Dawn Properties Limited

Abridged Audited Financial Statements for the year ended 31 December 2017

CHAIRMAN'S STATEMENT

INTRODUCTION

It is with pleasure that I present the abridged audited financial statements for Dawn Properties Limited and its subsidiaries (the "Group") for the year ended 31 December 2017.

2017 was an eventful year for Zimbabwe. We saw a challenging year for the economy, with prices increasing significantly during the third quarter of the year. The availability of foreign currency remained a major constraint, with most businesses struggling to make their international payments on time. While there were challenges, it is important to note that tourism continued on a positive growth trajectory, boosted by the opening of the refurbished Victoria Falls International Airport in May. This has seen increased arrivals of tourists in Victoria Falls and Hwange.

MACRO-ECONOMIC ENVIRONMENT

The Zimbabwean economy grew by 3.7% in 2017, which was above the initial projection rate of 1.7%. The revised growth rate was largely underpinned by a strong performance in the agriculture sector which posted impressive yields for maize for the 2016/2017 season, largely attributable to the mobilisation of productive inputs via the Command Agriculture programme.

Despite this growth, the operating environment in Zimbabwe continued to deteriorate. The reduction in the inflows from foreign direct investment as well as the overreliance on imported goods against poor export performance, were central to widening the trade deficit and reducing offshore nostro balances whilst depleted liquidity levels in the economy only further reduced consumer spending. Additionally, the servicing of internal debt through the issuance of treasury bills only served to increase the local cost of debt servicing.

Although trading conditions remained extremely challenging during the year under review, we are optimistic that the policy initiatives put in place by Government will yield results. Policies that increase local production, reduce the dependency on imports, avail foreign currency to import key raw materials and clear arrears with international financial institutions will improve medium to long term prospects for improvement in the economic environment. On the backend of policy initiatives to re-engage the international community, the Government of Zimbabwe projects growth for 2018 at 4.5%.

FINANCIAL REVIEW

Statement of comprehensive income

The Group achieved revenue amounting to US$5.1 million compared with US$4.3 million for the same period in 2016, representing an increase of 18%. The increase was mainly attributable to strong performance coming from rental collection on the hotel property portfolio. Total income closed at US$7.1 million compared to US$4.4 million in 2016. The significant difference is attributed to a net fair value gain recorded in 2017 amounting to US$1.9 million compared to a loss of US$69 000 in 2016.

Operating expenses amounted to US$2.9 million compared with US$2.7 million for the same period last year, representing a 8% increase in costs. The significant increase came on the back of renovation work in some of the hotel property portfolio, which was expensed rather than capitalised.

The Group recorded a profit for the year amounting to US$3.0 million compared to US$1.0 million recorded in 2016.

Statement of financial position

The fair value of the investment property increased to US$88.2 million from US$86.3 million as at 31 December 2016.

OPERATIONS

Property investments

Hotel properties

Rental revenue earned for the 2017 financial period was at US$3.0 million compared to US$2.3 million for the same period last year. While overall all the properties performed better than last year, the total increase of 29% was mainly attributable to increases rentals from Elephant Hills Resort and Conference Centre, Hwange Safari Lodge and Caribbea Bay Hotel.

Our rental yield improved from 3.2% recorded in 2016 to 4.2% in 2017. The management team, in conjunction with African Sun Limited ("ASL"), continue to work on a number of measures to ensure that this key performance indicator improves significantly. In the period under review, the Group undertook refurbishments at Caribbea Bay Hotel.

It is the Board's strategy to ensure that our properties benefit from the resurgence in tourism and also increased business traffic coming to the major cities. We are cautiously optimistic that the major driver of growth will be in Victoria Falls and Hwange. As such, particular attention is being paid to ensuring that the Elephant Hills Resort and Conference Centre and Hwange Safari Lodge are equipped to handle the increased volumes.

Timeshare lodges – Blue Swallow Lodges and Kingfisher Cabanas

Post the settlement of the dispute with ASL, 2017 represented the first full 12 months which the Group operated the timeshare business unit. We have had some encouraging results and timeshare revenue for the year amounted to US$196 000. As at year end, we had sold contract weeks to the value of US$219 000 and the resultant revenue will be recognised over the respective contract terms. For the year 2018, while we will increase our focus on driving contract sales, we will continue to renovate our lodges and ensure that our guests enjoy a 5-star holiday experience in Nyanga and Kariba.

Property consultancy

The business unit recorded an impressive growth in profitability for the year ended 31 December 2017. Although revenues were marginally up by 5% to close at US$1.9 million, profit after tax increased by 45% to close at US$532 798. The growth in profit was driven mainly by management's continued focus on cost containment measures implemented in 2016.

Property management was the main driver of revenue, with a contribution of US$1.2 million. Valuation advisory services continued on a steady growth, with revenues of US$570 000, while the balance of US$123 000 came from agency commission and project management.

The valuation advisory services unit was not spared by the harsh economic environment. A reduction in the volume of high value mandates as clients battled to stay profitable was offset by an increase in low value mandates emanating especially from the lending community which favours holding property as security for loans. Values have generally remained stable despite the economic turbulence, a result of the lag effect against economic cycles which is a feature of property as an asset class. Management continues to nurture existing client relationships while aggressively pursuing all opportunities to grow the base.

Property development

The business unit struggled to complete its maiden project, the 58-unit cluster development in Marlborough, on time due to a number of challenges. These include, but are not limited to, procurement challenges in the second half of the year owing to major suppliers facing challenges in sourcing foreign currency. The Board has given its full support to management to ensure the project is completed and that, going forward, we will strengthen internal capacity as we carry projects of such complexity. While we missed our dates as communicated in my half year report to shareholders in 2017, we are optimistic that the development will be completed within the first half of 2018.

Although completion of the project was a challenge, the Group benefitted from the increased demand for property assets in the market. We received a number of offers which we are assessing as we near completion. We are quite confident that the development will be fully sold by end of 2018.

BOARD CHANGES

Mr Peter Saungweme stepped down as Finance Director on 30 June 2017 following his appointment as the Chief Finance Officer of Brainworks Limited ("Brainworks"). Peter was retained as a Non-Executive Director by the Board with effect from 3 August 2017. We are grateful to still have Peter on our board and we wish him success in his new executive role at Brainworks.

Ms Valerie Muyambo was appointed Finance Director with effect from 1 July 2017. On the same date, Mr Lloyd Mhishi was appointed a Non-Executive Director bringing with him a wealth of experience in legal matters. On behalf of the Board, I would like to welcome Valerie and Lloyd and wish them the very best.

Messrs Walter Kambwanji and Tendayi Chiweshe resigned from the Board on 8 March 2018. On behalf of the Board, I would like to take this opportunity to thank Walter and Tendayi for their invaluable contribution to the Board and wish them the very best in their future endeavours.

DEBT

As at 31 December 2017, the Group had total debt of US$4.4 million. The bulk of the proceeds have been deployed towards the construction of the 58 residential cluster units in Marlborough, as well as for the purchase of 2.2ha of land within the Harare Gardens from City of Harare.

The Group's gearing ratio stood at 4.90% as at the reporting date with an average interest cost of 9.04%.

DIVIDEND

In view of the improved performance, the Board declared a final dividend of US$274 860, being US$0.000112 per share (0.0112 US cents per share) for the year ended 31 December 2017.

A separate dividend announcement will be made in due course.

OUTLOOK

In my statement for 2017, I indicated that the board and management will focus on keeping the Group in a healthy and sound financial state until the macroeconomic conditions improve. We are convinced, based on the current fundamentals in the market, that 2018 will have a much-improved economic performance. The property market has already started showing signs of improving, with demand exceeding supply of quality assets.

With our unique positioning in hotel properties, we are confident that going forward we should be able to attain our target yield of 10% within 5 years.

While the completion of Elizabeth Windsor Gardens was delayed, we believe the lessons learnt will bode well for our next pipeline of projects as we aim to improve our efficiency and execution skills. The timeshare business unit is unique and exciting as it overlaps on both the property and leisure markets.

APPRECIATION

The year under review has been an exciting and challenging one. We have continued to build on the restructuring done in 2015 and believe we now have a sustainable business model to take us forward. Management and staff fully share the Board's vision for the Group and I thank all of them for the enthusiasm and drive with which they have confronted and overcome the many challenges that have been faced by the business thus far; I believe that this tenacity will serve us well towards the realisation of the Group's ambitions.

Phibion P. Gwatidzo

Board Chairman

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	Year ended 31 December 2017 US$	Year ended 31 December 2016 US$
ASSETS			
Non-current assets			
Investment property	7	88 175 000	86 263 037
Property and equipment		864 443	973 145
		89 039 443	**87 236 182**
Current assets			
Inventories	8	5 116 873	3 329 532
Trade and other receivables	9	3 627 646	4 031 376
Current income tax assets		-	19 758
Cash and cash equivalents		203 390	396 610
		8 947 909	**7 777 276**
TOTAL ASSETS		**97 987 352**	**95 013 458**
EQUITY			
Share capital		1 965 738	1 965 738
Share premium		17 530 833	17 530 833
Revaluation reserves		7 353 815	7 353 815
Retained earnings		60 736 413	57 687 276
Shareholders' equity		**87 586 799**	**84 537 662**
LIABILITIES			
Non-current liabilities			
Borrowings	10	3 424 488	1 509 300
Deferred lease income		204 036	-
Deferred tax liabilities		4 324 237	4 058 394
		7 952 761	**5 567 694**
Current liabilities			
Borrowings	10	1 074 929	2 749 448
Deferred lease income		14 782	-
Trade and other payables		1 173 558	1 937 788
Current income tax liabilities		184 523	220 866
		2 447 792	**4 908 102**
Total liabilities		**10 400 553**	**10 475 796**
TOTAL EQUITY AND LIABILITIES		**97 987 352**	**95 013 458**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year 31 December 2017

	Note	31 December 2017 US$	31 December 2016 US$
Revenue	**11**	**5 131 783**	**4 348 771**
Net fair value gain/(loss) on investment property		1 949 696	(69 154)
Other income		66 039	141 685
Total income		**7 147 518**	**4 421 302**
Operating expenses	12	(2 919 369)	(2 693 264)
Operating profit		**4 228 149**	**1 728 038**
Net finance expense		(327 280)	(53 870)
Profit before income tax		**3 900 869**	**1 674 168**
Income tax expense	13	(851 732)	(639 333)
Profit for the year		**3 049 137**	**1 034 835**
Other comprehensive income		-	-
Total comprehensive income for the year		**3 049 137**	**1 034 835**
Earnings per share from operations attributable to owners of the parent during the period			
Basic and fully diluted earnings per share (US cents)	14.1	0.1241	0.0421
Headline earnings per share (US cents)	14.3	0.0452	0.0449

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 31 December 2017

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
	Share capital US$	Share premium US$	Revaluation reserves US$	Retained profits US$	Total US$
YEAR ENDED 31 DECEMBER 2016					
Balance as at 1 January 2016	**1 965 738**	**17 530 833**	**7 353 815**	**56 652 441**	**83 502 827**
Comprehensive income					
Profit for the year	-	-	-	1 034 835	1 034 835
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**1 034 835**	**1 034 835**
Transactions with owners, in their capacity as owners recognised directly in equity	-	-	-	-	-
Balance as at 31 December 2016	**1 965 738**	**17 530 833**	**7 353 815**	**57 687 276**	**84 537 662**
YEAR ENDED 31 DECEMBER 2017					
Balance as at 1 January 2017	**1 965 738**	**17 530 833**	**7 353 815**	**57 687 276**	**84 537 662**
Comprehensive income					
Profit for the year	-	-	-	3 049 137	3 049 137
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**3 049 137**	**3 049 137**
Transactions with owners, in their capacity as owners recognised directly in equity	-	-	-	-	-
Balance as at 31 December 2017	**1 965 738**	**17 530 833**	**7 353 815**	**60 736 413**	**87 586 799**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 31 December 2017

	Year ended 31 December 2017 US$	Year ended 31 December 2016 US$
Cash flows from operating activities		
Profit before income tax	**3 900 869**	**1 674 168**
Adjustments for:		
- Fair value (gain)/loss on investment property	(1 949 696)	69 154
- Depreciation	149 119	188 225
- Impairment (reversal)/charge against trade and other receivables	(53 313)	33 401
- Profit from disposal of equipment	(6 092)	(630)
- Loss from disposal of investment property	16 214	-
- Interest income	(20 395)	(5 675)
- Interest expense	285 175	59 545
- Other provisions	37 785	89 232
Operating cash flows before working capital changes	**2 359 666**	**2 107 420**
Changes in working capital:		
Increase in inventories	(1 787 341)	(2 429 995)
Decrease/(increase) in trade and other receivables	403 730	(2 771 558)
(Decrease)/increase in trade and other payables	(545 411)	1 098 793
Cash generated from/(utilised in) operations	**430 644**	**(1 995 340)**
Income tax paid	(581 124)	(835 648)
Interest income	20 395	5 675
Interest expense	(285 175)	(59 545)
Net cash utilised in operating activities	**(415 260)**	**(2 884 858)**
Cash flows from investing activities		
Purchase of equipment	(79 783)	(55 514)
Proceeds from disposal of equipment	33 420	26 865
Proceeds from disposal of investment property	90 000	-
Acquisition of investment property	-	(1 466 829)
Acquisition of leasehold improvements capitalised to investment property	(62 267)	(436 651)
Net cash utilised in investing activities	**(18 630)**	**(1 932 129)**
Cash flows from financing activities		
Proceeds from interest-bearing borrowings	3 481 533	4 301 564
Repayment of interest-bearing borrowings	(3 240 863)	(106 503)
Net cash generated from financing activities	**240 670**	**4 195 061**
Net decrease in cash and cash equivalents	**(193 220)**	**(621 926)**
Cash and cash equivalents at beginning of the year	396 610	1 018 536
Cash and cash equivalents at the end of year	**203 390**	**396 610**

NOTES TO THE ABRIDGED AUDITED GROUP FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL INFORMATION

The principal business of Dawn Properties Limited (the "Company") and its subsidiaries (together the "Group") is that of acquisition and development of real estate property, as well as provision of property valuation, management and consultancy services. The Company is a limited liability company incorporated and domiciled in Zimbabwe and is listed on the Zimbabwe Stock Exchange.

The address of its registered office is 8th Floor, Beverley Court, 100 Nelson Mandela Avenue, Harare.

These abridged audited Group financial statements (the "abridged financial statements") were approved for issue by the Board of Directors on 21 March 2018.

2 BASIS OF PREPARATION

These abridged financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and in the manner required by the Zimbabwe Companies Act (Chapter 24:03).

The abridged financial statements are expressed in United States of America dollars ("US$") and are prepared under a historical cost convention as modified by the fair valuation of investment property.

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year.

There are no new IFRSs that became effective for the first time during the year under review that have a material effect on the Group's financial statements.

4 AUDIT OPINION

The abridged financial statements should be read in conjunction with the complete set of financial statements for the year ended 31 December 2017, which have been audited by PricewaterhouseCoopers Chartered Accountants (Zimbabwe). An unqualified audit opinion has been issued which includes valuation of investment property as a key audit matter. The auditor's report is available for inspection at the Company's registered office.

5 ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the prior year financial statements.

6 GOING CONCERN

The Directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group, therefore, continues to adopt the going concern basis in preparing its financial statements.

		31 December 2017 US$	31 December 2016 US$
7	**INVESTMENT PROPERTY**		
	Balance at the beginning of the year	**86 263 037**	**84 428 712**
	Acquisition of timeshare properties	-	1 053 333
	Acquisition of leasehold improvements capitalised to investment property	-	361 802
	Land acquisitions	-	413 496
	Capital investments to existing investment property capitalised	62 267	74 848
	Disposals	(100 000)	-
	Fair value gain/(loss) on investment property	1 949 696	(69 154)
	Balance at the end of the year	**88 175 000**	**86 263 037**
8	**INVENTORIES**		
	Property under construction	4 998 686	3 186 989
	Construction inventories	101 994	130 195
	Stationery and other office consumables	16 193	12 348
		5 116 873	**3 329 532**
	Analysis of property under construction costs		
	Land value (previously recognised under investment property)	400 000	400 000
	Construction expenses incurred to date	4 262 956	2 713 102
	Finance guarantee fee	62 500	-
	Interest capitalised	273 230	73 887
		4 998 686	**3 186 989**

The property under construction comprises 58 cluster houses that are currently being developed with a view to sell in Marlborough, Harare, Zimbabwe. The units are expected to be completed within the first half of 2018.

		31 December 2017 US$	31 December 2016 US$
9	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables	713 069	1 013 139
	Prepayments	2 874 243	2 967 597
	Other receivables	40 334	50 640
		3 627 646	**4 031 376**

Included in prepayments are payments amouting to US$2 312 980 made with respect to acquisition of land from City of Harare, measuring approximately 2.2 hectares. The process to transfer legal title of the land to the Group had not yet been completed at the reporting date.

		31 December 2017 US$	31 December 2016 US$
10	**BORROWINGS**		
	Analysis of borrowings		
	NMB Bank Limited	4 322 336	1 701 314
	CBZ Bank Limited	177 081	212 139
	Brainworks Capital Management (Private) Limited	-	2 345 295
		4 499 417	**4 258 748**

The Group's borrowings mature from October 2020 to August 2021 and are secured by properties valued at US$12 808 686. In addition, a US$5 000 000 facility from NMB is also secured by an unlimited guarantee from Brainworks Capital Management (Private) Limited which carries a cost of 2.5% per annum (2016: US$nil). The facilities bear interest at an average cost of 9.04% per annum.

		31 December 2017 US$	31 December 2016 US$
11	**REVENUE**		
	Operating lease rentals	2 970 210	2 297 290
	Property management and valuations	1 792 708	1 712 717
	Other	368 865	338 764
		5 131 783	**4 348 771**
12	**OPERATING EXPENSES**		
	Staff costs	1 330 570	1 284 535
	Depreciation	149 119	188 225
	Directors' fees	96 825	89 917
	Consultancy fees	53 620	79 171
	Statutory expenses	45 540	53 139
	Rent, repairs and maintenance	256 243	114 639
	Fines and penalties	301 311	-
	Management fees	-	257 427
	Other expenses	686 141	626 211
		2 919 369	**2 693 264**
13	**INCOME TAX**		
	Current year charge	585 889	368 437
	Deferred tax charge	265 843	270 896
		851 732	**639 333**
14	**EARNINGS PER SHARE**		
14.1	**Basic earnings per share**		
	Profit attributable to the owners of the parent	3 049 137	1 034 835
	Weighted average number of ordinary shares in issue	2 457 172 108	2 457 172 108
	Earnings per share (US cents)	0.1241	0.0421

14.2 Diluted earnings per share

The Group has no arrangements that will dilute ordinary shares, therefore diluted earnings per share are the same as basic earnings per share.

		31 December 2017 US$	31 December 2016 US$
14.3	**Headline earnings per share**		
	Profit attributable to the owners of the parent	3 049 137	1 034 835
	Adjusted for:		
	Profit from disposal of equipment	(6 092)	(630)
	Loss from disposal of investment propert	16 214	-
	Net fair value (gain)/loss on investment property	(1 949 696)	69 154
	Headline earnings	**1 109 563**	**1 103 359**
	Weighted average number of ordinary shares in issue (numbers)	2 457 172 108	2 457 172 108
	Headline earnings per share (US cents)	0.0452	0.0449

For the purposes of calculating earnings per share, the weighted average number of ordinary shares outstanding during the year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares bought back or issued during the year multiplied by a time weight factor. The time weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in a year.

Weighted average number of shares for diluted earnings are calculated by adjusting the weighted number of ordinary shares with the potentially dilutive ordinary shares. As at 31 December 2017, there were no potential dilutive shares.

15 CAPITAL COMMITMENTS

	31 December 2017 US$	31 December 2016 US$
Authorised and contracted for	191 540	-
Authorised and not contracted for	1 166 315	-
	1 357 855	**-**

16 SIGNIFICANT RELATED PARTY TRANSACTIONS

Transactions and balances with African Sun Limited

The Group leases out all its hotel properties to African Sun Limited ("ASL"), a subsidiary of Brainworks Capital Management (Private) Limited ("Brainworks"). Brainworks is the Group's largest shareholder, controlling 66.81% of Dawn Properties Limited's issued share capital as at the reporting date.

The Group charged ASL US$2 923 296 (2016: US$2 246 921) in rentals during the period under review. Balances with African Sun Limited for the period under review were as follows:

	31 December 2017 US$	31 December 2016 US$
Outstanding lease rental payments	506 323	707 121
Other short term obligation	-	(747 261)

The oustanding lease rental payments are unsecured in nature and are expected to be paid in full in 2018. No allowance for impairment has been recognised against the balance due from African Sun Limited (2016: US$nil).

17 EVENTS AFTER THE REPORTING DATE

On 21 March 2018, the Board declared a final dividend of US$274 860, being US$0.000112 per share (0.0112 US cents per share) for the year ended 31 December 2017.

DIRECTORS: P.P. Gwatidzo (Chairman), M. Mukonoweshuro, B.I. Childs, L. Mhishi, P. Saungweme, P. J. Matute (Managing Director), V. Muyambo (Finance Director).

REGISTERED OFFICE: 8th Floor, Beverley Court, 100 Nelson Mandela Avenue, Harare.

INDEPENDENT AUDITOR: PricewaterhouseCoopers, Chartered Accountants (Zimbabwe), Building No. 4, Arundel Office Park Norfolk Road, Mt Pleasant, Harare.