Abridged Audited Financial Results

FOR THE YEAR ENDED 31 DECEMBER 2017

Masimba HOLDINGS LIMITED

Financial Highlights

	Change	2017 Audited US$	2016 Audited US$
Revenue	43%	27,451,196	19,139,918
EBT	69%	1,174,169	696,093
EBITDA	38%	2,361,288	1,713,168
EBITDA/Turnover	-	9%	9%
Basic Earnings Per Share (cents)	35%	0.31	0.23
Diluted Earnings Per Share (cents)	30%	0.30	0.23
Headline Earnings Per Share (cents)	5%	0.22	0.21

CHAIRMAN'S STATEMENT

INTRODUCTION

It is my pleasure to present to you the financial results for Masimba Holdings Limited for the year ended 31 December 2017.

OPERATING ENVIRONMENT

The operating environment continued on a decline for the significant part of the financial period. Net foreign direct investment was elusive with total investments received in the year amounting to approximately US$343 million versus a comparative of US$235,4 million. Tight liquidity and shortages in foreign currency adversely affected materials pricing and supply thereof, which in turn negatively impacted projects execution.

Towards the end of the financial year, there was a major shift in the political environment which ushered in a new administration led by His Excellency, President E.D. Mnangagwa. This administration has committed to reviving the stagnant economy by way of a raft of policy reforms and engaging local and international stakeholders. In addition, the government has undertaken to holding of free, fair, peaceful and credible elections later this year, this being a key milestone towards achieving economic revival.

OPERATIONS

The operations of Masimba Holdings Limited comprise Civil Engineering and Buildings Construction, Structural Steel Fabrication and Property Development.

The Group's Turnover and Earnings Before Interest, Taxation, Depreciation and Armotisation (EBITDA) improved to US$27,451,196 (2016: US$19,139,918) and US$2,361,288 (2016: US$1,713,168) respectively.

The growth in Turnover of 43% was mainly driven by the private sector, particularly in the mining and housing infrastructure sectors. The business recorded a resurgence in projects that have significantly higher values and longer tenure, which have positively influenced resource allocation and optimization. Earnings Before Interest and Taxation improved to US$1,291,617 (2016: US$626,725) owing largely to cost containment and project management strategies.

The financial position of the business strengthened to US$33,156,176 (2016: US$24,442,417) due to the profitability and capital expenditure incurred in the reporting period.

Contracts in progress, contracts receivables and other receivables at US$15,106,704 (2016: US$10,125,492) grew by 49% compared to a 43% growth in revenue volumes. The increase in trade and subcontractors payables of 52% was driven by the growth in trading volumes and significant advance payments received from clients towards the end of the reporting period. In line with the business strategy of managing risk and value creation, advance payments received on contracts were applied to the pre-purchase of materials and services to support the construction projects. Resultantly, cash and cash equivalent balances increased to US$1,294,967 (2016: US$780,267) at the end of the year.

CAPITAL EXPENDITURE

In the period under review, US$2,983,430 (2016: US$1,972,227) was invested in plant and equipment. This brings the capital expenditure over the past three years to US$5,155,553, thus positioning the business to exploit the many prevailing and anticipated construction opportunities. This capital expenditure was financed through a combination of internal resources and external borrowings. Group borrowings at US$1,899,125 (2016: US$705,834) remain well under control.

OCCUPATIONAL HEALTH & SAFETY ASSESSMENT SYSTEMS (OHSAS)

Our strict Zero Harm strategy resulted in the reduction of Lost Time Injury Frequency Rate to 0.46 (2016: 1.04), which is below the international benchmark of 1. In October 2017, the Company received the Building & Construction Sectoral and the Civil Engineering Contractors National Gold Awards at the National Social Security Authority Safety and Health at Work annual event.

MASIMBA IN THE COMMUNITY

The Company invested US$37,615 in various charitable projects that are key to the communities it operates in.

PROSPECTS

A certain level of optimism has been created by the recent political developments and it is generally expected that this will lead to many infrastructure growth opportunities. The Company has put in place capacity building and resourcing strategies, among others, in order to exploit these opportunities.

DIVIDEND DECLARATION

In view of the profit for the year ended 31 December 2017, coupled with the ability of the business to generate cash, the Board is proposing a final dividend of US0,15 cents per share.

The dividend will be payable on or about 24 May 2018 to all shareholders of the Company registered at close of business on 13 April 2018. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to the market day of 10 April 2018 and ex-dividend as from 11 April 2018.

DIRECTORATE

There were no changes to the Board composition in the current financial period.

APPRECIATION

I wish to extend my appreciation to our valued customers, suppliers and other key stakeholders for their continued support.

Lastly, I extend my appreciation to my fellow Board members for their valuable contributions and to our Executives and Staff for their commitment and dedication to delivering value.

G. Sebborn
27 March 2018

ABRIDGED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Audited US$	2016 Audited US$
Revenue		27 451 196	19 139 918
Profit before depreciation and fair value adjustments		**2 361 288**	**1 713 168**
Fair value adjustment		40 500	-
Depreciation		(1 110 171)	(1 086 443)
Operating profit		**1 291 617**	**626 725**
Net interest (paid) / received		(117 448)	46 681
Share of joint venture profit		-	22 687
Profit before tax	3.1	**1 174 169**	**696 093**
Income tax	3.2	(475 431)	(189 038)
Profit for the year		**698 738**	**507 055**
Number of shares in issue (millions)		232.0	220.5

ABRIDGED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 Audited US$	2016 Audited US$
Profit for the year	698 738	507 055
Other comprehensive income:		
Gain on revaluation of property, plant and equipment	167 687	-
Movement in available for sale investments	963 095	616 898
Deferred tax charge on other comprehensive income	(52 810)	(6 169)
Other comprehensive income for the year, net of tax	**1 077 972**	**610 729**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1 776 710**	**1 117 784**

ABRIDGED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 Audited US$	2016 Audited US$
ASSETS			
Property, plant and equipment	3.3	8 727 868	6 731 970
Investment property	3.4	4 616 000	4 467 500
Investments	3.5	2 146 260	1 318 567
		15 490 128	**12 518 037**
Current assets			
Cash and cash equivalents		1 294 967	780 267
Contracts in progress and accounts receivable	3.6	15 106 704	10 125 492
Inventories		1 200 575	954 819
Tax refundable		63 802	63 802
		17 666 408	**11 924 380**
Total assets		**33 156 176**	**24 442 417**
EQUITY AND LIABILITIES			
Share capital		2 320 199	2 204 937
Share premium		402 987	260 063
Reserves		9 475 558	8 396 930
Retained earnings		1 839 661	1 449 613
		14 038 405	**12 311 543**
Non-current liabilities			
Interest bearing borrowings	3.7	910 000	315 567
Deferred tax		1 778 972	1 250 731
Finance lease liabilities	3.8	499 130	-
		3 188 102	**1 566 298**
Current liabilities			
Interest bearing borrowings	3.7	205 853	390 267
Finance lease liabilities	3.8	284 142	-
Accounts payable	3.9	15 439 674	10 174 309
		15 929 669	**10 564 576**
Total equity and liabilities		**33 156 176**	**24 442 417**

ABRIDGED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 Audited US$	2016 Audited US$
Net cash flow generated from operating activities	2 247 643	591 511
Net cash flow utilised by investing activities	(2 872 180)	(214 383)
Net cash flow generated from / (utilised in) financing activities	1 139 237	(334 034)
Increase in cash and cash equivalents	**514 700**	**43 094**

ABRIDGED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 Audited US$	2016 Audited US$
Shareholders' equity at the beginning of the year	12 311 543	11 790 662
Share based payments reserve	656	(1 570)
Other comprehensive income	1 077 972	610 729
Dividend paid	(308 690)	(595 333)
Issue of shares at a premium	258 186	-
Profit for the year	698 738	507 055
Shareholders' equity at the end of the year	**14 038 405**	**12 311 543**

SUMMARY OF INFORMATION

Auditor's report

The summary Group financial statements derived from the audited Group financial statements of Masimba Holdings Limited for the year ended 31 December 2017 are consistent in all material respects, with those financial statements, on the basis described in note 1 to the summary Group financial statements. The audit opinion as issued by Grant Thornton on the Group financial statements is unqualified. The audit report includes a section on key audit matters comprising audit of revenue recognition and valuation of construction projects, income and deferred taxes, and allowance for credit losses. These summary Group financial statements should be read in conjunction with the complete set of Group financial statements for the year ended 31 December 2017. The 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 audited 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.

2 Functional and presentation currency

The abridged audited financial statements are presented in United States Dollars (US$), being the functional and reporting currency of the primary economic environment in which the Group operates. Please refer to the use of estimates and judgements paragraph below which details the considerations made in determining the Group's functional currency.

Use of estimates and judgements

Determination of functional currency

The shortage of cash and funded Nostro bank accounts saw the emergence of different prices for goods and services settled via Real Time Gross Settlement system (RTGS), Point of Sale (POS) and mobile money. As a result of this and other factors, management had to make an assessment as to whether the use of the US$ as the Group's functional currency is still appropriate. The different modes of settlement does not result in change in functional currency. Management concluded that the US$ is still the functional currency.

		2017 Audited US$	2016 Audited US$
3	**Notes to the abridged consolidated financial statements**		
3.1	**Profit before tax**		
	Profit before tax is shown after charging the following items:		
	Staff costs	1 808 153	1 593 965
	Compensation of directors and key management		
	for services as directors	62 500	62 500
	for management services	664 591	621 449
3.2	**Income tax**		
	Current tax	-	(2 072)
	Deferred tax	(475 431)	(186 966)
		(475 431)	**(189 038)**
	Tax reconciliation		
	Profit before tax	1 174 169	696 093
	Tax at standard rate	(302 348)	(179 244)
	Adjusted for:		
	Effects of expenses not deductible for tax purposes	(77 321)	(13 380)
	Effects of other permanent differences	(95 762)	(12 149)
	Effects of income taxed at special rates	-	15 735
		(475 431)	**(189 038)**
3.3	**Property, plant and equipment**		
	Balance at the beginning of the year	6 731 970	6 004 892
	Additions	2 983 430	1 972 227
	Depreciation	(1 110 171)	(1 086 443)
	Disposals	(642 872)	(481 577)
	Revaluation - recognition on revaluation	3 585 000	-
	Revaluation - elimination on revaluation	(3 590 000)	-
	Depreciation - elimination on revaluation	172 687	-
	Depreciation - elimination on disposal	597 824	322 871
	Balance at the end of the year	**8 727 868**	**6 731 970**
3.4	**Investment property**		
	Balance at beginning of the year	4 467 500	4 485 500
	Fair value adjustments	40 500	-
	Additions	126 000	-
	Disposals	(18 000)	(18 000)
	Balance at end of the year	**4 616 000**	**4 467 500**
	The investment property was revalued at the end of December 2017 by independent valuers on the open market basis.		
3.5	**Investments**		
	Financial Assets carried at fair value through other comprehensive income	2 146 260	1 183 165
	Investment in joint venture	-	135 402
		2 146 260	**1 318 567**
3.6	**Contracts in progress and accounts receivable**		
	Contract receivables and contract work in progress	9 734 620	6 545 933
	Trade receivables	658 647	890 030
	Prepayments	4 471 306	2 237 256
	Deposits and other receivables	448 499	639 633
		15 313 072	10 312 852
	Less: Allowance for credit losses	(206 368)	(187 360)
		15 106 704	**10 125 492**

The Company provides for receivables aged above 90 days on a case by case basis where subsequent developments suggest that recovery of the amount is in doubt.

		2017 Audited US$	2016 Audited US$
3.7	**Interest bearing borrowings**		
	Long term	910 000	315 567
	Short term	205 853	390 267
		1 115 853	**705 834**

The short term loans represent a reclassification to current liabilities as per IFRS 7, which have a tenure of three years and accrue interest at an effective rate of 7% per annum (2016: 7%). These loans are fully secured against immovable property and a notorial general covering bond over movable assets, including a cession of book debts.

3.8	**Finance lease liabilities**	**Up to 1 year**	**2 to 5 years**	**Total**
	Principal	284 142	499 130	783 272
	Interest	51 043	34 477	85 520
		335 185	**533 607**	**868 792**

The finance lease liabilities comprise of three finance leases acquired to refinance the acquisition of property, plant and equipment. Each finance lease attracts an interest rate of 9% per annum. The finance leases have a tenure of 36 months each.

		2017 Audited US$	2016 Audited US$
3.9	**Accounts payable**		
	Trade	1 511 972	760 486
	Unearned revenue (Advance receipts from customers)	6 926 767	4 107 674
	Contract accruals and other payables	4 715 365	3 257 120
	Subcontractor liabilities	2 285 570	2 049 029
		15 439 674	**10 174 309**
3.11	**Contingent liabilities**		
	Bank guarantees on construction contracts in respect of performance, advance payments, retentions and bids.	**9 588 337**	**9 863 930**

3.12 Events after reporting date

At the date of approval of the financial statements on 27 March 2018, there were no material events after the reporting date that required separate disclosure except for the dividend declaration.

Directors: G Sebborn (Chairman), C Malunga*, M W McCulloch, A Makamure*, M M Di Nicola, P T Zhanda (Jnr.) (*Executive) • Registered Office: 44 Tilbury Road, Willowvale, Harare, Zimbabwe