BRAINWORKS LIMITED
(Incorporated in the Republic of Mauritius)
(Registration number 115883 C1/GBL)
Share code : BWZ
ISIN MU0548S00000
("Brainworks" or "the Company")

TRADING STATEMENT AND OPERATIONAL TRADING UPDATE

Introduction

Brainworks operates through a number of subsidiaries that are incorporated and domiciled in Zimbabwe.

Shareholders are advised of certain currency reforms that have taken place in Zimbabwe, which commenced in October 2018 when the Reserve Bank of Zimbabwe ("RBZ") recognized that the United States Dollar was not the same as the local electronic currency or bond note ("RTGS Dollars"). On 20 February 2019, the RBZ introduced policies aimed at establishing a formal trading mechanism of RTGS Dollar balances and bond notes with international currencies.

Zimbabwean economic and currency developments

The Zimbabwean economy, although showing positive signs of growth, still remains constrained by a number of challenges, the most notable being the shortage of foreign currency. Inflation, which recorded an exponential increase in October 2018, closed the year under review at 42.1% in comparison to 3.46% in December 2017. However, authorities are confident that measures have been implemented to contain inflation from further spiralling upwards.

In October 2018, the government of Zimbabwe ("Government") adopted an economic stabilisation model termed the Transitional Stabilisation Program ("TSP"). The TSP, covering an implementation period of October 2018 to December 2020, prioritises fiscal consolidation, economic stabilisation, stimulation of growth and creation of employment. The TSP strategic objectives build in the current Government's vision of building a middle-income economy by 2030. The TSP would be followed by two five-year development strategies, with the first one running from 2021- 2025, and the second covering 2026-2030.

The Zimbabwean Government has emphasised that currency reforms are an essential component to achieving the TSP strategic objectives. In that regard, on 1 October 2018, the RBZ announced measures aimed at strengthening the multi-currency system by introducing separate bank accounts for RTGS Dollars and Nostro funds. Bank accounts in Zimbabwe were separated and designated as such. The RTGS Dollar bank accounts and Nostro bank accounts were officially designated as being on par. This marked the first phase of publicly announced currency reforms since inauguration of the current political administration.

On 20 February 2019, the RBZ through a monetary policy statement, introduced policies aimed at establishing a formal trading mechanism of RTGS Dollars with international currencies by establishing an inter-bank foreign exchange market.

On the same date, the RBZ announced the official designation of the existing RTGS balances, bond notes and coins in circulation then as "RTGS Dollars" in order to establish an exchange rate between the current monetary balances and foreign currency. The necessary legal instrument to give official existence to the new currency was promulgated on 22 February 2019. The RTGS Dollar is going to be used by all entities, including Government and individuals in Zimbabwe, for the purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions in Zimbabwe, thereby effectively becoming the functional currency in Zimbabwe with effect from 22 February 2019.

This development marked the second phase of currency reform pronouncements.

The inter-bank platform is now active. The RTGS Dollar commenced trading at an official rate of 1 US$: 2.5 RTGS dollar in March 2019 and the rate has since been on an upward but steady trend.

Impact of Zimbabwean currency developments on financial reporting

The October 2018 and February 2019 pronouncements by the RBZ brought a number of financial reporting considerations in the context of the need to comply with International Accounting Standard (IAS) 21 – *The Effect of Changes in Foreign Exchange Rates*. Some of the major considerations are:

a. whether the October 2018 pronouncement effectively recognised that the US$ (now represented by the Nostro) was not the same as the RTGS Dollar, particularly in view of the fact that these two, notwithstanding the publicised official parity position, were not trading at par as evidenced in the pricing regime for goods and services post the October 2018 pronouncements, as well as the exchange rates obtaining then on the parallel market; and

b. whether on the basis of the consideration above, it is necessary for preparers of financial statements to effect some form of translation in order to comply with the requirements of IAS 21 – *The Effect of Changes in Foreign Exchange Rates*.

Given the materiality of this matter, the Public Accountants and Auditors Board ("PAAB") in Zimbabwe has been commissioned with this matter for some time.

During the course of last week, the PAAB issued guidance to assist preparers of financial statements and auditors in making informed decisions on the presentation of financial statements, and reporting thereon. The PAAB has advised that at a minimum, <u>in the notes</u> to the financial statements, three additional sets of the statement of financial position be prepared in a certain format. The elements of the statement of financial position should be analysed into three categories namely:

a. Monetary assets and liabilities (Nostro FCA USD);
b. Monetary assets and liabilities (RTGS Dollar); and
c. Non-monetary assets and liabilities (whose underlying values or amounts are denominated in USD).

The total amount for each line item should be reconciled to the amounts presented in the primary Statement of Financial Position. In addition, the PAAB guidance encourages preparers also to disclose the key assumptions made by management in the preparation of the analysis as well as explaining that the amounts presented may therefore not reflect the opening balances in RTGS Dollars going forward (i.e. for future accounting periods)

Immediately before 22 February 2019, all assets and liabilities were valued on a RTGS Dollar 1: US Dollar 1 basis for financial statement purposes (in terms of Statutory Instrument 33 of 2019).

In response to the uncertainty around the presentation currency, and in light of the recently issued PAAB guidance, the Zimbabwe Stock Exchange ("ZSE") issued a one-month extension to all issuers listed on the ZSE with December year-ends, in order to allow them to publish their annual results by 30 April 2019, rather than the usual 31 March 2019 deadline, in order to afford preparers more time to address the attendant financial reporting implications.

As the Company's subsidiaries are incorporated and domiciled in Zimbabwe, and in particular, the major subsidiaries being African Sun Limited and Dawn Properties Limited which are both listed on the ZSE, the release of financial results of these companies has been delayed whilst the subsidiaries and the Company digest the aforementioned PAAB guidance and conclude on the most appropriate financial information to be included in respective annual reports.

Accordingly, the Company will not be able to publish its consolidated financial results for the year ended 31 December 2018 by 31 March 2019 , but wishes to provide guidance as to its operating performance during the 2018 financial year.

The Company expects that it may be in a position to publish its results on or about 30 April 2019.

Operations

Revenue growth was recorded across all the Group's segments, with notable growth being recorded by the hospitality segment. The Hospitality business segment's revenue improved, which was spurred by a 7%

increase in occupancy from 52% recorded in the prior year to 59% for the year under review, and a 17% increase in average daily rate ("ADR") from US$93 recorded the prior year to US$109, as the hotels continued to align domestic rates to the implied exchange rate between US$ and RTGS dollar. Occupancy growth was driven by strong performance from all our source markets with room nights sold for domestic, international and regional increasing by 12%, 14% and 7%, respectively.

The Real Estate segment also recorded notable increase in revenue, with 70% of the growth attributable to our inaugural revenues recorded from property sales following the completion of the Group's maiden development project in Harare, Zimbabwe. Over 60% of the units were sold in 2018 and although there was demand for the remaining 22 units, the Group adopted a strategic decision of deferring sales as the Zimbabwe currency environment became volatile during the third quarter of 2018. The recent currency pronouncements by the monetary authorities are however expected to drive confidence and stabilise the exchange rate in Zimbabwe, which will provide the Group with a basis to resume sales of the remaining property units. Efforts to sell the remaining units resumed in 2019.

Debt and finance costs

As reported in the prior year, the Group continues to strategically focus on reducing its debt burden. The Group recorded a notable reduction in its debt reducing it by 55% from the US$38.3m reported as at the end of the prior year, attracting a weighted average interest rate of 12%. This was achieved through:

a. the settlement of debt through the delivery of assets (in lieu of cash),
b. internally generated cashflows; and
c. and equity proceeds.

As a result, there was a notable reduction in finance charges in comparison to the prior year.

Exit from financial services sector

The Group completed the disposal of its shareholding in GetBucks Microfinance Bank Limited during the year. The financial impact of the exit was notably positive to profitability. Furthermore, the Group sold its entire equity interest in GetSure Life Assurance Company (Private) Limited. These disposals effectively complete the Group's initiatives to exit the financial services sector in order to concentrate on core business sectors, namely, hospitality and real estate.

Profitability

In terms of paragraph 3.4(b) of the JSE Limited Listings Requirements, companies are required to publish a trading statement as soon as they are satisfied, with a reasonable degree of certainty, that the financial results for the period to be reported upon next will differ by at least 20% from those of the previous corresponding reporting period.

The Board has a reasonable degree of certainty that positive basic earnings per share will be achieved for the financial year ended 31 December 2018. This would mark a notable turnaround given the fact that the Group recorded net losses after tax of US8m in the prior year.

The positive earnings will be driven by growth in revenues, reduction in finance charges and the positive contribution to profitability recorded as a result of the Group exiting the financial services sector.

A further updated range will be provided on earnings per share and headline earnings per share once the Board has sufficient certainty as to the impact of the currency reforms on the financial statements of the Group.

Disclaimer

The above financial information, including estimated financial information, is the responsibility of the directors of Brainworks Limited and has not been reviewed or reported on by the Group's auditors.

Brett Childs
Chief Executive Officer

Peter Saungweme
Chief Finance Officer

29 March 2019

Sponsor

questco
CORPORATE ADVISORY

Questco Corporate Advisory Proprietary Limited