US$3.590 million in 2018 from US$2.815 in the prior year largely reflecting the cost inflation.

An independent property valuation conducted by Knight Frank Zimbabwe as at 31 December 2018 valued the property portfolio at US$146.150 million, being a 6.32% gain on the prior year, on a market value basis. The marginal gain was driven by property acquisitions, while fair value gains of US$6.265 million were realised in the retail and residential sectors. The Group's strategic land bank also appreciated in value.

In the face of a difficult broader macroeconomic environment the Group still recorded positive results for the year propelled by the resilient diversified property portfolio, posting a 139.57% increase in profit after tax of US$ 4.060 million (FY2017: US$1.695 million).

PROPERTY ACQUISITIONS

In line with the Group's strategy to grow the property portfolio, acquisitions valued at $2 million were completed in 2018. The property sales market for commercial assets remained dry as few players were willing to sell their strategic assets given the threat posed by inflationary pressures on monetary assets. Your Group will continue to selectively acquire prime located assets. The Group will also explore greenfield and brownfield development opportunities even given the limited supply of commercially viable stocks on the market.

DIVIDEND

At a meeting held on 10 April 2019, your Board resolved that a final dividend of RTGS$0.730 million being 0.0502 RTGS cents per share be declared from the profits for the year ended 31 December 2018. The dividend will be payable on or about 24 May 2019 to all shareholders of the Group registered at close of business on 10 May 2019. The shares of the Group will be traded cum-dividend on the Zimbabwe Stock Exchange up to 7 May 2019 and ex-dividend as from 8 May 2019.

TAX RESTRUCTURING

During the year, the Group embarked on a tax restructuring exercise to consolidate the property holdings to create operational efficiencies. The restructuring exercise was approved by the Zimbabwe Revenue Authority ("ZIMRA") and The Competition and Tariff Commission. The restructuring exercise will create a lean and efficient tax structure.

OUTLOOK

The general outlook over the long term remains positive with real economic growth estimates for Zimbabwe of ranging between 3.7% and 7% for 2019. Despite the challenges around debt to GDP ratio, limited availability of foreign currency, fiscal deficit, multiple tier pricing and cash shortages, forecasts remain positive against the backdrop of the Government's policy changes targeted at containing the fiscal deficit, promoting investment and increasing production.

In the short term, the market is projected to remain an occupier's market due to excessive supply of space and the lack of quality assets to absorb either expanding or new market entrants. Rental rates are, however, expected to rise in the short term, as property investors seek to maintain real rental values in the face of rising inflation. Development activity in the commercial property sector is expected to remain low as demand for new space remains subdued due to lethargic economic growth. In contrast, residential development activity is expected to remain strong. Real estate markets are positively correlated to macroeconomic performance. Therefore, any economic recovery is expected to have a trickle-down effect on the property sector.

Your Group remains alive to the developments in the economy, and will continue to adapt its strategies in order to preserve shareholder value and achieve sustainable returns.

APPRECIATION

On behalf of the Board, I wish to thank all our stakeholders for their continued invaluable support.

E. K Moyo
Chairman

10 April 2019

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
ASSETS			
Investment properties	5	146 150 000	137 457 000
Vehicles and equipment	6	178 618	103 927
Deferred income tax assets		-	414 629
Financial assets at fair value thorough profit or loss		164 946	-
Loans and other receivables	7	-	403 015
Financial assets held to maturity	8	-	190 311
Financial assets at amortised cost	9	593 327	-
		147 086 891	**138 568 882**
Current assets			
Inventories		22 189	23 705
Tax receivable		609 250	550 479
Trade and other receivables	10	1 045 088	3 299 327
Cash and cash equivalents	11	561 189	2 072 088
		2 237 716	**5 945 599**
Total assets		**149 324 607**	**144 514 481**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Ordinary share capital		1 218 148	1 218 148
Retained earnings		129 855 697	126 525 986
Total shareholders' equity		**131 073 845**	**127 744 134**
Non-current liabilities			
Deferred tax liabilities	12	16 710 582	13 176 741
Borrowings	13	-	91 665
		16 710 582	**13 268 406**
Current liabilities			
Borrowings	13	91 665	1 100 000
Related party loan	14	-	306 982
Current income tax liability		-	128 051
Trade and other payables	15	1 448 515	1 966 908
		1 540 180	**3 501 941**
Total Liabilities		**18 250 762**	**16 770 347**
Total equity and liabilities		**149 324 607**	**144 514 481**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DEC 2018

	Note	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
Revenue	16	8 076 571	7 414 502
Property expenses	17	(1 987 615)	(1 590 996)
Allowance for credit losses		(54 732)	335 524
Net property income ("NPI")		**6 034 224**	**6 159 030**
Employee related expenses	18	(1 541 059)	(1 415 597)
Other expenses	18	(2 048 644)	(1 399 672)
NPI after admin expenses		**2 444 521**	**3 343 761**
Fair value adjustment		6 265 127	(593 552)
Finance income	19	189 084	287 868
Other income		296 946	237 953
Finance costs		(52 635)	(126 479)
Profit before income tax		**9 143 043**	**3 149 551**
Income tax expense	20	(5 083 332)	(1 454 945)
Profit for the year		**4 059 711**	**1 694 606**
Total comprehensive profit for the year		**4 059 711**	**1 694 606**
Attributable to:			
-Owners of the parent		4 059 711	1 694 606
-Non controlling interest		-	-
Total profit for the year		**4 059 711**	**1 694 606**
Basic and diluted earnings per share (US cents)		0.33	0.14
Weighted average number of shares in issue		1 236 927 672	1 237 952 370

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the parent		
	Ordinary Share Capital	Retained Earnings	Total Shareholders Equity
At 1 January 2017	**1 218 148**	**125 435 327**	**126 653 475**
Profit for the year	-	1 694 606	1 694 606
Dividend paid		(730 000)	(730 000)
At 31 December 2017	**1 218 148**	**126 399 933**	**127 618 081**
Profit of the period	-	4 059 711	4 059 711
IFRS 9 Impact - Day one	-	126 053	126 053
Dividend paid	-	(730 000)	(730 000)
At 31 December 2018	**1 218 148**	**129 855 697**	**131 073 845**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
Profit before tax		**9 143 043**	**3 149 551**
Adjustment for non-cash items		(6 292 661)	347 172
Cash flows from operating activities before working capital adjustments		**2 850 382**	**3 496 723**
Working capital adjustments		1 041 424	(1 473 141)
Cash generated from operations		**3 891 806**	**2 023 582**
Tax paid		(1 178 886)	(959 736)
Interest paid		(52 634)	(126 479)
Net cash flow from operating activities		**2 660 286**	**937 367**
Net cash flows (used)/ generated from investing activities		(2 341 185)	463 626
Net cash flows used in financing activities		(1 830 000)	(1 523 036)
Net decrease in cash and cash equivalents		**(1 510 899)**	**(122 043)**
Opening cash and cash equivalents		2 072 088	2 194 131
Cash and cash equivalents at 31 December	11	**561 189**	**2 072 088**

NOTES TO THE CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Corporate information

First Mutual Properties Limited is a public company incorporated and domiciled in Zimbabwe and its shares are publicly traded on the Zimbabwe Stock Exchange. The principal activities of the Group are property investment, development and management. The consolidated financial statements of the Group for the twelve months ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors at a meeting held on 10 April 2019.

2.1 1 Basis of preparation

The financial statements of the Group from which this press release has been extracted from were prepared in accordance with International Financial Reporting Standards("IFRS") and IFRS Interpretations Committee ("IFRS IC") interpretations applicable under IFRS and in the manner required by the Zimbabwes Companies Act (Chapter 24:03) except for IAS21, effects of changes in foreign exchange rates. The financial statements are based on statutory records that are maintained under the historical cost convention except for investment properties, available-for-sale financial assets and finacial assets at fair value through profit or loss that have been measured at fair value.

2.2 2 Audit Opinion

An adverse opinion was issued in respect of functional currency as requirements of IAS 21 Effects of Foreign Exchange Rates were not met. The auditor's report includes a section on key audit matters as defined by ISA 701, 'Communicating key audit matters in the independent auditor's report'. This includes both the rationale for determining the key audit matters and how they were addressed during the audit. The key audit matter is on valuation of investment property. 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 21.

3 Accounting policies

The accounting policies adopted in the preparation of the full year results are consistent with those followed in the preparation of the Group's annual report for the year ended 31 December 2018.

4 Functional and presentation currency

The Group had in previous financial periods used the United States of America Dollar ("US$") as its presentation currency and functional currency.

The macroeconomic developments and fiscal and monetary policy changes diclosed in note 21, 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, based on their interpretation of IFRS had considered the Monetary Policy
Statement ("MPS") of 20 February 2019, and the subsequent emergence of an interbank exchange rate to be an adjusting event in terms of IAS 10 "Events After the Reporting Period". However, this could not be affected because at law there was no local currency in Zimbabwe until 22 February 2019. The RTGS was also legally not recognised as a currency prior to the currency changes announced on 22 February 2019 that are detailed in note 21.

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.

5 Investment properties

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
At 1 January	137 457 000	137 302 000
Additions	2 158 228	170 000
Improvements to existing properties	269 645	578 552
Fair value adjustment	6 265 127	(593 552)
	146 150 000	**137 457 000**

Investment property with a total carrying amount of US$12.700 million (Dec 2017: US$12.700 million) was encumbered at 31 December 2018.

6 Vehicles and equipment

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
At 1 January	103 927	98 454
Additions	102 394	32 837
Depreciation	(27 703)	(27 364)
	178 618	**103 927**

DIRECTORS: E K Moyo (Chairman), C K Manyowa (Managing Director)*, D Hoto, S Jogi, W M Marere, E Mkondo, R B Ncube *Executive Director
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7 Accounting policies applied until December 2017 (Loans and other receivables)

At 1 January	403 015	950 000
Reclassification of loans and other receivables	(403 015)	397 542
Amortised interest	-	95 913
Repayments of interest	-	(90 440)
Repayments of principal	-	(950 000)
	-	**403 015**
Short-term portion	-	-
Long-term portion	-	403 015
	-	**403 015**

Loans and other receivables relate to treasury bills worth $403 015 (Dec 2017: US$403 015). These were acquired in 2017 at a nominal value of $397 542. Treasury bills with a nominal value of US$198 771 have a three year tenure and will mauture on 20 July 2020 while another block of treasury bills with a nominal value of US$198 771 has a 10 year tenure and will mature on 3 May 2027.

8 Accounting policies applied until December 2017 (Financial assets held to maturity)

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
At 1 January	190 311	277 385
Reclassification of financial assets held to maturity	(190 311)	-
Accrued interest	-	20 450
Repayments	-	(107 524)
	-	**190 311**

These are money market investments with financial institutions backing 15 year mortgages for staff. These investments have been reclassiffied at 1 January 2018 to Financial Assets at amortised cost.

9 Financial assets at amortised cost

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
At 1 January	-	-
Reclassified from loan and other receivables (Note 7)	403 015	-
Reclassified from financial assets held to maturity (Note 8)	190 311	-
Amortised interest	14 765	-
Repayments received	(14 764)	-
	593 327	-

The Group considers credit risk of the financial assets at amortised cost to be insignificant under IFRS 9. Nil credit loss has been recognised during the twelve months to 31 December 2018.

10 Trade and other receivables

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
Tenant receivables	1 745 387	2 474 796
Tenant operating cost recoveries	478 840	859 925
Property sales receivables	14 136	96 323
Trade receivables	**2 238 363**	**3 431 044**
Less: Allowance for credit losses	(1 599 859)	(1 776 737)
Net trade receivables	**638 504**	**1 654 307**
Prepayments	30 704	1 428 805
Other receivables	473 569	120 483
Related party receivables	(97 689)	95 732
	1 045 088	**3 299 327**

11 Cash and cash equivalents

Short-term investments	-	1 766 315
Cash at Bank	561 189	305 773
	561 189	**2 072 088**

12 Deferred tax liability

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
At 1 January	13 176 741	12 322 492
Recognised in the statement of profit or loss		
-Arising on vehicles and equipment	18 307	(1 063)
-Arising on investment properties	3 515 534	586 512
-Arising on assessed losses	-	268 800
	16 710 582	**13 176 741**

13 Borrowings

At 1 January	1 191 665	2 291 667
Amortised Interest	49 919	126 479
Repayments of interest	(49 919)	(126 479)
Repayments of principal	(1 100 000)	(1 100 002)
	91 665	**1 191 665**
Short-term portion	91 665	1 100 000
Long-term portion	-	91 665
	91 665	**1 191 665**

The loan facility is a five year term facility expiring in January 2019 at an effective interest rate of 6.5%, secured to immovable property registered and stamped to cover US$6.5 million.

14 Related party loan

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
At 1 January	306 982	-
Loan advanced	1 259 300	522 000
Amortised Interest	2 778	18
Repayments of interest	-	(18)
Repayments of principal	(1 569 060)	(215 018)
	-	**306 982**

The loan facility was sourced in December 2017 as bridging finance from a fellow subsidiary of the parent to partially fund a prepayment towards the acquisition of a property in Harare. The loan was repaid in full and was administered under the following terms;

Nominal value	US$1 259 300
Deal Status	Bridging finance
Deal Date	29-Jun-18
Maturity date	26-Jul-18
Coupon rate	3% per annum
Security	None

15 Trade and other payables

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
Tenant payables	301 126	237 108
Related party payables	135 059	361 848
Sundry payables	437 920	606 985
Trade payables	574 410	760 967
	1 448 515	**1 966 908**

16 Revenue

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
Rental income	8 014 375	7 362 306
Property services income	62 196	52 196
	8 076 571	**7 414 502**

17 Property expenses

Maintenance costs	1 256 950	736 019
Property security and utilities	38 270	34 050
Valuation fees	17 680	23 976
Operating cost under recoveries	674 715	796 951
	1 987 615	**1 590 996**

18 Profit before income tax takes into account the following

	AUDITED 31 Dec 2018 US$	AUDITED 31 Dec 2017 US$
Directors' fees -for services as directors	55 972	40 000
Audit fees	67 186	23 814
Information communication and technology expenses	116 124	95 510
Fees and other charges	849 984	64 673
Depreciation	27 757	27 364
Office costs	197 903	166 446
Group shared services	610 693	859 599

19 Finance income

Interest on overdue tenants accounts	148 958	257 173
Interest on loans and other receivables	-	95 913
Loss on disposal of equities	-	(106 368)
Interest on money market investments	40 126	41 150
	189 084	**287 868**

20 Income tax expense

Current income tax	1 122 478	742 710
Deferred tax	3 960 854	712 235
	5 083 332	**1 454 945**

SEGMENT REPORTING FOR THE YEAR ENDED 31 DECEMBER 2018

	Office US$	Retail US$	Industrial US$	Other US$	Adjustment US$	Total US$
Revenue	4 187 547	2 478 635	1 050 135	398 835	(38 581)	8 076 571
Property expenses and allowance for credit losses	(1 374 007)	(334 271)	(158 821)	(175 248)	-	(2 042 347)
Segment results	**2 813 540**	**2 144 364**	**891 314**	**223 587**	**(38 581)**	**6 034 224**
Fair value	650 465	813 384	130 000	4 671 278	-	6 265 127
Segment profit	**3 464 005**	**2 957 748**	**1 021 314**	**4 894 865**	**(38 581)**	**12 299 351**
Employee related expenses	-	-	-	(1 541 059)	-	(1 541 059)
Other expenses	(1 312 971)	(374 911)	(170 545)	(2 088 095)	1 897 877	(2 048 645)
Finance costs	-	-	-	(52 634)	-	(52 634)
Finance income	45 221	75 834	19 533	48 496	-	189 084
Other income	52 338	(392)	-	245 000	-	296 946
Profit before income tax	**2 248 593**	**2 658 279**	**870 302**	**1 506 573**	**1 859 296**	**9 143 043**

RECONCILIATION OF SEGMENT RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

	Office US$	Retail US$	Industrial US$	Other US$	Total US$
Assets					
Investment property	72 010 000	32 360 000	11 630 000	30 150 000	146 150 000
Trade receivables	210 245	102 165	58 655	267 440	638 505
Segment assets	**72 220 245**	**32 462 165**	**11 688 655**	**30 417 440**	**146 788 505**
Other non-current assets	-	-	-	936 891	936 891
Other current assets	-	-	-	1 599 211	1 599 211
Total assets	**72 220 245**	**32 462 165**	**11 688 655**	**32 953 542**	**149 324 607**
Current liabilities	834 098	38 951	35 004	632 127	1 540 180
Capital expenditure	1 216 250	1 108 847	-	205 172	2 530 269

SEGMENT REPORTING FOR THE YEAR ENDED 31 DECEMBER 2017

	Office US$	Retail US$	Industrial US$	Other US$	Adjustment US$	Total US$
Revenue	3 902 865	2 230 762	1 080 465	237 785	(37 375)	7 414 502
Property expenses and allowance for credit losses	(1 149 199)	(255 019)	325 603	(176 857)		(1 255 472)
Segment results	**2 753 666**	**1 975 743**	**1 406 068**	**60 928**	**(37 375)**	**6 159 030**
Fair value	(120 000)	15 579	(401 542)	(87 589)	-	(593 552)
Segment profit	**2 633 666**	**1 991 322**	**1 004 526**	**(26 661)**	**(37 375)**	**5 565 478**
Employee related expenses	-	-	-	(1 415 597)	-	(1 415 597)
Other expenses	(1 360 777)	(449 741)	(110 198)	(1 437 048)	1 958 092	(1 399 672)
Finance costs	-	-	-	(126 479)		(126 479)
Fair value through profit or loss	-	-	-	-		-
Other income	46 566	9 942	3 245	178 200		237 953
Finance income	68 367	79 909	92 382	47 210		287 868
Profit before income tax	**1 387 822**	**1 631 432**	**989 955**	**(2 780 375)**	**1 920 717**	**3 149 551**

RECONCILIATION OF SEGMENT RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

	Office US$	Retail US$	Industrial US$	Other US$	Total US$
Assets					
Investment property	70 240 000	30 630 000	11 630 000	24 957 000	137 457 000
Trade receivables	466 374	426 720	665 822	95 390	1 654 306
Segment assets	**70 706 374**	**31 056 720**	**12 295 822**	**25 052 390**	**139 111 306**
Other non-current assets	-	-	-	1 111 882	1 111 882
Current assets	-	-	-	4 291 293	4 291 293
Total assets	**70 706 374**	**31 056 720**	**12 295 822**	**30 455 565**	**144 514 481**
Liabilities	596 374	150 031	151 548	2 603 988	3 501 941
Capital expenditure	**107 979**	**50 328**	**1 542**	**452 446**	**612 295**

21 Events after the balance sheet date

On 20 February 2019, the Reserve Bank of Zimbabwe ("RBZ") Govenor made an announcement to denominate the existing Real Time Gross Settlement ("RTGS") balances, bond notes and coins in circulation as RTGS$. The RBZ, with immediate effect, established an inter-bank foreign exchange market to formalise the trading of RTGS balances and bond notes with US dollars and other currencies on a willing-buyer willing-seller basis through banks and bureaus de change.

In the Government Gazette Extraordinary dated 22 February 2019, Statutory Instrument 33 of 2019 'Presidential Powers (Temporary Measures) (Amendment of Reserve Bank of Zimbabwe Act and Issue of Real Time Gross Settlement Electronic Dollars (RTGS Dollars)) Regulations, 2019 ("SI33/ 19")', was gazetted to give legal effect to the Monetary Policy. Statutory instrument 33 of 2019 gave effect to the following:

- introduction of the RTGS dollar as legal tender and pescribed that for accounting and other purposes existing assets and liabilities valued in US dollars are deemed valued in RTGS dollars except for FCA nostro accounts,
- Acts of Parliament and statutory instruments referring to amounts in US dollars must be construed as referring to the same amount in RTGS dollars,
- bond notes and coins continue as legal tender, exchangeable with the RTGS dollar on a one-to-one basis, and
- the opening parity rate of 1 US dollar to 1 RTGS dollar will vary as "determined by the rate at which authorised dealers under the Exchange Control Act exchange the RTGS dollar for the US dollar on a willing-seller willing-buyer basis".

The management, based on their interpretation of International Financial Reporting Standard ("IFRS") had considered the Monetary Policy Statement and the subsequent emergence of the interbank exchange rate to be an adjusting event in terms of International Accounting Standard 10 ("IAS 10") "Events after the reporting period". The events are reflective of the underlying conditions as at the reporting date of 31 December 2018 and were a confirmation of market practice which had come to regard the RTGS balances as an underlying currency. However given the accounting restriction imposed by SI33/ 19, the post balance sheet events have not been adjusted for and have prepared the accounts based on 1:1 to the US dollar in line with SI33/ 19 and guidance issued by Public Auditors and Accountans Board ("PAAB"). Management has prepared sensitivity income and balance sheet as part of the disclosures so as to give the readers an appreciation of the impact of this event.

ASSETS	Nostro FCA US$	RTGS$	Total USD$ @ 1:1	Total RTGS$ @ 1:2.5	Total RTGS$ @ 1:3.1383	"Total RTGS$
Monetary						
Financial assets:						
-unquoted equity securities at fair value through profit or loss	-	164 947	164 947	164 947	164 947	164 947
-debt securities held at amortised cost	-	593 327	593 327	593 327	593 327	593 327
Income tax asset	-	609 249	609 249	609 249	609 249	609 249
Receivables including loans and other receivables	-	1 045 088	1 045 088	1 045 088	1 045 088	1 045 088
Cash and balances with banks	5 825	555 364	561 189	569 927	573 646	585 626
Non Monetary						
Property, plant and equipment	-	178 618	178 618	178 618	178 618	178 618
Investment property	-	146 150 000	146 150 000	146 150 000	146 150 000	146 150 000
Inventory	-	22 189	22 189	22 189	22 189	22 189
TOTAL ASSETS	**5 825**	**149 318 782**	**149 324 607**	**149 333 345**	**149 337 064**	**149 349 044**
LIABILITIES						
Monetary			-	-	-	-
Borrowings	-	91 665	91 665	91 665	91 665	91 665
Other payables	-	1 715 476	1 715 476	1 715 476	1 715 476	1 715 476
Non Monetary						
Deferred income tax	-	16 710 582	16 710 582	16 710 582	16 710 582	16 710 582
TOTAL LIABILITIES	-	**18 517 723**	**18 517 723**	**18 517 723**	**18 517 723**	**18 517 723**

The deferred tax impact of applying different exchange rates has not been taken into account in the Statement of Financial Position.

For the purposes of sensitivity, two different exchange rates were used as following rates were used:

- 1:2.5 US$ to RTGS$ being the official interbank exchange rate on 22 February 2019 when SI33/ 19 was issued;
- 1:3.1383 US$ to RTGS$ being the official interbank exchange rate on 10 April 2019 when the financial statements were approved by the Board.

22 Going Concern

The Directors have assessed the ability of the Group to continue operating as a going concern, including the impact of SI33/ 19, and believe that the preparation of these financial statements on a going concern basis is still appropriate.

Independent auditor's report

To the Shareholder of First Mutual Properties Limited

Our 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 First Mutual Properties Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2018, and its consolidated performance and consolidated 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

First Mutual Properties Limited's financial statements, set out on pages xx to xx, comprise:

- the consolidated statements of financial position 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;
- the notes to the financial statements, which include a summary of significant accounting policies, the accompanying statement of financial position of the company standing alone as at 31 December 2018.

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 Note 2.2, 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 s 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 xx 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$230 000 which represents 5% of consolidated average profit before income tax for the past three years.

Group audit scope

Due to statutory audit requirements, we conducted full scope audits for First Mutual Properties Limited and its operating subsidiary. The group audit team was involved in the audit of all components.

Key audit matters

- Valuation of investment property
- Allowance for credit losses.

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 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall 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 materiality	US$230 000
How we determined it	5% of consolidated average profit before income tax for the past three years.
Rationale for the materiality benchmark applied	We chose profit before income tax as the benchmark because, in our view, it is the most commonly used benchmark against which the performance of profit-oriented entities in the industry is measured by users, and is a generally accepted benchmark. Since 2016, the Group's profit before income tax has fluctuated significantly, resulting in the need for us to average profit before income tax over the last three years for purposes of determining materiality. We chose 5% which is consistent with quantitative

	materiality thresholds used for profit-oriented companies.

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 Company and its operating subsidiary were subjected to full scope audits. The subsidiary is incorporated in Zimbabwe. Ten dormant entities have been scoped out as these were not material to the Group. The Group audit team performed the audit of all the components of the Group.

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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Consolidated financial statements

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property The valuation of investment property was considered a matter of most significance to our audit due to the magnitude of the investment property balance and the significant judgement applied by management to determine the fair values of the investment properties at reporting date. All the investment properties have been categorised as level 3 in the IFRS 13 - *Fair value measurement* hierarchy. This implies that the fair value is determined with reference to unobservable inputs. These unobservable inputs include rental per square metre, capital rate/prime yield and vacancy rates. For investment properties classified as land and residential properties, the group applies the income capitalisation valuation technique to determine the fair value. For all other classes of investment property, the group applies market comparable valuation techniques to determine their fair values. The group engages an independent property valuer to determine the fair values of all classes of investment property at reporting date. The valuation of investment properties are disclosed in the following notes to the financial statements: • note xxx, investment property; • note xxx, Valuation of investment property and • note xxx, Investment property	Our audit addressed the valuation of investment property as follows: We evaluated controls over the valuation of the investment property, including the management committee's recommendation for approval by the audit committee of the independent property valuer ("management's expert"), and the assessment and approval of the valuation results. We evaluated the competence, capabilities, independence and objectivity of management's expert and obtained an understanding of their work. We inspected the company profile of management's expert and the *curricula vitae* of the individuals involved in performing the valuation in order to assess their experience and competence. We obtained the valuation report directly from management's expert and performed the following procedures to assess the appropriateness of the valuation techniques adopted by management's expert in determining the fair values of the investment properties: • we met with management's expert to obtain an understanding of the assumptions used in applying the respective valuation techniques, and • we assessed whether the valuation techniques are considered to be generally accepted valuation methodologies for valuing investment properties. No inconsistencies were identified. We assessed the reasonableness of the assumptions applied by management's expert in determining the unobservable inputs used in both valuation methods with reference to prevailing market rentals, market yields and for land, the prevailing market price per square metre. Our audit procedures also included comparing these assumptions to those used by other external property valuers for similar property types. No material differences were noted. On a sample basis, we agreed the key assumptions applied by management's expert to supporting evidence, as follows: • agreeing rentals noted on the tenancy schedule to the underlying lease agreements; • agreeing occupancy levels to the tenancy schedule; and • for land, price per square metre was agreed to

	prevailing market prices. On a sample basis, we also performed an independent calculation of potential annual rental income using average rentals per square metre and lettable space, and prime yield using an interpolation formula. We recomputed the market value by capitalising the potential annual income by the yield. No material differences were noted.

Key audit matter	How our audit addressed the key audit matter
Allowance for credit losses on trade and other receivables The allowance for credit losses on trade and other receivables was considered to be a matter of most significance to our audit due to the magnitude of the trade and other receivables balance and the judgement applied in the determination of the allowance for credit losses. The group has adopted IFRS 9 - *Financial Instruments* ("IFRS 9) for the first time in the 2018 financial year (Previously IAS 39 - *Financial Instruments: Recognition and Measurement* was applied). As a result, the accounting policies applicable to financial instruments have been amended accordingly. The group applies the simplified approach under IFRS 9 to measure expected credit losses (ECLs) on trade and other receivables. In measuring ECLs, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. Management has performed an impairment assessment resulting in an impairment allowance of US$1.6 million relating to trade receivables as at 31 December 2018. Management applied their judgment to the assessment of the recoverability of individual trade receivable balances, on a case by case basis, taking into consideration the history of payments and the financial condition of the tenant. Management has set criteria for determining whether trade receivables are impaired. Trade receivables are assessed on a monthly basis to determine whether the impairment allowance is adequate.	Through inquiry of management and inspection of the Group's policies, we obtained an understanding of the Group's processes relating to the estimation of the allowance for credit losses on trade and other receivables. We inspected management's policy for impairment provisioning on all financial assets held at amortised cost or at fair value through other comprehensive income, including trade and other receivables. , and assessed it for appropriateness in line with the requirements of IFRS 9, 'Financial instruments'.No issues were noted. We evaluated management's implementation of IFRS 9 as well as changes made to the accounting policies for consistency with IFRS 9. No issues were noted. We evaluated the reliability of historical macroeconomic and forward-looking information and appropriateness given the entity's business profile.No issues were noted. We tested the application of management's methodology by obtaining management's impairment computations of tenant receivables and assessed the reasonableness of management's estimation process used with regards to the assessment of the credit quality of trade receivables, using the following broad criteria: • occupancy status of the tenant; • length of period of non-payment or adherence to agreed payment plans; • analysis of results of collection efforts undertaken so far in order to recover the amounts that are past due through inspection of subsequent receipts from tenants, consideration of adherence to payment plans that were in place, and through inspection of lawyer's confirmations in instances where customers have been handed over;

Management made assumptions based on their knowledge of their customers and prevailing economic conditions to determine whether the receivable is impaired.

Disclosure is provided in accounting policy notes:
xxx: Allowance for credit losses;
xxx: Credit risk; and
xxx: Trade and other receivables

- liquidity, solvency and past payment status of the tenant; and
- security arrangements in place.

We verified the mathematical accuracy of the computation and considered its accuracy against the provisioning criteria set out in the methodology.

Company standing alone balance sheet

We have determined that there are no additional key audit matters to communicate in our report with regard to the audit of the company standing alone statement of financial position for the current period.

Other information

The directors are responsible for the other information. The other information comprises the information included in the financial statements, but does not include the consolidated and separate financial statements on pages xx to xx 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 on the other information, 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 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 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 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 consolidated and separate'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 has 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 judgment 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 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 consolidated and separate 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 consolidated financial 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.

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