REAL ESTATE INVESTMENTS ZAMBIA PLC

Statement of Group results for the year ended 31 December 2018

In compliance with the requirements of the Securities Act 41 of 2016 and the Lusaka Securities Exchange Listings Rules(the "LuSE Listings Rules" or the "Rules), Real Estate Investments Zambia PLC (REIZ) announces the results of the Company and its subsidiaries (collectively referred to as the Group) for the year ended 31 December 2018. These results are derived from the Group's audited financial statements which were approved by the Directors at a Board Meeting held on 1 March 2019.

ABRIDGED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2018 K' 000	2017 K' 000
Revenue	**50,579**	65,164
Profit before other income, finance cost and tax	**27,734**	40,483
Change in fair value of investment property	**26,325**	2,154
Other operating income	**70**	20
Results from operations	**54,129**	42,657
Net finance cost	**(12,719)**	(10,178)
Exchange loss	**(31,771)**	(66)
Profit before tax	**9,639**	32,413
Tax expense	**(6,815)**	(7,380)
Profit after tax	**2,824**	25,033
Dividend on Ordinary shares (Kwacha per share)		
- Interim	**-**	0.10
- Proposed /(Final)	**0.13**	0.13
Headline Earnings per share (on Profit before other income, finance cost and tax):	**0.49**	0.72
Earnings per share after tax:	**0.05**	0.44
Weighted average number of ordinary shares	**56,460,198**	56,460,198

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2018	2017
Assets		
Plant and equipment	**8,608**	1,748
Investment property	**951,785**	838,842
Investment property under development	**26,943**	22,982
Lease straight-lining receivable	**2,673**	12,415
Current assets	**36,435**	96,504
Total assets	**1,026,444**	972,491
Equity and liabilities		
Total equity	**798.952**	804,202
Non-current liabilities	**197,301**	156,053
Current liabilities	**30,191**	12,236
Total equity and liabilities	**1,026,444**	972,491

ABRIDGED STATEMENT OF CHANGES IN EQUITY

	2018	2017
Share capital	**565**	565
Share premium	**90,340**	90,340
Retained earnings	**713,297**	701,250
Balance at beginning of the year	**804,202**	792,155
Opening balance adjustment on adoption of IFRS 9	**(734)**	-
Profit for the year	**2,824**	25,033
	806,292	817,188
Dividend paid	**(7,340)**	(12,986)
Total closing equity	**798,952**	804,202

ABRIDGED STATEMENT OF CASH FLOWS

	2018	2017
Net cash generated from operating activities	**18,225**	26,412
Net cash used in investing activities	**(94,858)**	(26,895)
Net cash used in financing activities	**(524)**	(1,323)
Net (decrease)/increase cash and cash equivalents	**(77,157)**	(1,806)
Cash and cash equivalents at beginning of the year	**79,430**	78,471
Effect of exchange rate fluctuations on cash held	**(258)**	2,765
Cash and cash equivalents at end of the year	**2,015**	79,430

PROPERTY INDUSTRY

The property industry in 2018 was challenging with market forces having a dampening impact on the financial performance of the Group. The industry was characterized with downward pressures on rental rates, slow collection of past due receivables and escalating vacancy rates or low uptake of vacant spaces due to increased release of new stock on the market without matching increase in demand.

GROUP PERFORMANCE

The Group reported a profit after tax for 2018 of ZMW2.8 million compared to ZMW25.0 million for 2017. Revenue declined in 2018 by 22.4% to ZMW50.6 million from ZMW65.2 million in 2017 while profit from operations increased to K54.1 million in 2018 from K42.7 million in 2017.

The positive impact on the operating results came from:

1. Continued cost-control and rightsizing measures which saw operating and administrative costs reducing by 5.4% notwithstanding inflation driven cost increases year on year.
2. Depreciation of the Kwacha during the year which accounted for approximately 10.8% favorable impact on rental revenue arising from US Dollars based operating leases.
3. Investment properties appreciated in Kwacha value terms due to approximately 19% devaluation of Kwacha from K10.01/$ at end of 2017 to K11.89/$ at end of 2018, leading to a net change in fair value of ZMW26.3m in 2018 compared to ZMW2.2m in 2017. In USD terms, the fair value of the investment property portfolio declined by 17% due to vacancies and falling market rentals. The fair value of investment property was determined as at 31 December 2018 by external independent and professional experts in property valuation, Knight Frank Zambia Limited, who possess appropriate recognized professional qualifications and have requisite experience in the location and category of the properties valued.

The adverse impact on the reported profit after tax was attributable mainly to:

1. Decline in rental income as a result of vacancies at Arcades shopping mall, one of the Group's major revenue earners, during the period of redevelopment which saw vacancy rates peaking at about 35%. The refurbished mall was re-launched in the fourth quarter of 2018 and trading began to normalize.
2. Revenue was further adversely impacted by the rental remissions of ZMW3.1 million granted to deserving tenants at Arcades mall as a goodwill gesture during the redevelopment period which accounted for 4.8% decline in revenue.
3. Net increase of K6 million in interest expenses as a result of a combination of increased borrowings to fund the Arcades shopping mall redevelopment and the approximately 19% depreciation of the ZMW against the USD during 2018.
4. Accounting adjustment for write-down of straight-lining lease assets whose net impact was a charge of K10 million against revenue although actual invoiced rentals was slightly higher at K60.6 million in 2018 compared to K60.2 million invoiced in 2017. In 2017, this accounting adjustment resulted in a credit of K5 million to revenue. The lease straight-lining adjustment is a requirement per international accounting standards.
5. Depreciation of the ZMW against the USD that resulted in exchange losses of K28.3 million on translation of the Company's foreign currency denominated liabilities in 2018 compared to only K66 thousand exchange loss in 2017.

ACQUISITIONS AND DEVELOPMENTS

During the year the Group acquired Southview Park a housing complex situated in the Lilayi area, along Kafue road presently developed with 22 upmarket residential homes and plenty of bulk land. The extent of the property is 11.4752 hectare (28.3552 acres) constituting a significant land bank with immense future development potential. The acquisition was in line with the Group's strategic pursuit for sectorial diversification being the first time that a residential property has been added to the portfolio.

Refurbishment and redevelopment of the Arcades Shopping Mall was successfully completed during the year. The project has resulted in the transformation of the mall into a modern one and has attracted a diverse range of shops and services. Redevelopment has increased lettable space and improved distribution of foot traffic across the mall.

DIVIDENDS

The Directors propose a final dividend of K0.13/share for shareholder approval at the Annual General Meeting that will be held at Southern Sun Ridgeway Hotel on Wednesday 27th March 2019.

BUSINESS OUTLOOK

The property industry is expected to remain challenging with most of the market forces that characterized 2018 expected to continue to prevail in 2019 particularly with regard to occupancy and rental rates which are expected to continue to face downward pressure in 2019. This notwithstanding, the Group is expected to perform better in 2019 compared to 2018 on the strength of the following:

a) With the completion of redevelopment and refurbishment of Arcades Shopping Mall:
   i) The rental remissions granted to tenants in 2017 and 2018 will not be granted in 2019. This means that there will be no reduction in revenue from existing tenants.
   ii) The Arcades shopping mall has returned to normal operations and will not experience the temporal closures of businesses that was experienced in 2017/8. The mall further boasts of an increased gross lettable space by 3,900 square metres and new tenants.

b) Southview Park – This upmarket residential property acquired in 2018 with 22 houses is already being tenanted and will contribute to increased rental revenues.

c) Vacancies – rigorous leasing efforts are in place particularly for big box spaces at Counting House Square and Central Park which faced the biggest challenges in 2018. The measures being taken had already started bearing fruit by the close of the year 2018.

First Issued in Lusaka, Zambia on Thursday, 14th March 2018

BY ORDER OF THE BOARD

Moses Vera

Company Secretary

14 March 2019