reiz

Annual Report
and Financial Statements
2018

REAL ESTATE INVESTMENTS ZAMBIA PLC

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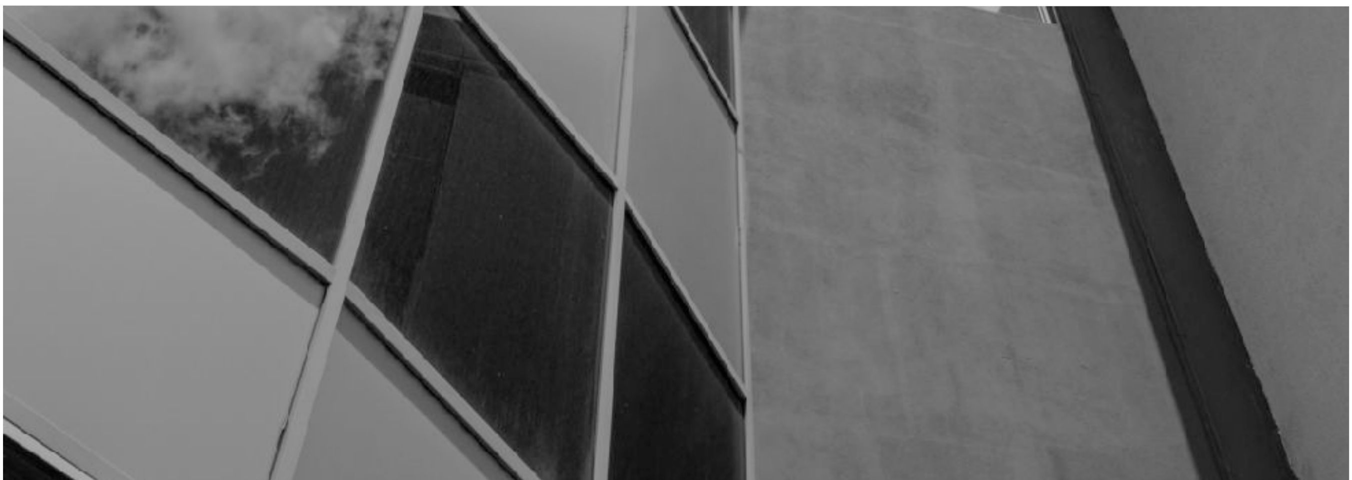


VISION, MISSION AND VALUES

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

Real Estate Investments Zambia Plc (REIZ) 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 then 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.

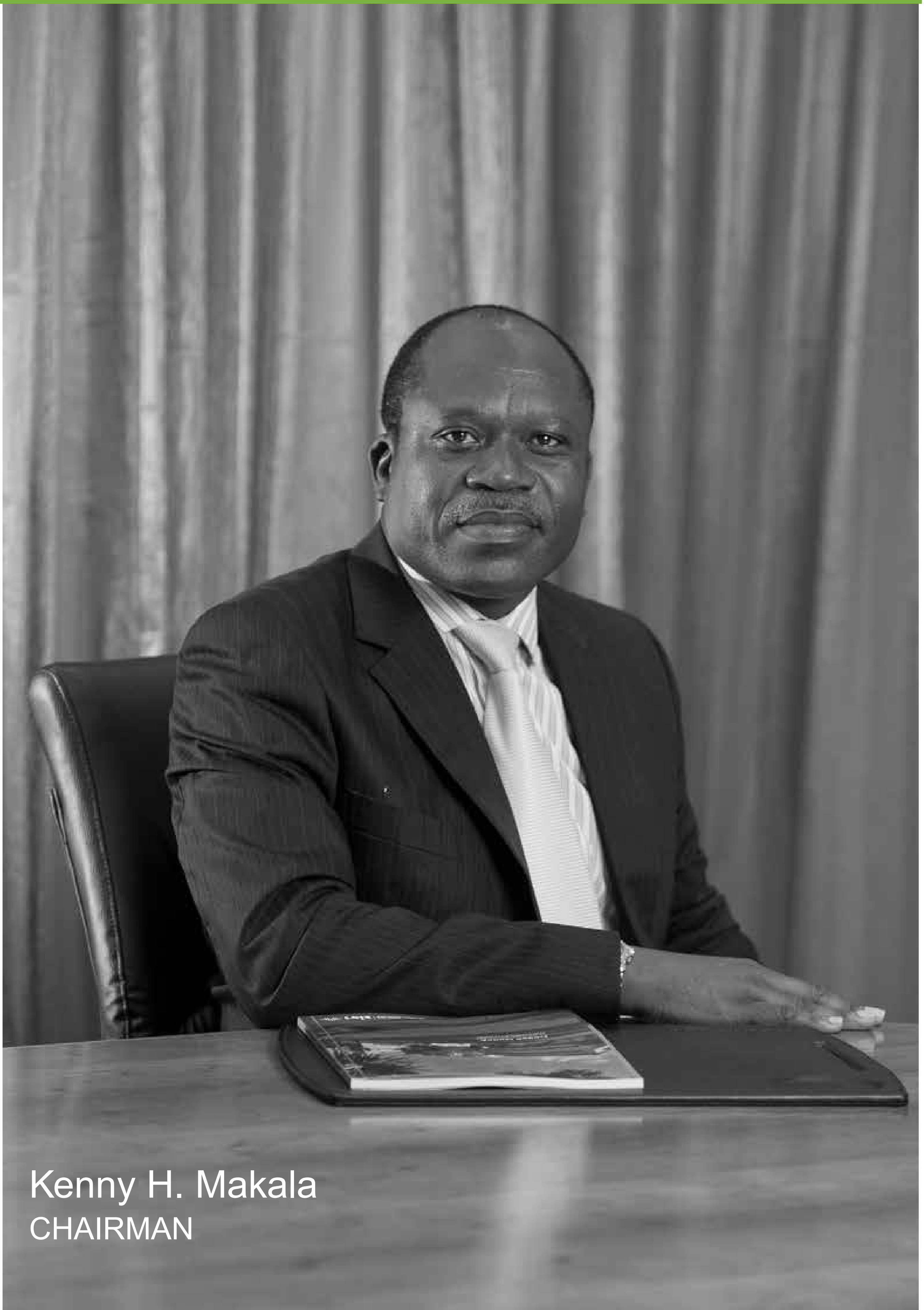
Farmers House Plc entered into an active period of development of its flagship property at the time – Farmers House. The old building was completely refurbished in 1999/2000 and thereafter a phased development of what was renamed Central Park was undertaken. The Exchange building (which housed the Lusaka 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	Originally North Western Rhodesia Farmers Co-operative
1996	Listed on the Lusaka Stock Exchange (LuSE) (now Lusaka Securities Exchange)
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$1.98m 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$2.6m) - fully repaid.
2004	Raised US$10m 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$10m for the purpose of raising bridging finance to acquire and develop properties.
2010	Issued a 12 year US$15m Corporate Bond tradable on the LuSE to retire commercial paper and to acquire Thistle Land Development Company Ltd (TLD).
2011	Acquired TLD that owns Counting House Square as the sole property.
2012	Completed the development of Abacus Square office building.
2012	Secured a US$12.5m term loan from Investec Asset Management (Pty) Ltd, and US$2.5m 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$10m. Transaction completed in February 2012.
2013	Transferred the lease of Airtel House to Airtel Zambia Networks Plc for a consideration of K114.8m and the purchase of the Nyerere Road Airtel property at K16.8m. The net proceeds of this transaction were utilised to settle the US$12.5m term loan from Investec Asset Management (Pty) Ltd, and the US$2.5m 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 $6.2 million financed by a $5.2m loan from Stanbic Bank Zambia Limited and $1.0 m equity.
2018	Acquired Southview Park, a housing complex with 22 upmarket housing units.



Kenny H. Makala
CHAIRMAN

CHAIRMAN'S STATEMENT

The Economy

The economic operating environment saw real gross domestic product growing at an estimated 4.0% in 2018, compared to 4.1% in 2017. Agricultural output contracted by more than 35% due to poor rain distribution in early 2018 while copper production continued to increase by an estimated 4% to 4.5% in 2018. Construction also contributed to growth, thanks to public infrastructure projects, investment in commercial buildings and residential housing. Fiscal deficit was estimated at 7.1% of GDP in 2018 compared to a target of 6.1% owing to high capital spending and rising debt servicing. Inflation increased to an average estimate of 7.6% in 2018 from 6.6% in 2017.

The Industry

The past year was one that was not business as usual as it was faced with heightened competition in the real estate industry owing to slow-paced economic growth and significant release of new real estate stock on the market.

The real estate industry in Zambia continued to record remarkable increase in development of the real estate properties of different types during the year. New real estate property stock was released on the market and more were in the pipeline by the end of the year. This supply of real estate stock was not matched by increase in demand thereby negatively impacting the industry in fundamental areas of rental and vacancy rates. Existing A-grade office spaces particularly continued to receive pressure from newer stock and cheaper residential properties that are being converted to offices at a fast rate thereby driving down rentals in the core business districts.

While these developments impacted the Group's operating results in 2018, the developments were anticipated from past years hence some of the mitigating measures that were put in place to defend the Group's assets in the portfolio such as redevelopment and refurbishments, cost containment and staffing.

Performance

The business strategy and recent corporate restructuring has kept the Group resilient amid afore mentioned industry challenges. However, financial performance of the Group was down year on year mainly due to rental remissions granted to the Arcades tenants for the months of January and February 2018 during the redevelopment of the mall, portfolio vacancies and impairment of receivables. The rental remissions granted during the year were an extension to those granted in 2017 for the same cause.

In Kwacha terms, the negative impact of rental remissions, vacancies and impairment of receivables was lessened by exchange gains arising from Investment Property revaluation even though the USD value of the portfolio reduced by 17% year on year. Kwacha gains on investment property revaluation arose on account of the devaluation of Kwacha against US Dollar by nearly 20%. Further detail on financial performance is covered in the Chief Executive Officer's report.

Last year, I reported that there were negotiations underway for acquisition of a property. This acquisition related to Southview Park a housing complex situated in the Lilayi area, along Kafue road presently developed with 22 upmarket residential homes and plenty of bulk land. The full land size of this property is 11.4752 hectare (28.3552 acres) and therefore constitutes a significant land bank with immense future development potential. The acquisition further achieved the Group's strategic pursuit of sectorial diversification being the first time that a residential property has been added to the portfolio. With this addition, the Group's expansion of property portfolio gathered momentum as it happened in the same year that the redevelopment and refurbishment of the Arcades Shopping Mall was completed.

With acquisition of Southview Park, the Group is now invested into four real estate sectors namely, commercial office, retail, residential and warehousing.

Future outlook

The medium-term economic outlook remains positive, with growth projected at 4.2% in 2019 and 4.3% in 2020. Mining output is expected to increase by 4% to 5% in 2019, benefiting from improvements in electricity generation. The government has announced measures aimed at improving debt sustainability. The measures include postponement of new infrastructure projects and the cancellation of some contracted loans that are yet to disburse.

Looking forward to 2019 and beyond, the Group has taken decisive measures to steady the ship in the face of market suppressing headwinds facing the real estate industry so as not to merely survive the challenges ahead but also to ensure that the Group is competitive in the long run and entrench a leadership position in the industry. We do not anticipate a quick turnaround in the industry fundamentals but we are progressively shaping the Group to be equal to the task and respond to the current and future operating environments. This is in line with our current strategic plan theme of ingenious pursuit for efficient, effective and agile management of the Group focused on creation and protection of shareholder value. To this effect, notwithstanding the current 5-year growth strategy by lettable space, the group will in 2019 primarily seek to consolidate performance of the current portfolio to attain competitive yields. Expansion through developments and acquisitions will be approached with prudence while some assets in the portfolio would be divested from by selling them if not in conformity with the consolidation drive.

REIZ will remain resolutely focused on pursuing prudent approaches to driving the Group's strategic agenda of maximizing returns and protecting shareholders value.

Board changes

At the Annual General Meeting on March 29, 2018, Dr. David Chewe was not re-elected to the Board when he retired by rotation. With this development, the board size reduced from 9 to 8 members from April to December 2018. This contributed to further containment of administration expenses.

Conclusion

Notwithstanding the Group's financial performance in 2018 particularly which is attributed in part to non-repetitive events, and subdued industry fundamentals generally, the Group remains confident in the future performance outlook owing to the solid foundation for sustainable business operation. Through our long-term vision, we understand that the industry requires thinking beyond the current smoke and current supposed industry over-supply. I therefore would like to thank shareholders for placing their trust in the Board and Management to steer the agenda of the Group.

My sincere appreciation and gratitude is extended to my fellow board members and staff for valued efforts during the year. I also thank our tenants, service providers and wider stakeholders for their continued support.

Kenny H. Makala
Chairman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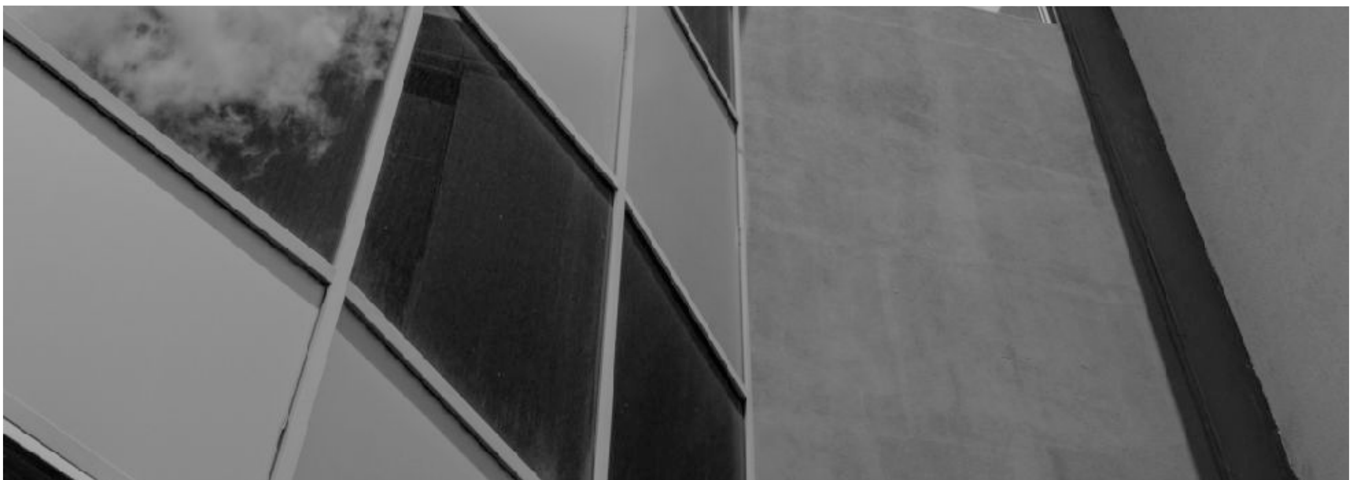


Sydney E. Popota
CHIEF EXECUTIVE OFFICER

Overview

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

Operationally, the continued redevelopment of the Arcades Shopping Centre in 2018 carried forward from 2017 meant that the rental income from this single largest revenue contributor to the Group was less than its normal capacity for two years consecutively. Normal rental contribution of Arcades before redevelopment was 55% while in 2018 it fell to 49%. Rental remissions were extended to Arcades tenants for the months of January and February while some of the tenants who had closed their stores to pave way for the redevelopment project only reopened and began trading in the third quarter of the financial year.

The falling market rentals plus entity specific vacancies resulted in devaluation of investment properties in US Dollar terms although the impact of loss of value in Dollar terms was pacified in Kwacha terms by exchange gains on account of about 20% Kwacha devaluation year on year. This led to an increase in the overall Kwacha value of investment property by K26.3 million (2017: K2.2 million).

Some tenants faced severe economic challenges and defaulted in their accounts settlement leading to accumulation of rental arrears. The arrears were aggressively and prudently impaired although efforts are underway to make optimal recoveries. The reversing of accumulated straight-lining of rental income amounting to K10.0 million further adversely impacted the 2018 operating results as this was a charge (debit) to the 2018 revenue, compared to a credit of K5.0 million in 2017.

Financial results

With the above stated background, the Group achieved a net profit after tax of K2.8 million and earnings per share of K0.05, compared to a net profit after tax of K25.0 million and basic earnings per share of K0.44 in 2017. Detailed analysis of these results is tabulated on pages 24 to 30. Rental revenue at K50.6 million (2017: K65.2 million) decreased by 22.4% and profit from operations at K27.7 million (2017: K40.5 million) decreased by 31.5%. Overall, the net profit after tax at K2.8 million (2017: K25.0 million) was 88.7% lower than prior year.

Consequent to reduction in profits from operations as described above, headline earnings per share declined to K0.49 per share in 2018 from K0.72 per share in 2017.

The challenging operating environment was mitigated by the following factors that had a positive impact on the operating results:

a) Continued cost-control and rightsizing measures which saw total operating and administrative costs reducing by 5.4% notwithstanding the impact of inflation on costs for the year.
b) Depreciation of the Kwacha on average during the year accounting for approximately 10.8% favorable impact on US Dollars based operating leases. The Group's rent roll is approximately 90% US Dollar based. The average exchange rate in 2018 was K10.70/$ compared to 9.66/$ in 2017.
c) Kwacha value appreciation of investment properties due to devaluation of Kwacha from

K10.01/$ in 2017 to K11.89/$ in 2018. The Kwacha revaluation surplus for the year was K26.3 million compared to K2.2 million in 2017. Investment property is valued in US Dollars and translated to Kwacha because of the predominance of US Dollar based leases.

Factors that adversely impacted the operating results include:

a) Rental remissions amounting to K3.1 million for the months of January and February 2018 granted to deserving tenants as a goodwill and gratuitous gesture for staying committed to Arcades during the redevelopment period. This accounted for 4.8% reduction in revenue year on year.
b) Reversal of straight-lined rental income amounting to K10.0 million from prior years on account of vacated tenants and periods of rental freeze. This accounted for 15.4% reduction in revenue year on year. It is important to note that the actual invoiced rentals for 2018 were slightly higher than those for 2017. Invoiced rentals for 2018 was K60.6 million while for 2017 was K60.2 million. Operating lease straight-lining is an accounting adjustment that is required to be passed as prescribed by International Accounting Standards, IAS 17.
c) Impairment of receivables amounting to K4.0 million which though painful, was determined prudent and necessary given current operating and economic environments. This impairment is highlighted separately in the statement of profit or loss and comprehensive income. The provisions for impairment are in line with the new international financial reporting standard IFRS 9 and were subjected to robust review by the Audit and Risk Committee as well as auditors.
d) Vacancies were mainly related to the redevelopment of the Arcades shopping mall which necessitated temporal closure to businesses of some of the tenants. The other property that experienced unprecedented vacancies is the Counting House Square situated along Thabo Mbeki Road, in the Showgrounds area.

The value of our investment property portfolio (excluding land banks) increased to K951.8 million in 2018 from K K838.8 million in 2017. The increase is attributed mainly to the depreciation of the Kwacha against US Dollar, otherwise there was reduction in US Dollar value of investment property year on year owing to downward shift market rental rates and entity specific vacancies. In line with the strategy to strengthen the gross lettable area and sectorial diversification, the redevelopment of the Arcades Shopping Mall was completed and Southview Park, a housing complex was acquired during the year. The sectorial exposure has now increased to 4 from 3 in 2017 with the addition of a residential complex to the existing commercial office, retail and warehousing sectors. This multi-sectorial business strategy offers a firm footing to ride out of different downturns in the real estate industry. With this diversification, when the industry goes through turbulence and some engines of the industry slowdown, we believe other engines will keep the pace and foster business sustainability.

The Group's balance sheet remains strong anchored by its diversified property portfolio. The impact on Investment Property from fair valuation was a net increase of K26.3 million compared to an increase of K2.2 million in 2017. In US Dollar terms, the overall value of investment property marginally reduced to US$80.0 million in 2018 from US$83.8 million in 2017. This change was on account of US Dollar devaluation of existing property by $10.5 million while a new property, Southview Park valued $6.7 million was acquired. A breakdown of individual property values is tabulated on page 30.

The fair value of investment property was determined by external, independent professional property valuation experts Knight Frank Zambia Limited who possess appropriate recognised professional qualifications and have requisite experience in the location and category of the properties being valued.

At close of year, the Group had net current assets amounting to K6.2 million and net current liabilities amounting to K17.2 million at REIZ company level. The net liability position at company level was temporal arising from additional capital expenditure incurred in the re-developement of Arcades Shopping Mall and the cinemas paid from operating cash flows. An equity release through a K30 million Kwacha 5 year loan facility was underway with Stanbic Bank Zambia Limited for draw down in the first quarter of 2019.

The financial statements were prepared on a going concern basis for both Group and Company. There was no intention to liquidate the Group and/or Company or to cease operations as at 31 December 2018.

Please refer to pages 24 and 25 for further insight into the Group's performance over the last 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. Despite market and economic challenges that the country and industry has faced in the past 5 years, REIZ has continued to post impressive and resilient results by being innovative, creative and responsive based on our core values of building the sustainability of the Group's business through trust and goodwill.

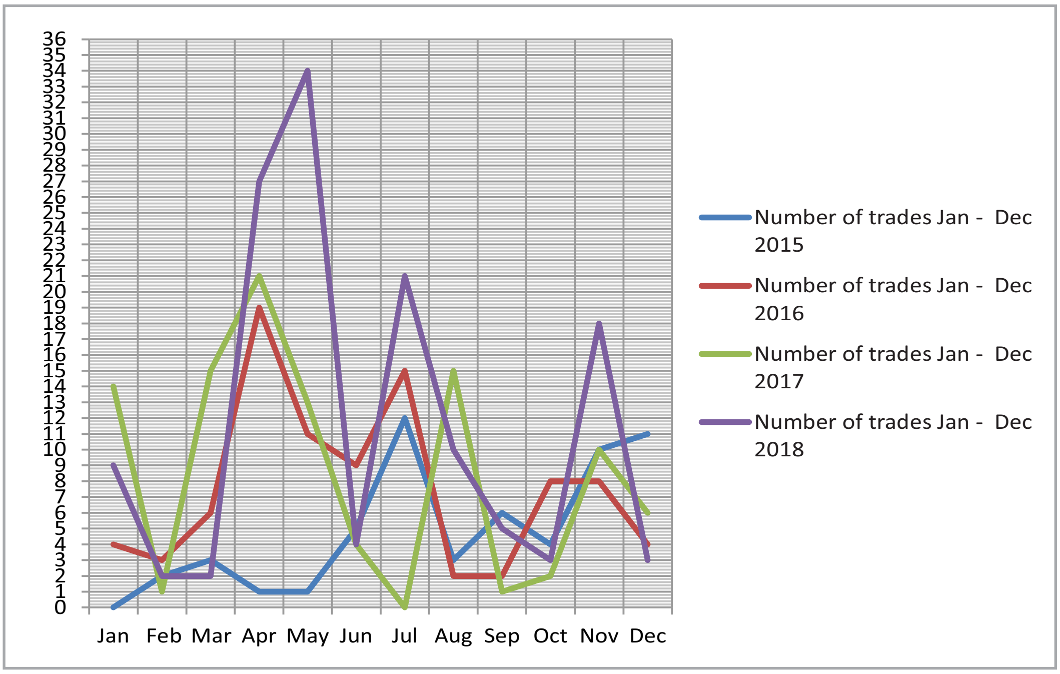
REIZ share trading performance during the year

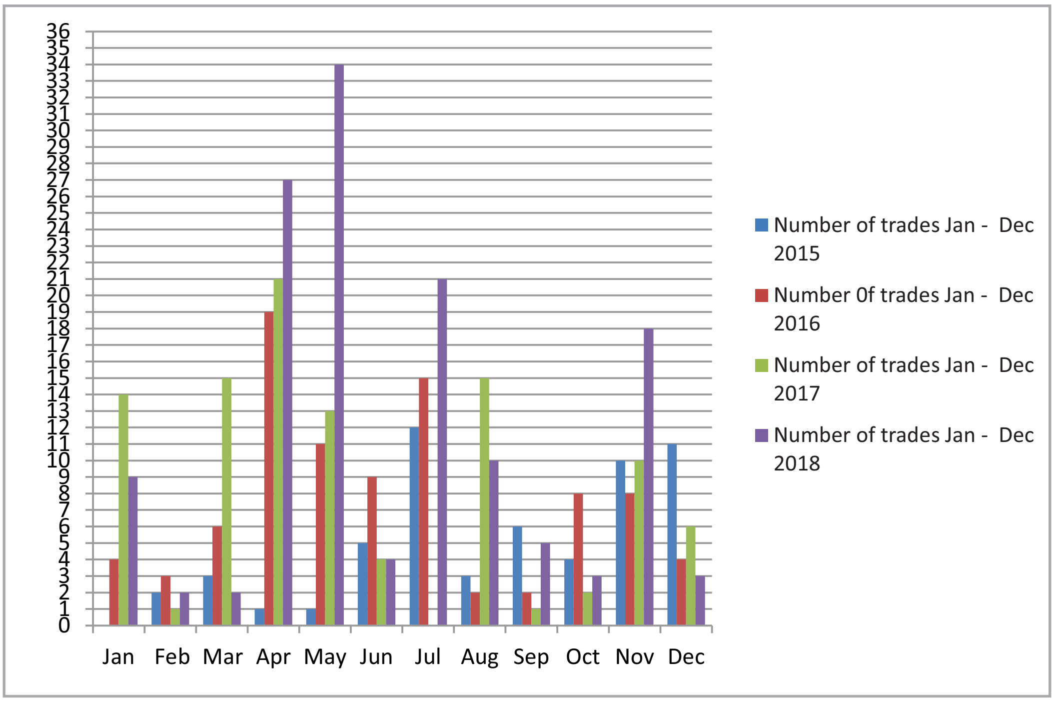
On the Lusaka Securities Exchange (LuSE), the REIZ stock price increased by 8.9% during the year having opened at K5.50 per share and closed the year at K5.99 per share. The highest price reported during the year was K6.00 while the lowest was K5.50. Total number of trades during the year was 138 compared to 102 in 2017. Number of trades in the REIZ stock has progressively increased over the past four years as follows:

Year	No of trades	No. of shares traded (volume)	Closing prices (K)
2015	58	42,562	3.40
2016	91	616,411	5.50
2017	102	3,461,212	5.50
2018	138	2,540,528	5.99

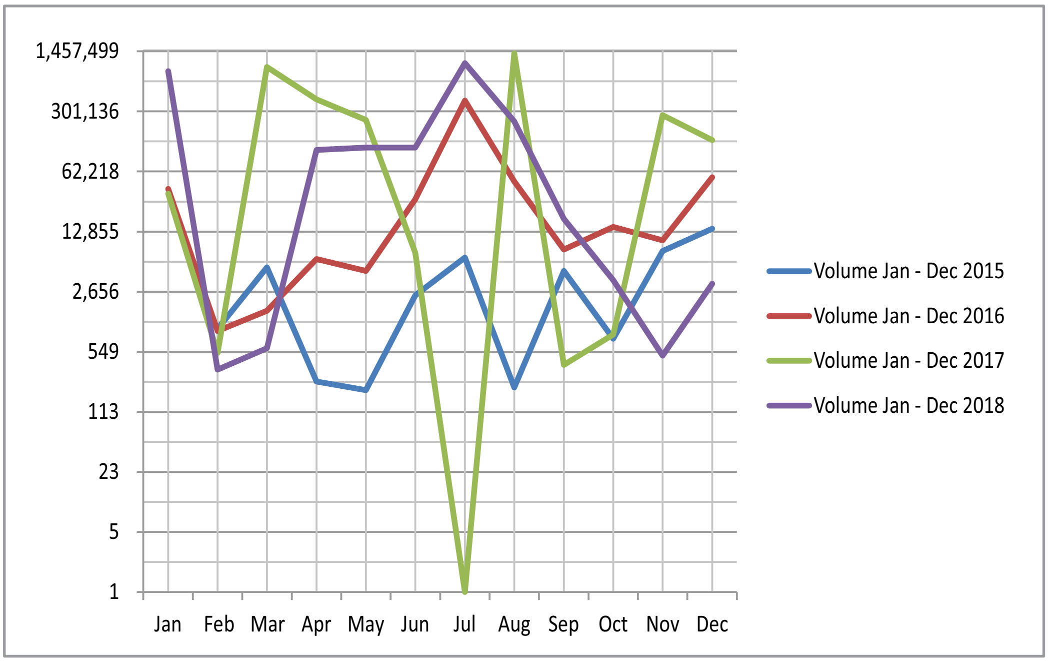
Below are the graphs giving insight into how the stock performed over the past four years.

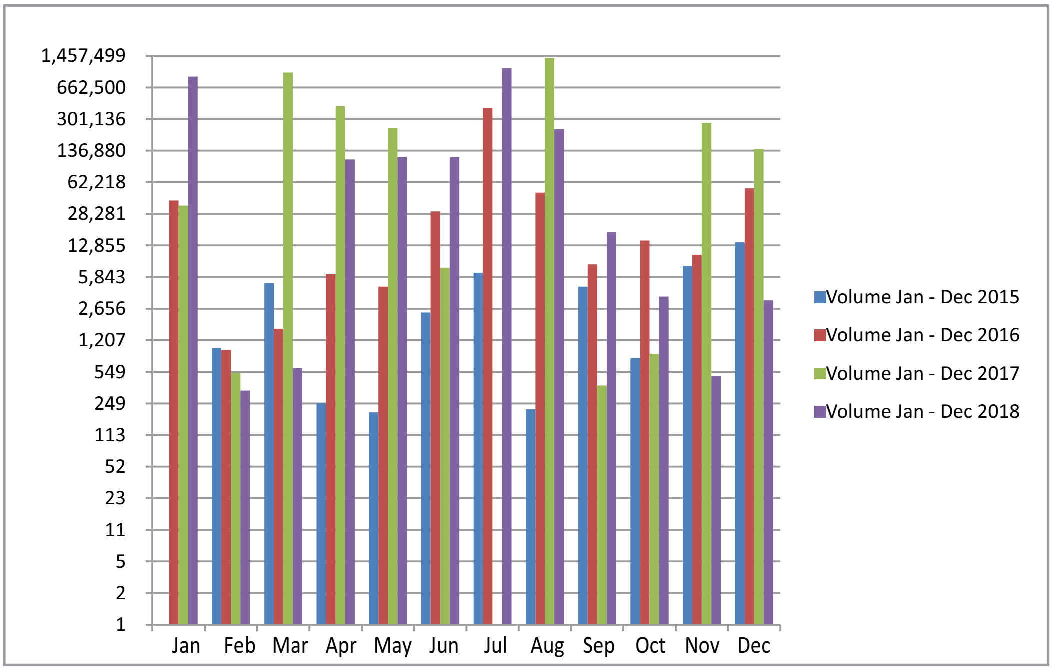
Number of trades each month



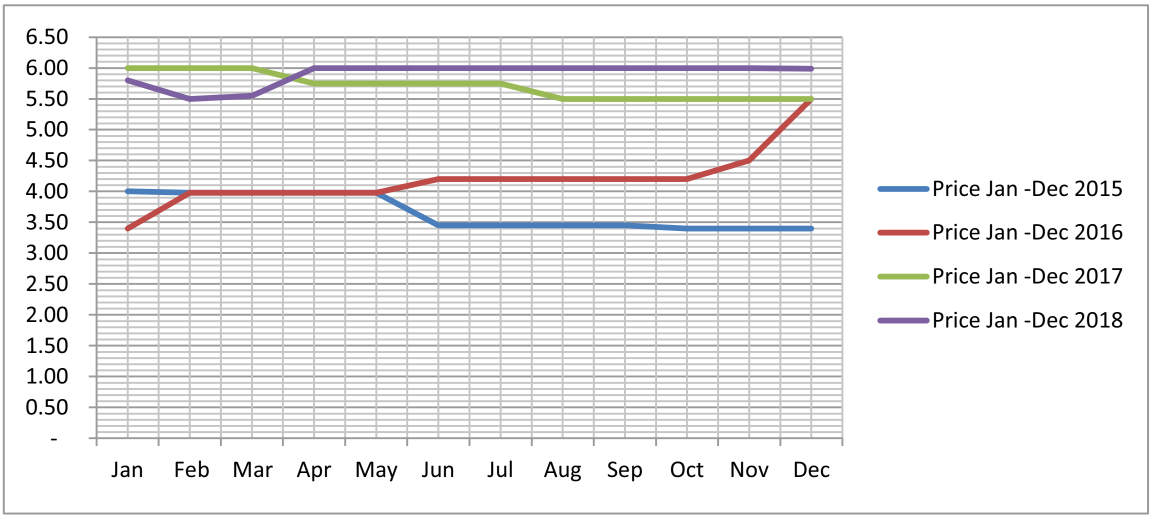


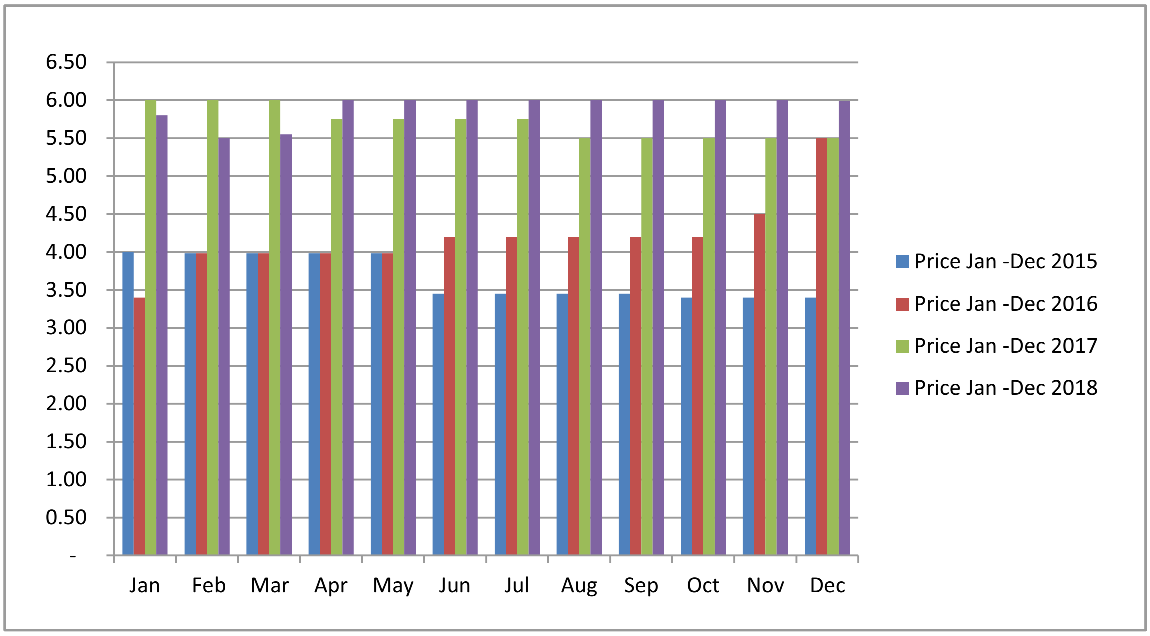
Volume of shares traded each month





Share price movement





Property Portfolio Analysis

REIZ is primarily involved in investment, development and restructuring of commercial, residential and non-commercial property for 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.

Tenants for our properties are selected through a rigorous evaluation process to ensure creditworthiness and trustworthiness. A good number of tenants have been with REIZ for over 10 years due to the value that REIZ attaches to its customers and efforts 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 2018 was 48,887 m^2 (2017: 41,253m^2). The total property portfolio including land banks was valued by Knight Frank Zambia Limited at 31 December 2018 at K982.8 million (2017: K864.6 million) (page 30).

1.0 Arcades Development PLC (ADP)

An abridged statement of results for ADP is provided on page 28 in this report. During the year, the long awaited refurbishment and redevelopment of the Arcades Shopping Centre was completed and by end of year some tenants had commenced trading while others were carrying out tenant installations for the 3,900m^2 added or vacated spaces. A well-maintained retail property not only ensures happy tenants, but also shoppers. Experience has taught us that if you take good care of your assets, they will be good to you.

Challenges during the execution of the project

There was need to hoard off a significant portion of the car park thereby reducing both vehicular and pedestrian traffic at the mall. At certain times during construction, arrangements had to be made with tenants to temporarily close their shops to facilitate the ongoing refurbishment and redevelopment project.

Management with the approval of the Board granted rental remissions as a goodwill and gratuitous gesture to deserving tenants for staying committed to Arcades during the redevelopment period that covered part of 2017 and 2018 financial years. The value of rental remissions granted during the year under review was K3.1 million (2017: 8.3 million). Some of the tenants could not see beyond the smoke and literally vacated leading to further loss of rental revenue as the vacated spaces remained vacant during the process of redevelopment. It is important to appreciate that in carrying out the project as a whole, the Company did not want to be short-sighted with the immediate consequent financial outlay, but was determined and focused on the long-term financial gain.

Although challenges were experienced in retaining tenants during the redevelopment period, the mall continues to be well tenanted and closed the year at 90% tenancy. The mall was officially re-launched on 16th November 2018 and has seen improved foot traffic since then. The refurbishment and redevelopment of the mall has achieved the intended goals of increase in gross lettable area (GLA), facelift, and efficient distribution of foot traffic at the centre. We are well aware that consumers are much more careful about where they do their shopping from. Malls in Zambia have extended from being shopping centres to becoming social destinations. As such, the new look Arcades Shopping Mall is designed to be a place that caters for the desired shopping mall experience to the whole family through a careful tenant mix of stores, restaurants, cafes and entertainment outlets. The mall will soon be launching the new and refurbished cinemas to be operated by Nu Metro and an upmarket club and restaurant namely Riders Lounge. Other new stores already trading include Sikale Décor, Marlin Restaurant, The Cake Bar and many other exciting stores and brands.

The expansion of the mall is one demonstration of the 2017 to 2021 strategic plan's gross lettable area growth program.

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 (Chairman), Mrs. Efi O'Donnell and Mr. Muna Hantuba.

ADP made a contribution of K24.7 million to Group turnover (2017: K32.7 million) and K12.3 million to Group operating profits (2017: K19.7 million) representing 49% and 44% of Group results respectively. The reduction in both turnover and operating profit contribution to the Group is on account of the net effect of rental remissions, impairment of receivables and suspension of trade by some of existing tenants to pave way for the redevelopment.

The Arcades Shopping Centre was valued by Knight Frank Zambia Limited at 31 December 2018 at K525.3 million.

2.0 Thistle Land Development Company Limited. (TLD)

An abridged statement of results for TLD is provided on page 28 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 3,039m^2.

The management of TLD is ably overseen by members of the REIZ Board, Mr. Kenny Makala (Chairman) and Mrs. Banja M. Kayumba.

The contribution to Group turnover by TLD was K1.8 million (2017: K5.6 million) and to Group operating profits was K0.75 million (2017: K4.2 million). Counting House Square was valued by Knight Frank Zambia Limited at 31 December 2018 at K43.2 million.

3.0 REIZ (company) properties

3.1 Abacus Square

Abacus Square 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 is being considered for expansion in order to efficiently utilise the extent of the land. Abacus Square was valued by Knight Frank Zambia Limited at 31 December 2018 at K43.2 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.

Eureka Park was valued by Knight Frank Zambia Limited at 31 December 2018 at K43.5 million..

3.3 Central Park

Central Park remains an attractive destination in the central business district of Lusaka for a number of businesses. It boasts of modern commercial office buildings situated at the corner of Cairo and Church Roads in Lusaka with a Gross Lettable Area (GLA) of 9,034m^2.

Central Park was valued by Knight Frank Zambia Limited at 31 December 2018 at K184.3 million.

3.4 Nyerere Road

This property situated on Nyerere Road is the former Airtel Headoffice in Zambia. It has a Gross Lettable Area (GLA) of 1,518 m². The Nyerere Road property was valued by Knight Frank Zambia Limited at 31 December 2018 at K23.9 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 m². The Dedan Kimathi Road property was valued by Knight Frank Zambia Limited at 31 December 2018 at K12.9 million.

3.6 Southview Park


Southview Park housing Ccomplex situated in the prime Lilayi area, along Kafue Road, provides a secure fenced and gated residential community with a golf driving range 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 was acquired during the year at $5.4 million and was valued by Knight Frank Zambia Limited at 31 December 2018 at K79.7 million.

3.7 Parkway Industrial Park


Parkway is a 3.3 Ha (33,000m^2) prime land bank situated, along Kafue Road, approximately 10 kilometres south of the Central Business District of Lusaka. The land strategically sits next to REIZ's existing and operating property, Eureka Park an industrial warehousing and logistics property. The development of Parkway will be an extension of the Eureka industrial park on the Kafue Road node. Works done on the site include site clearance and levelling, setting out of buildings, sixty percent of base excavations, thirty percent casting of concrete base, twenty percent of kerbstones, construction of two septic tanks and one soak away, filling of hard core, borehole, construction of access roads, Clear Vu fencing, concrete wall to perimeter boundaries and two guard houses.

Parkway Industrial Park was valued by Knight Frank Zambia Limited at 31 December 2018 at K25.6 million.

3.8 Solwezi Square



Currently, this property situated in Solwezi, North Western Province measuring 3,515m^2 is the only property on REIZ books outside Lusaka. REIZ also secured an additional 1,717 m^2 on lease from Total Zambia Limited to arrive at a combined total extent of 5,232 m^2 for development of Solwezi Square a mixed use business park. The Board believes that this property is a strategic investment as there is significant demand in Solwezi for such properties, and will extend the Group's geographical spread outside Lusaka. The Board believes that considerable further growth of the Group can be achieved in the North-Western region which has seen substantial investment by the mining companies. Lay-out drawings for development of the Solwezi land have been finalised for this property.

During the year, illegal occupants of the land who delayed development of the site were successively evicted through a court process.

The Solwezi property was valued by Knight Frank Zambia Limited at 31 December 2018 at K1.3 million.

FIVE YEAR FINANCIAL SUMMARY (KWACHA)

Shareholders' attention is brought to the 5 year abridged Financial Summary in Zambian Kwacha

STATEMENT OF COMPREHENSIVE INCOME - K

For the ended 31 December	2018		2017		2016		2015		2014	
	K '000	%	K'000	%	K'000	%	K'000	%	K'000	%
Gross Rental Income	50,579		65,164		75,782		57,391		41,707	
Total Property Expenses	(8,081)	16%	(7,611)	12%	(7,147)	9%	(11,637)	20%	(9,519)	23%
Total Administration Expenses	(10,231)	20%	(11,753)	18%	(12,184)	16%	(9,955)	17%	(8,345)	20%
Impairment loss on trade receivables	(3,973)	8%	(4,634)	7%	(1,128)	1%	(1,121)	2%	111	0%
Total Depreciation	(560)	1%	(683)	1%	(653)	1%	(504)	1%	(913)	2%
Profit from operation	**27,734**	**55%**	40,483	62%	54,670	75%	34,174	60%	23,041	55%
Other Operating Income	70		20		90		2,464		355	
Change in fair value of Investment property, net of exchange gains	26,325		2,154		(61,628)		445,734		36,092	
Net interest expense	(16,201)		(10,178)		(10,440)		(11,483)		(7,514)	
Exchange (losses)/gains	(28,289)		(66)		5,415		(26,139)		(8,088)	
Profit fom equity accounted investees	-		-		-		-		3,300	
Profit before tax	**9,639**		32,413		(11,893)		444,750		47,186	
Income tax (expense)	(6,815)		(7,380)		(8,840)		(11,220)		(4,633)	
Profit/(loss) after tax	**2,824**		25,033		(20,733)		433,530		42,553	

STATEMENT OF FINANCIAL POSITION - K

	2018 K'000	2017 K'000	2016 K'000	2015 K'000	2014 K'000
Plant and equipment	8,608	1,748	2,394	1,954	2,858
Investment properties	951,785	838,842	805,222	864,594	400,144
Investment property under development	26,943	22,982	24,309	23,102	40,125
Investments	-	-	-	-	19,456
Amount due from equity accounted investee	-	-	-	-	13,891
Rental income receivable after 12 months	2,673	12,415	7,140	7,849	3,225
Goodwill	-	-	-	-	-
Current assets	36,435	96,504	93,721	77,695	15,620
Total Assets	**1,026,444**	972,491	932,786	975,194	495,319
Shareholders' funds and liabilities					
Total equity	798,952	804,202	792,155	823,615	403,071
Non – current liabilities	197,301	156,053	127,939	140,958	85,017
Total current liabilities	30,191	12,236	12,692	10,621	7,231
Total equity and liabilities	**1,026,444**	972,491	932,786	975,194	495,319

Number of shares	**56,460,198**	56,460,198	56,460,198	56,460,198	56,460,198
EPS	**0.05**	0.44	(0.37)	7.68	0.75
Headline EPS	**0.49**	0.72	0.97	0.61	0.41
NAV	**14.15**	14.24	14.03	14.59	7.14
Dividend proposed (paid prior years) per share	**0.13**	0.23	0.23	0.17	0.15

FIVE YEAR FINANCIAL SUMMARY (UNITED STATES DOLLARS)

Shareholders' attention is brought to the 5 year abridged Financial Summary in United States Dollars

STATEMENT OF COMPREHENSIVE INCOME – US$

	2018		2017		2016		2015		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
Average Exchange Rate	**10.70**		**9.66**		**10.42**		**8.21**		**6.21**	
Gross Rental Income	**4,727**		6,746		7,273		6,990		6,720	
Total Property Expenses	**(755)**	16%	(788)	-12%	(686)	-9%	(1,417)	-20%	(1,534)	-23%
Total Administration Expenses	**(957)**	20%	(1,217)	-18%	(1,169)	-16%	(1,213)	-17%	(1,345)	-20%
Impairment loss on trade receivables	**(371)**	8%	(480)	-7%	(108)	-1%	(137)	-2%	18	0%
Total Depreciation	**(52)**	1%	(71)	-1%	(63)	-1%	(61)	-1%	(147)	-2%
Profit from operations	**2,592**	**55%**	4,190	62%	5,247	72%	4,162	60%	3,712	55%
Other operating income	**7**		2		9		300		57	
Change in fair value of Investment property, net of exchange	**(10,506)**		223		1,906		12,033		(4,133)	
Net finance expense	**(1,514)**		(1,054)		(1,002)		(1,399)		(1,211)	
Profit from equity accounted investees	**-**		-		-		-		532	
Profit before tax	**(9,421)**		3,361		6,160		15,096		(1,043)	
Income tax (expense)/credit	**(637)**		(764)		(848)		(1,367)		(747)	
Profit after tax	**(10,058)**		2,597		5,312		13,729		(1,790)	

STATEMENT OF FINANCIAL POSITION – US$

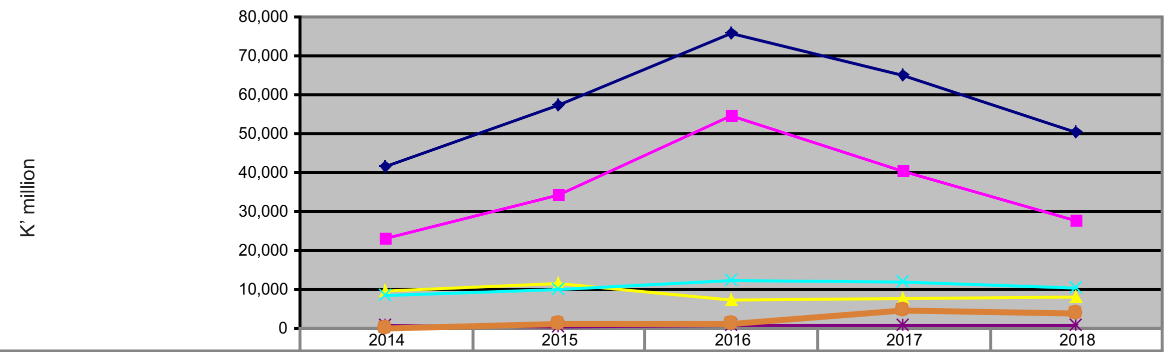
	2018	2017	2016	2015	2014
		US$'000	US$'000	US$'000	US$'000
Year End Exchange Rate	**11.89**	**10.01**	**9.87**	**10.99**	**6.40**
Plant and equipment	724	175	243	177	447
Investment properties	80,049	83,800	81,583	78,671	62,523
Investment property under development	2,266	2,296	2,463	2,102	6,270
Investments	-	-	-	-	3,040
Amount due from equity accounted investee	-	-	-	-	2,170
Rental income receivable after 12 months	225	1,240	723	714	504
Current assets	3,063	9,641	9,496	7,070	2,440
Total Assets	**86,328**	97,152	94,508	88,734	77,394
Shareholders' funds and liabilities					
Total equity	67,195	80,340	80,260	74,942	62,980
Non – current liabilities	16,594	15,590	12,962	12,826	13,284
Total current liabilities	2,539	1,222	1,286	966	1,130
Total equity and liabilities	**86,328**	97,152	94,508	88,734	77,394

Number of share	**56,460,198**	56,460,198	56,460,198	56,460,198	56,460,198
EPS	**(0.12)**	0.05	0.09	0.24	(0.03)
Headline EPS	**0.05**	0.07	0.09	0.07	0.07
NAV	**1.19**	1.42	1.42	1.33	1.12
Dividend proposed (paid prior years) per share	**0.01**	0.02	0.02	0.02	0.02

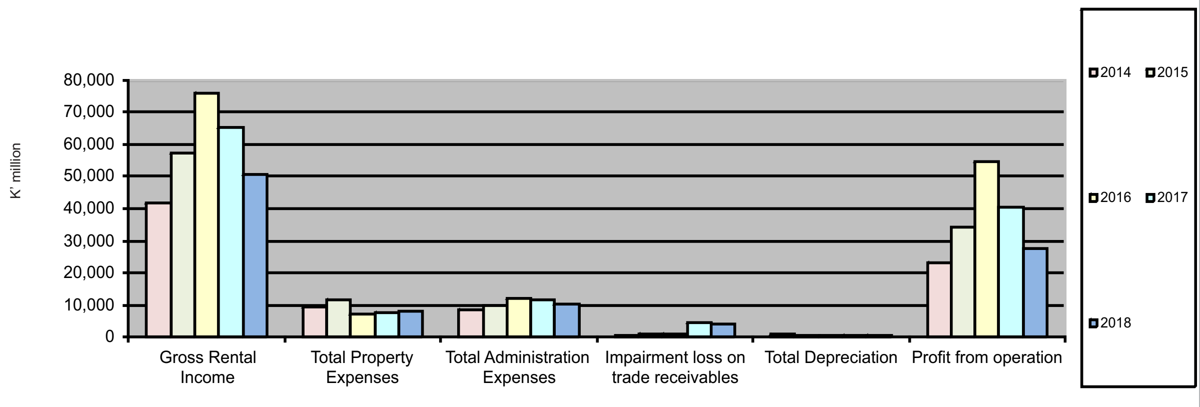
ANALYSIS OF FINANCIAL RESULTS

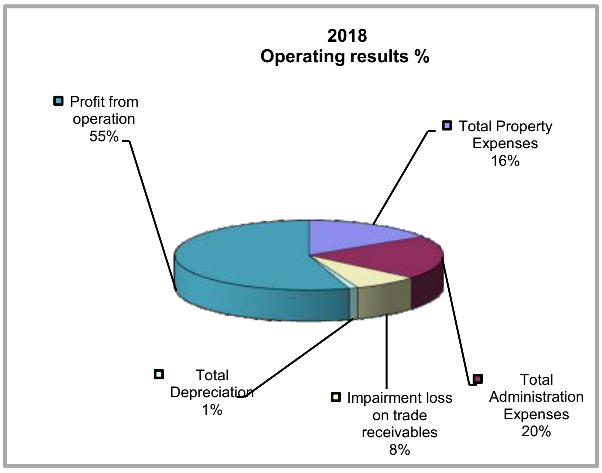
GROWTH OF OPERATING PROFIT

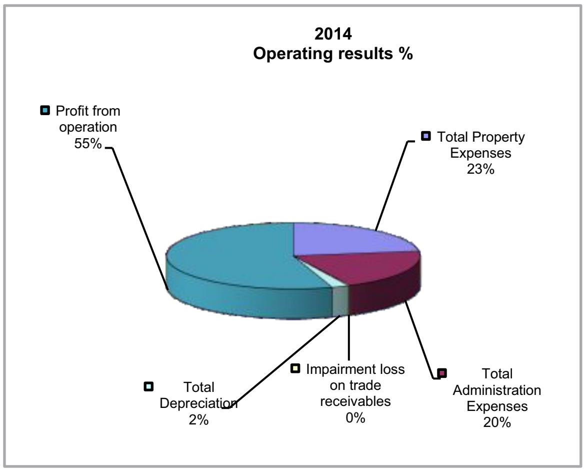
OPERATING RESULTS



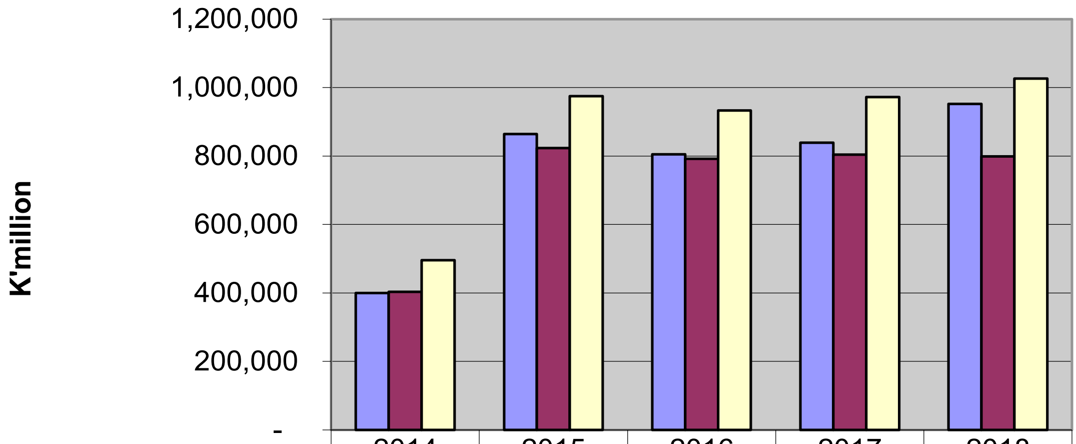
	2014	2015	2016	2017	2018
Gross Rental Income	41,707	57,391	75,782	65,164	50,579
Profit from operation	23,041	34,174	54,670	40,483	27,734
Total Property Expenses	9,519	11,637	7,147	7,611	8,081
Total Administration Expenses	8,345	9,955	12,184	11,753	10,231
Total Depreciation	913	504	653	683	560
Impairment loss on trade receivables	111	1,121	1,128	4,634	3,973







STATEMENT OF FINANCIAL POSITION



	2014	2015	2016	2017	2018
Investment Property	400,144	864,594	805,222	838,842	951,785
Equity	403,071	823,615	792,155	804,202	798,952
Total Assets	495,319	975,194	932,786	972,491	1,026,44

FINANCIAL SUMMARY 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 31 December 2018:

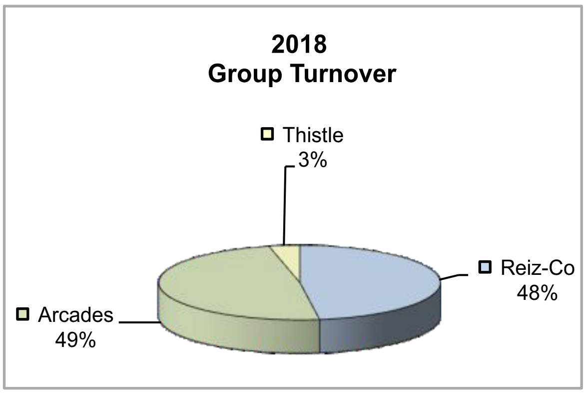
STATEMENT OF COMPREHENSIVE INCOME - K

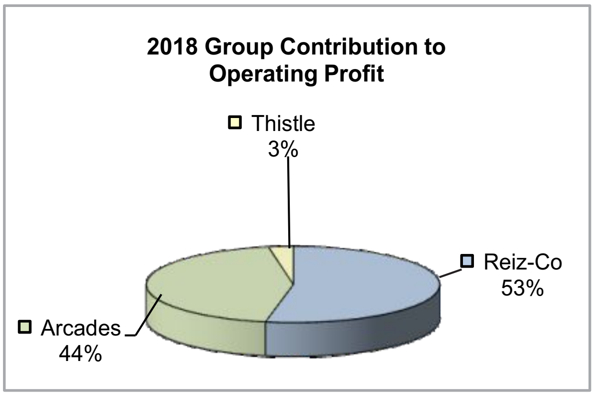
	2018								2017	
	Reiz - Co.		Arcades		Thistle		Reiz - Group		Reiz - Group	
	K'000	%	K'000	%	K'000	%	K'000	%	K'000	%
Gross Rental Income	24,154		24,652		1,773		50,579		65,164	
Total Property Expenses	(2,946)	12%	(4,753)	19%	(382)	22%	(8,081)	16%	(7,611)	12%
Total Administration Expenses	(4,897)	20%	(4,641)	19%	(693)	39%	(10,231)	20%	(11,753)	18%
Impairment loss on trade receivables	(1,100)	5%	(2,923)	12%	50	-3%	(3,973)	8%	(4,634)	7%
Total Depreciation	(504)	2%	(56)	0%	-	0%	(560)	1%	(683)	1%
Profit from operation	14,707	61%	12,279	50%	748	42%	27,734	55%	40,483	62%
Other operating income	4,532		70		-		70		20	
Change in fair value of Investment property	30,454		19,039		(23,168)		26,325		2,154	
Net finance (expense)/income	(16,523)		103		219		(16,201)		(10,178)	
Net foreign exchange (loss)/gain	(31,771)		3,228		254		(28,289)		(66)	
Profit/(loss) before tax	1,399		34,719		(21,947)		9,639		32,413	
Income tax (expense)/credit	(3,214)		(3,222)		(379)		(6,815)		(7,380)	
Profit after tax	(1,815)		31,497		(22,326)		2,824		25,033	
Rental income ratio per company	48%		49%		4%		100%			
Profit from operations ratio per company	53%		44%		3%		100%			

STATEMENT OF COMPREHENSIVE INCOME – US$

	2018								2017	
	Reiz - Co.		Arcades		Thistle		Reiz - Group		Reiz - Group	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
Average Exchange Rate	10.70		10.70		10.70				9.66	
Gross Rental Income	2,257		2,304		166		4,727		6,746	
Total Property Expenses	(275)	12%	(444)	19%	(36)	22%	(755)	16%	(788)	12%
Total Administration Expenses	(458)	20%	(434)	19%	(65)	39%	(957)	20%	(1,217)	18%
Impairment loss on trade receivables	(103)	5%	(273)	12%	5	-3%	(371)	8%	(480)	7%
Total Depreciation	(47)	2%	(5)	0%	-	0%	(52)	1%	(71)	1%
Profit from operation	1,374	61%	1,148	50%	70	42%	2,592	55%	4,190	62%
Other operating income	424		7		-		7		2	
Change in fair value of Investment property	(4,078)		(3,449)		(2,979)		(10,506)		223	
Net finance (expense)/income	(1,544)		10		20		(1,514)		(1,054)	
(Loss)/profit before tax	(3,824)		(2,284)		(2,889)		(9,421)		3,361	
Income tax expense	(300)		(301)		(35)		(637)		(764)	
Profit after tax	(4,124)		(2,585)		(2,924)		(10,058)		2,597	
Rental income ratio per company	48%		49%		3%		100%			
Profit from operations ratio per company	53%		44%		3%		100%			

ANALYSIS OF RESULTS





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 2018:

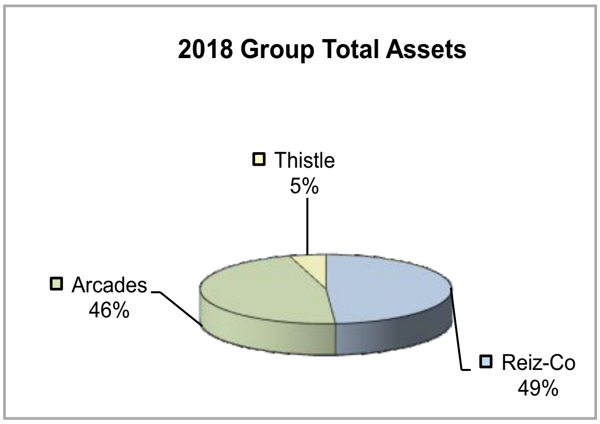
STATEMENT OF FINANCIAL POSITION – K

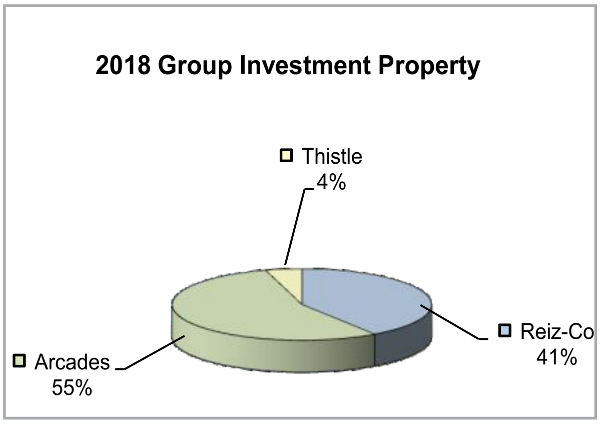
	2018				2017
	Reiz - Co. K'000	Arcades K'000	Thistle K'000	Reiz - Group K'000	Reiz - Group K'000
Plant and equipment	917	7,572	118	8,608	1,748
Rental income receivable after 12 months	1,204	1,469	-	2,673	12,415
Investment properties	385,879	522,779	43,127	951,785	838,842
Investment property under development	26,943	-	-	26,943	22,982
Investments	146,961	-	-	-	-
Current assets	17,524	20,348	12,039	36,435	96,504
Total Assets	579,428	552,168	55,284	1,026,444	972,491
Shareholders' funds and liabilities					
Total equity	350,841	540,262	54,810	798,952	804,202
Total non–current liabilities	193,809	3,229	264	197,301	156,053
Total current liabilities	34,778	8,677	210	30,191	12,236
Total equity and liabilities	579,428	552,168	55,284	1,026,444	972,491
Investment property ratio per company	41%	55%	4%	100%	

STATEMENT OF FINANCIAL POSITION – US$

	2018				2017
	Reiz - Co. US$'000	Arcades US$'000	Thistle US$'000	Reiz - Group US$'000	Reiz - Group US$'000
Year End Exchange Rate	11.89	11.89	11.89	11.89	10.01
Plant and equipment	77	638	10	725	175
Rental income receivable after 12 months	101	124	-	225	1,240
Investment properties	32,454	43,968	3,627	80,049	83,800
Investment property under development	2,266	-	-	2,266	2,296
Investments	12,360	-	-	-	-
Current assets	1,474	1,710	1,013	3,063	9,641
Total Assets	48,732	46,440	4,650	86,328	97,152
Shareholders' funds and liabilities					
Total equity	29,507	45,438	4,610	67,195	80,340
Non – current liabilities	16,300	272	22	16,594	15,590
Total current liabilities	2,925	730	18	2,539	1,222
Total equity and liabilities	48,732	46,440	4,650	86,328	97,152
Investment property ratio per company	41%	55%	4%	100%	

ANALYSIS OF RESULTS





INVESTMENT PROPERTY ANALYSIS

		2018				2017	
PROPERTY	TYPE	Leaseable Area	Valuation - K'000	Valuation - US$'000	% of Total	Valuation - K'000	Valuation - US$'000
Arcades Shopping Centre	Retail Mall	22,547	525,253	44,176	53.4%	476,250	47,625
Central Park	Office Park	9,034	184,295	15,500	18.8%	177,500	17,750
Counting House	Office Park	3,039	43,196	3,633	4.4%	66,120	6,612
Abacus Square	Office Park	1,821	43,161	3,630	4.4%	43,000	4,300
Nyerere Road	Office Park	1,518	23,875	2,008	2.4%	22,500	2,250
Eureka Park	Industrial Park	6,274	43,506	3,659	4.4%	45,460	4,546
Dedan Kimathi	Office Park	885	12,901	1,085	1.3%	11,620	1,162
Southview Park	Housing Complex	3,769	79,663	6,700	8.1%	-	-
Parkway	Undeveloped	-	25,635	2,156	2.6%	21,080	2,108
Solwezi	Undeveloped	-	1,308	110	0.1%	1,100	110
Total		**48,887**	**982,792**	**82,657**	**100%**	864,630	86,463

Business outlook

The property industry is expected to remain challenging with most of the market forces that characterized 2018 expected to continue to prevail in 2019. With new supply coming on stream from the pipeline that existed at 31 December 2018, occupancy and rental rates are expected to continue to face downward pressure in 2019. This notwithstanding, the Group is expected to perform better in 2019 compared to 2018 on the strength of the following:

a) With the completion of redevelopment and refurbishment of Arcades Shopping Mall:
   i) The rental remissions granted to tenants in 2017 and 2018 will not be granted in 2019. This means that there will be no reduction in revenue from existing tenants. Further,
   ii) The mall has returned to normal operations meaning there will be no temporal closures to businesses by tenants as was experienced in 2017/8. The mall further boasts of an increased gross lettable space by 3,900 square metres and new tenants which will improve rental revenues.
b) Southview Park – This upmarket residential property acquired in 2018 with 22 houses is already being tenanted and will contribute to increased rental revenues.
c) Vacancies – rigorous leasing efforts are in place particularly for big box spaces at Counting House Square and Central Park which faced the biggest challenges in 2018. The measures being taken had already started bearing fruit by the close of the year 2018.
d) The Group structured and adopted an operating policies, processes and procedures manual in 2018 which enhances risk management and will mitigate on the quantum of impairment of receivables among other factors that negatively impacts performance.
e) With K10.0 million charged to 2018 revenue for IAS 17 straight-lining of rental revenue leaving a Group balance K2.6 million on the statement of financial position, it means that the invoiced rentals for 2019 are unlikely to be negatively impacted by this accounting adjustment.
f) The Group will continue with its cost-control and rightsizing measures to ensure operating and administrative costs are contained.

As seen from the analysis of the financial performance, the operating results were heavily impacted by lower rental revenues and every effort is being directed into achieving the necessary turnaround in this area. The Group is expanding its real estate sectorial range thereby positioning itself to navigate the sectorial market shocks that might weigh on the industry at different times.

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

The Group will continue to strengthen its presence in all the core markets of the property industry of Zambia being commercial office, retail, residential and logistics and warehousing.

Acknowledgments

On behalf of the Management team, I would like to express my deepest appreciation to the Board of REIZ for its valuable support and guidance through the past difficult year. I am grateful to Shareholders and our many partners and stakeholders for the unflagging belief in and support for REIZ. I also wish to thank Management and Staff for their dedication and hard work in the face of daunting challenges during the year. The future for REIZ remains bright although the industry may take a few years before it can return to the high points seen in the past 5 years. I am convinced that in 2019, REIZ will emerge stronger than the past year notwithstanding the on-going industry downturn.

Sydney E. Popota
Chief Executive Officer

Moses Vera
COMPANY SECRETARY

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 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, processes 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.

2.0 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:

2.1 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 is provided for in the current redevelopment of the Arcades shopping mall.

2.2 Bus stop and Taxi rank maintenance - REIZ has adopted maintenance of both the bus stop and the taxi rank at Arcades thereby giving traders, commuters and pedestrians easy and clean access to the mall and surrounding areas. REIZ works hand in hand with the bus stop and taxi rank operators to ensure order and cleanliness is maintained at all times. Both bus stop and taxi rank operators have a committee that sits with Arcades Centre Management to ensure order is maintained and the surroundings are kept clean.

2.3 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.

Above - Cairo road island attended to by REIZ

2.4 Donations – REIZ has been involved in charitable donations including recently towards the construction of a rural health centre in Pemba District in Southern Province in response to a specific application for donation.

Corporate social responsibility remains a core part of REIZ's business strategy.

Above - Sections of the road island elsewhere which are not attended to

3.0 Shareholders

REIZ has a 100% float on the Lusaka Securities Exchange (LuSE) with over 300 shareholders. In addition to 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	9,283,379	16.44%
National Pension Scheme Authority (NAPSA)	5,691,431	10.08%
Standard Chartered Zambia Securities Services Nominees	4,532,254	8.03%
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	**45,853,895**	**81.21%**
Others	**10,606,303**	**18.79%**
Total	**56,460,198**	**100%**

4.0 Dividend

REIZ continues to lead in consistently paying a dividend to its shareholders. Notwithstanding the challenges faced in 2018, a dividend of K0.13 is proposed for the 2018 financial year which is in line with the dividend policy of distributing to shareholders at least 30% of net cash flows from operations. This is a signal of the Group's commitment to its shareholders.

5.0 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 one change to the composition of the Board through the exit of Dr. David Chewe as he was not re-elected by Shareholders at the Annual General Meeting held on 29th March 2018. This reduced the number of directors on the board to 8 from 9 in 2017.

All the 8 Board members of REIZ are non-executive members 5 of whom are women representing 63% (2017: 56%). The Board 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 $1,100 and quarterly retainer of $3,046. The Chairman is paid a gross meeting attendance allowance of $1,862 and quarterly retainer of $4,738. There are no other emoluments applicable.

5.1 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.

Dr. Elizabeth C. Lungu Nkumbula
Non-Executive Director, June 2012, Zambian, Commissioner and Chief Executive Officer – Workers' Compensation Fund Control Board

Elizabeth is board Chairperson of National Vocational Rehabilitation Centre and Mukuba Pension Trust Fund and is a director of a number of institutions including Zambia International Trade Fair/Mukuba Hotel.

Elizabeth held various key strategic senior management positions in Zambia National Building Society and worked for Pan African Building Society as Managing Director before her appointment as Commissioner/Chief Executive Officer of Workers Compensation Fund Control Board a social security institution.

Elizabeth has also served as the first Zambian female President of the Agricultural and Commercial Society of Zambia (in 2010/2011) and also as the Deputy President of the Royal Agricultural Society of the Commonwealth. She holds a Doctor of Philosophy (PhD) in Business Administration, (Washington International University, USA) and a Master's Degree in Business Administration (University on Lincolnshire and Humberside, UK) both majoring in Finance.

Banja Mkwanazi-Kayumba
Non-Executive Director, March 2013, Zambian
Corporate Banking Director

Banja has over 20 years' experience in the Financial Markets, 14 of which have been in Senior Leadership positions. She was the first female Treasurer at Barclays Bank Zambia Plc and in the market and is currently the Corporate Banking Director at Barclays Bank Zambia Plc. During her tenure, she has been involved in landmark transactions in key sectors of the economy in excess of US$6bn. Banja is currently the Digital Transformation Lead at Barclays Zambia and has also been instrumental in driving Diversity and Inclusion in the workplace in order to drive Gender equality.

She holds a Masters Degree in Finance and Financial Law from the University of London and a Bachelor's Degree in Business Administration from the Copperbelt University.

Doreen Kabunda
Non-Executive Director, June 2009, Zambian
Human Resource Professional

Doreen retired from Zambia Sugar Plc as Head of Corporate Strategy and Communication. She has held numerous posts in various bodies including Chairperson of the Saturnia Regna Pension Trust Fund Board of Trustees, Vice Chairperson of the Zambia Telecommunications Corporation Board, Southern Water and Sewerage Company Board, Chikankata Hospital Board of Management and the Mazabuka Multi-sector Aids Project. Currently she is involved in dairy farming.

She holds an MBA from the Copperbelt University and a Bachelor's degree in Public Administration from the University of Zambia.

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

Muna is currently Group Chief Executive Officer of African Life Holdings Limited. He has over 25 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 Ltd as CEO till December 2015.

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

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

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

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 interests in hotels, construction and manufacturing sectors.

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.

Dorothy Soko
Non-Executive Director, March 2017, Zambian
Director Investments - NAPSA

Dorothy is Director Investments of National Pension Scheme Authority (NAPSA). She is a Chartered Certified Accountant and holds a Masters of Business Administration from Heriot Watt University with specialization in Finance; and Bachelor of Accounting and Finance.

Dorothy is a Fellow of Zambia Institute of Chartered Accountants (ZICA) with over 20 years' experience in Accountancy, Pension Administration and Investment Fund Management.

5.2 Directors emoluments

The table below shows the gross amounts paid to non-executive Directors in 2018 in K.

Director	**Meeting attendance fees**	**Retainer fees**	**Total emoluments 2018**	Total emoluments 2017
K.H. Makala (Chairman)	**180,019**	**207,803**	**387,822**	418,504
D. Kabunda	**106,682**	**133,588**	**240,270**	298,701
M. Hantuba	**192,734**	**133,588**	**326,322**	274,732
E.C.L Nkumbula	**80,206**	**133,588**	**213,794**	212,791
B.M Kayumba	**96,480**	**133,588**	**230,068**	202,792
E. O'Donnell	**146,396**	**133,588**	**279,984**	244,075
M. O'Donnell	**133,384**	**133,588**	**266,972**	222,207
D. Soko *(appointed 30 March 2017)*	**58,668**	**133,588**	**192,256**	129,751
D. Chewe *(retired 29 March 2018)*	**52,140**	**28,878**	**81,018**	308,590
Total	**1,046,709**	**1,171,797**	**2,218,506**	2,312,142

Attendance at Board meetings during the year was as follows:

Date of Meeting	K.H. Makala (Chair)	D. Kabunda	M. Hantuba	D. Soko	B.M Kayumba	E.C.L Nkumbula	E. O'Donnell	M. O'Donnell	D. Chewe*	Total
26/02/2018	√	√	√	√	√	√	√	√	√	9/9
14/06/2018	√	√	√	√	√	√	√	√	N/A	8/8
06/09/2018	√	√	√	√	√	√	X	√	N/A	7/8
06/12/2018	√	√	√	√	X	√	√	√	N/A	7/8
Total	4/4	4/4	4/4	4/4	3/4	4/4	3/4	4/4	1/1	31/33
* was director only for the first quarter										

5.3 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)	M. Hantuba	B.M Kayumba	D. Chewe*	Total
16/02/2018	√	√	√	√	4/4
17/05/2018	√	√	√	N/A	3/3
16/08/2018	√	√	√	N/A	3/3
15/11/2018	√	√	√	N/A	3/3
Total	4/4	4/4	4/4	1/1	13/13
* was director only for the first quarter					

5.4 Investment Committee

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

Attendance at Investment Committee meetings during the year was as follows:

Date of Meeting	M. Hantuba (Chair)	M. O'Donnell	K.H. Makala	D. Chewe*	Total
23/03/2018	√	√	√	√	4/4
24/05/2018	√	√	√	N/A	3/3
23/08/2018	√	√	√	N/A	3/3
22/11/2018	√	√	√	N/A	3/3
Total	4/4	4/4	4/4	1/1	13/13

* was director only for the first quarter

5.5 Remuneration Committee

The Remuneration Committee, chaired by Mrs. Doreen Kabunda 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.

Attendance at Remuneration Committee meetings during the year was as follows:

Date of Meeting	D. Kabunda (Chair)	M. Hantuba	E.C.L. Nkumbula	Total
22/03/2018	√	X	√	2/3
13/06/2018	√	√	√	3/3
Total	2/2	1/2	2/2	5/6

5.6 Nominations Committee

This committee chaired by Mrs. Doreen Kabunda 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.

5.7 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 at 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 forms 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.

5.8 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:

5.8.1 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.

5.8.2 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.

5.8.3 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.

5.8.4 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.

5.8.5 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

5.8.6 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.

5.8.7 Board and Other Appointments

i. Review the structure size and composition of the 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.

5.8.8 Delegation of Authority

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

5.8.9 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.

5.9 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.

5.10 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 Remuneration Committee of the Board (Remco). The terms and conditions of the Chief Executive Officer's employment contract are determined by the Remuneration 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 its 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 are 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 2018 is shown in the table below:

Non Executive Directors	Beneficial		Non-beneficial	
Kenny H. Makala	Nil	Nil	Nil	Nil
Doreen Kabunda	Nil	Nil	Nil	Nil
Banja M. Kayumba	Nil	Nil	Nil	Nil
Munakupya Hantuba	Nil	Nil	Nil	Nil
Elizabeth C.L Nkumbula	Nil	Nil	Nil	Nil
Mark O’Donnell	57,326	9,283,379	Nil	Nil
Efi O’Donnell	Nil	9,283,379	Nil	Nil
David Chewe (up to 29 March 2018)	Nil	Nil	Nil	Nil
Dorothy Soko	Nil	Nil	Nil	Nil

6.0 Key Management

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

Chief Executive Officer – Sydney E. Popota
Chief Operations Officer – Sonny M. Mulenga*
Finance Manager and Company Secretary – Moses Vera

* Key Management are employed on 3 year renewable contracts of employment. During the year, Mr. Sonny Mulenga's contract ended and was not renewed. A robust recruitment process was undertaken which included public advertisements in national daily newspapers, followed by screening interviews of shortlisted candidates and final interviews that were conducted with the participation of chairpersons of all committees of the board. A candidate was picked and will commence duties in April 2019.

There is no share incentive scheme in place.

7.0 External Auditor

The Auditor for the year under review was KPMG Chartered Accountants following their appointment at the Annual General Meeting held on 29th March 2018. 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 on note 8a, in the notes to the financial statements.

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.

Moses Vera
Company Secretary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REAL ESTATE
INVESTMENTS ZAMBIA PLC
IZB
ATM

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COMPANY SECRETARY
Moses Vera
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Olympia Park
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SOLICITORS
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BANKERS
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Cairo Road
Lusaka

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 audited Group and Company financial statements for the year ended 31 December 2018.

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 non-commercial property for letting.

2 Authorised and issued share capital

Full details of the authorised and issued share capital are set out under note 19 in the notes to the 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 2018 K'000	31 December 2017 K'000	**31 December 2018 K'000**	31 December 2017 K'000
Revenue	**50,579**	65,164	**24,154**	26,879
Results from operating activities	**54,129**	42,657	**49,211**	11,324
Profit/(loss) before taxation	**9,639**	32,413	**1,399**	(2,532)
Income tax expense	**(6,815)**	(7,380)	**(3,214)**	(3,465)
Profit/(loss) for the year	**2,824**	25,033	**(1,815)**	(5,997)

4 Dividend

Dividends paid and proposed are disclosed under note 19 in the notes to the financial statements.

5 Directorate and Secretary

The names of the Directors and of the Secretary are shown below:

DIRECTORS	ALTERNATES
Kenny H. Makala (Chairman)	I. M. Mabbolobbolo
Munakupya Hantuba	G. Musekiwa
Doreen Kabunda	N. Kayamba (Ms)
Mark O'Donnell	R. Frangeskides (Ms)
Efi O'Donnell	C. O'Donnell
Elizabeth C. Lungu-Nkumbula	F. Chanda
Banja M. Kayumba	M. Itwi
Dorothy Soko	B. Musonda
David Chewe (retired 29 March 2018)	-

5 Directorate and Secretary *(continued)*

SECRETARY

Moses Vera

6 Directors' fees

Directors' fees of K2,219,000 were paid during the year (2017: K2,312,000), as disclosed in note 8a in the notes to the financial statements.

7 Loans to directors and officers

There were no loans advanced to the directors and officers during the year (2017: Nil).

8 Health and safety

The Group is committed to ensuring 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 17 (2017: 18).

10 Plant and equipment

The Group acquired plant and equipment worth K7,423,000 during the year (2017: K37,000). No disposal of plant and equipment was made during the year (2017: 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

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.

12 Financial statements

The financial statements set out on pages 57 to 110 have been approved by the Directors.

13 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 of Zambia.

14 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 Company will be put to the Annual General Meeting.

By order of the Board

Kenny H. Makala
Chairman

The Directors are responsible for the preparation of financial statements that give a true and fair view of the Group and Company financial position and performance comprising the statements of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, 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 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.

Following the enactment of the Securities Act of Zambia in 2016, the Securities and Exchange Commission (SEC) issued a public notice temporarily exempting the Board of Directors and Auditors of a listed Company or Company whose securities are registered with the commission, from reporting on the effectiveness of the Company's internal control system in the financial statements as required by section 147.

The exemption covering periods ending on or before 31 December 2019 is to allow the commission and stakeholders to develop and implement an appropriate reporting framework to guide the form and content of compliance with the requirements of the Securities Act of Zambia.

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.

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable framework as described above.

Approval of the group financial statements and 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 1 March 2019 and were signed on its behalf by:

....	....
Authorised Director	Authorised Director

KPMG Chartered Accountants
Sixth Floor, Sunshare Towers
Corner Lubansenshi and Katima Mulilo Roads
Olympia Park
PO 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 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 57 to 110, which comprise the statements of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the 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 2018, and 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 the requirements of the Companies 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' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investment Property

Refer to note 15 and 30(K) of the financial statements

The key audit matter is applicable to both the consolidated and separate financial statements.

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. The valuation of investment property involves significant judgments. The fair value of investment property was determined by an external independent property valuer appointed by management. The fair value measurement for investment property of K952 million and K386 million for the Group and Company respectively, has been categorized as a level 3 fair value based on the inputs to the valuation technique. The discounted cash flows, used in determining the fair values of investment property are based on the following significant unobservable inputs: risk adjusted discount rates, void periods, occupancy rates, expected market growth and rent free periods. Due to the significant judgement and complexity involved in determining the fair value of investment property, this was considered to be a key audit matter.	Our audit procedures included the following: We evaluated the valuation methodology applied by the external expert and challenged the significant assumptions used. We evaluated their significant assumptions by comparing against market benchmarks and assessing the reasonableness of the parameters applied, based on our knowledge of the industry and markets in which the Group and Company operate. We assessed the competence, independence and experience of the external valuation experts; We tested the cash flow forecasts by determining whether the escalation of rental income being applied was in line with the lease agreements and that the inputs used were reasonable; and 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.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report as required by the Companies Act of Zambia 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. 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 the requirements of the Companies Act of Zambia, and for such internal control as the directors determine is necessary to enable the preparation of 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 management.
- 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 the Company to cease to continue as a going concern.
- 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 a true and 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, related safeguards.

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

In accordance with section 259 (3) of the Companies Act of Zambia (the Act), we report that in our opinion:

- 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. In the absence of the Act specifying the criteria for purposes of reporting on serious breaches of corporate governance principles or practices by the Directors, as required by section 259 (3)(b) of the Act, we express our opinion based on the corporate governance provisions of the Act, Part VII – Corporate Governance of the Companies Act of Zambia No. 10 of 2017.

KPMG

KPMG Chartered Accountants **14 March 2019**

Cheelo Hamuwele **AUD/F001044**
Partner signing on behalf of the firm

Group and Company statement of financial position
as at 31 December 2018

In thousands of Zambian Kwacha

	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Assets					
Plant and equipment	14	**8,608**	1,748	**917**	1,416
Lease straight-lining receivable	18	**2,673**	12,415	**1,204**	3,306
Investment property	15	**951,785**	838,842	**385,879**	300,881
Investment property under development	16	**26,943**	22,982	**26,943**	1,902
Investments in subsidiaries	17	**-**	-	**146,961**	146,963
Total non-current assets		**990,009**	875,987	**561,904**	454,468
Trade and other receivables	12a	**29,884**	14,446	**15,116**	29,215
Lease straight-lining receivable	18	**947**	1,410	**257**	134
Prepayments	12b	**1,712**	1,013	**1,308**	501
Tax recoverable	11c	**143**	205	**10**	205
Cash and cash equivalents	13	**3,749**	79,430	**833**	38,242
Total current assets		**36,435**	96,504	**17,524**	68,297
Total assets		**1,026,444**	972,491	**579,428**	522,765
Equity					
Share capital	19	**565**	565	**565**	565
Share premium		**90,340**	90,340	**90,340**	90,340
Retained earnings		**708,047**	713,297	**259,936**	268,935
Total equity attributable to equity holders of the parent		**798,952**	804,202	**350,841**	359,840
Liabilities					
Convertible redeemable cumulative preferred stock	19b	**7,824**	7,824	**7,824**	7,824
Corporate bonds	21a	**140,326**	117,734	**140,326**	117,734
Secured bank loan	21b	**42,693**	17,158	**42,693**	17,158
Security deposits	23	**6,458**	5,109	**2,966**	2,987
Total non-current liabilities		**197,301**	147,825	**193,809**	145,703
Bank overdraft	13	**1,734**	-	**1,734**	-
Trade and other payables	22	**11,041**	10,891	**18,017**	8,994
Secured bank loan	21b	**15,027**	8,228	**15,027**	8,228
Tax payable	11c	**2,389**	1,345	**-**	-
Total current liabilities		**30,191**	20,464	**34,778**	17,222
Total liabilities		**227,492**	168,289	**228,587**	162,925
Total equity and liabilities		**1,026,444**	972,491	**579,428**	522,765

The financial statements were approved by the Board of Directors on 1 March 2019 and were signed on its behalf by:

Kenny H. Makala
Director

Efi O'Donnell
Director

The notes on pages 62 to 110 are an integral part of these financial statements.

Group and Company statement of profit or loss and other comprehensive income

In thousands of Zambian Kwacha

	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Gross rental income	*7a*	**50,579**	65,164	**24,154**	26,879
Property operating expenses	*15d*	**(8,641)**	(8,294)	**(3,450)**	(3,999)
Net rental income		**41,938**	56,870	**20,704**	22,880
Change in fair value of investment property	*15b*	**26,325**	2,154	**30,454**	(9,303)
Other operating income	*7b*	**70**	20	**4,050**	4,050
Impairment loss on trade receivables	*24a*	**(3,973)**	(4,634)	**(1,100)**	(522)
Administrative expenses	*8a*	**(10,231)**	(11,753)	**(4,897)**	(5,781)
Results from operating activities		**54,129**	42,657	**49,211**	11,324
Finance income		**3,836**	2,128	**514**	541
Finance costs		**(48,326)**	(12,372)	**(48,326)**	(14,397)
Net finance costs	*9*	**(44,490)**	(10,244)	**(47,812)**	(13,856)
Profit/(loss) before income tax		**9,639**	32,413	**1,399**	(2,532)
Income tax expense	*11a*	**(6,815)**	(7,380)	**(3,214)**	(3,465)
Profit/(loss) and total comprehensive income for the year		**2,824**	25,033	**(1,815)**	(5,997)
Earnings per share					
Basic earnings per share (K)	*10*	**0.05**	0.44	**(0.03)**	(0.11)
Diluted earnings per share (K)	*10*	**0.08**	0.45	**-**	-

The notes on pages 62 to 110 are an integral part of these financial statements.

Group statement of changes in equity

In thousands of Zambian Kwacha

	Share capital	Share premium	Retained earnings	Total
At 1 January 2017	565	90,340	701,250	792,155
Total comprehensive income for the year:				
Profit for the year	-	-	25,033	25,033
Transactions with owners recognized directly in equity:				
- Dividend (note 19c)	-	-	(12,986)	(12,986)
At 31 December 2017	565	90,340	713,297	804,202
At 1 January 2018	**565**	**90,340**	**713,297**	**804,202**
Cumulative adjustment on initial application of IFRS 9 (note 5)	**-**	**-**	**(734)**	**(734)**
Adjusted balance at 1 January 2018	**565**	**90,340**	**712,563**	**803,468**
Total comprehensive income for the year:				
Profit for the year	**-**	**-**	**2,824**	**2,824**
Transactions with owners recognized directly in equity:				
- Dividend (note 19c)	**-**	**-**	**(7,340)**	**(7,340)**
At 31 December 2018	**565**	**90,340**	**708,047**	**798,952**

Retained earnings

Retained earnings are the carried forward recognised income, net of expenses, of the Group plus current year profit 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 62 to 110 are an integral part of these financial statements.

Company statement of changes in equity

In thousands of Zambian Kwacha

	Share capital	Share premium	Retained earnings	Total
At 1 January 2017	565	90,340	287,918	378,823
Total comprehensive income for the year:				
Loss for the year	-	-	(5,997)	(5,997)
Transactions with owners recognized directly in equity:				
- Dividend (note 19c)	-	-	(12,986)	(12,986)
At 31 December 2017	565	90,340	268,935	359,840
At 1 January 2018	**565**	**90,340**	**268,935**	**359,840**
Cumulative adjustment on initial application of IFRS 9 (note 5)	**-**	**-**	**156**	**156**
Adjusted balance at 1 January 2018	**565**	**90,340**	**269,091**	**359,996**
Total comprehensive income for the year:				
Loss for the year	**-**	**-**	**(1,815)**	**(1,815)**
Transactions with owners recognized directly in equity:				
- Dividend (note 19c)	**-**	**-**	**(7,340)**	**(7,340)**
At 31 December 2018	**565**	**90,340**	**259,936**	**350,841**

Retained earnings
Retained earnings are the carried forward recognised income, net of expenses, of the Company less 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 62 to 110 are an integral part of these financial statements.

Group and Company statement of cash flows

for the year ended 31 December 2018

In thousands of Zambian Kwacha

		Group		Company	
		2018	2017	**2018**	2017
Cash flows from operating activities	**Notes**				
Profit/(loss) for the year		**2,824**	25,033	**(1,815)**	(5,997)
Adjustment for:					
- Depreciation	*14*	**563**	683	**507**	511
- Change in fair value of investment property					
and investment property under development	*15b*	**(26,325)**	(2,154)	**(30,454)**	9,303
- Net finance cost	*9*	**44,490**	10,244	**47,812**	13,856
- Dividend income receivable	*7b*	**-**	-	**(4,050)**	(4,050)
Income tax expense	*11a*	**6,815**	7,380	**3,214**	3,465
		28,367	41,186	**15,214**	17,088
(Increase)/decrease in trade and other					
receivables and lease straight-lining receivable		**(5,967)**	(7,248)	**16,234**	(24,138)
(Increase)/decrease in prepayments		**(699)**	(30)	**(807)**	5
Increase/(decrease) in trade and other payables					
and security deposits		**1,499**	(67)	**9,002**	565
		23,200	33,841	**39,643**	6,488
Income tax paid	*11c*	**(5,709)**	(7,429)	**(3,019)**	(3,286)
Net cash from operating activities		**17,491**	26,412	**36,624**	9,766
Cash flows from investing activities					
Interest received	*9*	**354**	2,128	**32**	541
Acquisition of plant and equipment	*14*	**(7,423)**	(37)	**(8)**	(37)
Development of investment property	*16*	**(32,270)**	(29,610)	**(1,493)**	(54)
Borrowing costs capitalised	*16*	**(1,297)**	(529)	**-**	-
Acquisition of investment property under development	*16*	**-**	-	**(21,080)**	(1,112)
Acquisition of investment property	*15*	**(57,012)**	-	**(57,012)**	-
Dividends received	*7b*	**-**	-	**4,050**	4,050
Net cash used in investing activities		**(97,648)**	(28,048)	**(75,511)**	(3,388)
Cash flows from financing activities					
Coupon interest paid on preferred stock	*9*	**(1,722)**	(1,522)	**(1,722)**	(1,522)
Corporate bond interest paid	*21a*	**(11,454)**	(10,097)	**(11,454)**	(10,097)
Proceeds from loans and borrowings	*21b*	**28,398**	24,498	**28,398**	24,498
Repayment of loans borrowings	*21b*	**(6,629)**	-	**(6,629)**	-
Dividends paid	*19c*	**(7,340)**	(12,986)	**(7,340)**	(12,986)
Net cash from/ (used in) financing activities		**1,253**	(107)	**1,253**	(107)
Net decrease in cash and cash equivalents		**(78,904)**	(1,743)	**(37,634)**	(6,485)
Cash and cash equivalents at beginning of year		**79,430**	78,471	**38,242**	44,050
Effect of exchange rate fluctuations on cash held		**1,489**	2,702	**(1,509)**	(677)
Cash and cash equivalents at end of year*	*13*	**2,015**	79,430	**(901)**	38,242

**Cash and cash equivalents at end of year includes bank overdraft that is repayable on demand.*

The notes on pages 62 to 110 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 2018 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 of Zambia. They were authorised for issue by the Company's Board of Directors on 1 March, 2019.

Going concern

During the year ended 31 December 2018, the Company earned a profit before tax of K1,399,000 (2017: loss of K2,532,000), and as at that date, its current liabilities exceeded its current assets by K17,236,000 (2017: K51,061,000 net current assets). The directors are of the opinion that the Company is a going concern on the basis that the Company:

(i) Will generate cash inflows from operations of at least K35,000,000 as projected in management's annual operating plan. The generation of sufficient cash flows from operations is dependent on management achieving operational targets; and

(ii) Will obtain long-term funding to replenish cash resources utilized in acquisition and redevelopment of investment property.

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

This is the first set of the Group and Company's financial statements in which IFRS 15, *Revenue from Contracts with Customers*, and IFRS 9, *Financial Instruments*, have been applied. Changes to significant accounting policies are described in note 5 in the notes to the financial statements.

Details of the Company's accounting policies are included in note 30 in the notes to the financial statements.

3 Functional and presentation currency

These financial statements are presented in Zambian Kwacha, which is the 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 consolidated and separate financial statements, management has made judgements, estimates and assumptions that affect the application of the Group'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.

4 Use of estimates and judgment *(continued)*

A. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Note 15 – Determination of fair value of investment property; and
- Note 16 – Investment property under development
- Note 24 – Financial instruments

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.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 15 - investment property; and
- Note 24 - financial instruments.

5 Changes in significant accounting policies

The Group has initially applied IFRS 9 from 1 January 2018. A number of other new standards including IFRS 15, whose key requirements were already being applied by the Group in accounting for revenue from lease agreements with customers, are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

IFRS 9, Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial instruments: Recognition and Measurement.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

Cumulative transition method

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

In thousands of Zambian Kwacha

5 Changes in significant accounting policies *(continued)*

Group	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Trade and other receivables	*12a*	Loans and receivables	Amortised cost	14,446	13,712
Cash and cash equivalents	*13*	Loans and receivables	Amortised cost	79,430	79,430
Total financial assets				**93,876**	**93,142**
Financial liabilities					
Secured bank loan - non-current	*21b*	Other financial liabilities	Other financial liabilities	(17,158)	(17,158)
Secured bank loan-current	*21b*	Other financial liabilities	Other financial liabilities	(8,228)	(8,228)
Convertible redeemable cumulative preferred stock	*19b*	Other financial liabilities	Other financial liabilities	(7,824)	(7,824)
Corporate bonds	*21a*	Other financial liabilities	Other financial liabilities	(117,734)	(117,734)
Security deposits	*23*	Other financial liabilities	Other financial liabilities	(5,109)	(5,109)
Trade and other payables	*22*	Other financial liabilities	Other financial liabilities	(7,337)	(7,337)
Total financial liabilities				**(163,390)**	**(163,390)**

Company	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Trade and other receivables	*12a*	Loans and receivables	Amortised cost	29,215	29,371
Cash and cash equivalents	*13*	Loans and receivables	Amortised cost	38,242	38,242
Total financial assets				**67,457**	**67,613**
Financial liabilities					
Secured bank loan - non-current	*21b*	Other financial liabilities	Other financial liabilities	(17,158)	(17,158)
Secured bank loan - current	*21b*	Other financial liabilities	Other financial liabilities	(8,228)	(8,228)
Convertible redeemable cumulative preferred stock	*19b*	Other financial liabilities	Other financial liabilities	(7,824)	(7,824)
Corporate bonds	*21a*	Other financial liabilities	Other financial liabilities	(117,734)	(117,734)
Security deposits	*23*	Other financial liabilities	Other financial liabilities	(2,987)	(2,987)
Trade and other payables	*22*	Other financial liabilities	Other financial liabilities	(7,034)	(7,034)
Total financial liabilities				**(160,965)**	**(160,965)**

In thousands of Zambian Kwacha

5 Changes in significant accounting policies *(continued)*

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

Group	IAS 39 carrying amount at 31 December 2017	Remeasurement	IFRS 9 carrying amount at 1 January 2018
Financial assets			
Amortised cost			
Trade and other receivables:			
Brought forward: *Loans and receivables*	14,446		
Remeasurement		(734)	
Carried forward: *Amortised cost*			13,712
Total amortised cost	**14,446**	**(734)**	**13,712**

Company	IAS 39 carrying amount at 31 December 2017	Remeasurement	IFRS 9 carrying amount at 1 January 2018
Financial assets			
Amortised cost			
Trade and other receivables:			
Brought forward: *Loans and receivables*	29,215		
Remeasurement		156	
Carried forward: *Amortised cost*			29,371
Total amortised cost	**29,215**	**156**	**29,371**

An explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9 is detailed in note 30 (N) in the notes to the financial statements.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase.

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional / (reduced) allowance for impairment as follows.

Group

Loss allowance at 31 December 2017 under IAS 39	5,825
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables as at 31 December 2017	734
Loss allowance at 1 January 2018 under IFRS 9	**6,559**

Company

Loss allowance at 31 December 2017 under IAS 39	1,090
Reduction in impairment recognised at 1 January 2018 on:	
Trade and other receivables as at 31 December 2017	(156)
Loss allowance at 1 January 2018 under IFRS 9	**934**

In thousands of Zambian Kwacha

6 Operating segments

See accounting policy in note 30 (O)

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

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

- Retail
- Office and residential

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.

	2018		
	Retail	Office and residential	Total
Revenue - external	24,652	25,927	50,579
Depreciation	56	507	563
Results from operating activities	31,388	22,741	54,129
Interest income	103	251	354
Interest expense	(2,764)	(13,787)	(16,551)
Realized exchange gains	3,226	252	3,478
Realized exchange losses	(9,674)	(22,097)	(31,771)
Profit/(loss) before income tax	22,279	(12,640)	9,639
Income tax expense	(3,222)	(3,593)	(6,815)
Profit/(loss) for the year	19,057	(16,233)	2,824

In thousands of Zambian Kwacha

6 Operating segments *(continued)*

2017	Retail	Office	Total
Revenue - external	32,666	32,498	65,164
Depreciation	60	623	683
Results from operating activities	33,530	9,127	42,657
Interest income	1,249	879	2,128
Interest expense	-	(12,306)	(12,306)
Realized exchange gains	1,810	215	2,025
Realized exchange losses	-	(2,091)	(2,091)
Profit/(loss) before income tax	36,589	(4,176)	32,413
Income tax expenses	(3,252)	(4,128)	(7,380)
Profit/(loss) for the year	33,337	(8,304)	25,033

The segment assets and liabilities and cash flows as at 31 December 2018 were as follows:

2018	Retail	Office and residential	Total
Segment assets	**552,168**	**474,276**	**1,026,444**
Investment property	**522,780**	**429,005**	**951,785**
Investment property under development	**-**	**26,943**	**26,943**
Segment liabilities	**11,906**	**215,586**	**227,492**
Capital expenditure	**39,497**	**57,012**	**96,509**

The segment assets and liabilities and cash flows as at 31 December 2017 were as follows:

2017	Retail	Office	Total
Segment assets	540,805	431,686	972,491
Investment property	471,668	367,174	838,842
Investment property under development	21,080	1,902	22,982
Segment liabilities	5,232	163,057	168,289
Capital expenditure	29,530	647	30,177

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.

In thousands of Zambian Kwacha

7 (a) Revenue

See accounting policy in note 30(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.

Rental remissions amounting to K3,135 (2017: K8,336) were granted to deserving tenants at Arcades shopping mall as a gesture of goodwill for staying committed to the mall during the redevelopment period.

	Group		Company	
	2018	2017	**2018**	2017
Rental income	**60,585**	60,209	**25,934**	26,679
Lease straight-lining (cost)/income (note 18)	**(10,006)**	4,955	**(1,780)**	200
Gross rental income	**50,579**	65,164	**24,154**	26,879

(b) Other operating income

	Group 2018	Group 2017	Company 2018	Company 2017
Dividend income from Arcades Development Plc	**-**	-	**4,050**	4,050
Hire of car park for activities	**70**	20	**-**	-
	70	20	**4,050**	4,050

8 Expenses

(a) Administrative expenses

	Group 2018	Group 2017	Company 2018	Company 2017
Administrative costs apportionment to fellow subsidiaries	**-**	-	**(4,605)**	(5,423)
Advertising and promotion	**230**	201	**137**	185
Tax advisory fees	**96**	64	**35**	34
Salaries	**5,317**	6,729	**5,317**	6,729
National Pension Scheme Authority	**87**	58	**87**	58
Audit fees	**805**	680	**378**	320
Secretarial fees	**42**	27	**42**	27
Computer expenses	**134**	168	**127**	160
Consultancy fees	**-**	176	**-**	176
Donations (note 8(b))	**25**	44	**25**	44
Listing fees	**370**	351	**350**	331
Printing and stationery	**180**	275	**137**	229
Telephone and postage	**99**	114	**88**	102
Bank charges	**211**	209	**158**	152
Directors' fees	**2,219**	2,312	**2,219**	2,312
Board expenses	**69**	89	**69**	89
Medical, staff welfare and training	**91**	131	**77**	131
Workers compensation	**5**	4	**5**	4
Motor vehicle expenses	**251**	121	**251**	121
	10,231	11,753	**4,897**	5,781

(b) Breakdown of donations expense

	Group 2018	Group 2017	Company 2018	Company 2017
ZACCI business dinner	**4**	2	**4**	2
Cairo Road gardens maintenance	**21**	42	**21**	42
	25	44	**25**	44

In thousands of Zambian Kwacha

9 Net finance costs

See accounting policy in note 30 (C)

	Group		Company	
	2018	2017	**2018**	2017
Foreign exchange gain on operating activities	**3,482**	-	**-**	-
Gain on settlement of inter-company balances on de-registration of subsidiaries (note 17)	**-**	-	**482**	-
Interest income on bank deposits	**354**	2,128	**32**	541
Finance income	**3,836**	2,128	**514**	541
Foreign exchange loss on operating activities	**(31,771)**	(66)	**(31,771)**	(2,091)
Interest on coupon bonds	**(11,934)**	(10,784)	**(11,934)**	(10,784)
Interest on secured bank loan	**(2,899)**	-	**(2,899)**	-
Coupon interest on convertible cumulative redeemable preferred stock	**(1,722)**	(1,522)	**(1,722)**	(1,522)
Finance cost	**(48,326)**	(12,372)	**(48,326)**	(14,397)
Net finance costs	**(44,490)**	(10,244)	**(47,812)**	(13,856)

10 Earnings per share

See accounting policy in note 30(F)

Basic earnings per share

The calculation of the Group basic earnings per share at 31 December 2018 was based on the profit attributable to ordinary shareholders of K2,824 (2017: K25,033) and weighted average number of ordinary shares during the year ended 31 December 2018 of 56,460,198 (2017: 56,460,198).

	Group		Company	
	2018	2017	**2018**	2017
Profit/(loss) attributable to ordinary shares	**2,824**	25,033	**(1,815)**	(5,997)
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 (K)	**0.05**	0.44	**(0.03)**	(0.11)

Diluted earnings per share

Profit attributable to ordinary shareholders of K4,546 (2017: K26,555) and weighted average number of ordinary shares during the year of 58,440,102 (2017: 58,440,102).

In thousands of Zambian Kwacha

10 Earnings per share *(continued)*

	Group 2018	Group 2017	Company 2018	Company 2017
Profit/(loss) attributable to ordinary shares				
Profit/(loss) attributable to ordinary shares (basic)	2,824	25,033	(1,815)	(5,997)
Coupon interest on convertible cumulative redeemable preferred stock	1,722	1,522	1,722	1,522
Profit/(loss) attributable to ordinary shares (diluted)	4,546	26,555	(93)	(4,475)
Weighted average number of ordinary shares				
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 (K)	0.08	0.45	*	*

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

11 Income tax

See accounting policy in note 30(D)

a) Income tax expense

	Group 2018	Group 2017	Company 2018	Company 2017
Total income tax expense recognised in statement of profit or loss and other comprehensive income	6,815	7,380	3,214	3,465

b) Reconciliation of effective tax rate

Following the change in the tax legislation announced by the Minister of Finance and National Planning in the 2014 national budget, 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 transfer tax which are taxed at 15% and 10% respectively.

2018

	Group Income	Group Tax rate	Group Tax	Company Income	Company Tax rate	Company Tax
Gross rent	60,585	10%	6,059	25,934	10%	2,595
Other income (note 7b)	70	35%	24	-	35%	-
Bank interest	354	35%	124	32	35%	11
Dividend receivable	4,050	15%	608	4,050	15%	608
	65,059	10.5%	6,815	30,016	10.7%	3,214

In thousands of Zambian Kwacha

11 Income tax *(continued)*

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

2017

	Group			Company		
	Income	Tax rate	Tax	Income	Tax rate	Tax
Gross rent	60,209	10%	6,021	26,679	10%	2,668
Other income	20	35%	7	-	35%	-
Bank interest	2,128	35%	744	541	35%	189
Dividend receivable	4,050	15%	608	4,050	15%	608
	66,407	11.1%	7,380	31,270	11.1%	3,465

c) Statement of financial position current income tax movement

	Group		Company	
	2018	2017	**2018**	2017
Tax payable/(receivable) at 1 January	**1,140**	1,189	**(205)**	(384)
Current tax expense	**6,815**	7,380	**3,214**	3,465
	7,955	8,569	**3,009**	3,081
Less: tax paid	**(5,709)**	(7,429)	**(3,019)**	(3,286)
Tax payable/(receivable) at 31December	**2,246**	1,140	**(10)**	(205)
Tax receivable	**(143)**	(205)	**(10)**	(205)
Tax payable	**2,389**	1,345	**-**	-
Net tax payable/(receivable)	**2,246**	1,140	**(10)**	(205)

12 a) Trade and other receivables

See accounting policy in note 30(H)

	Group		Company	
	2018	2017	**2018**	2017
Trade receivables	**19,913**	10,311	**5,128**	4,969
Related party balances (note 26b)	**-**	-	**3,313**	22,322
Other receivables	**9,971**	4,135	**6,675**	1,924
	29,884	14,446	**15,116**	29,215
b) Prepayments				
Prepayments	**1,712**	1,013	**1,308**	501

In thousands of Zambian Kwacha

13 Cash and cash equivalents

See accounting policy in note 30(H)

	Group		Company	
	2018	2017	**2018**	2017
Cash and bank balances:				
Bank balances	**3,744**	23,855	**828**	1,684
Cash on hand	**5**	6	**5**	6
	3,749	23,861	**833**	1,690
Short term deposits:				
Standard Chartered - K	**-**	10	**-**	10
Stanbic - K	**-**	15,794	**-**	280
Stanbic - USD	**-**	39,765	**-**	36,262
	-	55,569	**-**	36,552
Cash and cash equivalents in the statement of financial position	**3,749**	79,430	**833**	38,242
Bank overdraft repayable on demand	**(1,734)**	-	**(1,734)**	-
Cash and cash equivalents in statement of cash flows	**2,015**	79,430	**(901)**	38,242

The Group's exposure to credit, currency and interest rate risks related to cash and cash equivalents is disclosed in note 24 in the notes to the financial statements.

In thousands of Zambian Kwacha

14 Plant and equipment (Group)

See accounting policy in note 30(J)

	Plant and equipment	Furniture, fittings and office equipment	Motor vehicles	Fixtures and fittings	Total
Cost					
At 1 January 2017	9,970	2,696	1,304	9,344	23,314
Additions	6	31	-	-	37
At 31 December 2017	9,976	2,727	1,304	9,344	23,351
At 1 January 2018	**9,976**	**2,727**	**1,304**	**9,344**	**23,351**
Additions	7,297	126	**-**	-	7,423
At 31 December 2018	**17,273**	**2,853**	**1,304**	**9,344**	**30,774**
Depreciation					
At 1 January 2017	9,707	2,678	416	8,119	20,920
Charge for the year	237	28	259	159	683
At 31 December 2017	9,944	2,706	675	8,278	21,603
At 1 January 2018	**9,944**	**2,706**	**675**	**8,278**	**21,603**
Charge for the year	22	68	259	214	563
At 31 December 2018	**9,966**	**2,774**	**934**	**8,492**	**22,166**
Carrying amount					
At 31 December 2018	**7,307**	**79**	**370**	**852**	**8,608**
At 31 December 2017	32	21	629	1,066	1,748

Included in plant and equipment are fully depreciated assets with a cost of K18,944 (31 December 2017: K18, 875) which are still in use.

In thousands of Zambian Kwacha

14 Plant and equipment (Company)

See accounting policy in note 30(J)

	Plant and equipment	Furniture, fittings and office equipment	Motor vehicles	Fixtures and fittings	Total
Cost					
At 1 January 2017	2,834	237	1,304	6,601	10,976
Additions	6	31	-	-	37
At 31 December 2017	2,840	268	1,304	6,601	11,013
At 1 January 2018	**2,840**	**268**	**1,304**	**6,601**	**11,013**
Additions	-	8	-	-	8
At 31 December 2018	**2,840**	**276**	**1,304**	**6,601**	**11,021**
Depreciation					
At 1 January 2017	2,672	237	416	5,761	9,086
Charge for the year	85	8	259	159	511
At 31 December 2017	2,757	245	675	5,920	9,597
At 1 January 2018	**2,757**	**245**	**675**	**5,920**	**9,597**
Charge for the year	21	13	259	214	507
At 31 December 2018	**2,778**	**258**	**934**	**6,134**	**10,104**
Carrying amount					
At 31 December 2018	**62**	**18**	**370**	**467**	**917**
At 31 December 2017	83	23	629	681	1,416

Included in plant and equipment are fully depreciated assets with a cost of K7,464 (31 December 2017: K7,133) which are still in use.

In thousands of Zambian Kwacha

15 Investment property

See accounting policy in note 30(K)

	Group 2018	Group 2017	Company 2018	Company 2017
At valuation:				
Balance at beginning of the year	**838,842**	805,222	**300,881**	310,184
Acquisition of investment property	**57,012**	-	**57,012**	-
Transfer from property under development (note 16)	**32,074**	32,950	**-**	-
Change in fair value	**23,857**	670	**27,986**	(9,303)
Balance at end of the year	**951,785**	838,842	**385,879**	300,881

(a) Investment property comprises a number of commercial 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.

Two investment properties with a combined fair value of K67 million (2017: K68 million) were pledged as security for a bank loan with a tenor of 5-years (see note 21 (b)).

(b) Measurement of fair value

The fair value of investment property was determined by 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 valuers provide the fair value of the Group's investment property portfolio every year as at the reporting date.

The fair value measurement for investment property of K952 million (31 December 2017: K839 million) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used note 4B. The following table shows a reconciliation from the opening balance to the closing balance for level 3 fair values:

	Group 2018	Group 2017	Company 2018	Company 2017
Reconciliation of change in fair value				
- Fair value adjustment	**33,863**	(4,285)	**29,766**	(9,103)
- Straight-lining (expense)/income	**(10,006)**	4,955	**(1,780)**	(200)
Change in fair value of investment property	**23,857**	670	**27,986**	(9,303)
- Fair value movement on investment property under development (note 16)	**2,468**	1,484	**2,468**	-
Total change in fair value	**26,325**	2,154	**30,454**	(9,303)

15 Investment property *(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.

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 sum 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 (3 - 5%. Weighted average 4%). • Void periods (average 6 months after the end of each lease). • Occupancy rate (90-100%, weighted average 95%) • Rent-free periods (1-month period on new leases). • Risk-adjusted discount rates (8 - 11%. weighted average 10%).	The estimated fair value would increase (decrease) if: • expected market rental growth were higher (lower); • void periods were shorter (longer); • the occupancy rates were higher (lower): • Rent-free periods were shorter (longer); or • the risk-adjusted discount rate was lower (higher).

In thousands of Zambian Kwacha

15 Investment property *(continued)*

c) Minimum lease payments of rental income

	Group 2018	Group 2017	Company 2018	Company 2017
Falling due within				
- One year	**80,662**	83,044	**30,328**	30,690
- 2 - 5 years	**84,695**	93,956	**31,844**	34,723
- Over 5 years	**88,930**	98,654	**33,437**	36,459

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 23 in the notes to the financial statements.

d) Property operating expenses

	Group 2018	Group 2017	Company 2018	Company 2017
Salaries	**1,422**	1,180	**611**	525
Repairs and maintenance	**1,483**	2,050	**777**	998
Letting costs	**241**	-	**42**	-
Electricity and water	**408**	909	**108**	340
Council leased land rental	**2,858**	1,755	**517**	503
Security	**216**	215	**166**	173
Cleaning and refuse removal	**122**	106	**60**	65
Insurance	**771**	839	**425**	558
Depreciation expense (note 14)	**563**	683	**504**	511
Legal and professional expenses	**345**	369	**77**	220
Fire protection	**39**	36	**35**	30
Valuation fees	**173**	152	**128**	76
	8,641	8,294	**3,450**	3,999

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 (2017: Nil).

In thousands of Zambian Kwacha

16 Investment property under development

See accounting policy in note 30 (L)

Investment property under development comprises mainly land with minimal improvements at reporting date.

	Group		Company	
	2018	2017	**2018**	2017
Balance at 1 January	**22,982**	24,309	**1,902**	736
Costs capitalised	**32,270**	29,610	**1,493**	54
Borrowing costs capitalised	**1,297**	529	**-**	-
Transfer to investment property (note 15)	**(32,074)**	(32,950)	**-**	-
Acquisition of investment property under development	**-**	-	**21,080**	1,112
Change in fair value (note 15)	**2,468**	1,484	**2,468**	-
Balance at end 31 December	**26,943**	22,982	**26,943**	1,902

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 valuer uses the amount payable for similar property in similar areas.

During the year, borrowing costs amounting to K1,297 (2017: K529) in interest and charges on the secured bank loan were capitalised as all proceeds from the loan were applied to the redevelopment of investment property.

17 Investments in subsidiaries

See accounting policy in note 30(A)

Subsidiaries	% Shareholding	2018	Company % Shareholding	2017
Peckerwood Development Limited	**-**	**-**	100	2
Dreadnought Investments Limited	**-**	**-**	100	*-
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**		146,963

	2018	2017
Balance at 1 January	**146,963**	146,963
Impairment	**(2)**	-
Balance at 31 December	**146,961**	146,963

***Less than K1,000**

During the year, two subsidiaries of the Company, Peckerwood Development Limited and Dreadnought Investments Limited were wound up and de-registered. The Company's investment in these subsidiaries and inter-company balances payable by the Company amounting to a net of K482 were written off as other income to the Company’s statement of profit or loss and other comprehensive income during the year.

In thousands of Zambian Kwacha

18 Lease straight-lining receivable

See accounting policy in note 30(B)

	Group		Company	
	2018	2017	**2018**	2017
Balance at 1 January	**13,825**	8,747	**3,440**	3,197
Effect of exchange differences	**(199)**	123	**(199)**	43
Effect of straight lined lease payments	**(10,006)**	4,955	**(1,780)**	200
Balance at 31 December	**3,620**	13,825	**1,461**	3,440
Non-current	**2,673**	12,415	**1,204**	3,306
Current	**947**	1,410	**257**	134
	3,620	13,825	**1,461**	3,440

19 Capital and reserves

See accounting policy in note 30(I)

Share capital and share premiums

a)Ordinary share capital

	Group		Company	
	2018	2017	**2018**	2017
Issue at 1 January	**565**	565	**565**	565
In issue as at 31 December	**565**	565	**565**	565
Authorized - par value K0.01	**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	
	2018	2017	**2018**	2017
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.

b) Convertible redeemable cumulative preferred stock

	Number of shares	
	2018	2017
In issue as at 1 January	**1,979,904**	1,979,904
In issue as at 31 December	**1,979,904**	1,979,904
Authorised	**2,000,000**	2,000,000
Issued - at 1 January and 31 December	**79**	79
Issued - inclusive of premium at 1 January and 31 December	**7,824**	7,824

In thousands of Zambian Kwacha

19 **Capital and reserves** *(continued)*

See accounting policy in note 30(I)

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

Terms and conditions

I. The interest on the preferred stock will be paid on 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 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 preference shares 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 preference shares 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 preference shares. 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* 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.

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 preferred stock shares are non-voting.

c) Dividends

The following dividends were declared and paid by the Group:

	Group		Company	
	2018	2017	**2018**	2017
Final dividend of K0.13 per ordinary share for the year ended 31 December 2018 (31 December 2017: K0.13 per share)	**7,340**	7,340	**7,340**	7,340
Interim dividend for the year ended (31 December 2017: K0.10)	**-**	5,646	**-**	5,646
	7,340	12,986	**7,340**	12,986

In thousands of Zambian Kwacha

19 Capital and reserves *(continued)*

c) Dividends *(continued)*

At the Board Meeting held on 1 March 2019, the Directors recommended for Shareholders' approval of a final dividend of K0.13 per share (2017: K0.13 per share). During the year, Directors did not approve any interim dividend for the year ended 31 December 2018 (2017: K0.10) leading to a total dividend for 2018 of K0.13 per share (2017: K0.23 per share).

20 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.

The Group's debt to capital ratio at the end of the reporting year was as follows:

	Group		Company	
	2018	2017	**2018**	2017
Borrowings				
Convertible redeemable cumulative preferred stock	**7,824**	7,824	**7,824**	7,824
Corporate bonds	**140,326**	117,734	**140,326**	117,734
Bank overdraft	**1,734**	-	**1,734**	-
Secured bank loan	**57,720**	25,386	**57,720**	25,386
Total borrowings	**207,604**	150,944	**207,604**	150,944
Tangible net worth				
Total equity attributable to equity holders	**798,952**	804,202	**350,841**	359,840
Less: Proposed final dividend	**(7,340)**	(7,340)	**(7,340)**	(7,340)
Tangible net worth	**791,612**	796,862	**343,501**	352,500
Total borrowings to tangible net worth	**26.22%**	18.94%	**60.44%**	42.82%

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

The Company's borrowings to tangible net worth ratio exceeded the Group's internal policy threshold of 50% due to a borrowing of K57 million that was obtained to fund the redevelopment of an investment property that is held in a subsidiary, Arcades Development Plc. Thus on a consolidated basis the Group ratio is within the policy limit.

The Group is not subject to externally imposed capital requirements.

In thousands of Zambian Kwacha

21 Borrowings and loans

See accounting policy in note 30(E)

(a) Long-term loan - corporate bonds

	Group		Company	
	2018	2017	**2018**	2017
Balance at 1 January	**117,734**	115,167	**117,734**	115,167
Interest accrued	**11,934**	10,784	**11,934**	10,784
Interest paid	**(11,454)**	(10,097)	**(11,454)**	(10,097)
Effect of movement in exchange rates	**22,112**	1,880	**22,112**	1,880
Balance at 31 December	**140,326**	117,734	**140,326**	117,734

Real Estate Investments Zambia Plc (REIZ) issued a fixed rate long term corporate bond for US$ 15 million in October 2010 of which $12 million was subscribed in US$. 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.

(b) Secured bank loan

	Group		Company	
	2018	2017	**2018**	2017
Balance at 1 January	**25,386**	-	**25,386**	-
Interest on loan	**2,899**	529	**2,899**	529
Loan draw down proceeds	**28,398**	24,498	**28,398**	24,498
Repayments	**(6,629)**	(529)	**(6,629)**	(529)
Effect of movement in exchange rates	**7,666**	888	**7,666**	888
Balance at 31 December	**57,720**	25,386	**57,720**	25,386
Less than 1 year	**15,027**	8,228	**15,027**	8,228
More than 1 year	**42,693**	17,158	**42,693**	17,158
	57,720	25,386	**57,720**	25,386

A commercial property loan was obtained from Stanbic Bank Zambia Limited in 2017 with a facility limit of US$5,2 million. The loan was secured over land and buildings with a carrying amount of K67 million (2017: K68 million) (see note 15a).

				2018		2017	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	USD	8.19%	2022	**57,720**	**57,720**	25,386	25,386

In thousands of Zambian Kwacha

21 Borrowings and loans *(continued)*

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

Group	Liabilities			Equity	
	Loans and borrowings	Corporate bond	Convertible redeemable cumulative preferred stock	Retained earnings	Total
Restated balance at 1 January 2018	25,386	117,734	7,824	712,563	863,507
Changes from financing cash flows					
Proceeds from loans and borrowings	28,398	-	-	-	28,398
Repayment of loans and borrowings	(3,730)	-	-	-	(3,730)
Dividend paid		-	-	(7,340)	(7,340)
Total changes from financing cash flows	24,668	-	-	(7,340)	17,328
The effect of changes in foreign exchange rates	7,666	22,112	-	-	29,778
Other changes					
Liability-related					
Interest expense	2,899	11,934	1,722	-	16,555
Interest paid	(2,899)	(11,454)	(1,722)	-	(16,075)
Total liability-related other changes	-	480	-	-	480
Total equity-related other changes	-	-	-	2,824	2,824
Balance at 31 December 2018	57,720	140,326	7,824	708,047	913,917

Company	Liabilities			Equity	
	Loans and borrowings	Corporate bond	Convertible redeemable cumulative preferred stock	Retained earnings	Total
Restated balance at 1 January 2018	25,386	117,734	7,824	269,091	420,035
Changes from financing cash flows					
Proceeds from loans and borrowings	28,398	-	-	-	28,398
Repayment of loans and borrowings	(3,730)	-	-	-	(3,730)
Dividend paid		-	-	(7,340)	(7,340)
Total changes from financing cash flows	24,668	-	-	(7,340)	17,328
The effect of changes in foreign exchange rates	7,666	22,112	-	-	29,778
Other changes					
Liability-related					
Interest expense	2,899	11,934	1,722	-	16,555
Interest paid	(2,899)	(11,454)	(1,722)	-	(16,075)
Total liability-related other changes	-	480	-	-	480
Total equity-related other changes	-	-	-	(1,815)	(1,815)
Balance at 31 December 2018	57,720	140,326	7,824	259,936	465,806

In thousands of Zambian Kwacha

22 Trade and other payables

See accounting policy in note 30(H)

	Group		Company	
	2018	2017	**2018**	2017
Trade creditors	**33**	5,220	**27**	5,220
Rentals received in advance	**1,354**	801	**786**	-
Amount due to group companies (note 26b)	**-**	-	**10,164**	548
Accruals	**7,953**	3,554	**5,339**	1,910
Unclaimed dividends	**1,701**	1,316	**1,701**	1,316
	11,041	10,891	**18,017**	8,994

Included in accruals is interest expense accrued on the corporate bond of K1, 198 (2017: K1, 008).

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 K1,701 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.

The Group's exposure to liquidity, currency and interest rate risks related to trade and other payables is disclosed in note 24 in the notes to the financial statements.

23 Security deposit on rentals

See accounting policy in note 30(H)

	Group		Company	
	2018	2017	**2018**	2017
Balance at 1 January	**5,109**	4,948	**2,987**	2,839
Received during the year	**2,108**	807	**457**	524
Paid out during the year	**(871)**	(742)	**(545)**	(449)
Effect of movements in exchange rates	**112**	96	**67**	73
Balance at 31 December	**6,458**	5,109	**2,966**	2,987

Real Estate Investments Zambia Plc has the right to receive any interest accrued on the security deposits.

24 Financial instruments – Fair value and risk management

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.

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 60 percent of the Group's tenants have been transacting with the Group for at least three years, and losses have occurred infrequently. 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.

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

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.

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 (K). The other currency in which these transactions primarily are denominated is the United States Dollar (USD).

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 low as all of its financial liabilities are held on a zero or fixed rate basis.

In thousands of Zambian Kwacha

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

(a) Credit risk

(i) Exposure to credit risk

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

		Group Carrying amounts		Company Carrying amounts	
		2018	2017	**2018**	2017
Trade receivables	*12*	**19,913**	10,311	**5,128**	4,969
Other receivables	*12*	**9,971**	4,135	**6,675**	1,924
Cash and cash equivalents	*13*	**3,749**	79,430	**833**	38,242
Amount due from subsidiaries	*26b*	**-**	-	**3,313**	22,322
		33,633	93,876	**15,949**	67,457

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

	Group Carrying amounts		Company Carrying amounts	
	2018	2017	**2018**	2017
Financial services sector	**2,164**	2,702	**2,035**	1,972
Retail sector	**8,276**	2,819	**353**	771
IT and telecommunications	**639**	1,385	**383**	423
Accountancy and consultancy	**250**	672	**250**	348
Food & restaurants	**4,468**	1,029	**123**	97
Other sectors	**4,116**	1,704	**1,984**	1,358
	19,913	10,311	**5,128**	4,969

There was no interest income recognised on impaired assets.

In thousands of Zambian Kwacha

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

(a) Credit risk *(continued)*

(ii) Impairment losses

Comparative information under IAS 39

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at 31 December 2017 is as follows;

Collectively impaired

Group

	2017		
	Gross	Impairment	Net
Not past due	3,828	(119)	3,709
Past due 0 - 30 days	1,652	(157)	1,495
Past due 31 - 90 days	3,295	(289)	3,006
More than 90 days	7,361	(5,260)	2,101
	16,136	(5,825)	10,311

Collectively impaired

Company

	2017		
	Gross	Impairment	Net
Not past due	1,817	(22)	1,795
Past due 0 - 30 days	751	(22)	729
Past due 31 - 90 days	1,460	(143)	1,317
More than 90 days	2,031	(903)	1,128
	6,059	(1,090)	4,969

Expected credit loss assessment for individual customers as at 1 January and 31 December 2018

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.

In thousands of Zambian Kwacha

24 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 as at 31 December 2018.

Group	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	2.30%	4,086	(94)	No
1 - 30 days past due	6.82%	3,917	(267)	No
31 - 60 days past due	8.11%	3,504	(284)	No
61 - 90 days past due	6.17%	2,519	(155)	No
More than 90 days past due	59.27%	16,419	(9,732)	Yes
		30,445	(10,532)	

Company	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	0.80%	1,094	(9)	No
1 - 30 days past due	1.66%	1,341	(22)	No
31 - 60 days past due	6.30%	800	(50)	No
61 - 90 days past due	6.30%	530	(33)	No
More than 90 days past due	56.52%	3,397	(1,920)	Yes
		7,162	(2,034)	

Loss rates are based on estimated credit loss experience over the past two 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. Trade receivables which are more than 360 days past due are considered to be credit impaired.

In thousands of Zambian Kwacha

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

(a) Credit risk *(continued)*

(ii) Impairment losses *(continued)*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

Group	2018	2017 Individual impairments	Collective impairments
Balance at 1 January under IAS 39	**5,825**	1,191	-
Adjustment on initial application of IFRS 9	**734**	-	-
Balance at 1 January under IFRS 9	**6,559**	1,191	-
Remeasurement of loss allowance	**3,973**	4,634	-
Balance at 31 December	**10,532**	5,825	-

Company	2018	2017 Individual impairments	Collective impairments
Balance at 1 January under IAS 39	**1,090**	568	-
Adjustment on initial application of IFRS 9	**(156)**	-	-
Balance at 1 January under IFRS 9	**934**	568	-
Remeasurement of loss allowance	**1,100**	522	-
Balance at 31 December	**2,034**	1,090	-

(iii) Cash and cash equivalents

The Group held cash and cash equivalents of K3,749 at 31 December 2018 (2017: K79, 430). The cash and cash equivalents are held with highly rated bank and financial institution counter-parties 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 (3 months), 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.

On initial application of IFRS 9, the Group did not recognise any impairment allowance on cash and cash equivalents as at 1 January 2018. There was also no impairment allowance on cash and cash equivalents during 2018.

In thousands of Zambian Kwacha

24 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 2018	Carrying amount	Contractual cash flow	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years
Non-derivative financial liabilities							
Corporate bond	**140,326**	**152,652**	**-**	**-**	**12,326**	**140,326**	**-**
Security deposits	**6,416**	**6,416**	**-**	**-**	**6,416**	**-**	**-**
Trade and other payables	**3,088**	**3,088**	**2,236**	**852**	**-**	**-**	**-**
Bank Overdraft	**1,734**	**1,734**	**1,734**	**-**	**-**	**-**	**-**
Secured bank loan	**57,720**	**62,447**	**-**	**3,749**	**10,720**	**47,978**	**-**
Total financial liabilities	**209,284**	**226,337**	**3,970**	**4,601**	**29,462**	**188,304**	**-**
31 December 2017							
Non-derivative financial liabilities							
Corporate bond	117,734	128,036	-	-	9,387	118,649	-
Security deposits	5,109	5,109	-	-	-	5,109	-
Trade and other payables	7,337	7,337	1,864	5,220	253	-	-
Secured bank loan	25,386	27,465	-	520	1,559	25,386	-
Total financial liabilities	155,566	167,947	1,864	5,740	11,199	149,144	-

Residual contractual maturities of financial liabilities (Company)

31 December 2018	Carrying amount	Contractual cash flow	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years
Corporate bond	**140,326**	**152,652**	**-**	**-**	**12,326**	**140,326**	**-**
Security deposits	**2,966**	**2,966**	**-**	**-**	**2,966**	**-**	**-**
Trade and other payables	**12,678**	**12,678**	**10,160**	**2,265**	**253**	**-**	**-**
Bank overdraft	**1,734**	**1,734**	**1,734**	**-**	**-**	**-**	**-**
Secured bank loan	**57,720**	**62,447**	**-**	**3,749**	**10,720**	**47,978**	**-**
Total financial liabilities	**215,424**	**232,477**	**11,894**	**6,014**	**26,265**	**188,304**	**-**
31 December 2017							
Non-derivative financial liabilities							
Corporate bond	117,734	128,036	-	-	9,387	118,649	-
Security deposits	2,987	2,987	-	-	-	2,987	-
Trade and other payables	7,084	7,084	1,864	5,220	-	-	-
Secured bank loan	25,386	27,465	-	520	1,559	25,386	-
Total financial liabilities	153,191	165,572	1,864	5,740	10,946	147,022	-

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

24 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

	2018			2017		
	Kwacha	USD	Total	Kwacha	USD	Total
Financial assets						
Trade receivables	5,425	14,488	19,913	156	10,155	10,311
Cash and cash equivalents	837	2,912	3,749	17,551	61,879	79,430
Total	6,262	17,400	23,662	17,707	72,034	89,741
Financial liabilities						
Convertible cumulative						
redeemable preferred stock	-	7,824	7,824	-	7,824	7,824
Corporate bonds	-	140,326	140,326	-	117,734	117,734
Security deposits	994	5,464	6,458	873	4,236	5,109
Bank overdraft	1,734	-	1,734	-	-	-
Secured bank loan	-	57,720	57,720	-	25,386	25,386
Trade and other payables	2,201	887	3,088	6,358	979	7,337
Total	4,929	212,221	217,150	7,231	156,159	163,390
Net exposure	1,333	(194,821)	(193,488)	10,476	(84,125)	(73,649)

Company

	2018			2017		
	Kwacha	USD	Total	Kwacha	USD	Total
Financial assets						
Trade receivables	2,011	3,117	5,128	154	4,815	4,969
Cash and cash equivalents	136	697	833	983	37,259	38,242
Total	2,147	3,814	5,961	1,137	42,074	43,211
Financial liabilities						
Convertible redeemable						
cumulative preferred stock	-	7,824	7,824	-	7,824	7,824
Corporate bonds	-	140,326	140,326	-	117,734	117,734
Security deposits	663	2,303	2,966	670	2,317	2,987
Bank overdraft	1,734	-	1,734	-	-	-
Secured bank loan	-	57,720	57,720	-	25,386	25,386
Trade and other payables	8,960	3,718	12,678	7,084	-	7,084
Total	11,357	211,891	223,248	7,754	153,261	161,015
Net exposure	(9,210)	(208,077)	(217,287)	(6,617)	(111,187)	(117,804)

In thousands of Zambian Kwacha

24 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	
	2018	2017	**2018**	2017
USD 1.00 to ZMW	**10.64**	9.66	**11.89**	10.01

Sensitivity analysis

A 10 percent strengthening of the US Dollar against the Kwacha at 31 December 2018 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 2017.

	Group	Company
	Equity and profit or loss	Equity and profit or loss
31 December 2018	**(19,482)**	**(20,808)**
31 December 2017	(8,413)	(11,119)

A 10 percent weakening of the US Dollar against the Kwacha at 31 December 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

In thousands of Zambian Kwacha

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

(c) Market risk *(continued)*

(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.

Profile

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

	Group Carrying amounts	
	2018	2017
Variable rate instruments		
Financial assets (note 13)	**-**	55,569
Financial liabilities (note 20)	**(207,604)**	(150,944)
	(207,604)	(95,375)

	Company Carrying amounts	
	2018	2017
Variable rate instruments		
Financial assets (note 13)	**-**	36,552
Financial liabilities (note 20)	**(207,604)**	(150,944)
	(207,604)	(114,392)

A change of 10 percent in interest rate would increase/(decrease) profit by the amounts shown below:

	Group	Company
	Profit and Equity	Loss and Equity
31 December 2018	**2,076**	**2,076**
31 December 2017	954	1,144

In thousands of Zambian Kwacha

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

(d) Fair values versus carrying amounts

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

	2018		2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Trade receivables	**19,913**	**19,913**	10,311	10,311
Cash and cash equivalents	**3,749**	**3,749**	79,430	79,430
Convertible redeemable cumulative preferred stock	**(7,824)**	**(8,568)**	(7,824)	(8,450)
Corporate bonds	**(140,326)**	**(152,652)**	(117,734)	(128,036)
Bank overdraft	**(1,734)**	**(1,734)**	-	-
Secured bank loan	**(57,720)**	**(62,447)**	(25,386)	(27,465)
Trade and other payables	**(3,088)**	**(3,088)**	(7,337)	(7,337)
	(187,030)	**(204,827)**	(68,540)	(81,547)

Company

	2018		2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Trade receivables	**5,128**	**5,128**	4,969	4,969
Cash and cash equivalents	**833**	**833**	38,242	38,242
Convertible redeemable cumulative preferred stock	**(7,824)**	**(8,568)**	(7,824)	(8,450)
Corporate bonds	**(140,326)**	**(152,652)**	(117,734)	(128,036)
Bank overdraft	**(1,734)**	**(1,734)**	-	-
Secured bank loan	**(57,720)**	**(62,447)**	(25,386)	(27,465)
Trade and other payables	**(12,678)**	**(12,678)**	(7,084)	(7,084)
	(214,321)	**(232,118)**	(114,817)	(127,824)

The fair values of the corporate bonds, convertible redeemable cumulative preferred stock and the secured bank loan 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.

In thousands of Zambian Kwacha

25 Commitments

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

26 Related party transactions

a) Parent and ultimate controlling parties

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. These transactions were as follows:

Transactions with key management personnel

(i) Key management personnel compensation

Key management personnel compensation comprised the following:

	Group		Company	
	2018	2017	**2018**	2017
Short term benefits	**4,509**	3,927	**4,509**	3,927
Termination benefits	**1,008**	785	**1,008**	785
	5,517	4,712	**5,517**	4,712

(ii) Transactions with directors

Loans to directors

There were no loans to directors during the year (2017: 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**	**9,283,379**
Efi O'Donnell	**Nil**	**9,283,379**

- Other Directors' transactions include Directors' fees which are disclosed under note 8(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

26 Related party transactions *(continued)*

b) Other related party transactions

At 31 December 2018, there were outstanding balances with other related parties included in trade and other receivables (see note 12) as well as trade and other payables (see note 22). The terms and conditions of the transactions are detailed below each note.

(i) Amounts due from subsidiaries
Company

	2018	2017
Balance at 1 January	**22,322**	533
Amount advanced	**41,234**	26,381
Amounts repaid	**(60,243)**	(4,592)
Balance at 31 December	**3,313**	22,322

The opening balance due of K22,322 arose from allocation of administrative expenses and property redevelopment costs amounting to K21,822 (2017: K21,713) which were paid by the Company on behalf of Arcades Development Plc and the acquisition of Thistle Land Development Company Limited in 2010. The amounts advanced during the year were on account of allocation of administrative expenses and further redevelopment costs.
The balances are interest free, unsecured and do not have fixed repayment terms and are repayable on demand. They are presented as current assets because realisation is expected in a period of less than 12 months from the year end.

(ii) Amounts due to subsidiaries
Company

	2018	2017
Balance at 1 January	**548**	548
Amount received	**12,131**	-
Amounts repaid	**(1,967)**	-
Amounts written-off on de-registration of subsidiaries	**(548)**	-
Balance at 31 December	**10,164**	548

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

27 Contingent liabilities

In the opinion of the Directors, there are no known contingent liabilities at the reporting date that might change the status of the financial statements, or need disclosure separately.

28 Subsequent events

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

29 Basis of measurement

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

30 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, except if mentioned otherwise (see note 5).

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 from contracts with customers
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

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 (see (P) (ii)). 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 (see (I)(ii)).

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.

(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.

30 Significant accounting policies *(continued)*

B. Revenue

The Group has initially applied IFRS 15 from 1 January 2018. Considering that all the Group's revenue was derived from rentals, there was no material impact on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss for the year then ended.

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.

D. Income tax expense

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.

30 Significant accounting policies *(continued)*

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.

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.

30 Significant accounting policies *(continued)*

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 financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.
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 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.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. 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.

30 Significant accounting policies *(continued)*

H. Financial instruments *(continued)*

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.

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.

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.

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.

30 Significant accounting policies *(continued)*

J. Plant and equipment *(continued)*

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 property 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.

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.

30 Significant accounting policies *(continued)*

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

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Group's statement of financial position. Investment property held under an operating lease is recognised in the Group's statement of financial position at its fair value.

N. Impairment

Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments

The Group recognises loss allowances for expected credit losses (ECLs) on:

– financial assets measured at amortised cost;

– debt investments measured at FVOCI; and contract assets.

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.

30 Significant accounting policies *(continued)*

N. Impairment *(continued)*

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.

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 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.

30 Significant accounting policies *(continued)*

N. Impairment *(continued)*

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
- 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. 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.

30 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 4 (B)).

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.

31 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these group and company financial statements. Those which may be relevant to the Group and Company are set out below. The Group and Company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation	Summary of requirements
1 January 2019	IFRS 16 Leases	IFRS 16 was published in January 2017. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Group expects that it will not be significantly impacted as a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where circumstances arise and the Group is an intermediate lessor in the sub lease.

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Annual Report
and Financial Statements
2018

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