Audited Abridged Financial Results

FOR THE YEAR ENDED 31 DECEMBER 2018

Masimba HOLDINGS LIMITED

Financial Highlights

	Change	2018 Audited US$	2017 Audited US$
Revenue	46%	40,014,431	27,451,196
EBITDA	38%	3,254,621	2,361,288
EBITDA/Turnover	-5%	8.13%	8.60%
EBT	45%	1,694,636	1,174,169
Basic Earnings Per Share (cents)	64%	0.50	0.31
Diluted Earnings Per Share (cents)	65%	0.50	0.30
Headline Earnings Per Share (cents)	131%	0.49	0.22

PRELIMINARY ANNOUNCEMENT TO SHAREHOLDERS

INTRODUCTION

It is my pleasure to present to you the financial results for the year ended 31 December 2018.

OPERATING ENVIRONMENT

The operating environment remained constrained mainly due to the continued shortages of foreign currency in the formal market. Consequently, there was increased activity in the black market as companies procured foreign currency at very high premiums which reportedly peaked at about 600% in November 2018. The exorbitant pricing of foreign currency regrettably pushed inflation to unprecedented levels that were last recorded prior to the adoption of the multi-currency regime. The inflationary pressures had an adverse impact on current and potential projects resulting in significant business slowdown particularly in the last quarter of the year.

CHANGES IN FUNCTIONAL CURRENCY

While the Real Time Gross Settlement (RTGS) balances officially remained at par to the United States Dollar (US$) in the period, the prevalence of inflation as alluded to in the paragraph above, created varying distortions on the purchasing power of the RTGS balances and US$. In addition, the Reserve Bank of Zimbabwe (RBZ) officially separated the Exporters NOSTRO FCA (Nostro FCA US$) from the RTGS FCA (RTGS$) on 1 October 2018. These balances were at law to be maintained in separate accounts with effect from the same date. The "exchange rate" between the RTGS$ and Nostro FCA US$ ranged between 3 to 5 in December 2018. On 20 February 2019, the RBZ pronounced the RTGS$ as a local currency and added it to the already existing basket of multi currencies. The Company had Net Assets directly denominated in Nostro FCA US$ of US$1,883,873 as at 31 December 2018. These Net Assets balances, which the Board believes are material, have been included in the Company's books at a rate of 1:1 between the Nostro FCA US$ and the RTGS$. On 21 March 2019 the Public Accountants and Auditors Board (PAAB) provided guidance regarding treatment of the inconsistency between International Accounting Standard (IAS) 21: The Effects of Changes in Foreign Exchange Rates and Statutory Instrument 33 of 2019. The Group, accordingly, presented the statutory financials for the period ending 31 December 2018 in US$ at par with the RTGS$ as required by Statutory Instrument 41 of 2019. In addition, the Board considered the change in functional currency as a material non-adjusting subsequent event, whose impact is fully disclosed in note 4 of this report.

OPERATIONS

The Group recorded a Turnover of US$40,014,431 (2017: US$27,451,196) and Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) of US$3,254,621 (2017: US$2,361,288) for the year ending 31 December 2018.

The Turnover growth of 46% came on the back of an improved order book. The 2018 order book was dominated by Retail & Commercial buildings, Agriculture, Mining, Housing and Roads infrastructure projects. Highlights of projects completed in 2018 are the Old Mutual Eastgate Mall, CIPF Norton Mall and the Datvest Office Block in Harare. Meanwhile, commissioning of the Nyakomba Irrigation Infrastructure and the Sawanga Shopping Mall projects will be completed in the first quarter of 2019.

The Group's EBITDA increased by 38% from the comparative period due to the improved turnover growth and continued cost containment strategies. The profitability performance was compromised by the deterioration of overheads and cost escalations particularly in the second half of the year as the impact of the foreign currency shortages became more pronounced.

The financial position of the Group strengthened to US$42,053,953 (2017: US$33,156,176) due to the improved profitability of the business and the Board's deliberate decision to apply positive cash flows to capital expenditure in order to preserve value. Capital expenditure and capital work in progress incurred in the period amounted to US$1,853,414 (2017: US$2,983,430).

The Group's working capital ratios remained satisfactory and borrowing levels at US$1,772,473 (2017: US$1,899,125) were flat on the comparative period.

The overdue debt of US$1,231,109, highlighted in my last report, remains outstanding and has been secured against immovable properties. An agreement has been reached with the client to preserve the value of this debt. The debt was borne out of a commercial disagreement between our client and its financier. The Board believes that the said project is strategic and is commercially viable. It is likely to be resumed once the commercial dispute is resolved.

CAPITAL EXPENDITURE

Capital expenditure and capital work in progress incurred in the period amounted to US$1,853,414 (2017: US$2,976,649) was mainly for expansionary purposes and was financed by both internal and external resources. Total cumulative capital expenditure for the five-year period to 31 December 2018 amounted to $6,675,991. The sustained investment in capital expenditure has increased the Group's technological and operational capability to engage more complex, diverse and large-scale projects going into the future.

OCCUPATIONAL HEALTH & SAFETY ASSESSMENT SYSTEMS (OHSAS)

I am pleased to advise that in the period under review the Company was successfully certified to the International Organisation for Standardization (ISO) 9001:2015 Quality Management System and retained its certifications under ISO 14001:2004 Environmental Management System, which was subsequently upgraded to ISO 14001:2015, and Occupational Health and Safety Assessment Series (OSHAS) 18001:2007. However, Lost Time Injury Frequency Rate declined to 1:42 (2017: 0.46) owing largely to two serious incidents that occurred during the year. Notwithstanding this setback, the Group is vigorously continuing with its Zero harm programs.

MASIMBA IN THE COMMUNITY

The Group, in addition to its local communities' labour recruitment and procurement policies, invested US$120,985 (2017: US$37,615) in the period under review in various charitable projects that support the communities that it operates in.

The Board is deeply saddened with the effects of Cyclone Idai that caused untold suffering and destruction to the communities of Chipinge and Chimanimani in March 2019. The company joined the government and other volunteer organisations in providing the desperately needed relief to these communities. To this end Masimba contributed roads construction plant and human resources that were part of the teams that focused on opening access roads.

PROSPECTS

The resolution of key economic indicators, in particular availability of foreign currency and improved investor confidence, will contribute significantly to the unlocking of major infrastructure projects in the country. The country's policymakers have made tough decisions on fuel and foreign currency pricing which if supported by stringent fiscal discipline and sustainable lines of credit, among others, may lay a foundation for economic recovery. The Group has put in place capacity building and resourcing strategies among other initiatives in order to take advantage of infrastructure development opportunities.

DIVIDEND DECLARATION

The Board, having considered the profitability of the business and its future cashflows, is proposing a final dividend of RTGS$0.35 cents (2017: USD$0.15 cents) for the financial year ended 31 December 2018, this will be paid as a scrip dividend. This will be paid as cash or scrip divided, the details of which will be provided in due course.

DIRECTORATE

There were no changes to the Directorate in the period under review.

APPRECIATION

On behalf of the Board I extend my appreciation to our valued customers, suppliers and other key stakeholders who have remained committed to the Masimba brand, as well as to the executives and staff for their dedication. I also wish to thank my colleagues on the Board for their continued and unwavering support.

G. Sebborn
12 April 2019

ABRIDGED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018 Audited US$	31 December 2017 Audited US$
Revenue		**40,014,431**	**27,451,196**
Profit before depreciation and fair value adjustments		3,254,621	2,361,288
Fair value adjustments		-	40,500
Depreciation		(1,387,689)	(1,110,171)
Operating profit		1,866,932	1,291,617
Net interest (paid) / received		(172,296)	(117,448)
Profit before tax	**3.1**	**1,694,636**	**1,174,169**
Tax	3.2	(517,117)	(475,431)
Profit for the year		**1,177,519**	**698,738**
Number of shares in issue (millions)		233.0	232.0
Basic earnings per share (cents)		0.50	0.31
Diluted earnings per share (cents)		0.50	0.30
Headline earnings per share (cents)		0.49	0.22

ABRIDGED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	31 December 2018 Audited US$	31 December 2017 Audited US$
Profit for the period	1,177,519	698,738
Other comprehensive income:		
Gain on revaluation of property, plant and equipment	-	167,687
Movement in available for sale investments	1,683,841	963,095
Deferred tax charge on other comprehensive income	(16,839)	(52,810)
Other comprehensive income for the period, net of tax	1,667,002	1,077,972
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2,844,521**	**1,776,710**

ABRIDGED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

		31 December 2018 Audited US$	31 December 2017 Audited US$
ASSETS			
Non-current assets			
Property, plant and equipment	3.3	8,691,388	8,727,868
Investment property	3.4	4,616,000	4,616,000
Investments	3.5	2,795,681	2,146,260
		16,103,069	**15,490,128**
Current assets			
Cash and cash equivalents		3,788,881	1,294,967
Contracts in progress and accounts receivable	3.6	20,357,440	15,106,704
Inventories		1,725,984	1,200,575
Current tax assets		78,579	63,802
		25,950,884	**17,666,048**
Total assets		**42,053,953**	**33,156,176**
EQUITY AND LIABILITIES			
Share capital		2,331,824	2,320,199
Share premium		405,428	402,987
Reserves		10,232,276	9,475,558
Retained earnings		3,579,150	1,839,661
		16,548,678	**14,038,405**
Non-current liabilities			
Interest bearing borrowings	3.7	200,000	910,000
Deferred tax		2,312,928	1,778,972
Finance lease	3.8	414,706	499,130
		2,927,634	**3,188,102**
Current liabilities			
Interest bearing borrowings	3.7	644,857	205,853
Finance lease	3.8	512,910	284,142
Accounts payable	3.9	21,419,874	15,439,675
		22,577,641	**15,929,669**
Total equity and liabilities		**42,053,953**	**33,156,176**

ABRIDGED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	31 December 2018 Audited US$	31 December 2017 Audited US$
Net cashflow generated by operating activities	3,231,584	2,247,643
Net cashflow utilised by investing activities	(262,988)	(2,872,180)
Net cashflow generated (utilised by) / received from financing activities	(474,682)	1,139,237
Increase in cash and cash equivalents	**2,493,914**	**514,700**

ABRIDGED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	31 December 2018 Audited US$	31 December 2017 Audited US$
Shareholders' equity at the beginning of the period	**14,038,405**	**12,311,543**
Share based payments reserve	(284)	656
Other comprehensive income	1,667,002	1,077,972
Dividend paid	(348,030)	(308,690)
Issue of shares	14,066	258,186
Profit for the period	1,177,519	698,738
Shareholders' equity at the end of the period	**16,548,678**	**14,038,405**

SUMMARY OF INFORMATION

Auditor's report

These summary financial statements should be read in conjunction with the full set of audited financial statements of Masimba Holdings Limited for the year ended 31 December 2018, which have been audited by Grant Thornton Chartered Accountants Zimbabwe. The audit opinion on the Group financial statements is an adverse opinion due to non-compliance with International Accounting Standard (IAS) 21: The Effects of Changes in Foreign Exchange Rates. The audit report includes a section on key audit matters comprising of revenue recognition and valuation of construction projects, income and deferred taxes, and expected credit risk allowance. The Independent Auditor's report on the Group financial statements is available for inspection at the Company's registered office.

1. Basis of presentation

Statement of compliance

The abridged financial results have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). The same accounting policies, presentation and methods followed in the abridged financial results are as applied in the Group's latest annual financial statements. The Group has partially complied with International Financial Reporting Standards due to the requirements to comply with Statutory Instrument 33 of 2019.

2. Functional and presentation currency

The financial statements are expressed in United States Dollars which was both the functional and presentation currency of the Group for the financial year ended 31 December 2018.

The continued constrained exchangeability between the United States Dollars and Real Time Gross Settlement or Bond notes and coins required application of IAS 21: The Effects of Changes in Foreign Currency Rates. However, the Group was not able to comply with the requirements of this standard due to the need to adhere to the requirements of Statutory Instrument 33 of 2019.

3 Notes to the abridged consolidated financial statements

		31 December 2018 Audited US$	31 December 2017 Audited US$
3.1	**Profit before tax**		
	Profit before tax is shown after charging/(crediting) the following items:		
	Staff costs	1,691,784	1,143,562
	Compensation of directors and key management:		
	for services as directors	62,500	62,500
	for management services	804,185	664,591
3.2	**Income tax**		
	Current tax	-	-
	Deferred tax	(517,117)	(475,431)
		(517,117)	**(475,431)**
	Tax reconciliation		
	Profit before tax	1,694,636	1,174,168
	Tax at standard rate	(436,369)	(302,348)
	Adjusted for:		
	Effects of expenses not deductible for tax	(14,144)	(77,321)
	Effects of other permanent differences	(66,604)	(95,762)
		(517,117)	**(475,431)**
3.3	**Property, plant and equipment**		
	Movement for the year:		
	Balance at the beginning of the year	8,727,868	6,731,970
	Capital expenditure	1,406,137	2,983,430
	Depreciation	(1,387,689)	(1,110,171)
	Disposals	(84,702)	(642,872)
	Revaluation - recognition on revaluation	-	3,585,000
	Revaluation - elimination on revaluation	-	(3,590,000)
	Depreciation - elimination on revaluation	-	172,687
	Depreciation - elimination on disposal	29,774	597,824
	Balance at the end of the year	**8,691,388**	**8,727,868**
3.4	**Investment property**		
	Movement for the year:		
	Balance at beginning of the year	4,616,000	4,467,500
	Revaluation	-	40,500
	Capital expenditure	-	126,000
	Disposals during the year	-	(18,000)
	Balance at end of the year	**4,616,000**	**4,616,000**

The fair value of investment property has been carried out on the basis of valuations done as at 31 December 2017. This was valuation was on the open market basis.

		31 December 2018 Audited US$	31 December 2017 Audited US$
3.5	**Investments**		
	Financial assets carried at fair value through other comprehensive income	2,780,101	2,146,260
	Investment in joint venture	15,580	-
		2,795,681	**2,146,260**
3.6	**Contracts in progress and accounts receivable**		
	Contract receivables and contract work in progress	14,889,375	9,734,620
	Trade receivables	1,128,965	658,647
	Prepayments	4,418,091	4,471,306
	Deposits and other receivables	130,965	448,499
		20,567,396	**15,313,072**
	Less: Allowance for doubtful receivables	(209,956)	(206,368)
		20,357,440	**15,106,704**
3.7	**Interest bearing borrowings**		
	Long term	200,000	910,000
	Short term	644,857	205,853
		844,857	**1,115,853**

The short-term loans represent a reclassification to current liabilities as per IFRS 7. The loans have a tenure of two years and accrue interest at an effective rate of 7% per annum. These loans are fully secured against immoveable property and a notarial general covering bond over moveable assets, including a cession of book debts.

3.8 Finance lease liabilities

2018	Up to 1 year US$	2 to 5 years US$	Total US$
Minimum lease payments	512,910	414,706	927,616
Interest	61,625	19,199	80,824
	574,535	**433,905**	**1,008,440**

2017	Up to 1 year US$	2 to 5 years US$	Total US$
Minimum lease payments	284,142	499,130	783,272
Interest	51,043	34,477	85,521
	335,185	**533,007**	**868,792**

		31 December 2018 Audited US$	31 December 2017 Audited US$
3.9	**Accounts payable**		
	Trade	1,114,981	1,511,972
	Unearned revenue (advance receipts from customers)	5,518,455	6,926,767
	Contract accruals and other payables	8,246,380	4,715,365
	Subcontractor liabilities	6,540,058	2,285,570
		21,419,874	**15,439,674**
3.10	**Contingent liabilities**		
	Bank guarantees on construction contracts in respect of performance, advance payments, retentions and bids	**9,843,071**	**9,588,337**

4. Events after reporting date

On 20 February 2019 the Reserve Bank of Zimbabwe announced the Monetary Policy Statement which key summaries are detailed herein: -

- The introduction of the RTGS dollars (RTGS$) as part of the multi-currency basket.
- RTGS$ to be used by all entities and individuals in Zimbabwe for the purposes of pricing of goods and services, accounting and domestic settlement of transactions.
- Establishment of an interbank foreign exchange market where the exchange rate will be determined by market forces. The interbank opened at a rate of US$1 to RTGS$2.5.

The Directors have assessed and concluded that this be disclosed as a non-adjusting subsequent event as per IAS 10: Events After the Reporting Period. Disclosed in the table below, is the impact on Financial Statements for the year ending 31 December 2018, had the RTGS$ been implemented as the functional currency of the business as at that date. However, it should be noted that these are the best estimates as at time of reporting that approximate opening balances of the financial position of the ensuing financial period and may not necessarily be deemed to be the opening balances for the 2019 financial reporting period.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Components of Reported Amounts				Sensitivity Analysis			
ASSETS	Monetary Assets/ Liabilities Nostro FCA US$ 2018 US$	Monetary Assets/ Liabilities Nostro RTGS$ 2018 US$	Non-Monetary Assets/ Liabilities US$ 2018 US$	Non-Monetary Assets/ Liabilities RTGS$ 2018 US$	US$ @1:1 2018 US$	RTGS$ @1:2.5 2018 RTGS$	RTGS$ @1:4 2018 RTGS$	RTGS$ @1:5 2018 RTGS$
Non-current assets								
Property, plant and equipment	-	-	7,782,698	908,690	8,691,388	20,365,435	32,039,482	39,822,180
Investment property	-	-	4,616,000	-	4,616,000	11,540,000	18,464,000	23,080,000
Investments	-	2,795,681	-	-	2,795,681	2,795,681	2,795,681	2,795,681
	-	**2,795,681**	**12,398,698**	**908,690**	**16,103,069**	**34,701,116**	**53,299,163**	**65,697,861**
Current assets								
Cash and cash equivalents	712,595	3,076,285	-	-	3,788,881	4,857,773	5,926,666	6,639,261
Contracts in progress and contracts receivables	977,549	13,911,826	-	-	14,889,375	16,355,699	17,822,023	18,799,573
Trade and other receivables	217,729	5,250,336	-	-	5,468,065	5,794,659	6,121,252	6,338,981
Inventories	-	-	-	1,725,984	1,725,984	1,725,984	1,725,984	1,725,984
Current tax assets	-	78,579	-	-	78,579	78,579	78,579	78,579
	1,907,873	22,317,026	-	1,725,984	25,950,884	28,812,694	31,674,504	33,582,378
TOTAL ASSETS	**1,907,873**	**25,112,707**	**12,398,698**	**2,634,674**	**42,053,953**	**63,513,810**	**84,972,667**	**99,280,239**
EQUITY AND LIABILITIES								
Capital and reserves								
Share capital	-	-	-	2,331,824	2,331,824	2,331,824	2,331,824	2,331,824
Share premium	-	-	-	405,428	405,428	405,428	405,428	405,428
Reserves	-	-	-	10,232,276	10,232,276	10,232,276	10,232,276	10,232,276
Retained earnings	-	-	-	3,579,150	3,579,150	3,579,150	3,579,150	3,579,150
Foreign currency translation reserve	-	-	-	-	-	21,423,857	42,847,715	57,130,287
	-	**-**	**-**	**16,548,678**	**16,548,678**	**37,972,535**	**59,396,393**	**73,678,965**
Non-current liabilities								
Borrowings	-	200,000	-	-	200,000	200,000	200,000	200,000
Finance lease	-	414,706	-	-	414,706	414,706	414,706	414,706
Deferred tax	-	2,312,928	-	-	2,312,928	2,312,928	2,312,928	2,312,928
		2, 927,634	**-**	**-**	**2,927,634**	**2,927,634**	**2,927,634**	**2,927,634**
Current liabilities								
Borrowings	-	644,857	-	-	644,857	644,857	644,857	644,857
Finance lease	-	512,910	-	-	512,910	512,910	512,910	512,910
Trade and other payables	24,000	14,855,816	-	-	14,879,816	14,915,816	14,951,816	14,975,816
Subcontractors	-	6,540,058	-	-	6,540,058	6,540,058	6,540,058	6,540,058
	24,000	**22,553,641**	**-**	**-**	**22,577,641**	**22,613,640**	**22,649,640**	**22,673,640**
TOTAL EQUITY AND LIABILITIES	**24,000**	**25,481,275**	**-**	**16,548,678**	**42,053,953**	**63,513,810**	**84,973,667**	**99,280,239**

Assumptions

The Group has applied the following assumptions in the preparation of the sensitivity analysis:

- Nostro refers to the international US$ that is tradeable on the international markets.
- Property, plant and equipment have an underlying US$ value and as per IAS 21: The Effects of Changes in Foreign Currency Rates, all non-monetary assets are converted at the spot rate. The assumed spot date is 31 December 2018.
- Share capital is denominated in US$ Nostro following the redenomination in 2009. However, for this purpose and in line with the PAAB guidance, Share capital and other reserves, though accrued in a US$ environment, have been deemed to be RTGS.
- The following rates have been applied:
  - Inter-bank exchange rate of 2.5 being the initial market-based estimate.
  - The 4 and 5 exchange rates are based on the spread of the parallel market rates that were prevalent as at 31 December 2018.
- The difference between net assets and the resultant equity translation has been treated as the foreign currency translation reserve.

VPCG