MASHONALAND HOLDINGS LIMITED ("THE GROUP")

TRADING UPDATE FOR THE THIRD QUARTER ENDED 30 JUNE 2020

Operating environment

The country witnessed a significant increase in Coronavirus (COVID-19) infections during the quarter ended 30 June 2020. Government resultantly implemented a national lockdown, aimed at curbing the spread of the virus. This, however, slowed down economic activity across all sectors. The World Bank anticipates that the Zimbabwean economy will have contracted by 10% by December 2020.

The introduction of the foreign exchange auction system has improved availability of foreign currency and has seen a 128% depreciation in the exchange rate from the fixed exchange rate of USD1 to ZWL$25 to USD1 to ZWL$57 as at 30 June 2020. Annual inflation continued on an upward trend closing the period under review at 737% up from 676% in March 2020. The Ministry of Finance and Economic Development, however, forecasts that the annual inflation rate will ease to 300% by December 2020.

The property market, particularly the office sector, has been the most affected by reduced demand for space as businesses have been affected by the slow-down in economic activity due to the COVID-19 induced lockdowns. The retail sector has however been relatively resilient, especially the essential services sector, despite restrictions on operating hours. Broadly, across the market, the continued decline in capacity utilisation and economic hardships continues to negatively affect tenants' rent paying capacity. As such, rental growth will continue to lag behind inflation in the short to medium term.

The property development sub-market remains subdued as real estate demand slows. A few projects are, however, on-going especially in the owner-occupier submarket and also in the residential sector.

Financial Highlights and Operations Update

The major financial highlights for the quarter ended 30 June 2020 are as follows:

- Rental income increased by 21% to ZWL$77.71 million compared to the same period in the prior year. The uplift was mainly due to the quarterly reviews that were implemented from February 2019 and continued into the current financial year. New lettings also had a positive impact on the rental income growth for the quarter ended 30 June 2020.

  Rent reviews were however temporarily suspended for the period May to June 2020 in a bid to assist tenants during the lockdown period, notwithstanding the runaway inflation.

- Occupancy levels at 30 June 2020 increased by 3% to 79.2% compared to the same period in the prior year.

- The Group has continued implementation of cost containment efforts and this has led to a reduction in expense to revenue ratios as follows:

    - Property expenses to revenue ratio for the quarter was 16% compared to 18% achieved during the same period last year.

    - Administrative expenses to revenue ratio for the quarter ended 30 June 2020 was 26% compared to 27% achieved in the previous year.

Property developments and investment properties

During the quarter, the Group spent ZWL$10.6 million on property development projects. This outlay covered the pre-purchase of materials and professional fees towards the construction of the 25-cluster houses in Bluffhill, set to commence in the third quarter of 2020. The project team is currently adjudicating the tenders for the project.

Cost management measures, an effective project risk management framework and a robust Health and Safety plan (COVID-19 Control and Prevention on Construction Sites) as per the World Health Organisation (WHO) guidelines, are being implemented to ensure successful delivery of the project.

The fair values for investment properties as at 31 March 2020 were maintained for the quarter ending 30 June 2020. The Group will obtain independent valuations for its investment property portfolio at year end.

Impact of COVID-19

The Group occupancy levels have remained unchanged at 79.2% from the previous quarter. The conversion of the development pipeline into leases has been affected by the lower demand for rental space, especially in the CBD office sector where the Group has the highest Gross Lettable Area (GLA) concentration.

In addition, the COVID-19 pandemic has had the following impact on the business:

- Average collections to revenue decreased from 95% in the previous quarter to 91% in the quarter ended 30 June 2020.

- Tenants' rent paying capacity has been negatively affected by the COVID-19 related restrictions. This in turn has affected the inflation-hedging attribute of real estate investments in the Zimbabwean market.

The Group is constantly engaging its service providers to reduce operating expenses, including property maintenance costs, to minimize the financial impact of COVID-19 to the business.

The Group has implemented sanitization and screening procedures to limit the spread of the virus in all its multi-tenanted buildings.

Outlook

The operating environment remains highly uncertain. The economy faces a number of challenges and the COVID-19 pandemic, the total impact of which remains unknown, continues to worsen the economic challenges with which the country has been battling. In spite of the challenges, the Group will continue to explore opportunities to preserve shareholder value through strategic property developments and targeted regeneration of existing buildings to suit emerging occupier requirements.

Honey & Blanckenberg

Represented by Batanai Peresuh

Company Secretary

14 August 2020