FIRST MUTUAL PROPERTIES
Go Beyond

Unaudited Abridged Financial Results
For the half year ended 30 June 2018

CHAIRMAN'S STATEMENT

THE ECONOMY
General business confidence improved coming out of 2017 and into 2018 following political changes in the country. New economic policies in the ensuing period, geared towards improving relationships with the international community, set the tone towards improving business confidence and generated positive sentiments on Zimbabwe as an investment destination. However, the challenges relating to cash constraints, foreign currency shortages and low industry capacity utilisation continued, as the productive sectors of the economy are still recovering from the prolonged period of economic decline. Improvements are expected in the medium to long term.

GDP growth forecasts from various sources remain positive at 4.50% for 2018 (2017: 3.70%). However, inflation is creeping upwards, following a deflationary period that ended in 2017, with official inflation statistics at 2.91% at 30 June 2018, while July 2018 statistics indicate a further increase to 4.29%.

Envisaged growth in agriculture, mining and tourism is expected to stimulate aggregate demand for real estate spanning office, retail, industrial, leisure and residential sectors of the property market.

THE PROPERTY MARKET
The property market was characterised by high rent default levels and also low absorption rates of rental space, despite the improving general business confidence. The inherent problems of low productivity in the productive sectors, inadequate infrastructure, changing structure of the economy and tenant preferences, continued to affect CBD Office and industrial sectors, as these sectors continue to have low demand for rental space. The low demand is also a factor of the quality of space on the market, some of which is no longer suitable for emerging businesses and small to medium enterprises.

Demand for office park and retail space remains relatively strong, with voids slowly declining in spite of increasing competition from new developments on the market. In the medium term, planned developments are expected to increase competition for quality space, driven by changing tenant preferences and technology trends. Despite the improving economic fundamentals, strong GDP growth is still required to significantly increase effective demand for space. The socio-economic dynamics of the economy are seeing property investors adapt the product offering, to meet the needs of the informal sector.

Due to increasing inflation risk, investors are actively seeking assets to acquire and also increasing allocation of capital to refurbishments and maintenance programmes to preserve value, as few quality assets are available to acquire on the market.

FINANCIAL PERFORMANCE
Rental income for the six months' period at US$3.949 million increased by 7% compared to US$3,704 achieved in the prior period ended 30 June 2017. The growth in rental income is attributable to new lettings in high value space, increased turnover based rentals in retail properties and new rental income from recent acquisitions. The occupancy level improved to 74.44% during the period, up from 73.54% at 30 June 2017 and an increase from the 2017-year end position of 70.94%, testimony to significant leasing efforts during the period. The rental yield expanded to 6.76% (HY2017: 6.34%), while the average rental per square metre for the portfolio was US$7.11 (HY2017: US$6.94). The income return for the property portfolio at 4.35% improved from prior period (FY2017: 3.59%) driven by improved net operating income resulting from rising rental income. This solid performance translated to a 9% increase in operating profitability, showing the benefits of creating and maintaining a diversified property portfolio and active asset management strategies to sustain performance in the challenging operating environment.

Following an independent property valuation by Knight Frank Zimbabwe, the property portfolio appreciated in value by 6% to US$145 million (FY 2017: US$137million). The growth was mainly attributable to fair value gains on the back of improved occupancy levels and recent acquisitions. On a like for like basis, excluding property acquisitions concluded during the period amounting to US$2.025 million, the fair value of the property portfolio value grew by 5% compared to 31 December 2017. The business will therefore continue to allocate capital to undertake refurbishments and maintenance programmes in order to preserve existing assets and improve earning potential of the portfolio.

DIVIDEND
At a meeting held on 27 August 2018, your Board deemed it prudent not to declare an interim dividend, as the Group embarks on property portfolio growth initiatives to further improve earnings. Apart from pursuing leveraged balance sheet growth, the Group also plans to capacitate its equity contribution into new developments and acquisitions. While the Group remains committed to ensuring regular dividend distributions to shareholders, planned initiatives in the short term require equity funding. This position will, however, be reassessed at year-end.

OUTLOOK
In the short term, continued pressure on occupancy levels is expected. Developments going forward are very much dependent on post election issues such as international engagement, stability, peace and a national focus on development. These will determine the trajectory of the economy and consequently the property sector performance. The market is expected to remain an occupiers market in the short term due to the excessive supply of space, and the lack of quality assets to absorb either expanding businesses or new entrants. Over the long term, the general outlook appears positive.

APPRECIATION
On behalf of the Board, I wish to thank our clients, staff, management and all other stakeholders for their invaluable support.

E. K Moyo
Chairman

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018

All figures in US$	Note	Unaudited 30 June 2018	Audited 31 Dec 2017
ASSETS			
Investment properties	5	145 260 000	137 457 000
Vehicles and equipment	6	139 855	103 927
Deferred tax assets		433 237	414 629
Loans and other receivables	7	-	403 015
Financial assets held to maturity	8	-	190 311
Financial assets at amortised cost	9	598 179	-
		146 431 271	138 568 882
Current assets			
Inventory		25 433	23 705
Tax receivable		502 378	550 479
Trade and other receivables	10	1 751 080	3 299 327
Cash and cash equivalents	11	1 354 281	2 072 088
		3 633 172	5 945 599
Total assets		150 064 443	144 514 481
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Ordinary share capital		1 218 148	1 218 148
Retained earnings		130 739 811	126 525 986
Total shareholders' equity		131 957 959	127 744 134
Non-current liabilities			
Deferred tax liabilities	13	15 362 274	13 176 741
Borrowings	14	-	91 665
		15 362 274	13 268 406
Current liabilities			
Borrowings	14	641 665	1 100 000
Related party loan	15	-	306 982
Current income tax liability		105 888	128 051
Trade and other payables	16	1 996 657	1 966 908
		2 744 210	3 501 941
Total liabilities		18 106 484	16 770 347
Total equity and liabilities		150 064 443	144 514 481

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

All figures in US$	Note	Unaudited 30 June 2018	Unaudited 30 June 2017
Revenue	17	3 980 804	3 715 477
Property expenses	18	(805 261)	(655 507)
Allowance for credit losses		8 549	(286 074)
Net property income ("NPI")		3 184 092	2 773 896
Employee related expenses		(697 202)	(630 486)
Other expenses		(659 047)	(628 911)
NPI after administration expenses		1 827 843	1 514 499
Fair value adjustment - investment properties		5 619 188	(389 633)
Fair value adjustment - equities		-	(20 668)
Finance income	20	98 601	177 974
Other income		130 180	104 994
Finance costs		(38 897)	(76 298)
Profit before income tax		7 636 915	1 310 868
Income tax expense	21	(2 567 037)	(502 513)
Profit for the period		5 069 878	808 355
Other comprehensive income for the period		-	-
Total comprehensive profit for the period		5 069 878	808 355
Attributable to:			
-Owners of the parent		5 069 878	808 355
-Non controlling interest		-	-
Total profit for the period		5 069 878	808 355
Basic and diluted earnings per share (US cents)		0.410	0.065
Weighted average number of shares in issue		1 236 927 672	1 236 927 672

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018

All figures in US$	Attributable to owners of the parent: Ordinary share capital	Retained earnings	Total shareholders equity
At 1 January 2017	1 218 148	125 561 380	126 779 528
Profit for the period	-	1 694 606	1 694 606
Dividend paid		(730 000)	(730 000)
At 31 December 2017	1 218 148	126 525 986	127 744 134
Profit of the period	-	5 069 878	5 069 878
IFRS 9 impact	-	(126 053)	(126 053)
Dividend paid	-	(730 000)	(730 000)
At 30 June 2018	1 218 148	130 739 811	131 957 959

CONSOLIDATED STATEMENT OF CASH FLOWS
AT 30 JUNE 2018

All figures in US$	Unaudited 30 June 2018	Unaudited 30 June 2017
Profit before income tax	7 636 915	1 310 868
Adjustment for non-cash items	(6 035 750)	609 571
Cash flows from operating activities before working capital adjustments	1 601 165	1 920 439
Working capital adjustments	1 485 093	(122 174)
Cash generated from operations	3 086 258	1 798 265
Income tax paid	(372 534)	(526 716)
Interest paid	(38 896)	(76 298)
Net cash flow from operating activities	2 674 828	1 195 251
Net cash flows used in investing activities	(2 112 634)	(178 275)
Net cash flows from financing activities	(1 280 000)	(1 280 000)
Net decrease in cash and cash equivalents	(717 806)	(263 024)
Opening cash and cash equivalents	2 072 087	2 194 131
Cash and cash equivalents	1 354 281	1 931 107

NOTES TO THE CONSOLIDATED FINANCIAL RESULTS
FOR THE HALF YEAR ENDED 30 JUNE 2018

1 Corporate information
First Mutual Properties is a public company incorporated and domiciled in Zimbabwe and its shares are publicly traded on the Zimbabwe Stock Exchange. The principal activities of the Group are property investment, development and management. The consolidated financial statements of the Group for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors at a meeting held on 27 August 2018.

2 Basis of preparation
The Group's unaudited abridged financial results have been prepared in accordance with IAS 34,"Interim Financial Reporting', as issued by the International Accounting Standards Board ("IASB") and in the manner required by the Zimbabwe Companies Act (Chapter 24:03). The financial statements are based on statutory records that were maintained under historical cost convention except for investment properties, available for sale financial assets at fair value through profit or loss that have been measure at fair value.

3 Accounting policies
The principal accounting policies adopted in the presentation of these financial statements are consistent with those of the previous reporting period except for the effects of the adoption of IFRS 9, Financial Instruments and IFRS 15, Revenue, whose effective dates wer 1 January 2018. The Group made a reassessment of the adequacy of the allowance for credit losses as at 31 December 2017 and made adjustments to the opening retained earnings. No restatements were made to revenue by the Group as a result of adopting IFRS 15.

4 Reporting period and currency
The reporting period is 1 January to 30 June 2018. The financial statements are presented in United States dollars (US$) being the functional and reporting of the primary economic environment in which the Group operates.

5 Investment Properties

All figures in US$	Unaudited 30 June 2018	Audited 31 Dec 2017
At 1 January	137 457 000	137 302 000
Additions	2 158 228	170 000
Improvements to existing properties	25 584	578 552
Fair value adjustments	5 619 188	(593 552)
	145 260 000	137 457 000

Investment property with a total carrying amount of US$12.700 million (Dec 2017: US$12.700 million) was encumbered at 30 June 2018.

6 Vehicles and equipment

All figures in US$	Unaudited 30 June 2018	Audited 31 Dec 2017
At 1 January	103 927	98 454
Additions	48 551	32 837
Depreciation	(12 623)	(27 364)
	139 855	103 927

7 Loans and other receivables

At 1 January	403 015	950 000
Financial assets (reclassified)/ issued (note 9)	(403 015)	397 542
Amortised interest	-	95 913
Payments of interest	-	(90 440)
Repayments of principal	-	(950 000)
	-	403 015
Short-term portion	-	-
Long-term portion	-	403 015
	-	403 015

Loans and other receivables relate to treasury bills worth $407,916 (Dec 2017: US$403.015). These were acquired in 2017 at a nominal value of $397,542. Treasury bills with a norminal value of US$198,771 have a three year tenure and will mature on 20 July 2020 while another block of treasury bills with a norminal value of US$198,771 has a 10 year tenure and will mature on 3 May 2027.

8 Financial assets held to maturity

All figures in US$	Unaudited 30 June 2018	Audited 31 Dec 2017
At 1 January	190 311	277 385
Reclassified (note 9)	(190 311)	-
Accrued interest	-	20 450
Repayments	-	(107 524)
	-	190 311

These are money market investments with financial institutions backing 15 year mortgages for staff. These investments have been reclassified at 1 January 2018 to Financial Assets at amortised cost.

9 Financial assets at amortised cost

All figures in US$	Unaudited 30 June 2018	Audited 31 Dec 2017
At 1 January	-	-
Reclassified from loans and other receivables (note 7)	403 015	-
Reclassified from financial assets held to maturity (note 8)	190 311	-
Amortised interest	14 765	-
Repayments received	(9 912)	-
	598 179	-

The Group considers credit risk of the financial assets at amortised cost to be insignificant under IFRS 9. No credit loss has been recognised during the six months to 30 June 2018

10 Trade and other receivables

All figures in US$	Unaudited 30 June 2018	Audited 31 Dec 2017
Tenant receivables	1 765 570	2 474 796
Tenant operating cost recoveries	716 744	859 925
Property sales receivables	83 876	96 323
Trade receivables	2 566 190	3 431 044
Less: Allowance for credit losses	(1 537 436)	(1 776 737)
Net trade receivables	1 028 754	1 654 307
Prepayments	596 992	1 428 805
Other receivables	121 541	120 483
Related party receivables	3 793	95 732
	1 751 080	3 299 327

11 Cash and cash equivalents

Short-term investments	409 273	1 766 315
Cash at bank	945 008	305 773
	1 354 281	2 072 088

12 IFRS 9 Financial Instruments
Classification of financial assets and liabilities on the date of initial application of IFRS 9

Assets	Origional Classification under IAS 39	New Classification under IFRS 9	Origional carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets at amortised cost previously held as loans and other receivables	Loans and receivables	Amortised cost	403 015	403 015
Financial assets at amortised cost previously held as financial assets held to maturity	Held to maturity investments	Amortised cost	190 311	190 311
Trade and other receivables	Loans and receivables	Amortised cost	3 299 327	3 173 275
Cash and cash equivalents	Loans and receivables	Amortised cost	2 072 088	2 072 088
Total			5 964 741	5 838 689
Liabilities				
Borrowings	Amortised cost	Amortised cost	1 191 665	1 191 665
Related party loan	Amortised cost	Amortised cost	306 982	306 982
Trade and other payables	Amortised cost	Amortised cost	1 966 908	1 966 908
Total			3 465 555	3 465 555

Transitional adjustment of financial assets and liabilities on the date of initial application of IFRS 9

	Origional carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	New carrying amount under IFRS 9 as at 1 January 2018
Financial assets				
Cash and bank	2 072 088	-	-	2 072 088
Financial assets at amortised cost previously held as loans and other receivables				
Opening balance	403 015	-	-	403 015
Remeasurement	-	-	-	-
Closing balance	403 015	-	-	403 015
Financial assets at amortised cost previously held as financial assets held to maturity				
Opening balance	190 311	-	-	190 311
Remeasurement	-	-	-	-
Closing balance	190 311	-	-	190 311
Trade and other receivables				
Opening balance	3 299 327	-	-	3 299 327
Remeasurement	-	-	(126 053)	(126 053)
Closing balance	3 299 327	-	(126 053)	3 173 275
Total amortised cost	5 964 741	-	(126 053)	5 838 689
Financial liabilities				
Amortised cost				
Borrowings	1 191 665	-	-	1 191 665
Related party loan	306 982	-	-	306 982
Trade and other payables	1 966 908	-	-	1 966 908
Total amortised cost	1 191 665	-	-	1 191 665

13 Deferred tax liability

All figures in US$	Unaudited 30 June 2018	Audited 31 Dec 2017
At 1 January	13 176 741	12 322 492
Recognised in the statement of profit or loss		
-Arising on vehicles and equipment	(2 624)	(1 063)
-Arising on investment properties	2 180 991	586 512
-Arising on assessed losses	7 166	268 800
	15 362 274	13 176 741

14 Borrowings

At 1 January	1 191 665	2 291 667
Amortised interest	36 811	126 479
Payments of interest	(36 811)	(126 479)
Repayments of principal	(550 000)	(1 100 002)
	641 665	1 191 665
Short-term portion	641 665	1 100 000
Long-term portion	-	91 665
	641 665	1 191 665

The borrowing is secured by an immovable property stamped to cover US$6.5 million. The borrowing has an interest rate currently at 6.5% per annum.

15 Related party loan

At 1 January	306 982	-
Loan advanced	-	522 000
Amortised interest	913	18
Payments of interest	(913)	(18)
Repayments of principal	(306 982)	(215 018)
	-	306 982

The loan facility was sourced in December 2017 as bridging finance from a fellow subsidiary of the parent to partially fund a prepayment towards the acquisition of a property in Harare. The loan was repaid in full and was administered under the following terms:

Norminal value	US$522,000
Deal Status	Bridging finance
Deal Date	27 December 2017
Maturity date	30 January 2018
Coupon rate	3% per annum
Security	None

16 Trade and other payables

All figures in US$	Unaudited 30 June 2018	Audited 31 Dec 2017
Tenant payables	69 475	237 108
Related party payables	488 142	361 848
Sundry payables	579 483	606 985
Trade payables	859 557	760 967
	1 996 657	1 966 908

17 Revenue

All figures in US$	Unaudited 30 June 2018	Unaudited 30 June 2017
Rental income	3 949 220	3 703 688
Property services income	31 584	11 789
	3 980 804	3 715 477

18 Property expenses

Maintenance costs	465 814	275 246
Property security and utilities	21 221	16 775
Valuation fees	8 300	16 825
Operating cost under recoveries	309 926	346 661
	805 261	655 507

19 Profit before income tax takes into account the following:

Directors fees -for services as directors	24 427	20 043
Audit fees	31 752	23 814
Information communication and technology expenses	61 889	27 413
Fees and other charges	62 589	39 428
Depreciation	12 623	16 230
Office costs	107 273	82 929
Group shared services	305 347	342 924

20 Finance income

Interest on overdue tenants accounts	74 763	109 448
Interest on loans and other receivables	-	47 525
Interest on money market investments	23 838	21 001
	98 601	177 974

21 Income tax expense

Current income tax	381 504	383 984
Deferred tax	2 185 533	118 529
	2 567 037	502 513

SEGMENT REPORTING FOR THE SIX MONTHS ENDED 30 JUNE 2018

All figures in US$	Office	Retail	Industrial	Other	Adjustment	Total
Revenue	2 022 924	1 248 762	534 300	194 152	(19 335)	3 980 804
Property expenses and allowance for credit losses	(547 937)	(161 422)	(52 089)	(35 264)	-	(796 712)
Segment results	1 474 987	1 087 340	482 211	158 888	(19 335)	3 184 092
Fair value - investment property	(250 465)	813 384	(100 000)	5 156 268	-	5 619 187
Segment profit	1 224 523	1 900 724	382 211	5 315 156	(19 335)	8 803 279
Employee related expenses	-	-	-	(697 202)	-	(697 202)
Other expenses	(653 873)	(231 396)	(107 968)	(659 047)	993 238	(659 047)
Finance costs	(38 896)	-	-	-	-	(38 896)
Finance income	21 775	36 674	10 630	29 521	-	98 601
Other income	43 589	-	-	86 591	-	130 180
Profit before income tax	597 118	1 706 002	284 873	4 075 019	973 903	7 636 915

RECONCILIATION OF SEGMENT RESULTS FOR 30 JUNE 2018

All figures in US$	Office	Retail	Industrial	Other	Total
Assets					
Investment property	71 060 000	32 520 000	11 530 000	30 150 000	145 260 000
Trade receivables	441 609	372 760	129 245	85 140	1 028 754
Segment assets	71 501 609	32 892 760	11 659 245	30 235 140	146 288 754
Other non-current assets	-	-	-	1 171 270	1 171 270
Other current assets	-	-	-	2 604 419	2 604 419
Total assets	71 501 609	32 892 760	11 659 245	34 010 829	150 064 443
Current liabilities	709 325	103 498	74 419	1 856 967	2 744 210
Capital expenditure	1 070 465	1 087 763	-	74 135	2 232 363

SEGMENT REPORTING FOR THE SIX MONTHS ENDED 30 JUNE 2017

All figures in US$	Office	Retail	Industrial	Other	Adjustment	Total
Revenue	1 958 306	1 122 087	573 328	81 088	(19 332)	3 715 477
Property expenses and allowance for credit losses	(441 080)	(231 092)	(193 105)	(76 304)	-	(941 581)
Segment results	1 517 226	890 995	380 223	4 784	(19 332)	2 773 896
Fair value - investment property	(83 777)	2 819	(405 581)	96 905	-	(389 634)
Segment profit	1 433 449	893 814	(25 358)	101 689	(19 332)	2 384 262
Employee related expenses	-	-	-	(630 486)	-	(630 486)
Other expenses	(876 314)	(238 086)	(52 835)	(628 910)	1 167 235	(628 910)
Finance costs	(76 298)	-	-	-	-	(76 298)
Fair value through profit or loss	-	-	-	(20 668)	-	(20 668)
Other income	5 917	856	3 245	94 977	-	104 994
Finance income	23 463	36 274	47 465	70 772	-	177 974
Profit before income tax	510 217	692 858	(27 493)	(1 012 626)	1 147 903	1 310 868

RECONCILIATION OF SEGMENT RESULTS FOR 31 DECEMBER 2017

All figures in US$	Office	Retail	Industrial	Other	Total
Assets					
Investment property	70 240 000	30 630 000	11 630 000	24 957 000	137 457 000
Trade receivables	466 374	426 720	665 822	95 390	1 654 306
Segment assets	70 706 374	31 056 720	12 295 822	25 052 390	139 111 306
Other non-current assets	-	-	-	1 111 882	1 111 882
Current assets	-	-	-	4 291 293	4 291 293
Total assets	70 706 374	31 056 720	12 295 822	30 455 565	144 514 481
Liabilities	596 374	150 031	151 548	2 603 988	3 501 941
Capital expenditure	107 979	50 328	1 542	452 446	612 295

DIRECTORS: E K Moyo (Chairman), C K Manyowa (Managing Director)*, D Hoto, S Jogi, W M Marere, E Mkondo, R B Ncube *Executive Director
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