# 2020 ANNUAL REPORT

reiz

REAL ESTATE INVESTMENTS ZAMBIA PLC.


reiz
REAL ESTATE
INVESTMENTS ZAMBIA PLC

# Contents


reiz
REAL ESTATE
INVESTMENTS ZAMBIA PLC

# Vision, Mission And Values

Strategic pillars are the key components that define Real Estate Investments Zambia Plc and these include our Vision, Mission and Values.

## Vision

To be the most valuable listed company in Zambia by market capitalization.

## Mission

To be ranked the best property development and management company in Zambia by customer satisfaction and shareholder value maximization.

## Values

- Accountability
- Sincerity
- Courtesy
- Transparency
- Objectivity

# History of the Group


Real Estate Investments Zambia Plc was originally the North Western Rhodesia Farmers Co-operative in the 1920's. This was principally a commercial farmers' co-operative which secured the current location of Central Park on Cairo Road as a collection centre for farming produce. The Co-operative went through various guises until after independence in 1964 when it was renamed the Zambian Farmers Co-operative. The construction of the Farmers House building was completed in the 1970's, hence the name by which the property became known.

In 1981 a limited liability company was formed called Farmers House Limited to which all the real estate assets of the Co-operative were transferred. The members of the cooperative became shareholders of the new Company on a one-for-one share basis. From that time the Company was solely a real estate investment vehicle.

The business was therefore principally owned by commercial farmers who traded their shares on an annual basis at their annual general meetings. It was felt that this should be changed and so the directors actively reviewed the options for wider ownership of the business. The opportunity arose for the Company to become public under the Companies Act 1994. Thereafter the shareholders agreed to list the Company on the Lusaka Stock Exchange (LuSE) at the inception of this Exchange. Farmers House Plc was registered in 1996 as the second company to list on LuSE.

Farmers House Plc entered into an active period of development of its flagship property at the time – Farmers House. The old building was completely refurbished in 1999/2000 and thereafter a phased development of what was renamed Central Park was undertaken. The Exchange building (which housed the Lusaka Stock Exchange until 2015) was the final part of this development, which is a landmark as you enter the business district of Lusaka.

For further account of REIZ's progress, a detailed timeline is provided below. One of the key milestones in this period was the 'rights issue' in 2004, in which the Company actively encouraged and achieved the participation of institutional investors – these now make up a large portion of the shareholding.

In order to more actively reflect the core operations of the Group, Farmers House Plc was renamed in 2012 to Real Estate Investments Zambia Plc.

# Timeline

**1920s** Original North Western Rhodesia Farmers Co-operative.

**1996** Listed on the Lusaka Stock Exchange (LuSE).

**1999** Issued first LuSE listed corporate bond and raised US$ 1 million to develop phase II of Central Park; all converted into Equity.

**2001** Raised US$ 1.98 million via a preference share rights issue for the purpose of developing phase III of Central Park.

**2003** Raised Zambia's first property development bank loan secured on the property's own cash flows for the construction of the Lusaka Stock Exchange building (US$ 2.6 million) - fully repaid.

**2004** Raised US$ 10 million via a rights issue for the development of the Celtel/Zain/Airtel Head Office. The property was sold off to Airtel in 2013 after being operated by REIZ for about 7 years.

**2008** Joint Venture formed (Burnet Investments Ltd) with Standard Bank Properties (Pty) Ltd for the development of the Stanbic Head Office. REIZ sold its interest in Burnet Investments Ltd in 2015.

**2009** Issued a short-term Commercial Paper of US$ 10 million for the purpose of raising bridging finance to secure & develop certain properties.

**2010** Issued a 12 year US$ 15 million Corporate Bond tradable on the LuSE to retire commercial paper and to acquire Thistle Land Development Company Ltd (TLD).

**2011** Acquired Counting House Square; the sole property of TLD.

**2012** Completed the development of Abacus Square, now called Deloitte Square.

**2012** Secured a US$ 12.5 million term loan from Investec Asset Management (Pty) Ltd, and US$ 2.5 million from African Life Financial Services Ltd as part funding to acquire Arcades Development Plc. Shareholders in Arcades received part payment in equity of Real Estate Investments Zambia Plc to the value of US$ 10 million. Transaction completed in February 2012.

**2013** Transferred the lease of Airtel House to Airtel Zambia Networks Plc for a consideration of ZMW 114.8 million and the purchase of the Nyerere Road Airtel property at ZMW 16.8 million. The net proceeds of this transaction were utilised to settle the US$ 12.5 million term loan from Investec Asset Management (Pty) Ltd, and the US$ 2.5 million from African Life Financial Services Ltd. This transaction was completed in November 2013.

**2014** The title deed for the Nyerere Road property was secured in November 2014 and the property is fully tenanted.

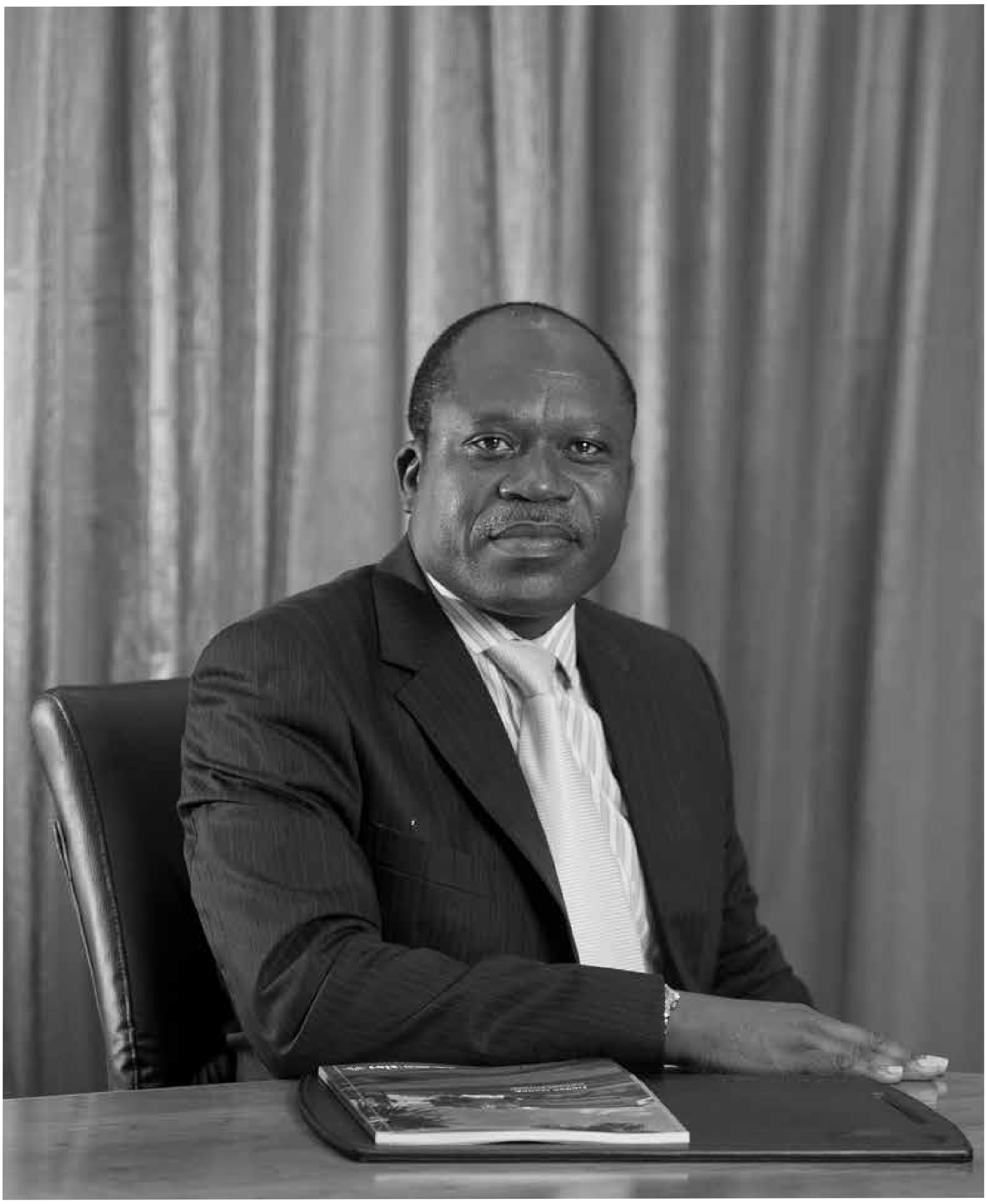
**2015** Sale of REIZ's entire 49% interest in Burnet Investments Limited (joint venture with Standard Bank Properties (Pty) Ltd to Stanbic Bank Zambia Limited.

**2018** Completed phase 1 refurbishment and redevelopment of the Arcades Shopping Mall at an approximate cost of US$ 6.2 million financed by a US$ 5.2 million loan from Stanbic Bank Zambia Limited and US$1.0 million equity.

**2018** Acquired Southview Park, a housing complex with 22 upmarket housing units.

.

# Chairman's Statement



Kenny H Makala
CHAIRMAN

# Chairman's Statement

Dear Shareholders,

On behalf of Real Estate Investments Zambia Plc ("REIZ" or the "Company") and its subsidiaries (collectively referred to as the "Group"), it gives great pleasure to present this statement in relation to the 2020 financial year and 2021 outlook.

**The Economy**

The Zambian economy fell into deep recession brought about by the adverse impact of the Covid-19 pandemic with real gross domestic product ("GDP") contracting by 4.8% in 2020 after growing at 4.0% in 2018 and 1.9% in 2019. The contraction occurred due to the unprecedented deterioration in all the key sectors of the economy such as manufacturing, service and tourism where consumer patterns were affected by the measures taken to combat and contain the spread of the pandemic. Following an early decline in output, the mining sector recovered to record production of 882,061 tons in 2020, up 10.8% from 796,430 tons produced in 2019.

Even before the pandemic, the economy was experiencing serious macroeconomic challenges such as high inflation, widening fiscal deficits, unsustainable debt levels, low international reserves and tight liquidity conditions. Price levels and the financial sector have not stabilized despite government efforts to deploy monetary easing in 2019 and 2020. Inflation has been rising, mainly driven by the pass-through effects of the depreciation of the Kwacha and elevated food and transport prices. Following the outbreak of Covid–19, inflation rose to 17.4% in 2020 and is projected to remain above the Bank of Zambia target range of 6%–8% in 2021.

Over the years the country has embarked on expansionary fiscal policy for public investments despite falling revenues and further exacerbated by the effects of the pandemic in 2020. This resulted in widening fiscal deficits (8.3% of GDP in 2019 and 11% of GDP in 2020). The public investment projects, mainly financed by external and local borrowing, caused Zambia's public and publicly guaranteed debt to hit 91.6% of GDP in 2019 and 104% in 2020.

During the year the Kwacha depreciated by 51% against the US Dollar and remained under pressure against all major currencies due to the country's debt servicing obligations, trade imbalance and foreign investors divesting from the Zambian capital markets.

**The Industry**

The overarching theme for the year 2020 has been how the real estate industry fared in the wake of the Covid-19 pandemic and the economic downturn. In an industry already reeling from heightened competition, falling rental rates and high vacancies, the year 2020 saw further challenges arising from the Covid-19 pandemic when Government introduced restrictions to safeguard public health and safety. Businesses such as restaurants, cinemas, bars, casinos and hair-salons were statutorily shut down for a period of time as a necessary precautionary measure.

The restrictions outlined above and the measures taken to counter the abrupt reduction in economic activity adversely impacted on the Group's operating performance in 2020. The latter part of the year saw some semblance of normalcy returning with most businesses resuming operations gradually to increasing capacity. The situation is being monitored closely and counter measures are being applied proactively.

**Performance**

The year's performance was greatly impacted by effects of the Covid-19 pandemic and the unparalleled downturn in the economy. The industry witnessed a decreased level of activity, declining footfall and a restrictive operating environment. From the onset and early in the year, the management team together with the support of the Board took a decisive choice to pro-actively defend and preserve its position in the market by foregoing some rental income in the short term to ensure long term viability of its business and of its clients. However, despite best efforts to retain its tenants during the year, the Group's vacancy rate increased from 21.5% to 26.8% as businesses shut down or downsized.

The rental revenues for the Group dropped by 7% from ZMW 67.4 million in the prior year to ZMW 62.5 million as we extended discounts and capped the Dollar denominated leases to a fixed Kwacha rate of ZMW 14 to a Dollar. The depreciation of the Kwacha negatively impacted on the Dollar denominated debt and its related finance cost whereby interest expense increased by 48% to ZMW 40.2 million year on year and exchange loss significantly increased to ZMW 151 million during the year from ZMW 42 million in the previous year. The appreciation in the value of investment properties in Kwacha terms offset the effects of the finance cost to some degree and aided the bottom-line although in Dollar terms these values dropped. The Chief Executive Officer's report covers more details on the financial performance of the Group.

**Future Outlook**

The Zambian economy, as measured by real GDP, is projected to grow modestly by 0.6% in 2021 and 2% in 2022. This will be underpinned by the expected recovery in the mining, agricultural, manufacturing and tourism sectors. The recent copper prices peaking to record highs on the back of international demand is a positive development for the mining sector. The anticipated reduction in Covid-19 cases and the roll out of vaccines will boost activity both in the manufacturing and tourism industry and ultimately bodes well for the real estate industry. Good rainfalls during the last season will ensure limited disruptions to electricity generation, as lake levels and other hydro catchment areas improve, and early indications are positive for the agricultural sector.

However, it should be noted that there are potential headwinds and risks anticipated as there is the real possibility of the pandemic persisting and the economy deteriorating further. A second or third wave, coupled with a slow to poor vaccine roll out, could undermine the revival of the manufacturing and tourism industry. So far, the Zambian Kwacha remains the second worst performing currency in Africa, already depreciating by 6% year to date against the Dollar, putting further pressure on inflation and interest rates. The Central Bank has warned that it remains committed to adjusting the monetary policy rate upwards should inflation not drop. Failure by the government to effectively implement the Economic Recovery Programme, which is intended to address critical economic constraints such as debt sustainability and stabilization of the macroeconomic environment, could also pose a high risk to the economy.

Improving the Group's performance in 2021 remains a top priority for management and the Board. The year ahead remains equally as challenging as 2020 given the expected headwinds highlighted above. The Group shall continue to monitor the real estate industry, its clients and consumer patterns closely to remain equal to the task of facing the prevailing industry headwinds and take advantage of the opportunities as they arise. As anticipated, the inherent challenges facing the industry will persist and not fall away quickly but the Group remains focused on consolidating its position in the market, addressing its foreign currency debt structure and continuously strive for higher operational efficiencies. We believe these measures will yield better performances and maximise returns to our shareholders in the long run.

**Board changes/ Management changes**

At the last Board meeting held on 10 December 2020 Mr. Review Namanje resigned from the Board after he separated with the institution that had nominated him to the REIZ Board. The casual vacancy was filled by Mr. Chikusi Banda effective January 2021. In keeping with a resolution of the members at the last AGM, the Board size remained at 5 during the whole year.

During the year the Group bade farewell to the then Chief Executive Officer, Mr. Sydney Popota. Mr. Popota's position was temporarily filled by Mr. Moses Vera, then Finance Manager and Company Secretary, in an acting capacity. We wish both these gentlemen the very best in all their future endeavors and on behalf of the Board we thank them sincerely for their services and dedication to the Group. The Board is delighted to welcome Mr. Urvesh Desai, an accomplished executive, as its new Chief Executive Officer from October 2020. Urvesh is a Chartered Accountant with more than 25 years' experience in finance, business consultancy, manufacturing, banking, retail and distribution at senior management levels.

**Acknowledgment**

On behalf of the Board and indeed on my own behalf, I express my sincere appreciation and gratitude for the continuing support and trust of shareholders of the Company, our business partners, as well as the dedicated efforts of all the staff of the Group.

**Kenny H. Makala**

Chairman


reiz
REAL ESTATE
INVESTMENTS ZAMBIA PLC

# Chief Executive Officer's Report

Urvesh Desai
CHIEF EXECUTIVE OFFICER

# Chief Executive Officer's Report

## Overview

It gives me great pleasure to present my first Chief Executive Officer's report to the REIZ Plc's shareholders against a challenging backdrop brought about by the Covid-19 pandemic. The operating environment in the property industry arguably faced one of its stiffest challenges in 2020 with the onset of the pandemic and the deteriorating economic conditions which adversely impacted on the Group's financial performance for the year. As highlighted in the Chairman's report the economy contracted by 4.8% and the impact was adversely felt by the real estate, manufacturing, service and tourism industries.

This year saw the trend over the last few years continue in the property industry, which is characterized by increasing vacant spaces brought about by new developments without a corresponding increase in demand, pressure for downward rental rate reviews, retailers and corporate outfits downsizing, and increasing demand for local currency leases. Unsurprisingly, the industry witnessed a property value erosion across the sector with the Group's value of the investment in its property portfolio reducing by 26% in Dollar terms to US$ 55 million as compared with US$ 74 million in 2019 and US$ 83 million in 2018.

The focus for the Group in 2020 was to defend and preserve its market position, to ensure timeous liquidity availability to meet all creditor obligations, seek operational efficiencies and to execute the Group's Covid-19 strategy plan as drafted by the management and the Board.

From the onset the management team was fully aware that the choice to defend and preserve the Group's position in the market would result in revenue loss however this measure ensured sustainability of the business and the survival of its clients. Unfortunately, during the year we saw the Group's vacancy rate increase to 26.8% from 21.5% in 2019 resulting in several tenants defaulting on their rental arrears as the effects of the poor economic conditions took its toll. In accordance with the requirements of the accounting standard IFRS 9 the arrears have been prudently impaired and provided for although efforts are underway to maximise recoveries.

As part of Covid-19 survival strategy we are pleased to report that the Group successfully secured a moratorium on its Stanbic Bank Zambia Limited loan facilities on the principal payments and to defer 50% of its coupon and interest payments due to its corporate bond holders and preference shareholders respectively.

The short-term measures implemented during the year were necessary for the Group to remain relevant in the foreseeable future however we are determined to drive the strategic agenda of maximizing returns, protecting shareholders' value and long-term interests of the wider stakeholders. The Group remains resilient with a healthy Net Asset Value ("NAV") position of ZMW 782 million and is poised to take advantage of future opportunities.

## Financial Results

The Group achieved a net loss after tax of ZMW 29.9 million and earnings per share of (ZMW 0.53), compared to a net profit after tax of ZMW 19.8 million and earnings per share of K0.35 in 2019. Detailed analysis of these results is tabulated on pages 24 to 28. Rental revenue of ZMW 62.5 million during the year (2019: ZMW 67.4 million) represent a decrease of 7% and profit from operations achieved of ZMW 24.6 million (2019: ZMW 37.8 million) representing a decrease of 35%.

The rental income lost through the tenant retention measures was ZMW 17.2 million or 27.5% of the revenue for the year which included the following initiatives:

- Foregoing rental income from tenants who were directly shut down by the government due to the precautionary initiatives implemented to curb infections.
- Extending discounts, to as much as 50% to a significant proportion of our tenants particularly at the Arcades Shopping Centre where the effects of the declining economy were most felt.
- Capping the Dollar rental invoice values at an exchange rate of ZMW 14 to a US Dollar when in fact the Kwacha had depreciated by about 51% during the year from ZMW 13.95 to a US Dollar at the beginning of the year to ZMW 21.15 to a Dollar at the year end.

The depreciation of the Kwacha against the US Dollar during 2020 by about 51% heavily impacted on the finance costs and exchange losses arising from Dollar denominated debt with the net finance expense increasing by 48% to ZMW 40.2 million in 2020 from ZMW 27.2 million in 2019. Similarly, the exchange loss increased significantly during the year to ZMW 150.9 million (2019: ZMW 42 million) representing an astonishing increase of 260%.

The Group's balance sheets remain strong anchored by its diversified property portfolio located in prime locations in Lusaka. Description of the various properties in the portfolio are covered on pages 18 to 22. The fair value of the investment property portfolio (including land banks) increased to ZMW 1.2 billion in 2020 (2019: ZMW 1 billion) attributed mainly to the depreciation of the Kwacha against US Dollar. In US Dollar terms, the overall value of investment property reduced by 25.8% to US$ 54.9 million in 2020 from US$74.0 million in 2019, a US$19.1 million loss of value owing to downward shift in market rental rates and increased vacancies. The vacancy rate for the Group's portfolio increased to 26.8% at close of 2020 from 21.5% at close of 2019, a deterioration of 5.3%. A breakdown of individual property values and vacancy rates is tabulated on page 22.

The total non-current liabilities comprising corporate bonds, convertible redeemable cumulative preferred stock, lease liability, Bank loan and security deposits are all denominated in US Dollars and their aggregate sum in Kwacha increased by 43.6% to ZMW 409.0 million during the year (2019: ZMW 284.9 million). As seen from the trading statement their effect on the interest costs and exchange loss is very significant and therefore requires urgent structural adjustment.

Knight Frank Zambia Limited, an external and independent professional property valuer, determined the fair value of the Group's portfolio of investment property and undeveloped land during the mid-year and at the year end. The year end valuations are independently verified by our external auditor's appointed expert.

**REIZ shares performance during the year**

On the Lusaka Securities Exchange (LuSE), the REIZ share price decreased drastically by 91% during the year from ZMW 4.49 per share at the beginning of the year to ZMW 0.39 per share at the end of the year. The unusual reduction was driven mainly by a few trades where investors opted to liquidate their position at a huge discount to the prevailing market share price. Annual total number of trades during the year increased slightly from prior year to 53, an average of 4 trades per month. Likewise, the volume of shares traded also increased to 659,119 shares traded compared to a four-year low of 100,286 shares in 2019. The volume of shares traded represents 1.2% of the total issued number of shares.

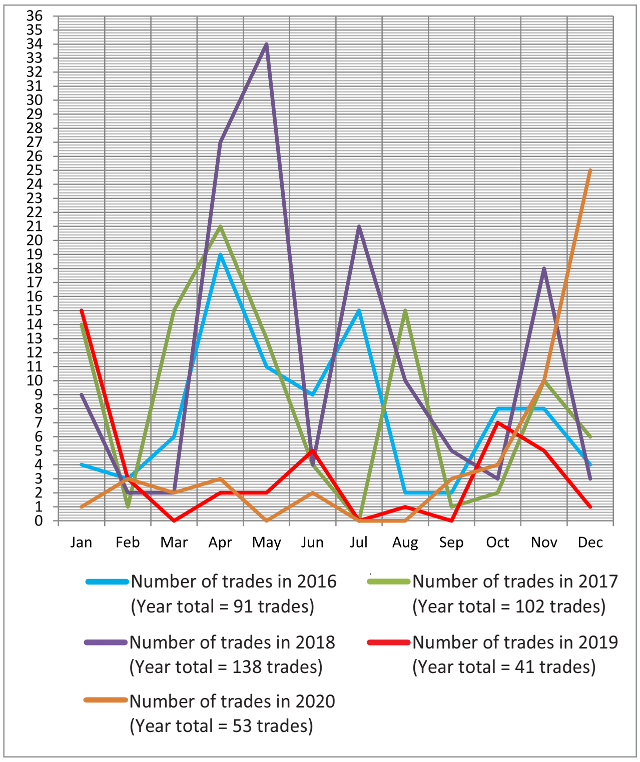
Below is the tabular and graphical insight into the REIZ share trades on the LuSE in the past five years:

| Year | No. of trades | | No. of shares traded (volume) | | Share price (ZMW) | |
|---|---|---|---|---|---|---|
| | Year total | Monthly average | Year total | Monthly average | Closing | Year average |
| 2016 | 91 | 8 | 616,411 | 51,368 | 5.50 | 4.19 |
| 2017 | 102 | 9 | 3,461,212 | 288,434 | 5.50 | 5.71 |
| 2018 | 138 | 12 | 2,540,528 | 211,711 | 5.99 | 5.90 |
| 2019 | 41 | 3 | 100,286 | 8,357 | 4.49 | 5.54 |
| 2020 | 53 | 4 | 659,119 | 54,927 | 0.39 | 3.12 |

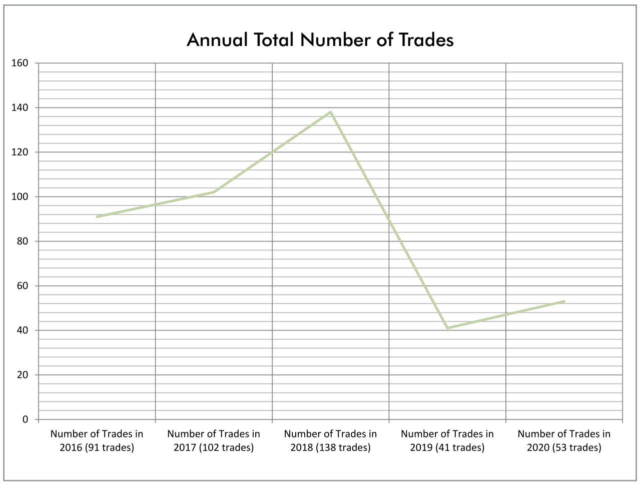
Below are the graphs giving insight into how the stock performed over the past five years.

## Number of trades

Number of trades each month

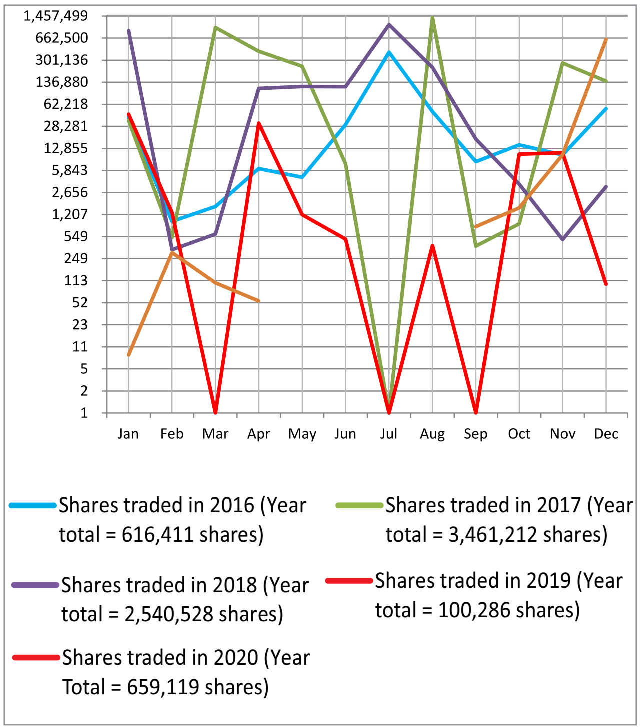



Total number of trades during the year

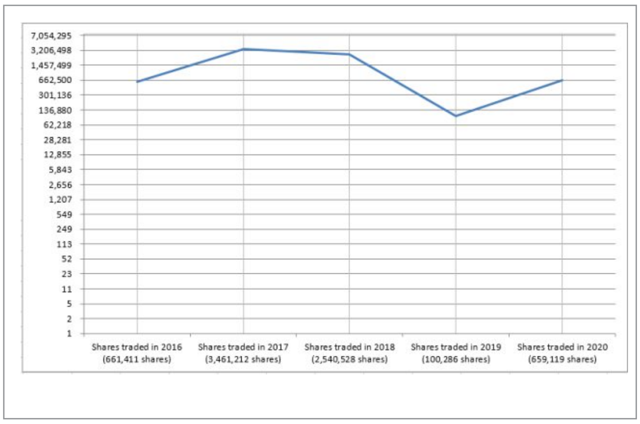


## Volume of shares traded

### Volume of shares traded each month

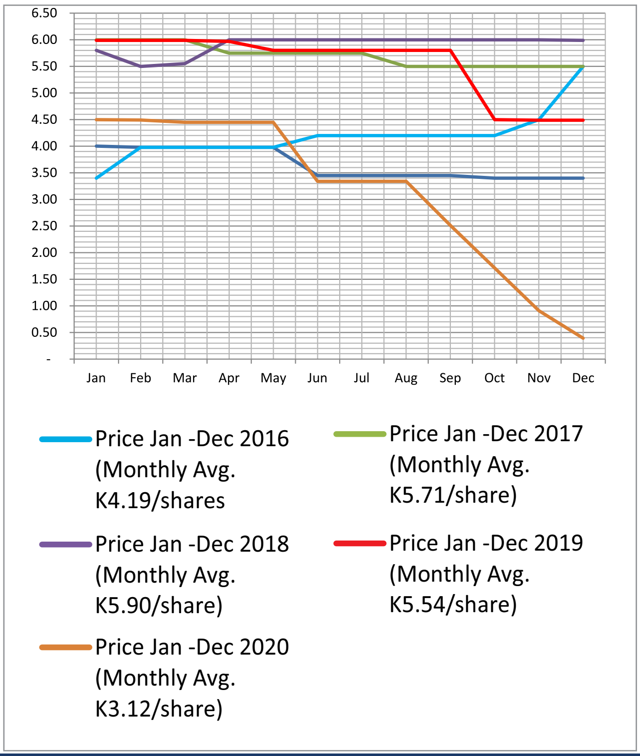



### Total number of shares traded during the year

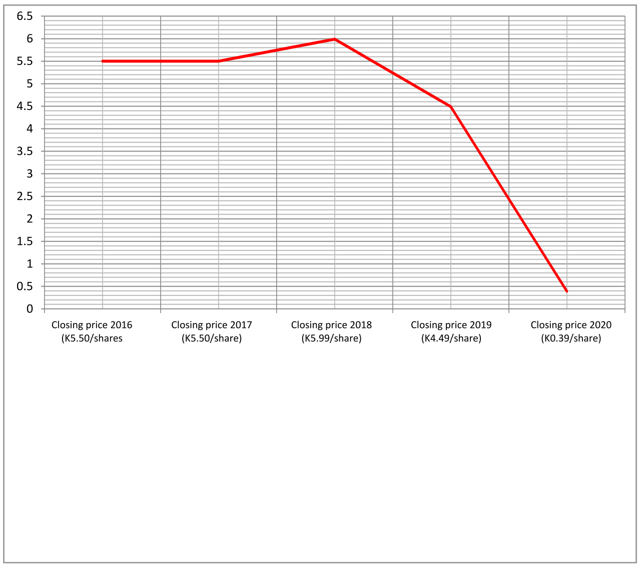



## Share price movement

### Monthly share price movements




### 5-Year share price movement



**Property Portfolio Analysis**

REIZ is primarily involved in investment, development and restructuring of commercial and non-commercial property for commercial letting. The Group owns high grade office, retail, industrial and residential real estate portfolio in prime locations with a diverse tenant base. The diversity of our tenant base ensures that we maximize our property yield rates and always remain attractive from both an investment and financing perspective. REIZ attaches a premium on the value of its customers and efforts are employed towards creating and maintaining long lasting relationships through innovative and responsive business practices.

The total lettable space of the Group at the end of 2020 was 48,887m$^2$ (2019: 48,887m$^2$). The total property portfolio including land banks was valued at 31 December 2020 at ZMW 1.2 billion (2019: ZMW 1.0 billion) by Knight Frank Zambia Limited (page 22).

**1.0 Arcades Development PLC (ADP)**

An abridged statement of results for ADP is provided on page 23 in this report. The Arcades Shopping Centre was most affected by the restrictions imposed to contain the Covid-19 pandemic. Following the exit of the SPAR Group from the shopping mall in March we witnessed an immediate reduction in the footfall and this event coincided with the advent of the pandemic induced trading restrictions.

These restrictions required the temporary closure of businesses including night clubs (Riders Lounge), the Cinema's (Nu-Metro) and the hair and beauty salons. Restaurants were initially closed but later allowed to operate takeaways. Management was required to grant rental remissions for the period that these business entities were statutorily closed. Following the easing of the trading limitations during the 3rd Quarter of 2020, the impact was felt by all retailers with a reduction in their respective turnovers, indicated by the reduction in patronage and footfall. The drop in footfall was mainly attributed to general decline in disposable income, change in consumer behavioral patterns, lack of anchor tenant at the shopping complex and competition.

Despite the best efforts to assist our tenants at the shopping complex through these difficult times, some retailers did not survive the harsh economic circumstances and had to close shop during the year 2020. Others sought more competitive rates with from our competitors forcing the occupancy rate to drop to 66.5% for the year compared to 87.5% in the prior year.

The focus in the coming year will be to fill those vacancies, reposition the property in order to regain its popularity as a desired destination for a unique shopping experience for the whole family. This will be achieved by offering a varied tenant mix of restaurants, cinemas, banks, retail, cafes and entertainment outlets. Key to reviving the centre will be the recruitment of an anchor tenant in the coming year.

Arcades Shopping mall has a total Gross Lettable Area (GLA) of 22,547 m$^2$.

The management of ADP is ably overseen by members of the REIZ Board, Mr. Kenny Makala (Chair), Mrs. Efi O'Donnell and Mr. Muna Hantuba.

ADP contributed ZMW 17.9 million to Group turnover for the first 7 months of the year and for the remainder income of ZMW 7.9 million was recognised along with the REIZ income. The Group underwent a business and operational restructuring program during the year where the 100% subsidiary ceded it rights to receive rent to REIZ Plc through a deed of novation signed on 10 June 2020 and transferred its property investment book value of ZMW 562 million to REIZ plc at year-end. ADP's aggregate turnover for the year was ZMW 25.8 million, down 55.8% on prior year income of ZMW 40.0 million. Reasons for the reduction have been highlighted earlier in this section.

The Arcades Shopping Centre was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 609.1 million (2019: ZMW 561.5 million).

## 2.0 Thistle Land Development Company Limited (TLD)

An abridged statement of results for TLD is provided on page 23 in this report. The property, Counting House Square, held under this Company is a single property situated along Thabo Mbeki Road. The property has a total Gross Lettable Area (GLA) of 3,039m2.

The management of TLD is ably overseen by members of the REIZ Board, Mr. Kenny Makala (Chair) and Mrs. Efi O'Donnell.

The contribution to Group turnover by TLD was ZMW 1.1 million for the first 7 months of the year and for remaining 5 months, a further ZMW 0.9 million was recognised along with the REIZ income. The Group underwent a business and operational restructuring program during the year where the 100% subsidiary ceded its rights to receive rent to REIZ Plc through a deed of novation signed on 10 June 2020 and transferred its investment property valued at ZMW 42 million to REIZ Plc at year end. The total income for TLD for the year was ZMW 2.0 million (2019: ZMW 0.7 million). The property's improved performance was underpinned by higher occupancy throughout the year with the year ending at 54.9% whilst 2019 ended at 49.3% (2018: 24.3%).

Counting House Square has witnessed several new office park developments in the Mass Media and Showgrounds area resulting in an oversupply of modern and appealing office space. It is estimated that the area currently has in excess of 40,000m$^2$ of vacant office space on offer. The cost to refurbish and undertake an upgrade on the appearance of this property is not currently justified by the the cost of capital and forecast property returns, whose structural look and feel has been overtaken by new modern developments in close vicinity. This property remains under assessment with a view of optimizing economic benefits for the Group. In the meantime, we are offering very competitive rental rates to fill the vacancies.

Counting House Square was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 60.1 million (2019: ZMW 42.1 million).

## 3.0 REIZ (company) properties

### 3.1 Deloitte Square

This property is a commercial office building situated along Thabo Mbeki Road, next to Counting House Square and has a Gross Lettable Area (GLA) of 1,821 m$^2$. This property was 100% leased throughout the year and fits in well with the aesthetic appearance of new developments in the area.

Deloitte Square was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 42.3 million (2019: ZMW 44.5 million).


### 3.2 Eureka Park

Eureka Park an industrial property offering modern logistic and warehousing facilities is the only operational industrial property in the portfolio. The property is situated along Kafue Road and has a Gross Lettable Area (GLA) of 6,274m$^2$.

The property is well tenanted by wholesale truck spares retailers and a major solar products distributor. The occupancy rate on 31 December 2020 was 78.7% (2019: 78.7%).

Eureka Park was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 48.6 million (2019: ZMW 40.7 million).

### 3.3 Central Park

Central Park situated at the corner of Cairo and Church Roads in the central business district ("CBD") area of Lusaka is the largest commercial office property in the portfolio with a Gross Lettable Area (GLA) of 9,034m$^2$. The property managed to attract new tenants into the CBD and we saw vacancy rates dropping from 39.8% at the beginning of the year to 28.8% as at 31 December 2020.

Recent past years have seen contractions in tenant demand for central business district (CBD) based commercial office properties leading to vacancy increases. The flight of tenants to new high-grade office properties outside CBD stalled during the year as the number of housing units being converted into offices appeared to halt on the back of poor economic fundamentals and lack of liquidity for investments. Central Park remains quite resilient in the tenant flight challenges facing CBD, but the property is under assessment in order to come up with optimal and sustainable options for the future.

Central Park was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 200.5 million (2019: ZMW 174.7 million).

### 3.4 Nyerere Road

This property situated on Nyerere Road and is tenanted by Jewel of Africa Head Office and an NGO, Population Council. It has a Gross Lettable Area (GLA) of 1,518 m$^2$ and was 100% leased throughout the year.

The Nyerere Road property was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 45.1 million (2019: ZMW 29.6 million).

### 3.5 Dedan Kimathi Road

This property is situated at the corner of Dedan Kimathi and Nasser Roads with a Gross Lettable Area (GLA) of 885 $m^2$. The property was 100% let during the year with a single tenant, the Judiciary of Zambia.

The Dedan Kimathi Road property was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 14.4 million (2019: ZMW 14.6 million).

### 3.6 Southview Park

Southview Park Housing Complex situated in the prime Lilayi area, along Kafue Road, provides a secure fenced and gated residential community presently developed with 22 upmarket residential 2 to 4 bed homes each with a semi-detached garage. The precinct boasting of land extent of 11.48 hectares (28.36 acres) is designed to provide about 126 high-cost residential units of various types and sizes with various facilities including a golf driving range, club house, storerooms, communal swimming pool and gymnasium.

Southview Park is the only residential property, complex, owned by REIZ. On 31 December 2020, the 21 houses out of 22 were fully let, giving a vacancy rate of 6% at the year-end as compared with 32.2% as at 31 December 2019.

The land extent of the property is 28.4 acres divided into two distinct portions of 7.0 acres developed and 21.4 acres undeveloped currently held as a land bank.

Southview was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 105.6 million (2019: ZMW 93.5 million).

### 3.7 Parkway Industrial Park

Parkway is a 3.3 Ha (33,000m²) prime land bank situated, along Kafue Road, approximately 10 kilometres south of the Central Business District of Lusaka. The property perimeter is fully fenced with Clear Vu fencing, concrete wall to perimeter boundaries and two guard houses. The land strategically sits next to REIZ's existing and operating property, Eureka Park an industrial warehousing and logistics property.

Parkway Industrial Park was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 33.5 million (2019: ZMW 30.1 million).

### 3.8 Solwezi Square

Currently, this property situated in Solwezi, North Western Province measuring 3,515m² is the only property on REIZ books outside Lusaka. REIZ also secured an additional 1,717 m² from Total Zambia Limited to arrive at a combined total extent of 5,232 m² for development of Solwezi Square a mixed-use business park.

The Solwezi property was valued by Knight Frank Zambia Limited at 31 December 2020 at ZMW 2.1 million (2019: ZMW 1.5 million).

## INVESTMENT PROPERTY ANALYSIS

### Property values as per valuation by Knight Frank Zambia Limited

| PROPERTY | TYPE | Leaseable Area | 2020 Valuation ZMW'000 | 2020 Valuation US$'000 | 2020 % of Total | 2019 Valuation ZMW'000 | 2019 Valuation US$'000 |
|---|---|---|---|---|---|---|---|
| Arcades Shopping Centre | Retail Mall | 22,547 | 609,120 | 28,800 | 52.4% | 561,488 | 40,250 |
| Central Park | Office Park | 9,034 | 200,510 | 9,480 | 17.3% | 174,654 | 12,520 |
| Counting House | Office Park | 3,039 | 60,087 | 2,841 | 5.2% | 42,129 | 3,020 |
| Deloitte Square | Office Park | 1,821 | 42,300 | 2,000 | 3.6% | 44,501 | 3,190 |
| Nyerere Road | Office Park | 1,518 | 45,092 | 2,132 | 3.9% | 29,574 | 2,120 |
| Eureka Park | Industrial Park | 6,274 | 48,645 | 2,300 | 4.2% | 40,734 | 2,920 |
| Dedan Kimathi | Office Park | 885 | 14,382 | 680 | 1.2% | 14,647 | 1,050 |
| Southview Park | Housing Complex | 3,769 | 105,644 | 4,995 | 9.1% | 93,465 | 6,700 |
| Parkway | Undeveloped | - | 33,523 | 1,585 | 2.9% | 30,132 | 2,160 |
| Solwezi | Undeveloped | - | 2,073 | 98 | 0.2% | 1,534 | 110 |
| **Total** | | **48,887** | **1,161,376** | **54,911** | **100%** | 1,032,858 | 74,040 |

### Property occupancy

| PROPERTY | TYPE | Leaseable space ($m^2$) | 2020 Vacant space ($m^2$) | 2020 Vacancy % | 2019 Vacant space ($m^2$) | 2019 Vacancy % |
|---|---|---|---|---|---|---|
| Arcades Shopping Centre | Retail Mall | 22,547 | 7,553 | 33.5% | 2,813 | 12.5% |
| Central Park | Office Park | 9,034 | 2,605 | 28.8% | 3,632 | 39.8% |
| Counting House | Office Park | 3,039 | 1,371 | 45.1% | 1,542 | 50.7% |
| Deloitte Square | Office Park | 1,821 | - | 0% | - | 0% |
| Nyerere Road | Office Park | 1,518 | - | 0% | - | 0% |
| Eureka Park | Industrial Park | 6,274 | 1,333 | 21.3% | 1,333 | 21.3% |
| Dedan Kimathi | Office Park | 885 | - | 0% | - | 0% |
| Southview Park | Housing Complex | 3,769 | 226 | 6.0% | 1,214 | 32.2% |
| **Total** | | **48,887** | **13,088** | **26.8%** | 10,534 | 21.5% |

## FINANCIAL SUMMARY OF GROUP COMPANIES

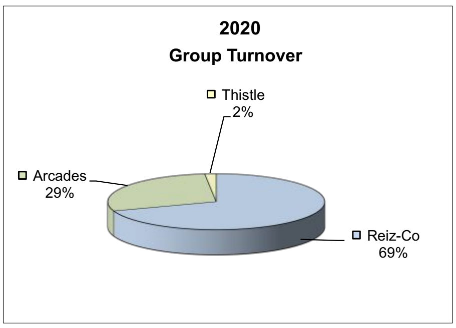
Shareholders are referred to the Financial Statements included in this Annual Report but we provide below an abridged summary of the Group's major trading companies in Zambian Kwacha and United States Dollars for the year ended 31st December 2020:

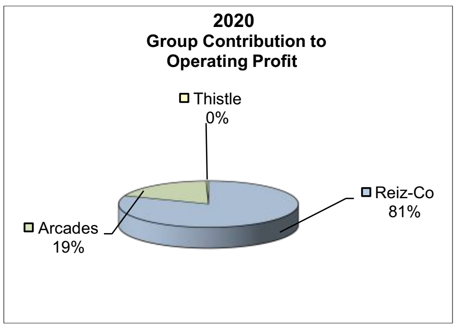
### STATEMENT OF COMPREHENSIVE INCOME – ZMW

| | 2020 | | | | | | | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reiz - Co. | | Arcades | | Thistle | | Reiz - Group | | Reiz - Group | |
| | ZMW'000 | % | ZMW'000 | % | ZMW'000 | % | ZMW'000 | % | ZMW'000 | % |
| Gross rental income | 43,521 | | 17,941 | | 1,059 | | 62,521 | | 67,393 | |
| Total property expenses | (5,798) | 13% | (8,847) | 49% | (626) | 59% | (15,271) | 24% | (8,493) | 13% |
| Total administration expenses | (4,341) | 10% | (2,983) | 17% | (509) | 48% | (7,833) | 13% | (11,705) | 17% |
| Impairment loss on trade receivables | (11,291) | 26% | - | 0% | - | 0% | (11,291) | 18% | (7,329) | 11% |
| Total depreciation | (2,058) | 5% | (1,464) | 8% | (29) | 3% | (3,551) | 6% | (2,019) | 3% |
| **Profit from operations** | 20,033 | 46% | 4,647 | 26% | (105) | -10% | 24,575 | 39% | 37,847 | 56% |
| Other operating income | 402 | | 83 | | - | | 485 | | 26 | |
| Change in fair value of Investment property | 141,721 | | - | | - | | 141,721 | | 53,504 | |
| Net finance (expense)/income | (38,091) | | (1,953) | | (167) | | (40,211) | | (27,150) | |
| Net foreign exchange (loss)/gain | (129,067) | | (20,679) | | (1,141) | | (150,887) | | (37,706) | |
| **(Loss) / profit before tax** | (5,002) | | (17,902) | | (1,413) | | (24,317) | | 26,521 | |
| Income tax (expense)/credit | (3,599) | | (1,830) | | (106) | | (5,535) | | (6,728) | |
| **(Loss) / profit after tax** | (8,601) | | (19,732) | | (1,519) | | (29,852) | | 19,793 | |
| **Rental income ratio per company** | 69% | | 29% | | 2% | | 100% | | | |
| **Profit from operations ratio per company** | 81% | | 19% | | 0% | | 100% | | | |

### STATEMENT OF COMPREHENSIVE INCOME – US$

| | 2020 | | | | | | | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reiz - Co. | | Arcades | | Thistle | | Reiz - Group | | Reiz - Group | |
| | US$'000 | % | US$'000 | % | US$'000 | % | US$'000 | % | US$'000 | % |
| **Average exchange rate** | 18.57 | | 18.57 | | 18.57 | | 18.57 | | 12.93 | |
| Gross rental income | 2,344 | | 966 | | 57 | | 3,368 | | 5,213 | |
| Total property expenses | (312) | 13% | (476) | 49% | (34) | 59% | (822) | 24% | (657) | 13% |
| Total administration expenses | (234) | 10% | (161) | 17% | (27) | 48% | (423) | 13% | (906) | 17% |
| Impairment loss on trade receivables | (608) | 26% | - | 0% | - | 0% | (608) | 18% | (567) | 11% |
| Total depreciation | (111) | 5% | (79) | 8% | (2) | 3% | (191) | 6% | (156) | 3% |
| **Profit from operations** | 1,079 | 46% | 249 | 26% | (6) | -10% | 1,322 | 39% | 2,927 | 56% |
| Other operating income | 22 | | 4 | | - | | 4 | | 2 | |
| Change in fair value of Investment property | (7,632) | | - | | - | | (7,632) | | (8,617) | |
| Net finance (expense)/income | (2,051) | | (105) | | (9) | | (2,164) | | (2,099) | |
| **(Loss) / profit before tax** | (8,582) | | 148 | | (15) | | (8,469) | | (7,787) | |
| Income tax (expense)/credit | (194) | | (98) | | (6) | | (299) | | (521) | |
| **(Loss) / profit after tax** | (8,776) | | 50 | | (20) | | (8,768) | | (8,308) | |
| **Rental income ratio per company** | 69% | | 29% | | 2% | | 100% | | | |
| **Profit from operations ratio per company** | 81% | | 19% | | 0% | | 100% | | | |



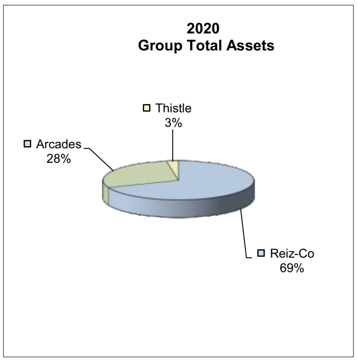
## STATEMENT OF FINANCIAL POSITION – ZMW

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| | Reiz - Co. ZMW'000 | Arcades ZMW'000 | Thistle ZMW'000 | Reiz - Group ZMW'000 | Reiz - Group ZMW'000 |
| Plant and equipment | 550 | 11,111 | 59 | 11,719 | 13,605 |
| Rental income receivable after 12 months | 7,159 | - | - | 7,159 | 5,107 |
| Investment properties | 1,179,970 | - | - | 1,179,970 | 1,041,974 |
| Investment property under development | 35,596 | - | - | 35,596 | 31,666 |
| Investments | 146,961 | - | - | - | - |
| Current assets | 27,841 | 566,075 | 51,489 | 30,816 | 41,771 |
| **Total Assets** | **1,398,077** | **577,186** | **51,548** | **1,265,260** | **1,134,123** |
| **Shareholders' funds and liabilities** | | | | | |
| Total equity | 303,306 | 572,455 | 51,188 | 781,553 | 811,405 |
| Total non–current liabilities | 409,020 | 79 | - | 409,020 | 284,920 |
| Total current liabilities | 685,751 | 4,652 | 360 | 74,687 | 37,798 |
| **Total equity and liabilities** | **1,398,077** | **577,186** | **51,548** | **1,265,260** | **1,134,123** |
| **Investment property ratio per company** | **100%** | **0%** | **0%** | **100%** | |

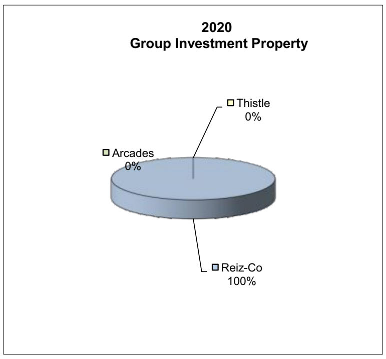
## STATEMENT OF FINANCIAL POSITION – US$

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| | Reiz - Co. US$'000 | Arcades US$'000 | Thistle US$'000 | Reiz - Group US$'000 | Reiz - Group US$'000 |
| **Average exchange rate** | **13.95** | **13.95** | **13.95** | **13.95** | **13.95** |
| Plant and equipment | 39 | 796 | 4 | 840 | 975 |
| Rental income receivable after 12 months | 513 | - | - | 513 | 366 |
| Investment properties | 84,586 | - | - | 84,586 | 74,693 |
| Investment property under development | 2,552 | - | - | 2,552 | 2,270 |
| Investments | 10,535 | - | - | - | - |
| Current assets | 1,996 | 40,578 | 3,690 | 2,209 | 2,994 |
| **Total Assets** | **100,221** | **41,375** | **3,693** | **90,699** | **81,298** |
| **Shareholders' funds and liabilities** | | | | | |
| Total equity | 21,742 | 41,036 | 3,669 | 56,025 | 58,165 |
| Non – current liabilities | 29,320 | 6 | - | 29,320 | 20,424 |
| Total current liabilities | 49,158 | 333 | 25 | 5,353 | 2,709 |
| **Total equity and liabilities** | **100,221** | **41,375** | **3,693** | **90,699** | **81,298** |
| **Investment property ratio per company** | **100%** | **0%** | **0%** | **100%** | |

### 2020 Group Total Assets




### 2020 Group Investment Property



## FIVE YEAR FINANCIAL SUMMARY (KWACHA)

### STATEMENT OF COMPREHENSIVE INCOME – ZMW

| For the ended 31 December | 2020 | | 2019 | | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ZMW'000 | % | ZMW'000 | % | ZMW'000 | % | ZMW'000 | % | ZMW'000 | % |
| Gross rental income | **62,522** | | 67,393 | | 50,579 | | 65,164 | | 75,782 | |
| Total property expenses | **(15,271)** | **24%** | (8,493) | 13% | (8,081) | 16% | (7,611) | 12% | (7,147) | 9% |
| Total administration expenses | **(7,833)** | **13%** | (11,705) | 17% | (10,231) | 20% | (11,753) | 18% | (12,184) | 16% |
| Impairment loss on trade receivables | **(11,291)** | **18%** | (7,329) | 11% | (3,973) | 8% | (4,634) | 7% | (1,128) | 1% |
| Total depreciation | **(3,551)** | **6%** | (2,019) | 3% | (560) | 1% | (683) | 1% | (653) | 1% |
| **Profit from operations** | **24,575** | **39%** | 37,847 | 56% | 27,734 | 55% | 40,483 | 62% | 54,670 | 72% |
| Other operating income | **485** | | 26 | | 70 | | 20 | | 90 | |
| Change in fair value of Investment property, net of exchange gains | **141,721** | | 53,504 | | 26,325 | | 2,154 | | (61,628) | |
| Net interest expense | **(40,211)** | | (27,150) | | (16,201) | | (10,178) | | (10,440) | |
| Exchange (losses)/gains | **(150,887)** | | (37,706) | | (28,289) | | (66) | | 5,415 | |
| **Profit before tax** | **(24,319)** | | 26,521 | | 9,639 | | 32,413 | | (11,893) | |
| Income tax (expense)/credit | **(5,535)** | | (6,728) | | (6,815) | | (7,380) | | (8,840) | |
| **Profit after tax** | **(29,853)** | | 19,793 | | 2,824 | | 25,033 | | (20,733) | |

### STATEMENT OF FINANCIAL POSITION - ZMW

| | 2020<br>ZMW'000 | 2019<br>ZMW'000 | 2018<br>ZMW'000 | 2017<br>ZMW'000 | 2016<br>ZMW'000 |
|---|---|---|---|---|---|
| Plant and equipment | **11,719** | 13,605 | 8,608 | 1,748 | 2,394 |
| Investment properties | **1,179,970** | 1,041,974 | 951,785 | 838,842 | 805,222 |
| Investment property under development | **35,596** | 31,666 | 26,943 | 22,982 | 24,309 |
| Rental income receivable after 12 months | **7,159** | 5,107 | 2,673 | 12,415 | 7,140 |
| Current assets | **30,816** | 41,771 | 36,435 | 96,504 | 93,721 |
| **Total Assets** | **1,265,260** | 1,134,123 | 1,026,444 | 972,491 | 932,786 |
| **Shareholders' funds and liabilities** | | | | | |
| Total equity | **781,553** | 811,405 | 798,952 | 804,202 | 792,155 |
| Non – current liabilities | **409,020** | 284,920 | 197,301 | 156,053 | 127,939 |
| Total current liabilities | **74,687** | 37,798 | 30,191 | 12,236 | 12,692 |
| **Total equity and liabilities** | **1,265,260** | 1,134,123 | 1,026,444 | 972,491 | 932,786 |

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Number of shares** | **56,460,198** | 56,460,198 | 56,460,198 | 56,460,198 | 56,460,198 |
| **EPS** | **(0.53)** | 0.35 | 0.05 | 0.44 | 0.37 |
| **Headline EPS** | **0.44** | 0.67 | 0.49 | 0.72 | 0.97 |
| **NAV** | **13.84** | 14.37 | 14.15 | 14.24 | 14.03 |
| **Dividend proposed (paid prior years) per share** | **-** | - | 0.13 | 0.23 | 0.23 |

## FIVE YEAR FINANCIAL SUMMARY (UNITED STATES DOLLARS)

### STATEMENT OF COMPREHENSIVE INCOME - US$

| | 2020 US$'000 | % | 2019 US$'000 | % | 2018 US$'000 | % | 2017 US$'000 | % | 2016 US$'000 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Average exchange rate** | **18.57** | | **12.93** | | **10.70** | | **9.66** | | **10.42** | |
| Gross rental income | **3,368** | | **5,212** | | **4,727** | | **6,746** | | **7,273** | |
| Total property expenses | **(822)** | 24% | **(657)** | -13% | **(755)** | -16% | **(788)** | -12% | **(686)** | -9% |
| Total administration expenses | **(423)** | 13% | **(906)** | -17% | **(956)** | -20% | **(1,217)** | -18% | **(1,169)** | -16% |
| Impairment loss on trade receivables | **(608)** | 18% | **(567)** | -11% | **(371)** | -8% | **(480)** | -7% | **(108)** | -1% |
| Total depreciation | **(191)** | 6% | **(156)** | -3% | **(52)** | -1% | **(71)** | -1% | **(63)** | -1% |
| **Profit from operations** | **1,322** | **39%** | **2,927** | **56%** | **2,592** | **55%** | **4,190** | **62%** | **5,247** | **72%** |
| Other operating income | **4** | | **2** | | **7** | | **2** | | **9** | |
| Change in fair value of Investment property, net of exchange | **(7,632)** | | **(8,617)** | | **(10,506)** | | **223** | | **1,906** | |
| Net finance (expense)/income | **(2,164)** | | **(2,099)** | | **(1,514)** | | **(1,054)** | | **(1,002)** | |
| **(Loss)/ profit before tax** | **(8,469)** | | **(7,787)** | | **9,421** | | **3,361** | | **6,160** | |
| Income tax (expense)/credit | **(299)** | | **(521)** | | **(637)** | | **(764)** | | **(848)** | |
| **(Loss)/ profit after tax** | **(8,768)** | | **(8,308)** | | **(10,058)** | | **2,597** | | **5,312** | |

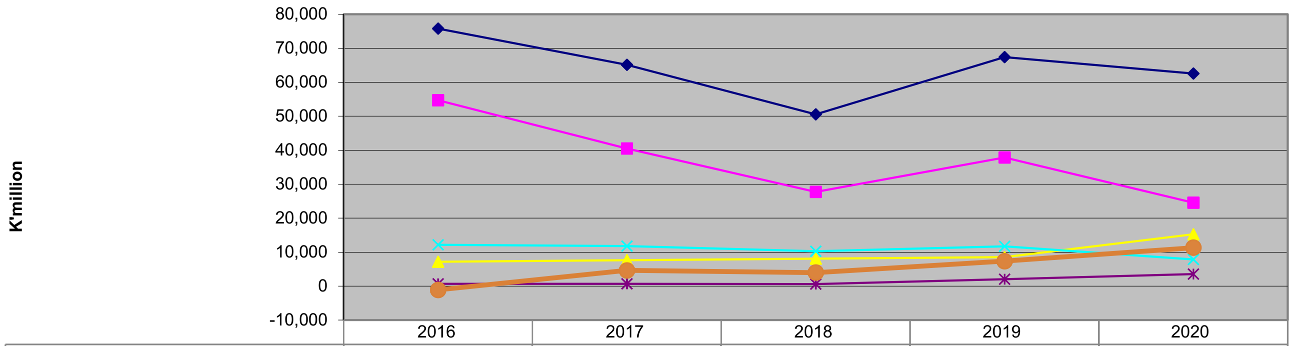
### STATEMENT OF FINANCIAL POSITION - US$

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Average exchange rate** | **21.15** | **13.95** | **11.89** | **10.01** | **9.87** |
| Plant and equipment | **554** | 975 | 725 | 175 | 243 |
| Investment properties | **55,791** | 74,693 | 80,049 | 83,800 | 81,583 |
| Investment property under development | **1,683** | 2,270 | 2,266 | 2,296 | 2,463 |
| Rental income receivable after 12 months | **338** | 366 | 225 | 1,240 | 723 |
| Current assets | **1,457** | 2,993 | 3,063 | 9,641 | 9,496 |
| **Total assets** | **59,822** | **81,298** | **86,328** | **97,152** | **94,508** |
| **Shareholders' funds and liabilities** | | | | | |
| Total equity | **36,953** | 58,165 | 67,195 | 80,340 | 80,260 |
| Non – current liabilities | **19,339** | 20,424 | 16,594 | 15,590 | 12,962 |
| Total current liabilities | **3,530** | 2,709 | 2,539 | 1,222 | 1,286 |
| **Total equity and liabilities** | **59,822** | **81,298** | **86,328** | **97,152** | **94,508** |

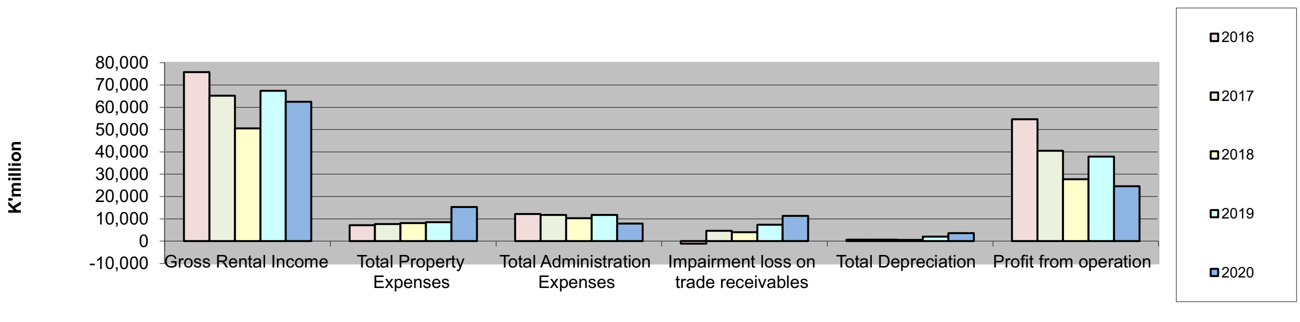
| | | | | | |
|---|---|---|---|---|---|
| **Number of share** | **56,460,198** | 56,460,198 | 56,460,198 | 56,460,198 | 56,460,198 |
| **EPS** | **(0.16)** | (0.15) | (0.18) | 0.05 | 0.09 |
| **Headline EPS** | **0.02** | 0.05 | 0.05 | 0.07 | 0.09 |
| **NAV** | **0.65** | 1.03 | 1.19 | 1.42 | 1.42 |
| **Dividend proposed (paid prior years) per share** | **-** | 0.01 | 0.02 | 0.02 | 0.02 |

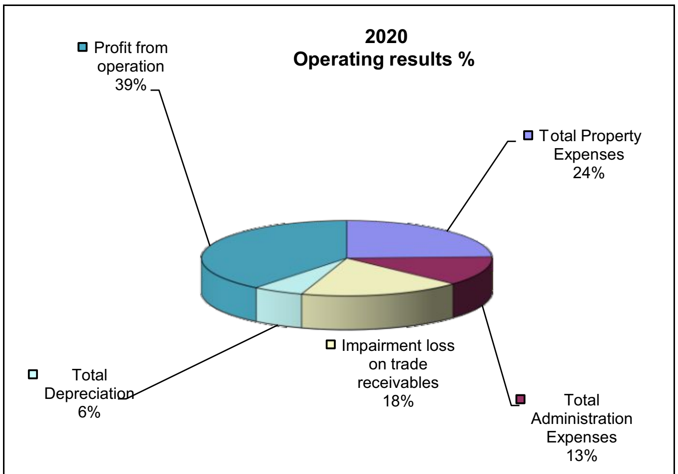
## ANALYSIS OF FIVE YEAR FINANCIAL RESULTS

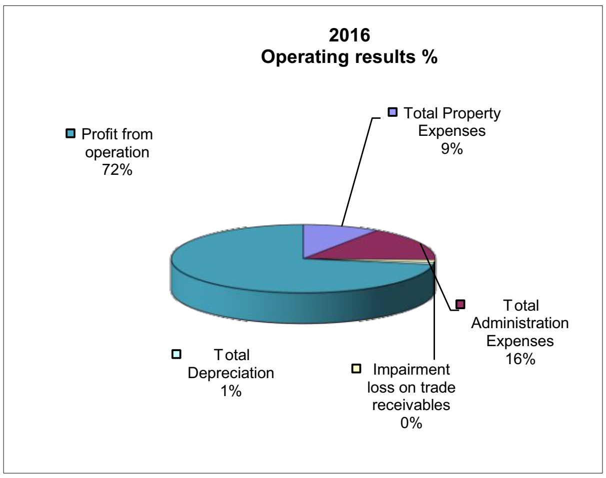
## OPERATING RESULTS

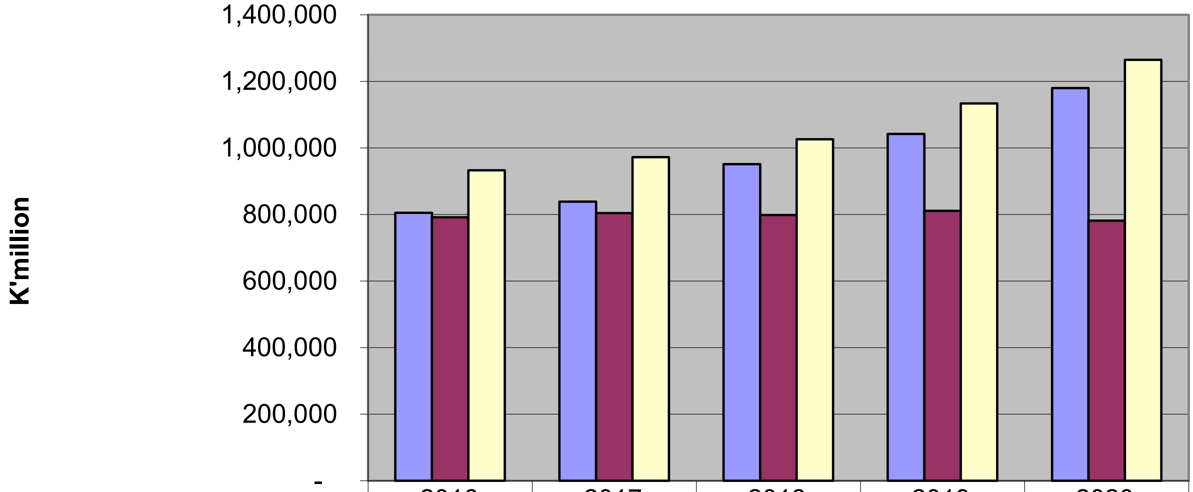



| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Gross Rental Income | 75,782 | 65,164 | 50,579 | 67,393 | 62,521 |
| Profit from operation | 54,670 | 40,483 | 27,734 | 37,847 | 24,575 |
| Total Property Expenses | 7,147 | 7,611 | 8,081 | 8,493 | 15,271 |
| Total Administration Expenses | 12,184 | 11,753 | 10,231 | 11,705 | 7,833 |
| Total Depreciation | 653 | 683 | 560 | 2,019 | 3,551 |
| Impairment loss on trade receivables | -1,128 | 4,634 | 3,973 | 7,329 | 11,291 |






| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Investment Property | 805,222 | 838,842 | 951,785 | 1,041,974 | 1,179,970 |
| Equity | 792,155 | 804,202 | 798,952 | 811,405 | 781,553 |
| Total Assets | 932,786 | 972,491 | 1,026,444 | 1,134,123 | 1,265,260 |

From the financial analysis above, it can be appreciated that despite the general cyclical and economical challenges that the industry and country has faced in the past five years, the Group continues to grow from strength to strength each year under the able guidance of the Board, the efforts of our staff and the continued loyalty of our valuable customers, the tenants of our properties. REIZ has continued to post resilient results based on fundamental principles of building the sustainability of the Group's business through innovation, creativity, responsiveness, and building trust and goodwill among its stakeholders.

**Business outlook**

The property market outlook remains uncertain and unpredictable whilst the pandemic persists, and the economic outlook appears unstable. As previously stated, the property is a cyclical business, and the current industry climate is unlikely to improve over the short-term. Notwithstanding the real estate industry challenges, we do expect a better year ahead, based on early indications, however pressures will remain on retaining occupancy, maintaining rental rates, and collection of receivables.
The financial analysis provided earlier highlighted the shortcomings and opportunities for management to focus on and address, which include the following among others:

a) Fill the existing vacancies which were at 26.8% for the Group at the year-end. It will take concerted efforts to improve occupancy levels especially for properties such as Arcades Shopping Centre, Central Park and Counting House.

b) Finding an anchor tenant for Arcades Shopping Centre and in this regard, plans are afoot to have an ultra-modern convenience supermarket in place occupied by the draw tenant.

c) Rigorous debt collecting efforts to mitigate on the quantum of impairment of receivables among other factors that negatively impact performance.

d) Continually focus on cost containment and rightsizing measures to ensure the Group operates efficiently and effectively. Key among these measures will see the reorganizing of the Group's structure so that REIZ and its subsidiaries operate as one entity thereby avoiding duplicity in administrative and operational functions, and value may be extracted from a simpler and more streamlined entity.

e) Address the mismatch between the foreign currency denominated borrowings and what has effectively become revenues in local currency with the capping of the Dollar rental invoice values in Kwacha. The capping will be reviewed and adjusted quarterly where appropriate and some instances the capping will be removed altogether.

f) Remaining on the theme of the foreign currency denominated obligations efforts are underway to reduce the loans partly through sale of redundant or undeveloped or non-performing assets.

The Group will continue to proactively review each property's performance and seek opportunities to unlock value from each of the existing properties, assessing whether they meet our investment criteria, while prudently pursuing the growth strategy to generate the best risk-adjusted returns for the Group.

Another pertinent issue relevant to the Group is the maturing corporate bonds in November 2022. The Board has tasked management to address this maturity and putting in place a plan before the end of 2021. In this regard, management will engage consultants to work on this assignment and together consider several options as follows:

a) Rollover the existing Corporate bonds on maturity.

b) Rights issue. Invite existing shareholders to inject capital into the business to preserve their shareholding.

c) Refinance the corporate bonds with similar tenure funds.

**Business outlook**

d) Conversion of debt to equity.

e) Strategic partnership or merger leading to consolidation in market.

F) Issue new shares – invite new shareholding into the Group.

The merits and demerits of the options listed above will be carefully considered and discussions held to consider the most suitable option going forward. Management have undertaken to present their plans before year-end to the Investment Committee for their consideration and guidance, the Board and the shareholders for their respective adoption and authorization. It is management's aim to conclude a workable plan for the maturing corporate bonds well in advance of their actual maturity on 26 November 2022.

The Group will actively engage both existing and prospective tenants to strengthen its presence in all core markets of the property industry comprising retail, commercial office, residential and logistics and warehousing.

**Acknowledgements**

I would like to express my appreciation to the Board of REIZ for its support and guidance conferred on me from my recruitment date. I wish to thank Management and Staff for warmly welcoming me into the team and sharing their ideas and passion to take the entity forward. I am excited at the prospect of engaging with our Shareholders to get a better understanding of their expectations and aspirations for the Group. To our partners, suppliers, service providers and various stakeholders I humbly request your continued support for REIZ. I look forward to reviving the fortunes of the Group through a market facing and market led strategy which will entail forging close relationships with our tenants and our stakeholders.

**Urvesh J Desai**
Chief Executive Officer


reiz
REAL ESTATE
INVESTMENTS ZAMBIA PLC

Louis Chilufya Pulu
COMPANY SECRETARY
(Appointed January 11, 2021)

# Statement on Corporate Governance

Real Estate Investments Zambia PLC's (REIZ) values are to achieve its mission by setting the highest ethical standards in its dealings with its tenants, service providers and stakeholders through attention to detail, commitment, sincerity and self-expression.

## 1.0 The Board

The Board is collectively responsible to the Group's shareholders for the long-term success of the business and for the overall strategic direction and control of the Group. During the year, there was no changes to the composition of the Board. The Board which consisted of five members during the year is confident that it has sufficient knowledge, talent and experience to adequately direct the affairs of the Group. Directors are paid a gross meeting attendance allowance of US$ 1,100 and quarterly retainer of US$ 3,046. The Chairman is paid a gross meeting attendance allowance of US$ 1,862 and quarterly retainer of US$ 4,738. There were no other emoluments applicable during the year 2020. The board sitting allowances were reduced by 50% due to the Covid-19 pandemic. This measure was aimed at easing the Company's cashflow.

### 1.1 Composition of the Board

Below are brief profiles of the directors of REIZ.

**Kenny H. Makala**
Non-Executive Chairman
June 2001, Zambian
Legal Practitioner

Kenny is a lawyer and is senior partner of Makala & Company. He is a director of various Zambian institutions including Makaland Agricultural Enterprises Limited, Lofty Reflections Limited, Sunrise Property Limited, C&K Consultancy Limited, Pivot Capital Finance Company Limited, Avionix Services Limited, Nabuzoka Limited and Bayport Financial Services Limited.

Efi received a B.Sc.(Eng) Computer Science degree with honours from the Imperial College of London and is an Associate of the City & Guilds Institute London. She also attended the Harvard Business School Executive Education programme on Strategic Finance.

Efi is currently Financial Director of the Union Gold Group, which is one of Zambia's largest private entities. The Union Gold group has interests in, among others, Protea Hotels Group, Bonanza Estate Development, a property development division, a plastic division, and a large national drinks distributor.

Efi served for three years as Wildlife Society Zambia national treasurer and Director of the Wildlife Trust Ltd.

**Efi O'Donnell**
Non-Executive Director
January 2012, Zambian
Finance Director – Union Gold (Zambia) Ltd.

## Statement on Corporate Governance

**Muna Hantuba**
Non-Executive Director
June 2007, Zambian,
Chief Executive Officer –
African Life Financial Services (Z) Limited

Muna is currently the Group CEO of African Life Holdings Limited Ltd, He has over 30 years' experience in the financial services sector. He began his career with Meridian Bank Zambia Limited in 1986 and joined the Anglo-American Corporation and headed the Corporate Services. He left Anglo American Corporation in 2000 to join African Life Financial Services Zambia Limited as CEO till December 2015.

Muna is a past Chairman of the Securities and Exchange Commission, and a preceding President of the Economics Association of Zambia. He is a director of CEC Plc, Anglo Exploration Limited, Sanlam Life Insurance Zambia Limited, the various subsidiaries of the African Life Holdings Group, and also a member of the Zambia Association of Chambers, Commerce. He serves on other corporate boards including Lafarge Plc as Chairman, and Southern Sun Ridgeway Ltd Lusaka as Chairman.

Muna holds an MBA from Stirling University in Scotland and a Bachelor's Degree in Economics from the University of Zambia.

**Mark O'Donnell**
Non-Executive Director
January 2012, Zambian
Managing Director –
Union Gold (Zambia) Limited

Mark is the CEO of the Union Gold Group. Union Gold is a diversified company with interest in Hotels, Construction and Manufacturing sector.

He is a member of the Institute of Directors and a past Chairman of the Zambia Tourist Board.

Mark is a non-executive director of various institutions including Lafarge Zambia Plc, Madison Life Insurance Company Ltd and Care For Business Medical Centre.

**Review Namanje**
Non-Executive Director
March 2019, Zambian
Head – Human Resources
MRI Seed Zambia Limited

Review is Board Chairman and Nominations Committee member of Saturnia Regna Pension Fund. He is also a director and shareholder in Verbunden Investments.

He is an experienced human capital management and development specialist covering the agricultural, mining, private and non-governmental organization sectors. Currently he is Head-Human Resources at MRI Seed Zambia Limited since November 2014.

Review holds a Master of Business Administration (GMBA) from Lancaster University, United Kingdom and B.A in Education and Psychology from the University of Zambia.

He is a member of the Zambia Institute of Human Resource Management (ZIHRM).

## 1.2 Directors Emoluments

| Director | Meeting attendance fees | Retainer fees | AGM | Total emoluments 2020 | Total emoluments 2019 |
|---|---|---|---|---|---|
| K.H. Makala (Chairman) | 101,753 | 226,522 | 18,563 | 346,839 | 465,934 |
| M. Hantuba | 100,615 | 145,622 | 10,969 | 257,206 | 368,080 |
| E. O'Donnell | 100,615 | 145,622 | 21,384 | 267,621 | 273,779 |
| M. O'Donnell | 59,913 | 145,622 | - | 205,535 | 260,590 |
| R. Namanje | 111,544 | 145,622 | 11,177 | 268,550 | 192,898 |
| D. Kabunda | - | - | - | - | 49,712 |
| E.C.L Nkumbula | - | - | - | - | 157,905 |
| B.M. Kayumba | - | - | - | - | 211,730 |
| D. Soko | - | - | - | - | 116,304 |
| | **474,440** | **809,009** | **62,094** | **1,345,750** | **2,096,932** |
| Board fees venue refund | **-** | **-** | **-** | **(12,000)** | **-** |
| Board fees as per audited financial statements | **474,440** | **809,009** | **62,094** | **1,333,750** | **2,096,932** |

Attendance at Board meetings during the year was as follows:

| Date of meeting | K.H. Makala (Chairman) | M. Hantuba | E. O'Donnell | M. O'Donnell | R. Namanje | Total |
|---|---|---|---|---|---|---|
| 25/02/2020 | √ | √ | √ | √ | √ | 5/5 |
| 11/06/2020 | √ | √ | √ | √ | √ | 5/5 |
| 03/09/2020 | √ | √ | √ | √ | √ | 5/5 |
| 10/12/2020 | √ | √ | √ | √ | √ | 5/5 |
| **Total** | **4/4** | **4/4** | **4/4** | **4/4** | **4/4** | **20/20** |

### 1.3 Audit and Risk Committee

This committee chaired by Mrs. Efi O'Donnell is responsible for reviewing and monitoring the integrity of statutory accounts, published financial statements and circulars to shareholders of the Group and any formal announcements or reports relating to the Group's financial performance including significant financial reporting judgements contained in them. In particular, the committee:

(a) Considers the quality, application and acceptability of the accounting policies and practices, the adequacy of accounting records and financial and governance reporting disclosures and changes thereto;

(b) Considers and monitors the Group's risk profile and risk management procedures and processes.

(c) Holds meetings with external auditors and is responsible for recommending auditors to the Board for further recommendation to the members for appointment.

**Attendance at Audit and Risk Committee meetings during the year was as follows:**

| Date of meeting | E. O'Donnell (Chair) | R. Namanje | M. Hantuba | Total |
|---|---|---|---|---|
| 18/02/2020 | √ | √ | √ | 3/3 |
| 14/05/2020 | √ | √ | √ | 3/3 |
| 13/08/2020 | × | √ | √ | 2/3 |
| 19/11/2020 | √ | √ | √ | 3/3 |
| **Total** | **3/4** | **4/4** | **4/4** | **11/12** |

### 1.4 Investment Committee

The Investment Committee Chaired by Mr. Muna Hantuba exercises oversight on behalf of the Board on management of the investment and developmental activities of the Group from investment appraisal to implementation.

During the year there were no Investment Committee meetings. All investment decisions were to be handled by the main Board of directors. There was no major capital and financing deals undertaken during the year and consequently there was no need to hold these meetings.

### 1.5 Remunerations Committee

The Remunerations committee, chaired by Mr Muna Hantuba reviews the structure of compensation of the Executive Team and the Board; and makes recommendations to the Board with regard to any adjustments that are deemed necessary. The Committee is also involved in identifying, assessing and nominating for approval of the Board, candidates to fill vacancies to the Executive Team as and when they arise.

During the year there were no remuneration Committee meetings.

### 1.6 Nominations Committee

This committee is responsible for reviewing the structure, size and composition (including the skills, knowledge, experience and compliance with corporate governance best practice) of the Board and making recommendations to the Board with regard to any adjustments that are deemed necessary. The committee reviews nominations by members and reports to the Board on their suitability for final presentation to general meetings of members for election. In case of vacancies arising on the Board during the year, the committee identifies, assesses and nominates for approval of the Board, candidates to fill the vacancies.

The Nominations Committee did not meet during the year.

### 1.7 Conduct of Board and Committee meetings

The agenda for Board and Committee meetings is prepared by the Chief Executive Officer, in consultation with the Board/Committee Chairpersons and Company Secretary. The agenda is formally approved by Directors at meetings and additional matters may be added to the agenda at the request of a Director, and following approval by other Directors present in the meeting.

All directors are required to assess any potential conflict of interest and to bring such circumstances to the attention of the Chairman and the Board. Directors' declarations of interests are tabled at every meeting. Directors fill out and sign a declaration of interest form for each meeting. For a matter in which a director may have an interest, such director is requested to recuse him/herself in consideration of that matter.

### 1.8 Board Charter

The Board operates under a Board Charter unanimously approved by all Directors which provides Terms of Reference for the Board. Board committees operate under terms of reference that have been approved by the Board. The major matters covered in the Board Charter are as follows:

#### 1.8.1 Responsibilities

The Board of the Company has responsibility for the overall management of the Company and is primarily accountable to the shareholders for the proper conduct of the business of the Company. In particular the Board has responsibility for the matters set out below.

### 1.8.2 Strategy and Management

i. Approve the Company's long term strategy and objectives.
ii. Approve the Company's annual operating plan, cash flow and budget and any material changes to it.
iii. Oversee the management of the business and affairs of the Company ensuring:
a) competent and prudent management.
b) sound planning.
c) an adequate system of internal controls.
d) adequate record keeping, accountancy and other company records and information.
e) compliance with statutory and regulatory obligations.
iv. Review the performance of the Company in the light of the prevailing economic conditions, its strategy, objectives, plans and budgets and ensure that any necessary corrective action is taken.
v. Approve any extension of the Company's activities into new business or geographic areas.
vi. Approve any decision to cease to operate all or any material part of the Company's business.

### 1.8.3 Capital

i. Keep under review and determine appropriate levels for the capital and liquidity positions of the Company.

ii. Review and approve proposals for the allocation of capital and other resources within the Company.

### 1.8.4 Financial Reporting

i. Approve the Company's financial statements, annual report and quarterly management accounts, including other qualitative and quantitative information.

ii. Approve any significant changes to accounting policies or practices.

iii. Recommendation to Shareholders of the Auditor for the ensuing year on recommendation of the Audit and Risk Committee.

### 1.8.5 Internal Control

Maintain a sound system of internal control and risk management including:
a) receiving reports on, and reviewing the effectiveness of the Company's risk and control processes to support its strategy and objectives.
b) approving an appropriate statement for inclusion in the annual report.
c) approving any corporate governance reports.
d) approve internal and external audit reports.

### 1.8.6 Major Contracts and Engagements

Approve material acquisitions and disposals of businesses, assets or shares which are outside the ordinary course of business of the Company and significant in terms of the business of the Company.

### 1.8.7 Board and Other Appointments

i. Review the structure size and composition of Management and Board from time to time and make any changes deemed necessary.

ii. Approve the appointment and removal of designated senior executive officers of the Company.

### 1.8.8 Delegation of Authority

Approve delegated authorities for expenditure, borrowing and other risk exposures.

### 1.8.9 Other

i. Establish, review and agree changes as appropriate to the membership and terms of reference of the Committees of the Board.

ii. Receive the minutes of and/or reports from the Committees of the Board.

iii. Review the terms of reference of Board Committees from time to time.

## 1.9 Board Members induction

All newly appointed directors to the Board of REIZ are formally inducted by the Board Chairman to ensure they have a broad understanding of the Group and; the role, culture and operations of the Board. The induction process includes:

a) Initial meeting with the Board Chairman, Chief Executive Officer and Company Secretary.
b) Presentation of a file to the new director comprising, articles of association, Board charter, Committees' terms of reference, current year's board and committee meetings timetable, etc.
c) Strategic plan.
d) Contacts for other directors and key management.

## 1.10 Board Independence

The roles of Chairman and Chief Executive Officer are separate and the office of Chairman is occupied by an independent, non-executive director. The position of Chief Executive Officer is appointed by the Board on the recommendation of the Remunerations Committee of the Board (Remco). The terms and conditions of the Chief Executive Officer's employment contract are determined by the Remunerations Committee, and are recommended to, and approved by the Board.

During the year, the Board comprised non-executive directors who are independent of management and exercise their independent judgement gained from their knowledge and experience.

The Board has an on-going process of self –evaluation to ensure adherence to the best practices of corporate governance. To this end Board induction and training is instituted to ensure a continual improvement in these practices. The board meets with external auditors to ensure adherence to international accounting practices.

A third of the Board is required under the articles of the company to retire annually. A "fit and proper" test of new Director appointments is made by the Nominations Committee that also assesses that appointments comply with the Company's articles.

Shareholders approve by ordinary resolution the appointment of Directors duly recommended to the Annual General Meeting.

**The Directors' shareholding interest as at 31 December 2020 is shown in the table below:**

| Non-Executive Directors | Beneficial | | Non-beneficial | |
|---|---|---|---|---|
| Kenny H. Makala | Nil | Nil | Nil | Nil |
| Munakupya Hantuba | Nil | Nil | Nil | Nil |
| Mark O'Donnell | 57,326 | 9,273,779 | Nil | Nil |
| Efi O'Donnell | Nil | 9,273,779 | Nil | Nil |
| Review Namanje | Nil | Nil | Nil | Nil |

## 2.0 Key Management positions

The top three management positions and office bearers during the year were as follows:

Chief Executive Officer – Urvesh Desai (Appointed 1 November 2020)
Chief Executive Officer – Sydney E. Popota (Resigned 30 June 2020)
Chief Operations Officer – Rudolf W. Nortje
Finance Manager and Company Secretary – Moses Vera (Resigned 30 October 2020)
Finance Manager and Company Secretary – Louis Pulu (Appointed 11 January 2021)

Mr. Urvesh Desai was appointed as Chief Executive Officer on 1 November 2020 and also acted as the Company Secretary until 10th January 2021. Mr. Desai is an accomplished and seasoned senior executive with over 20 years' experience in various markets across Africa. He is a Chartered Accountant and a Fellow member for the Association of Chartered Certified Accountants (ACCA) and Zambia Institute of Chartered Accountants (ZICA). He has worked in manufacturing, banking, finance, property and asset management, accounting, retail and distribution sectors.

Mr. Louis Chilufya Pulu was appointed as Finance Manager and Company Secretary after the year end on 11th January 2021. He is an ACCA qualified professional accountant with over 22 years of experience in the field of finance, auditing and accounting. He is a fellow member of ZICA and has experience in the financial services sector, real estate and property development, auditing and advisory services, non-governmental organisations and oil marketing sector. He has held senior management positions such as Head of Finance Dana Oil Zambia Limited, Chief Finance Officer PAN African Building Society, Head of Finance LOLC Financial Services Zambia, Group Finance Manager Foxdale Development Limited and Hawk wood Investment Properties Limited.

## 3.0 External Auditor

The Auditor for the year under review was KPMG Chartered Accountants following their appointment at the Annual General Meeting held on 30 June, 2020. The Auditor is recommended to the members by the Board of Directors following recommendation to the Board by the Audit and Risk Committee. The Audit and Risk Committee reviews the work and scope of the external audit process through formal meetings with the audit engagement partner. Some of the matters considered in the meeting are:

a) Independence of the audit firm, engagement partner and audit team,

b) Audit planning, scope and identification of key areas of audit risk,

c) Feedback from the audit process and review of the management letter.

During the current year, the auditor did not offer any other services apart from the statutory audit. Remuneration of the auditor is reported at note 7 of the financial statements on page 69.

## 4.0 Risk Management

In running the Group's business in the ever changing regulatory and operating environments, we continue to strengthen compliance and control processes. During the year, the Group structured and documented its operating policies, procedures and processes (policy manual) to foster an effective compliance culture and operating environment. The policy manual deals comprehensively with structure, human resource, policies and activities to identify, assess, monitor and manage compliance and operating risks.

REIZ attaches great importance to the highest ethical standards and principles of corporate governance. The Board therefore ensures that it is in compliance with the requirements of various legislations under which REIZ and its subsidiaries operate. As per our values, we seek to be honest, reliable and fair in dealing with all our interest groups. REIZ and its subsidiaries are incorporated in Zambia under the provisions of the Companies Act. REIZ is listed on the Lusaka Securities Exchange (LuSE) and is regulated by the Securities and Exchange Commission (SEC). The Group's corporate governance systems and practices are therefore based on the LuSE's Code of Conduct.

In the conduct of its business, REIZ stands for the following principles:

1. Commitment to working in an ethical, lawful, and professional manner.

2. Firm stand against corruption of any form and against bribery in order to contribute to good governance and economic development. REIZ therefore neither pays bribes nor accept them, nor induce or permit any other party to make or receive bribes on our behalf.

The Board confirms that REIZ ensured substantive compliance with the Lusaka Securities Exchange Corporate Governance Code throughout the year and that we remain committed to meeting regulatory requirements in the future.

Arcades Taxi Rank

Arcades Bus Station

Cairo road island attended to by REIZ

Sections of the road island elsewhere which are not attended to

## 5.0 Corporate Social Responsibility

REIZ recognises that it has responsibilities to many stakeholders. The Group attaches great importance to delivering a balance between pursuing economic returns and promoting the social well-being of the wider communities in the country. The Board supports a number of charitable, social and educational causes on a case by case basis.

The following are some of the projects that have benefited from REIZ's corporate social responsibility activities:

**5.1 Pakati Sunday Market** at Arcades Shopping Mall – REIZ proudly sponsors and provides a platform called Pakati market to advent entrepreneurs. This platform has become one of the biggest flea markets in Zambia through which many emergent retailers and manufacturers sell indigenous Zambian products and artworks, showcasing immense talent of the people of Zambia in terms of artifacts, curios, crafts, music etc. This famous market which has become very popular to both international and local tourists is held on a weekly basis on Sundays throughout the year. REIZ is committed to continue providing this platform in the foreseeable future and in this vein, the Pakati Market platform was provided for in the redevelopment of the Arcades shopping mall.

**5.2 Cairo Road island** - REIZ has adopted the Cairo road island section covering Central Park's perimeter along the road and maintains it in promoting "keep Lusaka clean and green". This stretch under REIZ's care stands out on the whole of Cairo Road from north end to south end as the best maintained garden.

### 6.0 Shareholders

REIZ has a 100% float on the Lusaka Securities Exchange (LuSE) with over 300 shareholders. In addition of the Group's general meetings, REIZ continues to engage shareholders and attend to their questions, feedback and information needs. This is done through emails, phone calls and one on one meetings with senior management of the Group particularly the Chief Executive Officer and the Company Secretary. A number of shareholders visit the Group's offices throughout the year.

The Group also maintains close interactions with stock brokers and research analysts who play an important role in the investment community. Our corporate website www.reiz.co.zm continues to be a key resource for announcements and annual reports. To ensure fair and prompt dissemination of information, we post all new announcements on our website immediately after release on the Securities Exchange News Services (SENS).

### Major shareholders

| Shareholder | Number of REIZ shares held | Holding percentage (%) |
|---|---|---|
| Saturnia Regna Pension Trust Fund | 13,203,920 | 23.39% |
| Union Gold (Zambia) Ltd | 9,273,779 | 16.43% |
| National Pension Scheme Authority (NAPSA) | 5,691,431 | 10.08% |
| Standard Chartered Zambia Securities Services Nominees | 5,363,724 | 9.50% |
| Workers' Compensation Fun Control Board | 4,206,691 | 7.45% |
| KCM Pension Trust Scheme | 3,225,842 | 5.71% |
| Barclays Bank Zambia Staff Pension Fund | 2,377,279 | 4.21% |
| Zambia Sugar Pension Trust Scheme | 1,384,693 | 2.45% |
| Kwacha Pension Trust Fund | 1,000,000 | 1.77% |
| Stanbic Bank Pension Trust Fund | 948,406 | 1.68% |
| **Total Top Ten Shareholders** | **46,675,765** | **82.67%** |
| **Others** | **9,784,433** | **17.33%** |
| **Total** | **56,460,198** | **100%** |

### 7.0 Dividend

Consequent to review of the current operating environment, the Board has determined not to recommend payment of dividend for the 2020 financial year (2019 Nil). This measure will assist the Company to effectively implement fiscal consolidation and build a sinking fund to enhance capacity of meeting debt finance obligations.

### 8.0 Conclusion

The Board of Directors hereby confirms that the Group has complied with all the internal control aspects of the principles of good governance. The financial statements attached to this Annual Report have been approved by the Directors and have been prepared, as reported by the Group's independent auditor, in accordance with International Financial Reporting Standards and its interpretations adopted by the International Accounting Standards Board and comply with the Companies Act of Zambia.

The Directors are not aware of any material fact, circumstance or event which has occurred between the accounting date and the date of this report which might influence an assessment of the Group's financial position or the results of its operations.

**Louis Pulu**
Company Secretary


reiz
REAL ESTATE
INVESTMENTS ZAMBIA PLC

# GROUP AND COMPANY FINANCIAL STATEMENTS

*for the year ended 31 December 2020*

# Company Information

**REGISTERED OFFICE**:
Real Estate Investments Zambia Plc
Stand 2713
Cairo Road
P O Box 30012
**Lusaka**
Telephone 260 211 227684-9

**TRANSFER SECRETARIES**
Amazon Associates Limited
P. O. Box 32001
**Lusaka**

**COMPANY SECRETARY**
Louis Pulu *(Appointed 11 January, 2021)*
P. O. Box 30012
Cairo Road
**Lusaka**

**AUDITORS**
KPMG Chartered Accountants
6th Floor, Sunshare Towers
P O Box 31282
**Lusaka**

**SOLICITORS**
Musa Dudhia & Company
P. O. Box 31198
**Lusaka**

**BANKERS**
Stanbic Bank (Zambia) Limited
Head Office
P.O. Box 31955
**Lusaka**

## Directors' report to the members

The Directors are pleased to present their report and the audited Group and Company annual financial statements for the year ended 31 December 2020.

**1 Activities**

Real Estate Investments Zambia Plc. and its subsidiaries ("the Group and Company") is primarily involved in investment, development and restructuring of commercial, residential and other non-commercial property for commercial letting.

**2 Authorised and issued share capital**

Full details of the authorised and issued share capital are set out at note 18 of the notes to the Group and Company Financial Statements.

**3 Results for the year**

A summary of the operating results of the Group and the Company for the year is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **31 December 2020 ZMW'000** | 31 December 2019 ZMW'000 | **31 December 2020 ZMW'000** | 31 December 2019 ZMW'000 |
| Revenue | **62,522** | 67,393 | **43,521** | 26,656 |
| Results from operating activities | **166,782** | 91,377 | **162,156** | 33,523 |
| | | | | |
| (Loss)/profit before income tax | **(24,317)** | 26,521 | **(5,002)** | (29,051) |
| Income tax expense | **(5,535)** | (6,728) | **(3,599)** | (2,543) |
| (Loss)/profit for the year | **(29,852)** | 19,793 | **(8,601)** | (31,594) |

**4 Dividend**

Dividends paid and/or proposed are disclosed at note 18 of the notes to the Group and Company financial statements.

**5 Directorate and Secretary**

The Directors and Secretary who served during the year 2020 and as at the date of signing these financial statements are shown below:

| DIRECTORS | ALTERNATES |
|---|---|
| Kenny H. Makala (Chairman) | I. M. Mabbolobbolo |
| Munakupya Hantuba (Vice Chairman) | G. Musekiwa |
| Mark O'Donnell | R. Frangeskides |
| Efi O'Donnell | C. O'Donnell |
| Review Namanje | F. Chanda |

## Directors' report to the members *(continued)*

**5 Directorate and Secretary** *(continued)*

**SECRETARY**

Louis Pulu (Appointed 11 January 2021)
Moses Vera (Resigned October 30, 2020)

**6 Directors' fees**

Directors' fees of ZMW 1,333,000 were paid during the year (2019: ZMW 2,097,000) as disclosed in note 7(a) of the financial statements.

**7 Loans to directors**

There were no loans advanced to the Directors during the year (2019: Nil).

**8 Health and safety**

The Group is committed to ensuring the protection of other persons against risks to health or safety arising out of, or in connection with, the activities of the Group.

**9 Employees**

During the year, the average number of employees was 18 (2019: 17).

**10 Plant and equipment**

The Group acquired plant and equipment worth ZMW 172,000 during the year (2019: ZMW 7,016,000). No disposal of plant and equipment was made during the year (2019: Nil). In the opinion of the Directors, the recoverable amounts of plant and equipment are not less than the amounts at which they are included in the financial statements.

**11 Other material facts, circumstances and events**

There is still uncertainty over how the outbreak of the Covid-19 pandemic will impact the Group's financial performance. The measures and stance taken by the Zambian Government to encourage individuals and business entities adhering to good and safe health guidelines as opposed to closing businesses in retail and hospitality industries provides comfort that there is less likelihood of a material negative event that will affect the Group.

The Directors are not aware of any material fact, circumstance or event which has occurred between the reporting date and the date of this report which might influence an assessment of the Group and Company's financial position or the results of its operations.

**Directors' report to the members** *(continued)*

## 12 Going concern

During the year ended 31 December 2020, the Group made a loss after tax of ZMW 29,852,000 (2019: a profit after tax of ZMW 19,793,000), and as at that date, its current liabilities exceeded its current assets by ZMW 43,871,000 (2019: current assets exceeding current liabilities by ZMW 3,973,000). The Company also made a loss after tax of ZMW 8,601,000 (2019: ZMW 31,594,000), and as at that date, its current liabilities exceeded its current assets by ZMW 657,910,000 (2019: ZMW 24,981,000). The current liabilities include related party transactions amounting to ZMW 614,566,000 (2019: ZMW 11,038,000).

The Group and Company incurred losses mainly due to the reduction in revenue as a result of the Covid -19 pandemic and the high finance costs arising from the 51% Kwacha depreciation against the United States Dollars during the year. In order to assist the Group's tenants cope with the effects of the pandemic and the Kwacha depreciation, discounts amounting to ZMW 8,904,000 and capping the dollar rate at ZMW 14 to a US$ 1 for the year reduced income by a further ZMW 8,288,000. The aggregate sum of these measures came to ZMW 17,192,000. The Company's revenue reduction due to rental discounts amounted to ZMW 6,255,000 and the capping of the Kwacha to the United States Dollar resulted in revenue loss of ZMW 7,260,000.

The Covid-19 pandemic and the response to mitigate its spread by the Zambian Government had significantly affected the Group and Company. The restrictions on restaurants, night clubs and Cinema's curtailed their operations forcing the board of directors to give up to 100% rent remissions for tenants that were statutorily closed. This inevitable decision negatively impacted the Group's financial performance. Alongside the sharp depreciation of the Zambian Kwacha against all major currencies, the board of directors decided to provide further relief to its struggling clients by capping the exchange rate at ZMW14 to a United States Dollar for all United States Dollar denominated leases. This measure negatively impacted on the Group's earnings given that the United States Dollar traded on average at ZMW 18.57 / US$ 1 during the second half of the year and closed at ZMW 21.15 / US$ 1.

The Directors are of the opinion that the Group and Company are going concerns on the basis that the Group and Company continue to post positive results from operating activities and to generate positive operating cash flows. The Government of Zambia relaxed a lot of restrictions in the fourth quarter of 2020 which affected the retail and hospitality sectors, and this led to a very slow but steady recovery to the economy. The slow but positive economic recovery trends are expected to continue in the foreseeable future as projected in management's annual operating plans. Some of the relief extended to the Group and Company's clients to cope with the effects of the pandemic were partially lifted in the new year thereby improving the revenue. The Directors hope to remove all relief as the clients recover. This will ensure generation of sufficient cashflows from operations which is also dependant on management achieving operational targets. Financial forecast indicates that the Group and Company will return to profitability by end of the first quarter of 2022.

The Group re-structuring has reached an advanced stage and should be completed in 2021 with all the subsidiaries' assets and liabilities being transferred to the Company. The Directors expect value to be extracted from the restructuring and to see a reduction in administrative expenses.

**Directors' report to the members** *(continued)*

**12 Going concern**

In addition, management has initiated discussions with its corporate bond holders early with a view to finding a solution when the bonds mature in November 2022 as disclosed at note 20a. There are several options being considered and the appropriate action will be taken on maturity to ensure that the Group does not default on its obligation. Settlement of the liability could adversely affect the Group's liquidity and its ability to settle its liabilities as and when they fall due. In this regard management engaged a reputable consultant to work on this assignment and have recommended that the Group and Company must consider raising new capital through a rights issue or issue of new shares by inviting new shareholders. Should the rights issue or issue of new shares be successful the Company will raise enough cashflow to settle the bond which may be redeemed even earlier than November 2022.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

**13 Financial statements**

The Group and Company financial statements set out on pages 58-115 have been approved by the Directors.

**14 Corporate governance**

The Board of Directors hereby confirms that the Group and Company have complied with all the internal control aspects of the principles of good governance.

The financial statements have been prepared in accordance with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board and comply with the Companies Act and Securities Act of Zambia.

In accordance with section 147 of the Securities Act of Zambia of 2016 the Board of Directors confirms that the Group and Company have in place robust systems of internal controls over financial reporting and security of assets. A gap assessment was performed during the year by an external consulting firm and a report was issued and shared with the Securities and Exchange Commission focusing on the internal controls and reporting framework. The report highlighted any weaknesses in the control environment and assessed the current internal control framework in place in comparison with the COSO internal controls reporting framework. This is an ongoing process and currently post year ended 31 December 2020 the external consultants have been engaged again to highlight further any weaknesses in the control environment and ensure the weaknesses identified last year have been adequately addressed by management. A second gap analysis report will be shared with the Securities and Exchange Commission for informative purposes by 30 June 2021.

Accordingly, these financial statements are prepared on the basis of accounting policies applicable to a going concern.

Details of the Company's accounting policies are included in note 29 to the financial statements.

**Directors' report to the members** *(continued)*

## 15 Auditors

KPMG Chartered Accountants have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of KPMG Chartered Accountants as auditors of the Group and Company will be put to the Annual General Meeting.

By order of the Board

**Kenny H. Makala**
**Chairman**

## Directors' responsibilities in respect of the preparation of Group and Company

The Directors are responsible for the preparation and fair presentation of the Group financial statements and separate financial statements comprising the Group and Company statements of financial position as at 31 December 2020, the Group and Company statements of profit or loss and other comprehensive income, Group and Company statement of changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act and the Securities Act of Zambia. In addition, the Directors are responsible for preparing the Directors' report.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the Group and Company's ability to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

## Approval of the Group and Company financial statements

The Group financial statements and financial statements of Real Estate Investment Zambia Plc as identified in the first paragraph, were approved by the board of directors on 26 May 2021 and were signed on its behalf by:

..................................... 
*Authorised Director*

..................................... 
*Authorised Director*

KPMG Chartered Accountants
6th Floor, Sunshine Towers
P O Box 31282
Lusaka, Zambia

Telephone +260 211 372 900
Website www.kpmg.com

**Independent auditor's report**

To the shareholders of Real Estate Investments Zambia Plc

**Report on the audit of the consolidated and separate financial statements**

*Opinion*

We have audited the consolidated and separate financial statements of Real Estate Investments Zambia Plc ("the Group and Company") set out on pages 58 to 115, which comprise the Group and Company statements of financial position as at 31 December 2020, and the Group and Company statements of profit or loss and other comprehensive income, Group and Company statements of changes in equity, and Group and Company statements of cash flows for the year then ended, and the notes to the Group and Company financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Real Estate Investments Zambia Plc as at 31 December 2020, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act and the Securities Act of Zambia.

*Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## ***Valuation of investment property***

The key audit matter is applicable to both the consolidated and separate financial statements.
*Refer to note 4 use of estimates and judgement, note 14 investment property and note 29(K) investment property accounting policy.*

| *Key audit matter* | *How the matter was addressed* |
|---|---|
| The Group and Company are involved in property investment, development and restructuring for commercial and non-commercial letting.<br><br>Investment property is carried at fair value categorised as level 3 in the fair value hierarchy and the valuation thereof involves significant judgements.<br><br>The fair value of investment property was determined by external independent property valuation experts appointed by management.<br><br>The discounted cash flows, used in determining the fair values of investment property are based on the following significant unobservable inputs to which significant judgement and estimation uncertainty applies: risk-adjusted discount rates, void periods, occupancy rates, expected market rental growth and rent free periods. In addition, there is significant estimation uncertainty due to Covid-19 in determining investment property values.<br><br>Due to the significant judgement and estimation uncertainty involved in determining the fair value of investment property, this was considered to be a key audit matter. | Our audit procedures included the following:<br><br>• We engaged an independent property valuation expert to assess the valuation performed by management's appointed expert, including the valuation methodology applied and reasonableness of the inputs used. The inputs tested included the risk adjusted discount rates, void periods, occupancy rates, expected rental growth and rent-free periods and whether these took into account the impact of Covid-19 on the Group and Company.<br><br>• We assessed the competence, independence and experience of management's external valuation expert by reviewing their qualifications, experience obtained in carrying out valuations of a similar nature, verifying their professional membership affiliations and their independence from management.<br><br>• We tested the reasonableness of inputs to the cash flow forecasts such as agreeing the rental income used in the valuations to the rent roll and by determining whether the escalation of rental income being applied was in line with the lease agreements.<br><br>• We tested the reasonableness of the discount rates by comparing the discount rates used by the valuation expert to the actual yield rates obtainable in the market.<br><br>• We assessed the adequacy of the disclosures in the financial statements related to the valuation of investment property in accordance with the requirements of *IFRS 13, Fair Value Measurement and IAS 40, Investment Property*. |

*Emphasis of matter - maturity of corporate bond*

We draw attention to note 2 which indicates that the Group and Company have a corporate bond of $12 million that is due to mature in November 2022. The Group and Company are considering raising capital to finance the settlement of the bond through a rights issue or issue of new shares by inviting new shareholders to participate. Our opinion is not modified in respect of this matter.

*Other information*

The Directors are responsible for the other information. The other information comprises the Director's report to the shareholders as required by the Companies Act of Zambia, Company information and the Directors' responsibilities in respect of the preparation of the Group and Company financial statements and all the other information included in the Annual Report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Directors for the consolidated and separate financial statements*

The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act and the Securities Act of Zambia, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

*Auditor's responsibilities for the audit of the consolidated and separate financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and/or Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as going concerns.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

*Companies Act of Zambia*

In accordance with Section 259 (3) (a) of the Companies Act of Zambia (the Act), we consider and report that:

- There is no relationship, interest or debt we have with the Company; and
- There were no serious breaches of corporate governance principles or practices by the Directors. This statement is made on the basis of the corporate governance provisions of the Act, Part VII – Corporate Governance of the Companies Act of Zambia No. 10 of 2017.

*Securities Act of Zambia*

In accordance with Rule 18 of the Securities (Accounting and Financial Reporting Requirements) Rules (SEC Rules), Statutory Instrument No.163 of 1993, we consider and report that:

- The consolidated and separate statements of financial position and consolidated and separate statements of profit or loss and other comprehensive income were in agreement with the Group's and Company's accounting records; and
- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

KPMG

**KPMG Chartered Accountants**

**25 June 2021**

**Cheelo Hamuwele**
Partner signing on behalf of the firm

**AUD/F001044**

## Group and Company statements of financial position

*as at 31 December 2020*

*In thousands of Zambian Kwacha*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2020** | 2019 | **2020** | 2019 |
| **Assets** | **Notes** | | | | |
| Plant and equipment | 13 | **11,719** | 13,605 | **550** | 1,085 |
| Lease straight-lining receivable | 17 | **7,159** | 5,107 | **7,159** | 2,671 |
| Investment property | 14 | **1,179,970** | 1,041,974 | **1,179,970** | 402,873 |
| Investment property under development | 15 | **35,596** | 31,666 | **35,596** | 31,666 |
| Investments in subsidiaries | 16 | **-** | - | **146,961** | 146,961 |
| **Total non-current assets** | | **1,234,444** | 1,092,352 | **1,370,236** | 585,256 |
| | | | | | |
| Trade and other receivables | 11a | **22,119** | 33,711 | **22,119** | 11,402 |
| Lease straight-lining receivable | 17 | **1,262** | 400 | **1,262** | 212 |
| Prepayments | 11b | **1,035** | 503 | **497** | 249 |
| Tax receivable | 10c | **330** | 1,063 | **-** | 741 |
| Cash and cash equivalents | 12 | **6,070** | 6,094 | **3,963** | 2,860 |
| **Total current assets** | | **30,816** | 41,771 | **27,841** | 15,464 |
| **Total assets** | | **1,265,260** | 1,134,123 | **1,398,077** | 600,720 |
| | | | | | |
| **Equity** | | | | | |
| Share capital | 18a | **565** | 565 | **565** | 565 |
| Share premium | | **90,340** | 90,340 | **90,340** | 90,340 |
| Retained earnings | | **690,648** | 720,500 | **212,401** | 221,002 |
| **Total equity attributable to equity holders of the parent** | | **781,553** | 811,405 | **303,306** | 311,907 |
| | | | | | |
| **Liabilities** | | | | | |
| Convertible redeemable cumulative preferred stock | 18b | **7,824** | 7,824 | **7,824** | 7,824 |
| Corporate bonds | 20a | **251,573** | 165,255 | **251,573** | 165,255 |
| Lease liability | 21b | **56,922** | 37,754 | **56,922** | 4,948 |
| Bank loans | 20b | **83,050** | 67,317 | **83,050** | 67,317 |
| Security deposits | 22 | **9,651** | 6,770 | **9,651** | 3,024 |
| **Total non-current liabilities** | | **409,020** | 284,920 | **409,020** | 248,368 |
| Trade and other payables | 21a | **27,555** | 14,537 | **641,752** | 21,135 |
| Lease liability | 21b | **4,672** | 1,143 | **4,672** | 121 |
| Bank loans | 20b | **38,516** | 19,189 | **38,516** | 19,189 |
| Tax payable | 10c | **3,944** | 2,929 | **811** | - |
| **Total current liabilities** | | **74,687** | 37,798 | **685,751** | 40,445 |
| **Total liabilities** | | **483,707** | 322,718 | **1,094,771** | 228,813 |
| **Total equity and liabilities** | | **1,265,260** | 1,134,123 | **1,398,077** | 600,720 |

The financial statements were approved by the Board of Directors on 26 May 2021 and were signed on its behalf by:

**Director** **Director**

The notes on pages 63 to 115 are an integral part of these financial statements.

## Group and Company statements of profit or loss and other comprehensive income

*for the year ended 31 December 2020*
*In thousands of Zambian Kwacha*

| | Notes | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| **Revenue** | 6a | **62,522** | 67,393 | **43,521** | 26,656 |
| Property operating expenses | 14d | **(15,271)** | (10,512) | **(5,798)** | (4,761) |
| Net revenue | | **47,251** | 56,881 | **37,723** | 21,895 |
| Change in fair value of investment property and investment property under development | 14b | **141,721** | 53,504 | **141,721** | 16,027 |
| Other operating income | 6b | **485** | 26 | **402** | - |
| Impairment loss on trade receivables | 23a | **(11,291)** | (7,329) | **(11,291)** | (1,483) |
| Administrative expenses | 7a | **(11,384)** | (11,705) | **(6,399)** | (2,916) |
| **Results from operating activities** | | **166,782** | 91,377 | **162,156** | 33,523 |
| Finance income | | **20** | 4,327 | **-** | 29 |
| Finance costs | | **(191,119)** | (69,183) | **(167,158)** | (62,603) |
| Net finance costs | 8 | **(191,099)** | (64,856) | **(167,158)** | (62,574) |
| (Loss)/ profit before income tax | | **(24,317)** | 26,521 | **(5,002)** | (29,051) |
| Income tax expense | 10(a) | **(5,535)** | (6,728) | **(3,599)** | (2,543) |
| **(Loss)/ profit and total comprehensive income for the year** | | **(29,852)** | 19,793 | **(8,601)** | (31,594) |
| **Earnings per share** | | | | | |
| Basic earnings per share (ZMW) | 9 | **(0.53)** | 0.35 | **(0.15)** | (0.56) |
| Diluted earnings per share (ZMW) | 9 | **-*** | 0.37 | **-*** | -* |

**Not calculated as effect is anti-dilutive.*

The notes on pages 63 to 115 are an integral part of these financial statements.

## Group statement of changes in equity

*for the year ended 31 December 2020*
*In thousands of Zambian Kwacha*

| | Share capital | Share premium | Retained earnings | Total |
|---|---|---|---|---|
| At 1 January 2019 | 565 | 90,340 | 708,047 | 798,952 |
| **Total comprehensive income for the year:** | | | | |
| Profit for the year | - | - | 19,793 | 19,793 |
| **Transactions with owners recognised directly in equity**: | | | | |
| Dividends *(note 18c)* | - | - | (7,340) | (7,340) |
| At 31 December 2019 | 565 | 90,340 | 720,500 | 811,405 |
| At 1 January 2020 | **565** | **90,340** | **720,500** | **811,405** |
| **Total comprehensive income for the year:** | | | | |
| Loss for the year | **-** | **-** | **(29,852)** | **(29,852)** |
| **At 31 December 2020** | **565** | **90,340** | **690,648** | **781,553** |

*Retained earnings*

Retained earnings are the carried forward recognised income, net of expenses, of the Group plus current year loss less dividends paid to shareholders.

*Share premium*

Share premium is the excess paid by shareholders over the nominal value for their shares.

The notes on pages 63 to 115 are an integral part of these financial statements.

## Company statement of changes in equity

*for the year ended 31 December 2020*
*In thousands of Zambian Kwacha*

| | Share capital | Share premium | Retained earnings | Total |
|---|---|---|---|---|
| At 1 January 2019 | 565 | 90,340 | 259,936 | 350,841 |
| **Total comprehensive income for the year:** | | | | |
| Loss for the year | - | - | (31,594) | (31,594) |
| **Transactions with owners recognised directly in equity**: | | | | |
| Dividends *(note 18c)* | - | - | (7,340) | (7,340) |
| At 31 December 2019 | 565 | 90,340 | 221,002 | 311,907 |
| At 1 January 2020 | **565** | **90,340** | **221,002** | **311,907** |
| **Total comprehensive income for the year:** | | | | |
| Loss for the year | **-** | **-** | **(8,601)** | **(8,601)** |
| **At 31 December 2020** | **565** | **90,340** | **212,401** | **303,306** |

*Retained earnings*

Retained earnings are the carried forward recognised income, net of expenses, of the Company plus current year loss less dividends paid to shareholders.

*Share premium*

Share premium is the excess paid by shareholders over the nominal value for their shares.

The notes on pages 63 to 115 are an integral part of these financial statements.

## Group and Company statements of cash flows

for the year ended 31 December 2020
In thousands of Zambian Kwacha

| | Notes | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| (Loss)/ profit for the year | | **(29,852)** | 19,793 | **(8,601)** | (31,594) |
| Adjustments for: | | | | | |
| - Depreciation | 13 | **2,058** | 2,019 | **563** | 560 |
| - Change in fair value of investment property and investment property under development | 14b | **(141,721)** | (53,504) | **(141,721)** | (16,027) |
| - Net finance costs | 8 | **191,099** | 64,856 | **167,158** | 62,574 |
| - Income tax expense | 10a | **5,535** | 6,728 | **3,599** | 2,543 |
| | | **27,119** | 39,892 | **20,998** | 18,056 |
| (Increase)/decrease in trade and other receivables and lease straight-lining receivable | | **8,678** | (5,714) | **(16,255)** | 2,292 |
| Decrease/(increase) in prepayments | | **(532)** | 1,209 | **(248)** | 1,059 |
| Increase in trade and other payables and security deposits | | **15,899** | 3,808 | **40,448** | 3,176 |
| | | **51,164** | 39,195 | **44,943** | 24,583 |
| Income tax paid | 10c | **(3,787)** | (7,108) | **(2,048)** | (3,274) |
| **Net cash from operating activities** | | **47,377** | 32,087 | **42,895** | 21,309 |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Interest received | 8 | **20** | 63 | **-** | 29 |
| Acquisition of plant and equipment | | **(172)** | (7,016) | **(28)** | (728) |
| Capitalised development costs | 14a | **(205)** | - | **-** | - |
| Acquisition of investment property | 14a | **-** | (7,281) | **-** | (1,267) |
| **Net cash used in investing activities** | | **(357)** | (14,234) | **(28)** | (1,966) |
| | | | | | |
| **Cash flows from financing activities** | | | | | |
| Coupon interest on preferred stock | 8 | **(3,123)** | (2,073) | **(3,123)** | (2,073) |
| Corporate bond interest paid | 20a | **(20,299)** | (14,454) | **(20,299)** | (14,454) |
| Proceeds from loans and borrowings | 20b | **-** | 28,666 | **-** | 28,666 |
| Repayment of loans and borrowings | 20b | **(18,587)** | (19,681) | **(18,587)** | (19,681) |
| Lease payments | 21b | **(2,039)** | (3,005) | **(427)** | (549) |
| Dividends paid | 18c | **-** | (7,340) | **-** | (7,340) |
| **Net cash from financing activities** | | **(44,048)** | (17,887) | **(42,436)** | (15,431) |
| **Net increase/ (decrease) in cash and cash equivalents** | | **2,972** | (34) | **431** | 3,912 |
| Cash and cash equivalents at beginning of year | | **6,094** | 2,015 | **2,860** | (901) |
| Effect of exchange rate fluctuations on cash held | | **(2,996)** | 4,113 | **672** | (151) |
| **Cash and cash equivalents at end of year** | 12 | **6,070** | 6,094 | **3,963** | 2,860 |

The notes on pages 63 to 115 are an integral part of these financial statements.

## 1 Reporting entity

Real Estate Investments Zambia Plc (the "Company") is domiciled in Zambia. The address of the Company's registered office is Real Estate Investments Zambia Plc, Stand 2713, Cairo Road, Lusaka. The consolidated financial statements of the Group as at and for the year ended 31 December 2020 comprise the Company and subsidiaries (together referred to as 'the Group' and individually as 'Group entities'). The Group is primarily involved in investment, development and restructuring of commercial, residential and non-commercial property for commercial letting.

## 2 Basis of accounting

These consolidated financial statements and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act and the Securities Act of Zambia.

*Going concern*

During the year ended 31 December 2020, the Group made a loss after tax of ZMW 29,852,000 (2019: a profit after tax of ZMW 19,793,000), and as at that date, its current liabilities exceeded its current assets by ZMW 43,871,000 (2019: current assets exceeding current liabilities by ZMW 3,973,000). The Company also made a loss after tax of ZMW 8,601,000 (2019: ZMW 31,594,000), and as at that date, its current liabilities exceeded its current assets by ZMW 657,910,000 (2019: ZMW 24,981,000). The current liabilities include related party transactions amounting to ZMW 614,566,000 (2019: ZMW 11,038,000).

The Group and Company incurred losses mainly due to reduction in revenue as a result of the Covid -19 pandemic and the high finance costs arising from the 51% Kwacha depreciation against the United States Dollars during the year. In order to assist the Group's tenants cope with the effects of the pandemic and the Kwacha depreciation, discounts amounting to ZMW 8,904,000 and capping the dollar rate at ZMW 14 to a United States Dollar for the year reduced income by a further ZMW 8,288,000. The aggregate sum of these measures came to ZMW 17,192,000. The Company's revenue reduction due to rental discounts amounted to ZMW 6,255,000 and the capping of the Kwacha to the United States Dollar resulted in revenue loss of ZMW 7,260,000.

The Covid-19 pandemic and the response to mitigate its spread by the Zambian Government had significantly affected the Group and Company. The restrictions on restaurants, night clubs and cinema's curtailed tenants' operations forcing the Board of Directors to give up to 100% rent remissions for tenants that were statutorily closed. This inevitable decision negatively impacted the Group's financial performance. Alongside the sharp depreciation of the Zambian Kwacha against all major currencies, the Board of Directors decided to provide further relief to its struggling clients by capping the exchange rate at ZMW 14 to a United States Dollar for all United States Dollar denominated leases. This measure negatively impacted on the Group's earnings given that the United States Dollar traded on average at ZMW 18.57 / US$1 during the second half of the year and closed at ZMW 21.15 / US$ 1.

The Directors are of the opinion that the Group and Company are a going concern on the basis that the Group and Company continue to post positive results from operating activities and to generate positive operating cash flows. The Government of Zambia relaxed a lot of restrictions in the fourth quarter of 2020 which affected the retail and hospitality sectors, and this led to a very slow but steady recovery to the economy. The slow but positive economic recovery trends are expected to continue in the foreseeable future as projected in management's annual operating plans. Some of the relief extended to the Group and Company's clients to cope with the effects of the pandemic were partially lifted in the new year thereby improving the revenue. The Directors hope to remove all relief as the clients recover. This will ensure generation of sufficient cashflows from operations which is also dependant on management achieving operational targets. Financial forecast indicates that the Group and Company will return to profitability by end of the first quarter of 2022.

**2 Basis of accounting** *(continued)*

The Group re-structuring has reached an advanced stage and should be completed in 2021 with all the subsidiaries' assets and liabilities being transferred to the Company. The directors expect value to be extracted from the restructuring and to see a reduction in administrative expenses.

In addition, management has initiated discussions with its corporate bond holders early with a view to finding a solution when the bonds mature in November 2022 as disclosed at note 20a. There are several options being considered and the appropriate action will be taken on maturity to ensure that the Group does not default on its obligation. Settlement of the liability could adversely affect the Group's liquidity and its ability to settle its liabilities as and when they fall due. In this regard management engaged a reputable consultant to work on this assignment and the strong option which has been recommend is for the Company to raise new capital through a rights issue or issue of new shares by inviting new shareholders. Should the rights issue or issue of new shares be successful the Company will raise enough cashflow to settle the bond which may be redeemed even earlier than November 2022.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

Details of the Group and Company's accounting policies are included in note 29 to the financial statements.

**3 Functional and presentation currency**

These financial statements are presented in Zambian Kwacha (K or ZMW), which is the Group and Company's functional currency. All amounts have been presented in Zambian Kwacha and have been rounded to the nearest thousand, except where otherwise indicated.

**4 Use of estimates and judgement**

In preparing these consolidated and separate financial statements, management has made judgements, estimates and assumptions that affect the application of the Group and Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

**Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties at 31 December 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 14 – Investment property - determination of fair value;
- Note 15 – Investment property under development - determination of fair value; and
- Note 23 – Financial instruments - expected credit losses.

## 4 Use of estimates and judgement *(continued)*

### Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, and reports to the Chief Executive Officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## 5 Operating segments

*See accounting policy in note 29 (O)*

The Group has two reportable segments. These two segments represent strategic supply lines. For each of the strategic supply lines, the Group's Board of directors reviews internal management reports on a quarterly basis.

The following summary describes the nature of each of the supply lines:

- Retail
- Office and residential

*In thousands of Zambian Kwacha*

## 5 Operating segments *(continued)*

Information related to each reportable segment is included below. Performance is measured based on services, growth and profit before income tax, as included in the internal management reports that are reviewed by the Board. Segment growth and profit are used to measure performance as management believes that such information is relevant in evaluating the results of the segment.

The Group operates in one geographical segment (Zambia).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred to acquire segment assets that are expected to be used for more than one year.

| | 2020 | | |
|---|---|---|---|
| | **Retail** | **Office and residential** | **Total** |
| Revenue - external | **17,940** | **44,582** | **62,522** |
| Depreciation | **1,464** | **594** | **2,058** |
| Results from operating activities | **4,728** | **162,054** | **166,782** |
| Interest income | **18** | **2** | **20** |
| Interest expense | **(1,972)** | **(38,260)** | **(40,232)** |
| Realised exchange losses | **(20,679)** | **(130,208)** | **(150,887)** |
| Loss before income tax | **(17,905)** | **(6,412)** | **(24,317)** |
| Income tax expense | **(1,829)** | **(3,706)** | **(5,535)** |
| Loss for the year | **(19,734)** | **(10,118)** | **(29,852)** |

| | 2019 | | |
|---|---|---|---|
| | **Retail** | **Office and residential** | **Total** |
| Revenue - external | 40,045 | 27,348 | 67,393 |
| Depreciation | 1,430 | 589 | 2,019 |
| Results from operating activities | 59,367 | 32,010 | 91,377 |
| Interest income | 34 | 29 | 63 |
| Interest expense | (1,454) | (25,759) | (27,213) |
| Realised exchange gains | 4,230 | 34 | 4,264 |
| Realised exchange losses | (4,600) | (37,370) | (41,970) |
| Profit/(loss) before income tax | 57,577 | (31,056) | 26,521 |
| Income tax expense | (4,109) | (2,619) | (6,728) |
| Profit/(loss) for the year | 53,468 | (33,675) | 19,793 |

*In thousands of Zambian Kwacha*

## 5 Operating segments *(continued)*

The segment assets and liabilities and cash flows as at 31 December 2020 were as follows:

| | 2020 | | |
|---|---|---|---|
| | Retail | Office and residential | Total |
| Segment assets | 672,434 | 692,826 | 1,265,260 |
| Investment property | 659,185 | 520,785 | 1,179,970 |
| Investment property under development | - | 35,596 | 35,596 |
| Segment liabilities | 54,372 | 429,335 | 483,707 |
| Capital expenditure | 144 | 28 | 172 |

The segment assets and liabilities and cash flows as at 31 December 2019 were as follows:

| | 2019 | | |
|---|---|---|---|
| | Retail | Office and residential | Total |
| Segment assets | 634,578 | 499,545 | 1,134,123 |
| Investment property | 594,182 | 447,792 | 1,041,974 |
| Investment property under development | - | 31,666 | 31,666 |
| Segment liabilities | 41,936 | 280,782 | 322,718 |
| Capital expenditure | 12,302 | 1,995 | 14,297 |

Segment assets comprise primarily plant and equipment, lease straight-lining receivable, investment property, investment property under development, trade and other receivables and operating cash.

Segment liabilities comprise operating liabilities, long term loans and corporate borrowings.

Capital expenditure comprises additions to plant and equipment, and development of investment property and investment property under development.

### Segment cashflows

| | 2020 | | |
|---|---|---|---|
| | Retail | Office and residential | Total |
| Net cash generated from operating activities | (5,008) | 52,385 | 47,377 |
| Net cash used in investing activities | (185) | (172) | (357) |
| Net cash used in financing activities | (1,385) | (42,663) | (44,048) |
| **Net (decrease)/increase in cash and cash equivalents** | (6,578) | 9,550 | 2,972 |
| Cash and cash equivalents at beginning of the year | 3,057 | 3,037 | 6,094 |
| Effect of exchange rate fluctuations on cash held | 1,920 | (4,916) | (2,996) |
| **Cash and cash equivalents at end of the year** | (1,601) | 7,671 | 6,070 |

*In thousands of Zambian Kwacha*

## 5 Operating segments *(continued)*

### Segment cashflows

| | 2019 | | |
|---|---|---|---|
| | **Retail** | **Office and residential** | **Total** |
| Net cash generated from operating activities | 11,629 | 20,458 | 32,087 |
| Net cash used in investing activities | (12,269) | (1,965) | (14,234) |
| Net cash used in financing activities | (2,284) | (15,603) | (17,887) |
| **Net (decrease)/increase in cash and cash equivalents** | (2,924) | 2,890 | (34) |
| Cash and cash equivalents at beginning of the year | 1,752 | 263 | 2,015 |
| Effect of exchange rate fluctuations on cash held | 4,229 | (116) | 4,113 |
| **Cash and cash equivalents at end of the year** | 3,057 | 3,037 | 6,094 |

## 6 (a) Revenue

*See accounting policy in note 29 (B)*

All revenue in the statement of profit or loss and other comprehensive income is in respect of investment property rentals. The Group leases out its commercial properties under operating leases. All operating leases are for terms of 1 – 10 years with varying escalation, renewal and termination clauses. There are no contingent rents included in the rental income.

The Group underwent through a business and operational restructuring program during the year. The two subsidiaries Thistle Land Development Company Limited, and Arcades Development Plc ceded the rights to receive rent to Real Estate Investments Zambia Plc through a deed of novation signed on 10 June 2020. This resulted in the transfer of investment property as per note 14 (a) from the two subsidiaries to Real Estate Investments Zambia Plc as well as the transfer of the right of use – land leases.

The revenue recognised in Real Estate Investments Zambia Plc from 10 June 2020 to 31 December 2020 for both subsidiaries was ZMW 8,849,000.

Rental remissions granted during the year amounted to ZMW 8,904,507 (2019: Nil).

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Rental income | **54,186** | 66,970 | **35,185** | 25,328 |
| Lease straight-lining income | **8,336** | 423 | **8,336** | 1,328 |
| Gross rental income | **62,522** | 67,393 | **43,521** | 26,656 |

*In thousands of Zambian Kwacha*

## 6 Revenue *(continued)*

### (b) Other operating income

| | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| Write back of dividend income | 208 | - | 208 | - |
| Sale of fixed assets | 194 | - | 194 | - |
| Recovery from tenant assets | 83 | - | - | - |
| Hire of car park for activities | - | 26 | - | - |
| | 485 | 26 | 402 | - |

## 7 Expenses

### (a) Administrative expenses

| | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| Administrative costs apportionment | - | - | (4,133) | (7,892) |
| Advertising and promotion | 113 | 343 | 112 | 173 |
| Taxation fees | 314 | 124 | 181 | 46 |
| Salaries | 6,447 | 6,295 | 6,663 | 6,295 |
| National Pension Scheme Authority | 215 | 72 | - | 72 |
| Audit fees | 1,226 | 1,159 | 663 | 642 |
| Secretarial fees | 39 | 18 | 40 | 18 |
| Computer expenses | 273 | 232 | 261 | 219 |
| Consultancy | 223 | 147 | 205 | 147 |
| Donations *(note 7(b))* | 51 | 54 | 51 | 54 |
| Listing fees | 395 | 365 | 375 | 358 |
| Printing and stationery | 230 | 206 | 216 | 169 |
| Telephone and postage | 35 | 78 | 33 | 71 |
| Bank charges | 196 | 206 | 120 | 153 |
| Directors' fees | 1,333 | 2,097 | 1,333 | 2,097 |
| Board expenses | - | 55 | - | 55 |
| Medical, staff welfare and training | 114 | 108 | 99 | 93 |
| Workers compensation | 6 | 5 | 6 | 5 |
| Motor vehicle expenses | 174 | 141 | 174 | 141 |
| | 11,384 | 11,705 | 6,399 | 2,916 |

### (b) Breakdown of donations expense

| | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| Seniors golf tournament | - | 5 | - | 5 |
| Cairo road gardens maintenance | 51 | 49 | 51 | 49 |
| | 51 | 54 | 51 | 54 |

*In thousands of Zambian Kwacha*

## 8 Net finance costs

*See accounting policy in note 29(C)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Foreign exchange gain on operating activities | **-** | 4,264 | **-** | - |
| Interest income on bank deposits | **20** | 63 | **-** | 29 |
| **Finance income** | **20** | 4,327 | **-** | 29 |
| | | | | |
| Foreign exchange loss on operating activities | **(150,887)** | (41,970) | **(129,067)** | (36,975) |
| Interest on corporate bonds *(note 20a)* | **(21,773)** | (14,371) | **(21,773)** | (14,371) |
| Interest on bank loan *(note 20b)* | **(11,115)** | (8,738) | **(11,115)** | (8,738) |
| Interest on lease liability *(note 21b)* | **(4,221)** | (2,031) | **(2,080)** | (446) |
| Coupon interest on convertible cumulative redeemable preferred stock | **(3,123)** | (2,073) | **(3,123)** | (2,073) |
| **Finance costs** | **(191,119)** | (69,183) | **(167,158)** | (62,603) |
| **Net finance costs** | **(191,099)** | (64,856) | **(167,158)** | (62,574) |

## 9 Earnings per share

*See accounting policy in note 29(F)*

### Basic earnings per share

The calculation of the Group basic earnings per share at 31 December 2020 was based on the loss attributable to ordinary shareholders of ZMW 29,852,000 (2019: Profit ZMW 19,793,000) attributable to ordinary shareholders and weighted average number of ordinary shares during the year ended 31 December 2020 of 56,460,198 (2019: 56,460,198).

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| (Loss)/ profit attributable to ordinary shares | **(29,852)** | 19,793 | **(8,601)** | (31,594) |
| Weighted average number of ordinary shares | | | | |
| Issued at 1 January | **56,460,198** | 56,460,198 | **56,460,198** | 56,460,198 |
| Weighted average number of ordinary shares at 31 December | **56,460,198** | 56,460,198 | **56,460,198** | 56,460,198 |
| Basic earnings per share (ZMW) | **(0.53)** | 0.35 | **(0.15)** | (0.56) |

*In thousands of Zambian Kwacha*

## 9 Earnings per share *(continued)*

### Diluted earnings per share

The loss attributable to ordinary shareholders of ZMW 29,852,000 (2019: Profit ZMW 19,793,000) and weighted average number of ordinary shares during the year of 58,440,102 (2019: 58,440,102).

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **(Loss)/ profit attributable to ordinary shares** | | | | |
| (Loss)/ profit attributable to ordinary shares (basic) | **(29,852)** | 19,793 | **(8,601)** | (31,594) |
| Coupon interest on convertible cumulative redeemable preferred stock *(note 8)* | **3,123** | 2,073 | **3,123** | 2,073 |
| (Loss)/ profit attributable to ordinary shares (diluted) | **(26,729)** | 21,866 | **(5,478)** | (29,521) |
| | | | | |
| **Weighted average number of ordinary stock** | | | | |
| Issued at 1 January | **56,460,198** | 56,460,198 | **56,460,198** | 56,460,198 |
| Effect of convertible cumulative redeemable preferred stock | **1,979,904** | 1,979,904 | **1,979,904** | 1,979,904 |
| Weighted average number of ordinary shares at 31 December | **58,440,102** | 58,440,102 | **58,440,102** | 58,440,102 |
| Diluted earnings per share (ZMW) | **-*** | 0.37 | **-*** | -* |

* *Computation of diluted earnings per share is anti-dilutive and has therefore not been computed.*

## 10 Taxation

*See accounting policy in note 29(D)*

### a) Income tax expense

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Total income tax expense recognised in statement of profit or loss and other comprehensive income | **5,535** | 6,728 | **3,599** | 2,543 |

### b) Reconciliation of effective tax rate

Following the change in the tax legislation announced by the Minister of Finance and National Planning in 2014, the Group is no longer subject to tax on profits. The Group is subject to withholding tax at 10% on gross rental income, which is also the final tax effective 1 January 2014. Other sources of income are liable to tax at 35% apart from dividends and property transfers which are taxed at 15% and 10% respectively.

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Group | | | Company | | |
| | Income | Tax rate | Tax | Income | Tax rate | Tax |
| Gross rental income | **54,186** | 10% | **5,419** | **35,185** | 10% | **3,519** |
| Other income *(note 6b)* | **277** | 35% | **97** | **194** | 35% | **68** |
| Bank interest | **55** | 35% | **19** | **35** | 35% | **12** |
| | **54,518** | | **5,535** | **35,414** | | **3,599** |

*In thousands of Zambian Kwacha*

## 10 Taxation *(continued)*

### b) Reconciliation of effective tax rate *(continued)*

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Group | | | Company | | |
| | Income | Tax rate | Tax | Income | Tax rate | Tax |
| Gross rental income | 66,970 | 10% | 6,697 | 25,328 | 10% | 2,533 |
| Other income *(note 6b)* | 26 | 35% | 9 | - | 35% | - |
| Bank interest | 63 | 35% | 22 | 29 | 35% | 10 |
| | 67,059 | 10% | 6,728 | 25,357 | 10% | 2,543 |

### c) Statement of financial position current income tax movement

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Balance at 1 January | **1,866** | 2,246 | **(740)** | (10) |
| Current tax expense | **5,535** | 6,728 | **3,599** | 2,543 |
| | **7,401** | 8,974 | **2,859** | 2,533 |
| Less: tax paid | **(3,787)** | (7,108) | **(2,048)** | (3,274) |
| Tax payable/(receivable) | **3,614** | 1,866 | **(811** | (741) |
| Tax receivable | **(330)** | (1,063) | **-** | (741) |
| Tax payable | **3,944** | 2,929 | **811** | - |
| Net tax payable/(receivable) | **3,614** | 1,866 | **811** | (741) |

## 11(a) Trade and other receivables

*See accounting policy in note29(H)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Trade receivables *(note 23a(i))* | **14,608** | 22,390 | **14,608** | 3,580 |
| Other receivables | **7,511** | 11,321 | **7,511** | 7,822 |
| | **22,119** | 33,711 | **22,119** | 11,402 |

### (b) Prepayments

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Prepayments | **1,035** | 503 | **497** | 249 |

*In thousands of Zambian Kwacha*

## 12 Cash and cash equivalents

*See accounting policy in note 29(H)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| ***Cash and bank balances:*** | | | | |
| Bank balances | **6,065** | 6,089 | **3,958** | 2,855 |
| Cash on hand | **5** | 5 | **5** | 5 |
| **Cash and cash equivalents in the statement of cash flows** | **6,070** | 6,094 | **3,963** | 2,860 |

The Group's exposure to credit, currency and interest rate risks related to cash and cash equivalents is disclosed in note 23 in the notes to the financial statements.

*In thousands of Zambian Kwacha*

## 13 Plant and equipment (Group)

*See accounting policy in note 29(J) and (N)*

| | Plant and equipment | Furniture, fittings and office equipment | Motor vehicles | Fixtures and fittings | Total |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| At 1 January 2019 | 17,273 | 2,853 | 1,304 | 9,344 | 30,774 |
| Additions | 4,676 | 21 | 707 | 1,612 | 7,016 |
| At 31 December 2019 | 21,949 | 2,874 | 2,011 | 10,956 | 37,790 |
| **At 1 January 2020** | **21,949** | **2,874** | **2,011** | **10,956** | **37,790** |
| Additions | **28** | **-** | **-** | **144** | **172** |
| **At 31 December 2020** | **21,977** | **2,874** | **2,011** | **11,100** | **37,962** |
| ***Depreciation*** | | | | | |
| At 1 January 2019 | 9,966 | 2,774 | 934 | 8,492 | 22,166 |
| Charge for the year | 1,204 | 72 | 323 | 420 | 2,019 |
| At 31 December 2019 | 11,170 | 2,846 | 1,257 | 8,912 | 24,185 |
| **At 1 January 2020** | **11,170** | **2,846** | **1,257** | **8,912** | **24,185** |
| Charge for the year | **1,409** | **16** | **326** | **307** | **2,058** |
| **At 31 December 2020** | **12,579** | **2,862** | **1,583** | **9,219** | **26,243** |
| ***Carrying amount*** | | | | | |
| **At 31 December 2020** | **9,398** | **12** | **428** | **1,881** | **11,719** |
| At 31 December 2019 | 10,779 | 28 | 754 | 2,044 | 13,605 |

Included in plant and equipment are fully depreciated assets with a cost of ZMW 123,695 (2019: ZMW 18,944) which are still in use.

*In thousands of Zambian Kwacha*

## 13 Plant and equipment (Company)

*See accounting policy in note 29(J) and (N)*

| | Plant and equipment | Furniture, fittings and office equipment | Motor vehicles | Fixtures and fittings | Total |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| At 1 January 2019 | 2,840 | 276 | 1,304 | 6,601 | 11,021 |
| Additions | - | 21 | 707 | - | 728 |
| At 31 December 2019 | 2,840 | 297 | 2,011 | 6,601 | 11,749 |
| | | | | | |
| **At 1 January 2020** | **2,840** | **297** | **2,011** | **6,601** | **11,749** |
| Additions | **28** | **-** | **-** | **-** | **28** |
| **At 31 December 2020** | **2,868** | **297** | **2,011** | **6,601** | **11,777** |
| | | | | | |
| ***Depreciation*** | | | | | |
| At 1 January 2019 | 2,778 | 258 | 934 | 6,134 | 10,104 |
| Charge for the year | 7 | 17 | 323 | 213 | 560 |
| At 31 December 2019 | 2,785 | 275 | 1,257 | 6,347 | 10,664 |
| | | | | | |
| **At 1 January 2020** | **2,785** | **275** | **1,257** | **6,347** | **10,664** |
| Charge for the year | **62** | **16** | **326** | **159** | **563** |
| **At 31 December 2020** | **2,847** | **291** | **1,583** | **6,506** | **11,227** |
| | | | | | |
| ***Carrying amount*** | | | | | |
| **At 31 December 2020** | **21** | **6** | **428** | **95** | **550** |
| At 31 December 2019 | 55 | 22 | 754 | 254 | 1,085 |

Included in plant and equipment are fully depreciated assets with a cost of ZMW 83,196 (2019: ZMW 83,196) which are still in use.

*In thousands of Zambian Kwacha*

## 14 Investment property

*See accounting policy in note 29(K)*

| | Group | | Company | |
|---|---|---|---|---|
| **At fair value:** | **2020** | 2019 | **2020** | 2019 |
| Balance at the beginning of the year | **1,001,192** | 951,785 | **397,575** | 385,879 |
| Transfer from subsidiaries | **-** | - | **603,822** | - |
| Acquisition of investment property | **-** | 7,281 | **-** | 1,267 |
| Capitalised development costs | **205** | - | **-** | - |
| Change in fair value | **116,048** | 42,126 | **116,048** | 10,429 |
| Balance at the end of the year | **1,117,445** | 1,001,192 | **1,117,445** | 397,575 |
| **Right of use assets - land leases** | | | | |
| Recognition of right of use assets | | | | |
| As at 1 January 2020 | **40,782** | 34,127 | **5,298** | 4,423 |
| Transfer from subsidiaries | **-** | - | **35,484** | - |
| Change in fair value | **21,743** | 6,655 | **21,743** | 875 |
| Balance at the end of the year | **62,525** | 40,782 | **62,525** | 5,298 |
| Balance at the end of the year | **1,179,970** | 1,041,974 | **1,179,970** | 402,873 |

The Group underwent a business and operational restructuring program during the year. The two subsidiaries Thistle Land Development Company Limited, and Arcades Development Plc ceded the rights to receive rent to Real Estate Investments Zambia Plc through a deed of novation signed on 10 June 2020. This resulted in the transfer of investment property from the two subsidiaries to Real Estate Investments Zambia Plc as well as the transfer of the right of use – land leases.

### (a) Investment property comprises a number of commercial and residential properties that are leased to third parties.

A 1 to 10-year lease contract is drawn up for each customer containing terms and conditions which include the commencement date, duration and termination, security deposit, maintenance of premises, security and insurance. No contingent rent is charged.

A rental security deposit of up to a maximum of three months rental payments is paid prior to occupying the property. The security deposit is refundable to customers on leaving the premises, provided the property is left in accordance with the agreed terms and conditions of the lease contract. The security deposits are disclosed at note 22 in the notes to the Group and Company financial statements.

The Group leases out its investment property and these have been classified as operating leases. The investment property includes leased land upon which buildings owned by the Group sit and this has been accounted for as investment property in accordance with IAS 40 Investment Property. When both leasehold land and buildings is classified as investment property, separate measurement of the land and buildings elements is not required. The land leases contain initial non-cancellable lease terms of 50 (fifty) to 70 (seventy). The leases provide the Group with options to extend at the end of the initial term.

Three investment properties (Nyerere Road Office Park, Farmers House Main Building and Eureka Industrial Park) and one investment property under development (Parkway Development) with a combined fair value of ZMW 200 million (2019: ZMW 169 million) were pledged as security for bank loans with tenor of 5 years at an interest rate of 8.5% (see note 20 (b)).

*In thousands of Zambian Kwacha*

## 14 Investment property *(continued)*

### (b) Measurement of fair value

The fair value of investment property was determined by management's appointed external, independent property valuation experts Knight Frank Zambia Limited, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuation experts provide the fair value of the Group's investment property portfolio every year as at the reporting date.

As various inputs are used in the valuation calculations are based on assumptions, property valuations are inherently subjective and subject to a degree of uncertainty. The external valuers have made a number of assumptions in forming their opinion on the valuation of the investment properties and although these assumptions are in accordance with Global Professional Valuation Standards, if any prove to be incorrect, it may mean that the value of the Group's properties differs from their valuation reported in the financial statements, which could have a material effect on the Group's financial position.

Due to Covid-19 the external independent property valuation experts have included a 'material uncertainty' clause in their reports. The clause highlights significant estimation uncertainty regarding the valuation due to Covid-19. The inclusion of the clause serves as a precaution and does not invalidate the investment property valuation or mean that it cannot be relied upon. Rather, it is intended to highlight that due to current extraordinary circumstances, less certainty can be attached to the investment property valuation than would otherwise be the case. The material uncertainty clause is a disclosure, not a disclaimer.

The fair value measurement for investment property of ZMW 1,180 million (31 December 2019: ZMW 1,042 million) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see note 4). The following table shows a reconciliation of the change in fair values where straight lining income is recognised in the statement of profit or loss and other comprehensive income, the fair value of level 3 asset are reduced by corresponding amount to ensure no duplication of the impact on fair values of future increase in the income stream expected from assets.

| Reconciliation of change in fair value | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| - Fair value adjustment on investment property determined by external valuer | **124,384** | 42,549 | **124,384** | 11,757 |
| - Straight-lining income *(note 6a)* | **(8,336)** | (423) | **(8,336)** | (1,328) |
| **Change in fair value of investment property** | **116,048** | 42,126 | **116,048** | 10,429 |
| - Fair value adjustment on right of use assets | **21,743** | 6,655 | **21,743** | 875 |
| - Fair value adjustment on investment property under development *(note 15)* | **3,930** | 4,723 | **3,930** | 4,723 |
| **Total changes in fair value** | **141,721** | 53,504 | **141,721** | 16,027 |

## 14 Investment property *(continued)*

### (b) Measurement of fair value *(continued)*

#### Valuation technique and significant unobservable inputs used

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used. The significant variation from 2019 valuations were mainly influenced by the outbreak of the Novel Corona virus (Covid-19) pandemic. Due to globally imposed travel restrictions, the Zambia market activity has been severely impacted in all sectors and valuation judgements for 2020 was based, and reported, on a basis of 'material valuation uncertainty' and a high degree of caution noted regarding the impact the pandemic will have on the property market, and property values, in 2021. The discount rate used was increased by 2.5% from previous years assumptions to reflect greater uncertainty over long term cashflows and the expected market rental weighted average growth was reduced from 4% to 3%.

| Valuation technique | Significant unobservable inputs | Inter-relationships between Key unobservable inputs and fair value measurement |
|---|---|---|
| **Discounted cash flows:** The valuation model considers the present value of net cash flows to be generated from the property, taking in to account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary) tenant credit quality and lease terms. | • Expected market rental growth (2.5 - 4%, weighted average 3%).<br>• Void periods (average 6 months after the end of each lease).<br>• Occupancy rate (50-95%, weighted average 75%).<br>• Rent-free periods (1- 3 months period on new leases).<br>• Risk-adjusted discount rates (9.5 - 18%, weighted average 12.5%). | The estimated fair value would increase (decrease) if:<br>• expected market rental growth were higher (lower);<br>• void periods were shorter (longer);<br>• the occupancy rates were higher (lower)<br>• Rent-free periods were shorter (longer); or<br>• the risk-adjusted discount rate was lower (higher). |

*In thousands of Zambian Kwacha*

## 14 Investment property *(continued)*

### ( c) Minimum lease payments of rental income

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Falling due within | | | | |
| - One year | **54,863** | 57,132 | **54,863** | 18,020 |
| - 2 - 5 years | **877,918** | 122,239 | **877,918** | 35,706 |
| - Over 5 years | **8,079** | 97,107 | **8,079** | 25,880 |

### (d) Property operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Salaries | **1,449** | 1,511 | **660** | 735 |
| Repairs and maintenance | **1,922** | 2,235 | **1,274** | 1,206 |
| Letting costs | **69** | 217 | **70** | 189 |
| Electricity and water | **3,078** | 960 | **144** | 238 |
| Council rates and leased land rentals | **1,758** | 526 | **840** | 313 |
| Security | **1,588** | 609 | **641** | 355 |
| Cleaning and refuse removal | **1,097** | 308 | **458** | 109 |
| Insurance | **1,415** | 1,108 | **829** | 613 |
| Depreciation expense *(note 13)* | **2,058** | 2,019 | **563** | 560 |
| Legal and professional expenses | **516** | 757 | **92** | 299 |
| Fire protection | **40** | 38 | **19** | 33 |
| Valuation fees | **281** | 224 | **208** | 111 |
| | **15,271** | 10,512 | **5,798** | 4,761 |

There are no known restrictions on the realisation of investment properties or the remittance of income and proceeds of disposal. There are also no known material contractual obligations to purchase, construct or develop investment properties or for repair, maintenance or enhancements except as stated in these notes.

There were no direct operating expenses arising from investment property that did not generate rental income during the year (2019: Nil).

*In thousands of Zambian Kwacha*

## 15 Investment property under development

*See accounting policy in note 29(L)*

Investment property under development comprises expenditure incurred to the reporting date on investment property in the course of construction.

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Balance at 1 January** | **31,666** | 26,943 | **31,666** | 26,943 |
| Change in fair value *(note 14b)* | **3,930** | 4,723 | **3,930** | 4,723 |
| **Balance at end 31 December** | **35,596** | 31,666 | **35,596** | 31,666 |

Investment property under development was revalued by Knight Frank Zambia Limited who are experienced and registered independent property valuation experts with appropriate recognised professional qualifications.

The method used in valuing investment property under development is the market approach. The valuation expert uses observable data of the amount payable for similar property in similar areas.

During the year, no borrowing costs were capitalised (2019: Nil) as no interest was incurred on borrowings used for development of investment property under development.

## 16 Investments in subsidiaries

*See accounting policy in note 29(A)*

| | % age Shareholding | 2020 | Company % age Shareholding | 2019 |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Thistle Land Development Company Limited | **100** | **13,004** | 100 | 13,004 |
| Arcades Development Plc | **100** | **133,957** | 100 | 133,957 |
| Balance at 31 December | | **146,961** | | 146,961 |
| | | | | |
| Balance at 1 January | | **146,961** | | 146,961 |
| Balance at 31 December | | **146,961** | | 146,961 |

*In thousands of Zambian Kwacha*

## 17 Lease straight-lining receivable

*See accounting policy in note 29(M)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Balance at 1 January | **5,507** | 3,620 | **2,883** | 1,461 |
| Effect of exchange (losses)/ gains | **(5,421)** | 1,464 | **(5)** | 94 |
| Effect of straight-lined lease income | **8,335** | 423 | **4,486** | 1,328 |
| Transfer from subsidiaries | **-** | - | **1,057** | - |
| | **8,421** | 5,507 | **8,421** | 2,883 |
| Non-current | **7,159** | 5,107 | **7,159** | 2,671 |
| Current | **1,262** | 400 | **1,262** | 212 |
| | **8,421** | 5,507 | **8,421** | 2,883 |

## 18 Capital and reserves

*See accounting policy in note 29(I)*

**Share capital**

**a) Ordinary share capital**

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| In issue at 1 January | **565** | 565 | **565** | 565 |
| In issue as at 31 December | **565** | 565 | **565** | 565 |
| Authorised - par value ZMW 0.01 | **5,000** | 5,000 | **5,000** | 5,000 |

The number of shares in issue at the beginning and end of the year were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| At 1 January | **56,460,198** | 56,460,198 | **56,460,198** | 56,460,198 |
| At 31 December | **56,460,198** | 56,460,198 | **56,460,198** | 56,460,198 |

**Ordinary shares**

All shares rank equally with regard to the Group's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at poll meetings of the Group. At general meetings, each shareholder is entitled to one vote by show of hands unless a poll vote is requested.

*In thousands of Zambian Kwacha*

## 18 Capital and reserves *(continued)*

### b) Convertible redeemable cumulative preferred stock

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Issued - at par at 1 January and 31 December | **79** | 79 | **79** | 79 |
| Issued - inclusive of premium at 1 January and 31 December | **7,824** | 7,824 | **7,824** | 7,824 |

The number of preferred stock shares in issue at the beginning and end of the year were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| In issue as at 1 January | **1,979,904** | 1,979,904 | **1,979,904** | 1,979,904 |
| In issue as at 31 December | **1,979,904** | 1,979,904 | **1,979,904** | 1,979,904 |
| Authorised | **2,000,000** | 2,000,000 | **2,000,000** | 2,000,000 |

**Terms and conditions**

i. The interest on the convertible redeemable cumulative preferred stock will be paid on an annual coupon rate of the higher of 8% or 200 basis points – i.e. 2% above the prevailing yield on two-year U.S. Treasury Bonds with a maximum coupon of 10%, and will be paid semi-annually in arrears. These coupon payments will be cumulative in that if they are not paid in any given period, they will carry over to the next period for payment. The annual coupon will be paid before any dividends that may be declared and paid.

ii. The preference shareholders do not have the right to participate in any additional dividends declared for ordinary shareholders.

iii. At any time after the third anniversary date of the issue at its sole discretion, and with a six (6) month advance notice in writing, the Group may redeem any or all of the preference shares at the issue price, provided that all holders of convertible redeemable cumulative preferred stock must be treated equally in any such redemption. Any accrued or cumulative interest that may be due on any coupon payment shall be paid at the time of any redemption.

iv. At any time after the third anniversary date of the issue, and with a three (3) month advance notice in writing, a holder of convertible redeemable cumulative preferred stock may convert any or all of his/her preference shares into ordinary shares of the Group on the basis of one preference share for one ordinary share. Any such conversion will be at the sole discretion of the holder of any convertible redeemable cumulative preferred stock. The effect of this term is that the preference shares are compound instruments (i.e. they contain both a financial liability and an equity component). However, since the dividends are payable in perpetuity and the liability component is measured first under IFRS 9 *Financial Instruments: Recognition and Measurement*, the effect is that the equity component has a value of zero. The impact is that the whole item is treated as a financial liability.

*In thousands of Zambian Kwacha*

## 18 Capital and reserves *(continued)*

### b) Convertible redeemable cumulative preferred stock *(continued)*

v. In the opinion of the directors, given the prevailing market conditions, there is limited scope for a material impact on the earnings per share.

vi. The convertible redeemable cumulative preferred stock shares are non-voting.

### c) Dividends

The following dividends were declared and paid by the Group:

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Final dividend of ZMW0.13 per ordinary share for the year ended 31 December 2019 | - | 7,340 | - | 7,340 |

At the Board Meeting held on 30 March, 2021, the Directors recommended no dividend for Shareholders' approval (2019: ZMW 0.13 per share) and no interim dividend was approved during the year (2019: Nil).

## 19 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding non-redeemable preference shares. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group's policy is to ensure that the total borrowings do not exceed 50% of the tangible net worth.

Tangible net worth is defined as paid up share capital and reserves less proposed dividends.

*In thousands of Zambian Kwacha*

## 19 Capital management *(continued)*

The Group and Company's debt to capital ratios at the end of the reporting year were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Borrowings** | | | | |
| Convertible redeemable cumulative preferred stock | **7,824** | 7,824 | **7,824** | 7,824 |
| Corporate bond | **251,573** | 165,255 | **251,573** | 165,255 |
| Lease liability | **61,594** | 38,897 | **61,594** | 5,069 |
| Bank loan | **121,566** | 86,506 | **121,566** | 86,506 |
| **Total borrowings** | **442,557** | 298,482 | **442,557** | 264,654 |
| | | | | |
| **Tangible net worth** | | | | |
| Total equity attributable to equity holders | **781,553** | 811,405 | **303,306** | 311,907 |
| Tangible net worth | **781,553** | 811,405 | **303,306** | 311,907 |
| **Total borrowings to tangible net worth** | **56.63%** | 36.79% | **145.91%** | 84.85% |

There were no changes in the Group's approach to capital management during the year.

The Group and Company's borrowings to tangible net worth ratio exceeded the Group's internal policy threshold of 50% due to borrowings of ZMW 146 million which were obtained to fund the redevelopment of an investment property held in a subsidiary, Arcades Development Plc, in 2019.

The Group is not subject to externally imposed capital requirements.

## 20 Borrowings and loans

*See accounting policy in note 29(E)*

### (a) Long-term loan - corporate bond

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Opening balance | **165,255** | 140,326 | **165,255** | 140,326 |
| Interest accrued | **21,773** | 14,371 | **21,773** | 14,371 |
| Interest paid | **(20,299)** | (14,454) | **(20,299)** | (14,454) |
| Effect of movements in exchange rates | **84,844** | 25,012 | **84,844** | 25,012 |
| | **251,573** | 165,255 | **251,573** | 165,255 |

Real Estate Investments Zambia Plc (REIZ) issued a fixed rate long term corporate bond for US$ 15 million in October 2010 of which US$ 12 million was subscribed in US$. The funds were meant to redeem the short-term borrowings and to secure and commit on properties targeted for acquisition and thereby accelerate the Group's growth and expansion strategy and to optimise its capital structure.

The bond bears interest at 8.75 % per annum payable semi-annually in arrears and matures in November 2022.The Company requested for deferment of its interest payments for May 2020 and November 2020 to be paid in February 2021. The interest arrears were fully paid in April 2021.

*In thousands of Zambian Kwacha*

## 20 Borrowings and loans *(continued)*

### (b) Bank loans

| | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| Opening Balance | **86,506** | 57,720 | **86,506** | 57,720 |
| Interest on loans | **11,115** | 8,738 | **11,115** | 8,738 |
| Loan drawdown proceeds | **-** | 28,666 | **-** | 28,666 |
| Repayments | **(18,587)** | (19,681) | **(18,587)** | (19,681) |
| Effect of movement in exchange rates | **42,532** | 11,063 | **42,532** | 11,063 |
| | **121,566** | 86,506 | **121,566** | 86,506 |
| Less than 1 year | **38,516** | 19,189 | **38,516** | 19,189 |
| More than 1 year | **83,050** | 67,317 | **83,050** | 67,317 |
| | **121,566** | 86,506 | **121,566** | 86,506 |

Commercial property loans were obtained from Stanbic Bank Zambia Limited with total facility limit of US$ 7.7 million. The loans are secured over investment property with a carrying amount of ZMW 200 million (2019: ZMW 169 million) (see note 14a).

| | Currency | Nominal interest rate | Year of maturity | 2020 Face value | 2020 Carrying amount | 2019 Face value | 2019 Carrying amount |
|---|---|---|---|---|---|---|---|
| Bank loans | USD | 8.40% | 2024 | **121,566** | **8.40%** | 2023 | 86,506 |

### ( c) Reconciliation of movements of liabilities to cash flows arising from financing activities

| Group | 2020 Liabilities: Loans and borrowings | Lease liability | Corporate bond | Convertible redeemable cumulative preferred stock | Equity: Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | 86,506 | 38,897 | 165,255 | 7,824 | 720,500 | 1,018,982 |
| *Changes from financing cash flows* | | | | | | |
| Proceeds from loans and borrowings | - | - | - | - | - | - |
| Repayment of loans and borrowings | (7,895) | - | - | - | - | (7,895) |
| **Total changes from financing cash flows** | 78,611 | 38,897 | 165,255 | 7,824 | 720,500 | 1,011,087 |
| The effect of changes in foreign exchange rates | 42,532 | 20,515 | 84,844 | - | - | 147,891 |
| *Other changes* | | | | | | |
| **Liability-related** | | | | | | |
| Lease payments | - | (2,039) | - | - | - | (2,039) |
| Interest expense *(note 8)* | 11,115 | 4,221 | 21,773 | 3,123 | - | 40,232 |
| Interest paid | (10,692) | - | (20,299) | (3,123) | - | (34,114) |
| **Total liability-related other changes** | 423 | 2,182 | 1,474 | - | - | 4,079 |
| **Total equity-related other changes** | - | - | - | - | (29,852) | (29,852) |
| **Balance at 31 December 2020** | 121,566 | 61,594 | 251,573 | 7,824 | 690,648 | (1,133,205) |

*In thousands of Zambian Kwacha*

## 20 Loans and borrowings *(continued)*

### (c) Reconciliation of movements of liabilities to cash flows arising from financing activities *(continued)*

**Company**

| | Liabilities | | | | Equity | |
|---|---|---|---|---|---|---|
| | Loans and borrowings | Lease liability | Corporate bond | Convertible redeemable cumulative preferred stock | Retained earnings | Total |
| **Balance at 1 January 2020** | 86,506 | 5,069 | 165,255 | 7,824 | 221,002 | 485,656 |
| *Changes from financing cash flows* | - | - | - | - | - | - |
| Proceeds from loans and borrowings | - | - | - | - | - | - |
| Repayment of loans and borrowings | (7,895) | - | - | - | - | (7,895) |
| **Total changes from financing cash flows** | 78,611 | 5,069 | 165,255 | 7,824 | 221,002 | 477,761 |
| The effect of changes in foreign exchange rates | 42,532 | 19,388 | 84,844 | - | - | 146,764 |
| *Other changes* | | | | | | |
| **Liability-related** | | | | | | |
| Lease payments | - | (427) | - | - | - | (427) |
| Transfer fro subsidiaries | - | 35,484 | - | - | - | 35,484 |
| Interest expense | 11,115 | 2,080 | 21,773 | 3,123 | - | 38,091 |
| Interest paid | (10,692) | - | (20,299) | (3,123) | - | (34,114) |
| **Total liability-related other changes** | 423 | 37,137 | 1,474 | - | - | 39,034 |
| **Total equity-related other changes** | - | - | - | - | (8,601) | (8,601) |
| **Balance at 31 December 2020** | 121,566 | 61,594 | 251,573 | 7,824 | 212,401 | 654,958 |

**Group**

| | Liabilities | | | | Equity | |
|---|---|---|---|---|---|---|
| | Loans and borrowings | Lease liability | Corporate bond | Convertible redeemable cumulative preferred stock | Retained earnings | Total |
| **Balance at 1 January 2019** | 57,720 | 34,127 | 140,326 | 7,824 | 708,047 | 948,044 |
| *Changes from financing cash flows* | | | | | | |
| Proceeds from loans and borrowings | 28,666 | - | - | - | - | 28,666 |
| Repayment of loans and borrowings | (10,943) | - | - | - | - | (10,943) |
| Dividend paid *(note 18c)* | - | - | - | - | (7,340) | (7,340) |
| **Total changes from financing cash flows** | 17,723 | - | - | - | (7,340) | 10,383 |
| The effect of changes in foreign exchange rates | 11,063 | 5,744 | 25,012 | - | - | 41,819 |
| *Other changes* | | | | | | |
| **Liability-related** | | | | | | |
| Lease payments | - | (3,005) | - | - | - | (3,005) |
| Interest expense *(note 8)* | 8,738 | 2,031 | 14,371 | 2,073 | - | 27,213 |
| Interest paid | (8,738) | - | (14,454) | (2,073) | - | (25,265) |
| **Total liability-related other changes** | - | (974) | (83) | - | - | (1,057) |
| **Total equity-related other changes** | - | - | - | - | 19,793 | 19,793 |
| **Balance at 31 December 2019** | 86,506 | 38,897 | 165,255 | 7,824 | 720,500 | 1,018,982 |

*In thousands of Zambian Kwacha*

## 20 Borrowings and loans *(continued)*

### (c) Reconciliation of movements of liabilities to cash flows arising from financing activities *(continued)*

**Company**

| | Liabilities | | | | Equity | |
|---|---|---|---|---|---|---|
| | **Loans and borrowings** | **Lease liability** | **Corporate bond** | **Convertible redeemable cumulative preferred stock** | **Retained earnings** | **Total** |
| **Balance at 1 January 2019** | 57,720 | 4,423 | 140,326 | 7,824 | 259,936 | 470,229 |
| *Changes from financing cash flows* | | | - | - | | |
| Proceeds from loans and borrowings | 28,666 | - | - | - | - | 28,666 |
| Repayment of loans and borrowings | (10,943) | - | - | - | - | (10,943) |
| **Dividend paid** | - | - | - | - | (7,340) | (7,340) |
| **Total changes from financing cash flows** | 17,723 | - | - | - | (7,340) | 10,383 |
| The effect of changes in foreign exchange rates | 11,063 | 749 | 25,012 | - | - | 36,824 |
| *Other changes* | | | | | | |
| **Liability related** | | | | | | |
| Lease payments | - | (549) | - | - | - | (549) |
| Interest expense *(note 8)* | 8,738 | 446 | 14,371 | 2,073 | - | 25,628 |
| Interest paid | (8,738) | - | (14,454) | (2,073) | - | (25,265) |
| **Total liability-related other changes** | - | (103) | (83) | - | - | (186) |
| **Total equity-related other changes** | - | - | - | - | (31,594) | (31,594) |
| **Balance at 31 December 2019** | 86,506 | 5,069 | 165,255 | 7,824 | 221,002 | 485,656 |

*In thousands of Zambian Kwacha*

## 21(a) Trade and other payables

*See accounting policy in note 29(H)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Trade creditors | **176** | 1,581 | **176** | 211 |
| Rentals received in advance | **959** | 2,026 | **959** | 1,377 |
| Amount due to group companies *(note 25b)* | **-** | - | **614,566** | 11,038 |
| Accruals | **24,673** | 8,955 | **24,304** | 6,534 |
| Unclaimed dividends | **1,747** | 1,975 | **1,747** | 1,975 |
| | **27,555** | 14,537 | **641,752** | 21,135 |

Included in accruals is interest expense accrued on the corporate bond of ZMW 3,535,275 (31 December 2019: ZMW 1,405,000)

### Unclaimed dividends

Dividend payments are made either by cheque, and posted to shareholders' respective registered addresses, or directly into the bank accounts of those shareholders who have issued such instructions. Based on the information available to the Company, some of the dividend payments made by cheque amounting to ZMW 1,746,585 (2018: ZMW 1,975,000) remain unclaimed by the intended shareholders. Dividends that remain unclaimed for a period of fifteen (15) years from the date of declaration of the dividend are liable to be transferred to the Securities and Exchange Commission (SEC) and deposited in an investor fund for purposes of investor protection and market development activities as provided by Section 158(3) of the Securities Act of Zambia.

### (b) Lease liability

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Balance at 1 January *(note 4b)* | **38,897** | 34,127 | **5,069** | 4,423 |
| Interest *(note 8)* | **4,221** | 2,031 | **2,080** | 446 |
| Payments | **(2,039)** | (3,005) | **(427)** | (549) |
| Effect of exchange rates | **20,515** | 5,744 | **19,388** | 749 |
| Transfer from Subsidiaries | **-** | - | **35,484** | - |
| Balance at 31 December | **61,594** | 38,897 | **61,594** | 5,069 |
| | | | | |
| Payable within 12 months | **4,672** | 1,143 | **4,672** | 121 |
| Payable after 12 months | **56,922** | 37,754 | **56,922** | 4,948 |
| | **61,594** | 38,897 | **61,594** | 5,069 |

The Group underwent a business and operational restructuring program during the year. The two subsidiaries Thistle Land Development Company Limited, and Arcades Development Plc ceded the rights to receive rent to Real Estate Investments Zambia Plc through a deed of novation signed on 10 June 2020. This resulted in the transfer of investment property as per note 14 (a) and Real Estate Investments Zambia Plc assumed all existing and future liabilities from the two subsidiaries hence the transfer of the lease liability obligation.

The Group's exposure to liquidity, currency and interest rate risks related to trade and other payables is disclosed in note 23 in the notes to the Group and Company financial statements.

*In thousands of Zambian Kwacha*

## 22 Security deposit on rentals

*See accounting policy in note 29(H)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| At beginning of year | **6,770** | 6,458 | **3,024** | 2,966 |
| Received during the year | **553** | 1,455 | **409** | 478 |
| Paid out during the year | **(752)** | (2,038) | **(522)** | (831) |
| Transfer from subsidiaries | **-** | - | **1,952** | - |
| Effect of movements in currency exchange rates | **3,080** | 895 | **4,788** | 411 |
| At end of the year | **9,651** | 6,770 | **9,651** | 3,024 |

Real Estate Investment Zambia Plc has the right to receive any interest accrued on the security deposits. The security deposit is placed in the day to day operational bank accounts of the Group and Company.

## 23 Financial instruments – Fair value and risk management

*See accounting policy in note 29(H)*

### Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring the Group's risk management policies. The Audit and Risk Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit and Risk Committee undertakes both regular and ad hoc reviews of risk management controls and procedures.

## 23 Financial instruments – Fair value and risk management *(continued)*

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from tenants.

*Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

The credit risk is managed by requiring tenants to pay in advance. The quality of a tenant is assessed based on the Audit and Risk Committee's established credit policy under which each new tenant is analysed individually for creditworthiness before entering into a lease agreement.

More than 50 percent of the Group's tenants have been transacting with the Group for at least three years. The Group also requires security deposit from new tenants. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their industry, trading history with the Group and existence of previous financial difficulties.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Covid -19 pandemic had a significant impact on the groups cashflows. To mitigate this impact and to respond to future liquidity contains that may arise from the Covid-19 pandemic, the Group had taken the following measures.

- The Group requested and was granted a four-months waiver on capital repayment on a Stanbic Bank loan from April 2020 to July 2020.
- Senior management remuneration was reduced by 30% on basic pay.
- The rental charge exchange rate which was pegged at ZMW 14/US$ 1 was increased post year end to ZMW 18/US$ 1. This measure will improve future cashflow.

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### (i) Currency risk

The Group is exposed to currency risk on purchases that are denominated in a currency other than the functional currency of Group entities, which is the Zambian Kwacha (ZMW). The other currency in which these transactions primarily are denominated is the United States Dollar (US$).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

### (ii) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument or the future cash flows will fluctuate due to changes in market interest rates.

The Group's exposure to interest rate risk is considered high as most of its financial liabilities are held on a variable rate basis.

### (a) Credit risk

### (i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

| | | Group Carrying amounts | | Company Carrying amounts | |
|---|---|---|---|---|---|
| | *Note* | **2020** | 2019 | **2020** | 2019 |
| Trade receivables | *11* | **14,608** | 22,390 | **14,608** | 3,580 |
| Other receivables | *11* | **7,511** | 11,321 | **7,511** | 7,822 |
| Cash and cash equivalents | *12* | **6,065** | 6,089 | **3,958** | 2,855 |
| | | **28,184** | 39,800 | **26,077** | 14,257 |

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### (a) Credit risk *(continued)*

### (i) Exposure to credit *(continued)*

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

| | Group Carrying amounts | | Company Carrying amounts | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Financial services sector | **1,432** | 1,110 | **1,432** | 474 |
| Retail sector | **4,321** | 8,228 | **4,321** | 30 |
| IT and telecommunications | **742** | 1,282 | **742** | 224 |
| Accountancy and consultancy | **748** | 363 | **748** | 338 |
| Food & restaurants | **5,138** | 3,885 | **5,138** | 43 |
| Other sectors | **2,227** | 7,522 | **2,227** | 2,471 |
| | **14,608** | 22,390 | **14,608** | 3,580 |

There was no interest income recognised on impaired assets.

### (ii) Impairment losses

*Expected credit loss assessment for individual customers*
The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the lease status of each tenant.

The Covid-19 pandemic and the response to mitigate its spread by the Zambian Government had significantly affected the Group. The restrictions on restaurants, night clubs and Cinema's not operating especially during the first and second quarter of 2020 resulted in the Board of directors giving up to 100% rent remissions for tenants that were statutorily closed. This inevitable decision negatively impacted the Group's financial performance and cash collections from rental debtors. The sharp depreciation of the Zambian Kwacha against the United States Dollars also negatively impacted the group and the Board of directors decided to grant further relief to clients charged in United States Dollars by capping the exchange rate at a fixed rate of ZMW 14 to US$ 1.

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### a) Credit risk *(continued)*

### (ii) Impairment losses *(continued)*

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers.

**Group** — **2020**

| | Weighted - average loss rate | Gross carrying amount | Loss allowance | Net carrying amount | Credit-impaired |
|---|---|---|---|---|---|
| Current (not past due) | 3.85% | 3,118 | (120) | 2,998 | No |
| 1–30 days past due | 9.39% | 1,992 | (187) | 1,805 | No |
| 31–60 days past due | 10.78% | 1,895 | (204) | 1,691 | No |
| 61–90 days past due | 13.11% | 1,816 | (238) | 1,578 | No |
| More than 90 days past due | 81.29% | 34,939 | (28,403) | 6,536 | Yes |
| | | 43,760 | (29,152) | 14,608 | |

**Company** — **2020**

| | Weighted - average loss rate | Gross carrying amount | Loss allowance | Net carrying amount | Credit-impaired |
|---|---|---|---|---|---|
| Current (not past due) | 3.85% | 3,118 | (120) | 2,998 | No |
| 1–30 days past due | 9.39% | 1,992 | (187) | 1,805 | No |
| 31–60 days past due | 10.78% | 1,895 | (204) | 1,691 | No |
| 61–90 days past due | 13.11% | 1,816 | (238) | 1,578 | No |
| More than 90 days past due | 81.29% | 34,939 | (28,403) | 6,536 | Yes |
| | | 43,760 | (29,152) | 14,608 | |

**Group** — 2019

| | Weighted - average loss rate | Gross carrying amount | Loss allowance | Net carrying amount | Credit-impaired |
|---|---|---|---|---|---|
| Current (not past due) | 2.8% | 3,679 | (103) | 3,576 | No |
| 1–30 days past due | 8.4% | 3,110 | (261) | 2,849 | No |
| 31–60 days past due | 9.6% | 2,794 | (268) | 2,526 | No |
| 61–90 days past due | 12.1% | 2,327 | (281) | 2,046 | No |
| More than 90 days past due | 59.8% | 28,341 | (16,948) | 11,393 | Yes |
| | | 40,251 | (17,861) | 22,390 | |

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### a) Credit risk *(continued)*

### (ii) Impairment losses *(continued)*

2019

**Company**

| | Weighted - average loss rate | Gross carrying amount | Loss allowance | Net carrying amount | Credit-impaired |
|---|---|---|---|---|---|
| Current (not past due) | 2.7% | 630 | (17) | 613 | No |
| 1–30 days past due | 8.1% | 454 | (37) | 417 | No |
| 31–60 days past due | 9.6% | 402 | (39) | 363 | No |
| 61–90 days past due | 11.5% | 288 | (33) | 255 | No |
| More than 90 days past due | 63.7% | 5,323 | (3,391) | 1,932 | Yes |
| | | 7,097 | (3,517) | 3,580 | |

Loss rates are based on actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables During the year 2020 the scaler factors were adjusted upwards by increasing the forwarding looking rate by 100% from 1% to 2%. This adjustment was to reflect the increased risk of the credit loss due the Covid-19 pandemic.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | 2020 | 2019 |
|---|---|---|
| **Group** | | |
| **Balance at 1 January** | **17,861** | 10,532 |
| Net remeasurement allowance | **11,291** | 7,329 |
| **Balance at 31 December** | **29,152** | 17,861 |
| **Company** | | |
| **Balance at 1 January** | **3,517** | 2,034 |
| Net remeasurement allowance | **11,291** | 1,483 |
| Transfer from Subsidiaries | **14,344** | - |
| **Balance at 31 December** | **29,152** | 3,517 |

The transfer from subsidiaries relates to trade receivables that were transferred from the subsidiary companies into the parent company following the transfer of the subsidiary's investment property and related rental income as disclosed at note 6a and 14a.

### (iii) Cash and cash equivalents

The Group held cash and cash equivalents of ZMW 6,070,000 at 31 December 2020 (2019: ZMW 6,094,000). The cash and cash equivalents are held with highly rated bank and financial institution counterparties in Zambia.

Impairment assessment on cash and cash equivalents was measured on a 12-month expected loss basis and, due to the short maturities of the exposures (on demand), the Group considers that its cash and cash equivalents have low credit risk. The Group uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for debt securities.

There was also no impairment allowance on cash and cash equivalents during 2020 (2019: Nil).

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### b) Liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payment and excluding the impact of netting agreements:

### Residual contractural maturities of financial liabilities (Group)

| 31 December 2020 | Carrying amount | Contractual cash flow | On demand | Due within 3 months | Due between 3-12 months | Due between 1-2 years | Due between 2-3 years | Due between 3-5 years | Due over 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | | |
| Corporate bond | **251,573** | **273,585** | **-** | **-** | **22,012** | **251,573** | **-** | **-** | **-** |
| Convertible cumulative | | | | | | | | | |
| redeemable preferred stock | **7,824** | **7,824** | **-** | **-** | **-** | **-** | **-** | **-** | **7,824** |
| Lease liability | **61,594** | **61,594** | **-** | **714** | **2,146** | **2,860** | **2,860** | **2,860** | **50,154** |
| Security deposits | **9,651** | **9,651** | **-** | **-** | **9,651** | **-** | **-** | **-** | **-** |
| Trade and other payables | **2,882** | **2,882** | **-** | **176** | **2,706** | **-** | **-** | **-** | **-** |
| Bank loans | **121,566** | **132,230** | **-** | **9,629** | **28,887** | **28,679** | **28,679** | **36,355** | **-** |
| **Total financial liabilities** | **455,090** | **487,766** | **-** | **10,519** | **65,402** | **283,112** | **31,539** | **39,215** | **57,978** |
| | | | | | | | | | |
| 31 December 2019 | | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | | |
| Corporate bond | 165,255 | 180,431 | - | - | 15,176 | 15,176 | 15,176 | 15,176 | 119,727 |
| Convertible cumulative | | | | | | | | | |
| redeemable preferred stock | 7,824 | 7,824 | - | - | - | - | - | - | 7,824 |
| Lease liability | 38,897 | 38,897 | - | 286 | 857 | 1,143 | 1,143 | 1,143 | 34,325 |
| Security deposits | 6,770 | 6,770 | - | - | 6,770 | - | - | - | - |
| Trade and other payables | 5,582 | 5,582 | 2,918 | 2,098 | 566 | - | - | - | - |
| Bank loans | 86,506 | 94,319 | - | 6,403 | 19,209 | 25,612 | 25,612 | 17,483 | - |
| **Total financial liabilities** | 310,834 | 333,823 | 2,918 | 8,787 | 42,578 | 41,931 | 41,931 | 35,802 | 161,876 |

### Residual contractual maturities of financial liabilities (Company)

| 31 December 2020 | Carrying amount | Contractual cash flow | On demand | Due within 3 months | Due between 3-12 months | Due between 1-2 years | Due between 2-3 years | Due between 3-5 years | Due over 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | | |
| Corporate bond | **251,573** | **273,585** | **-** | **-** | **22,012** | **251,573** | **-** | **-** | **-** |
| Convertible cumulative | | | | | | | | | |
| redeemable preferred stock | **7,824** | **7,824** | **-** | **-** | **-** | | **-** | **-** | **7,824** |
| Lease liability | **61,594** | **61,594** | **-** | **714** | **2,146** | **2,860** | **2,860** | **2,860** | **50,154** |
| Security deposits | **9,651** | **9,651** | **-** | **-** | **9,651** | **-** | **-** | **-** | **-** |
| Trade and other payables | **2,882** | **2,882** | **-** | **176** | **2,706** | **-** | **-** | **-** | **-** |
| Bank loans | **121,566** | **132,230** | **-** | **9,629** | **28,887** | **28,679** | **28,679** | **36,355** | **-** |
| **Total financial liabilities** | **455,090** | **487,766** | **-** | **10,519** | **65,402** | **283,112** | **31,539** | **39,215** | **57,978** |
| 31 December 2019 | | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | | |
| Corporate bond | 165,255 | 180,431 | - | - | 15,176 | 15,176 | 150,079 | - | - |
| Convertible cumulative | | | | | | | | | |
| redeemable preferred stock | 7,824 | 7,824 | - | - | - | - | - | - | 7,824 |
| Lease liability | 5,069 | 5,069 | - | 30 | 91 | 121 | 121 | 121 | 4,585 |
| Security deposits | 3,024 | 3,024 | - | - | 3,024 | - | - | - | - |
| Trade and other payables | 14,601 | 14,601 | 2,918 | 645 | 11,038 | - | - | - | - |
| Bank loans | 86,506 | 94,319 | - | 6,403 | 19,209 | 25,612 | 25,612 | 17,483 | - |
| **Total financial liabilities** | 282,279 | 305,268 | 2,918 | 7,078 | 48,538 | 40,909 | 175,812 | 17,604 | 12,409 |

It is not expected that the cash flows included in the above maturity analysis could occur significantly earlier, or at significantly different amounts.

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### (c) Market risk

### (i) Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

| Group | | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | | Kwacha | USD | Total | Kwacha | USD | Total |
| **Financial assets** | | | | | | | |
| Trade receivables | *11a* | 956 | 13,652 | 14,608 | 4,961 | 17,429 | 22,390 |
| Cash and cash equivalents | *12* | 2,918 | 3,147 | 6,065 | 2,606 | 3,483 | 6,089 |
| **Total** | | 3,874 | 16,799 | 20,673 | 7,567 | 20,912 | 28,479 |
| **Financial liabilities** | | | | | | | |
| Convertible cumulative redeemable preferred stock | *18b* | - | 7,824 | 7,824 | - | 7,824 | 7,824 |
| Corporate bonds | *20a* | - | 251,573 | 251,573 | - | 165,255 | 165,255 |
| Lease liability | *21(b)* | - | 61,594 | 61,594 | - | 38,897 | 38,897 |
| Security deposits | *22* | 1,348 | 8,303 | 9,651 | 1,354 | 5,416 | 6,770 |
| Bank loans | *20b* | - | 121,566 | 121,566 | - | 86,506 | 86,506 |
| Trade and other payables | *21* | 1,923 | 959 | 2,882 | 617 | 4,965 | 5,582 |
| **Total** | | 3,271 | 451,819 | 455,090 | 1,971 | 308,863 | 310,834 |
| **Net exposure** | | 603 | (435,020) | (434,417) | 5,596 | (287,951) | (282,355) |

| Company | | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | | Kwacha | USD | Total | Kwacha | USD | Total |
| **Financial assets** | | | | | | | |
| Trade receivables | *11a* | 956 | 13,652 | 14,608 | 1,237 | 2,343 | 3,580 |
| Cash and cash equivalents | *12* | 2,375 | 1,583 | 3,958 | 785 | 2,070 | 2,855 |
| **Total** | | 3,331 | 15,235 | 18,566 | 2,022 | 4,413 | 6,435 |
| **Financial liabilities** | | | | | | | |
| Convertible cumulative redeemable preferred stock | *18b* | - | 7,824 | 7,824 | - | 7,824 | 7,824 |
| Corporate bonds | *20a* | - | 251,573 | 251,573 | - | 165,255 | 165,255 |
| Lease liability | *21(b)* | - | 61,594 | 61,594 | - | 5,069 | 5,069 |
| Security deposits | *22* | 1,204 | 8,303 | 9,507 | 605 | 2,419 | 3,024 |
| Bank loans | *20b* | - | 121,566 | 121,566 | - | 86,506 | 86,506 |
| Trade and other payables | *21* | 1,923 | 959 | 2,882 | 10,476 | 4,125 | 14,601 |
| **Total** | | 3,127 | 451,819 | 454,946 | 11,081 | 271,198 | 282,279 |
| **Net exposure** | | 204 | (436,584) | (436,380) | (9,059) | (266,785) | (275,844) |

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### (c) Market risk *(continued)*

### (i) Exposure to currency risk *(continued)*

The following significant exchange rates applied during the year:

| | Average rate | | Mid-spot rate | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| USD 1.00 to ZMW | **18.57** | 12.67 | **21.15** | 13.95 |

**Sensitivity analysis**

A 10 percent strengthening of the US Dollar against the Kwacha at 31 December 2020 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2019.

| | Group | Company |
|---|---|---|
| | Equity and profit or loss | Equity and profit or loss |
| **31 December 2020** | **(43,502)** | **(43,658)** |
| 31 December 2019 | (24,905) | 26,172 |

A 10 percent weakening of the US Dollar against the Kwacha at 31 December 2020 would have had the equal but opposite effect on the Group and Company equity and profit or loss to the extent of the amounts shown above, on the basis that all other variables remain constant.

### (ii) Exposure to interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument or the future cash flows will fluctuate due to changes in market interest rates.
The Group's exposure to interest rate risk is low as all of its financial liabilities are held on a zero or fixed rate basis.

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### (c) Market risk *(continued)*

### (ii) Exposure to interest rate risk *(continued)*

**Profile**

At the reporting date the interest rate profile of the Group and Company interest-bearing financial instruments were:

| | Group Carrying amounts | |
|---|---|---|
| | **2020** | 2019 |
| **Variable rate instruments** | | |
| Financial liabilities *(note 19)* | **(442,557)** | (298,482) |
| | **(442,557)** | (298,482) |

| | Company Carrying amounts | |
|---|---|---|
| | **2020** | 2019 |
| **Variable rate instruments** | | |
| Financial liabilities *(note 19)* | **(442,557)** | (264,654) |
| | **(442,557)** | (264,654) |

A change of 100 basis points in interest rate would increase/ (decrease) profit or loss by the amounts shown below:

| | Group | Company |
|---|---|---|
| **31 December 2020** | **4,426** | **4,426** |
| 31 December 2019 | 2,985 | 2,647 |

*In thousands of Zambian Kwacha*

## 23 Financial instruments – Fair value and risk management *(continued)*

### (d) Accounting classifications and fair values

The fair values of the Group's financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

| Group | 2020 | | 2019 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Trade receivables | 14,608 | 14,608 | 22,390 | 22,390 |
| Cash and cash equivalents | 6,065 | 6,065 | 6,089 | 6,089 |
| Convertible redeemable cumulative preferred stock | (7,824) | (7,824) | (7,824) | (8,924) |
| Lease liability | (61,594) | (61,594) | (38,897) | (38,897) |
| Corporate bonds | (251,573) | (273,585) | (165,255) | (180,431) |
| Bank loans | (121,566) | (132,203) | (86,506) | (94,319) |
| Trade and other payables | (2,882) | (2,882) | (5,582) | (5,582) |
| | (424,766) | (457,415) | (275,585) | (299,674) |

| Company | 2020 | | 2019 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Trade receivables | 14,608 | 14,608 | 3,580 | 3,580 |
| Cash and cash equivalents | 6,065 | 6,065 | 2,855 | 2,855 |
| Convertible redeemable cumulative preferred stock | (7,824) | (7,824) | (7,824) | (8,924) |
| Lease liability | (61,594) | (61,594) | (5,069) | (5,069) |
| Corporate bonds | (251,573) | (273,585) | (165,255) | (180,431) |
| Bank loans | (121,566) | (132,203) | (86,506) | (94,319) |
| Trade and other payables | (2,882) | (657,031) | (14,601) | (14,601) |
| | (424,766) | (457,415) | (272,820) | (296,909) |

### (e) Fair values versus carrying amounts

The fair values of the corporate bonds, convertible redeemable cumulative preferred stock and the bank loans are estimated using discounted cash flow techniques, applying the observable contractual rates and maturities, making the instruments rank as Level 2 in the fair value hierarchy. Due to the short-term maturity periods of all the other financial instruments, their fair values approximate their carrying amounts. All financial instruments are at amortised cost.

## 24 Commitments

There was no capital commitment that had not yet been incurred as at the reporting date.

*In thousands of Zambian Kwacha*

## 25 Parent and ultimate controlling parties

The Group is comprised of Real Estate Investments Zambia Plc (the parent company) and its two 100% owned subsidiaries, Arcades Development Plc and Thistle Land Development Company Limited. The Group, in the ordinary course of business, enters into various purchase, service, and lease transactions with the investing entities, their subsidiaries and joint ventures. During the year, these transactions were as follows:

### Transactions with key management personnel

*(i) Key management personnel compensation*

Key management personnel compensation comprised the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Short term benefits | **4,562** | 4,362 | **4,562** | 4,362 |
| Termination benefits | **3,397** | - | **3,397** | - |
| | **7,959** | 4,362 | **7,959** | 4,362 |

*(ii) Transactions with directors*

*Loans to directors*

There were no loans to directors during the year (2019: Nil).

The Group's Directors with beneficial and non-beneficial share ownership in the Group at year end were as shown below:

| Name of Director | Direct | Indirect |
|---|---|---|
| Mark O'Donnell | **57,326** | **9,273,779** |
| Efi O'Donnell | **Nil** | **9,273,779** |

Other Directors' transactions include Directors' fees which are disclosed under note 7(a) in the notes to the financial statements.

The terms and conditions of the transactions with directors and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel or non-related entities on an arm's length basis.

*In thousands of Zambian Kwacha*

## 25 Parent and ultimate controlling parties *(continued)*

### Other related party transactions

At 31 December 2020, there were outstanding balances with other related parties included in trade and other receivables (see note 11) as well as trade and other payables (see note 21). The terms and conditions of the transactions are detailed below each note. The Investments properties, Thistle Land Development Company Limited and Arcades Development Plc were transferred to Real Estate Investment Zambia Plc as part of the group reorganisation structure (see note 14).

### (a) Amounts due to subsidiaries

| Company | 2020 | 2019 |
|---|---|---|
| Balance at 1 January | **11,038** | 10,164 |
| Amount received | **86,737** | 2,471 |
| Amounts due on transfer of investment property | **603,823** | - |
| Amount written-off on de-registration of subsidiaries | **(87,032)** | (1,597) |
| **Balance at end of the year** | **614,566** | 11,038 |

The amounts are interest free, unsecured and have no fixed repayment terms.

## 26 Contingent liabilities

There were no contingent liabilities as at 31 December 2020. In the prior year, a case was decided against a subsidiary and damages were not expected to exceed ZMW 1.8 million and in the opinion of the Directors, was therefore not expected to have an adverse effect on the Group's financial position.

## 27 Subsequent events

There were no material post-reporting date events, which require disclosure in, or adjustment to, the financial statements.

## 28 Basis of measurement

The financial statements have been prepared on the historical cost basis except for investment property which is measured at fair value.

## 29 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

A. Basis of consolidation
B. Revenue
C. Finance income and finance costs
D. Income tax
E. Borrowing costs
F. Earnings per share
G. Foreign currency transactions
H. Financial instruments
I. Share capital
J. Plant and equipment
K. Investment property
L. Investment property under development
M. Leases
N. Impairment
O. Segment reporting
P. Short term employee benefits
Q. Operating profit
R. Fair value measurement.
S. Investments in subsidiaries
T. Cash and cash equivalents

### A. Basis of consolidation

*(i) Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (A) (iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

*(ii) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

## 29 Significant accounting policies *(continued)*

### A. Basis of consolidation *(continued)*

*(iii) Loss of control*

When the group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

*(iv) Transactions eliminated on consolidation*

Intra- group balances and transactions, and unrealised income and expenses arising from intra-group transactions are eliminated. Unrealised gains arising from transactions with equity accounted for investees are eliminated against the investments to the extent of the Group's interests in the investee. Unrealised losses are eliminated in the same way as gains, but only to the extent that there is evidence of impairment.

### B. Revenue

Rental income from investment property is recognised on a straight - line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income receivable recognised on the statement of financial position is derived from the effects of straight lining of operating lease rental income. Rentals in arrears are included under trade and other receivables.

Rental remissions are accounted for as a reduction against rental income in the period that they are granted.

Any security deposit refundable upon the termination of the lease is recognised as a liability in the statement of financial position.

### C. Finance income and finance costs

Finance income comprises interest income on funds invested, bank interest received and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings and dividends on preference shares classified as liabilities. All non-qualifying borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

## 29 Significant accounting policies *(continued)*

### D. Income tax

Income tax expense comprises current tax. Current tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax payable also includes any tax liability arising from the declaration of dividends.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

### E. Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period and time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Substantial period for the Group is any period greater than 6 months. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement date until substantially all activities necessary to prepare the asset for its intended use or sale to complete development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress.

### F. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares, which comprise convertible redeemable cumulative preferred stock.

## 29 Significant accounting policies *(continued)*

### G. Foreign currency transactions

Transactions in foreign currencies are translated to the Zambian Kwacha at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the Zambian Kwacha at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the Zambian Kwacha at the beginning of the period, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the Zambian Kwacha at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

### H. Financial instruments

*i. Recognition and initial measurement*

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A trade receivable without a significant financing component is initially measured at the transaction price.

*ii. Classification and subsequent measurement*

On initial recognition, a financial asset is classified as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at Fair Value Through Profit and Loss (FVTPL):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 29 Significant accounting policies *(continued)*

### H. Financial instruments *(continued)*

*Financial liabilities – Classification, subsequent measurement and gains and losses*

Financial liabilities are classified as measured at amortised cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

*iii. Derecognition*

***Financial assets***
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group may enter into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

***Financial liabilities***
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

### I. Share capital

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Income tax relating to transactions costs of an equity nature are accounted for in accordance with IAS 12.

## 29 Significant accounting policies *(continued)*

### I. Share capital *(continued)*

*Preference share capital*

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Group's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

### J. Plant and equipment

*Recognition and measurement*

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Any gains and losses on disposal of an item of plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

*Subsequent costs*

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

*Depreciation*

Depreciation is calculated to write off the cost of items of plant and equipment less their estimated residual value using the method over their estimated useful lives and is generally recognised. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Items of plant and equipment are depreciated from the date that they are installed and are ready for use.

The estimated useful lives for the current and comparative years of significant items of plant and equipment are as follows:

| | **Useful lives** | **Rates** |
|---|---|---|
| • Plant and equipment | 4 – 10 years | 25% -10% |
| • Furniture, fittings and office equipment | 4 years | 25% |
| • Motor vehicles | 3 years | 33% |
| • Fixtures and fittings | 10 years | 10% |

Depreciation methods, useful lives and residual values are reviewed at each reporting date, and adjusted if appropriate. There were no revised estimates in respect of items of plant and equipment during the year.

## 29 Significant accounting policies *(continued)*

### K. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the costs of material and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs. The fair value of investment property is determined by external, independent property valuation experts, having appropriate recognised professional qualifications and have experience in the location and category of the property being valued. The independent valuation experts provide the fair value of the Group's investment property portfolio twice every year.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and carrying amount of the item) is recognised in the profit or loss.

### L. Investment property under development

Property that is being constructed or developed for future use as investment property is classified as investment property under development (development projects) and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property. At the date of transfer, the difference between fair value and cost is recognised as a gain in profit or loss

All costs directly associated with the purchase and construction of a property and all subsequent capital expenditure for the development qualify as acquisition costs and are capitalised.

### M. Leases

At inception of a contract, the Group assesses whether a contract is or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. The policy is applied to contracts entered into, on or after 1 January 2019.

#### i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of it relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

## 29 Significant accounting policies *(continued)*

### M. Leases *(continued)*

#### i) As a lessee *(continued)*

The right-of-use asset is subsequently measured at fair value. Any changes in fair value are recognised in profit or loss.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external sources and makes adjustments to reflect the terms of the lease and type of asset leased. Lease payments included in the measurement of the lease liability include the following:

- Fixed payments, including in-substance fixed payments;

- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- Amounts expected to be payable under a residual value guarantee; and

- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonable certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

## 29 Significant accounting policies *(continued)*

### M. Leases *(continued)*

#### (ii) As a lessor

At inception or modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not then the lease is an operating lease.

As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interest in the head lease and in the sub-lease separately. It assesses the classification of the sub-lease with reference to the right-of-use asset arising from the head lease, not from the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements of IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognizes lease payments received under an operating lease as income on a straight-line basis over the lease term as “revenue”.

## 29 Significant accounting policies *(continued)*

### N. Impairment

*Non-derivative financial assets*

*Financial instruments*

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost; and debt investments measured at FVOCI.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs

– debt securities that are determined to have low credit risk at the reporting date; and other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:
– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
– the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).ECLs are discounted at the effective interest rate of the financial asset.

Expected credit loss assessment for individual customers

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

## 29 Significant accounting policies *(continued)*

### N. Impairment *(continued)*

*Non-derivative financial assets* (continued)

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the lease status of each tenant.

*Credit-impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 360 days past due;
– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
– it is probable that the debtor will enter bankruptcy or other financial re-organisation; or
– the disappearance of an active market for a security because of financial difficulties.

*Presentation of allowance for ECL in the statement of financial position*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

*Write-off*

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

### O. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incurs expenses, including revenues and expenses that relate to transactions with any of the Group's other components whose operating results are reviewed regularly by the Group Board of Directors (being the Group chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

### P. Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## 29 Significant accounting policies *(continued)*

### Q. Operating profit

Operating profit is the result generated from the continuing principal revenue-producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity-accounted investees and income taxes.

### R. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see (note 4a)). When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

### S. Investments in subsidiaries

Investments in subsidiaries relate to the cost of stock in the subsidiaries and capital contributions. Investments are initially stated at historical cost and subsequently measured at historical cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition.

### T. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used in the management of short-term commitments.

## 30 New standards and interpretations not yet adopted

A number of new standards are effective after 1 January 2020 and earlier application is permitted. However, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements. The new standards are:

Interest Rate Benchmark Reform – Phase 2 *(Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*

Effective date: 1 January 2021
The second phase of Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 requirements to enable companies to deal with its effect on financial instruments and to continue providing useful information to investors. The amendments require entities to update the effective interest rate to reflect the change to the alternative benchmark rate instead of derecognising or adjusting the carrying amount of financial instruments for changes required by the reform. An entity
will not have to discontinue hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria. In addition, the amendments require companies to provide additional information to investors about new risks arising from the reform and how it manages the transition to alternative benchmark rates. These amendments will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*
Effective date: effective date deferred indefinitely
The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and are not expected to have a material impact on the Group and Company's financial statements.

*IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts*
Effective date: 1 January 2023
This standard replaces IFRS 4 Insurance Contracts which provided entities with dispensation to account for insurance contracts (particularly measurement) using local actuarial practice, resulting in a multitude of different approaches. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The standard requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. The standard is not expected to have a material impact on the Group and Company's financial statements.

## 30 New standards and interpretations not yet adopted *(continued)*

*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
Effective date: 1 January 2023
The amendment clarifies how to classify debt and other liabilities as current or non-current. The objective of the amendment is aimed to promote consistency in applying the requirements by helping entities determine whether, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendment also includes clarifying the classification requirements for debt an entity might settle by converting it into equity. These are clarifications, not changes, to the existing requirements, and so are not expected to affect entities' financial statements significantly. However, these clarifications could result in reclassification of some liabilities from current to non-current, and vice versa. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

*Annual Improvements to IFRS Standards 2018–2020*
Effective date: 1 January 2022
The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the Group and Company's annual financial statements.

*Onerous Contracts – Cost of Fulfilling a Contract-(Amendments to IAS 37)*
Effective date: 1 January 2022
Companies currently applying the 'incremental cost' approach will need to recognise bigger and potentially more provisions for onerous contracts.

*Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)*
Effective date: 1 January 2022
Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 Inventories should be applied in identifying and measuring these production costs.

*Reference to the Conceptual Framework (Amendments to IFRS 3)*
Effective date: 1 January 2022
Updates to IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.

reiz

REAL ESTATE
INVESTMENTS ZAMBIA PLC


reiz
REAL ESTATE
INVESTMENTS ZAMBIA PLC

reiz REAL ESTATE INVESTMENTS ZAMBIA PLC

Central Park, Cairo Road
P. O. Box 30012, Lusaka

www.reiz.co.zm
www.arcades.co.zm

info@reiz.co.zm
arcades@reiz.co.zm

+260 977 473134
+260 211 227684/9
+260 211 256729
+260 211 222906