

# PEARL PROPERTIES (2006) LIMITED

## Unaudited Interim Financial Results

### For the six months ended 30 June 2014



## Chairman's Statement

### The Economy

The first half of 2014 was characterised by economic stagnation with deflationary conditions becoming more visible. The liquidity challenges continue to adversely impact disposable incomes suppressing aggregate demand and the ability for corporates to access affordable financing facilities to stimulate business growth. There is need for all stakeholders to implement strong macro-economic and financial policies in order to induce economic confidence, encourage foreign direct investment and stimulate capital formation across all key sectors, if sustainable growth is to be achieved.

### The Property Market

The local property market remained depressed due to the adverse macro-economic environment. Increasing tenant defaults on lease obligations, stagnating or declining occupancy levels, surging tenant evictions and voluntary space surrenders. These fundamentals have adversely affected upward rental reviews.

Recent property sale transactions have been completed at suppressed prices as the liquidity challenges restricted effective demand. Furthermore, the high default rates on secured borrowings increased the number of forced sales, stimulating the supply of properties at auction houses. Residential property sales continue to trade through limited employer assisted mortgage finance schemes, cash and deed of sale, with mortgage finance becoming more accessible but the pricing remains uncompetitive.

The liquidity crunch and the growing non-performing loans restricted property financing options to uncompetitively priced short to medium term facilities. New property developments have mainly targeted the low to medium cost residential segments. Commercial developments have been restricted due to the lack of space demand and affordable long term financing.

### Financial Results

Revenue for the six months ended 30 June 2014 declined by 1.74% to \$4.431 million (HY2013: \$4.509 million). Rental income declined by 2.70% to \$4.387 million (HY2013: \$4.509 million) due to the occupancy level declining by 2.56% to 77.56% (HY2013: 79.60%) as a result of voluntary space surrenders and evictions. The average rental per square metre declined by 2.26% to \$7.78 (HY2013: \$7.96) reflecting the impact of tenants downsizing space. The rental yield eased to 7.48% (HY2013: 8.00%) due to the decline in rental income compared to the growth in property values.

Property expenses grew by 23.21% to \$0.487 million (HY2013: \$0.395 million) driven by a growth in operating cost under recoveries, due to a decline in occupancy levels.

A specific provision for credit losses of \$0.378 million was done due to the increase in defaulting tenants with those written off, being tenants that have either been liquidated or evicted. The general provision for credit losses increased by 8.74% to \$0.275 million (HY2013: \$0.253 million). As a result, net property income before administration expenses declined by 14.78% to \$3.290 million (HY2013: \$3.861 million).

Administration expenses declined by 22.89% to \$1.419 million (HY2013: \$1.840 million) due to savings realised through cost containment initiatives. The Group will continue to explore opportunities to contain and align costs in order to improve profit margins.

Net property income after administration expenses declined by 7.39% to \$1.872 million (HY2013: \$2.021 million) driven by the increases in property expenses.

Operating profit before tax and fair value changes declined by 28.10% to \$1.725 million (HY2013: \$2.399 million) as a result of finance costs incurred following the introduction of the \$5.500 million medium term loan at the beginning of the year, in respect of the acquisition of a strategic land stock in Mount Pleasant, Harare.

### Property Management

The occupancy level declined by 2.56% to 77.56% (HY2013: 79.60%) due to voluntary space surrenders and evictions.

Net debtors grew by 34.40% to \$1.360 million (HY2013: \$1.012 million) reflecting economic and liquidity challenges faced by tenants. The Group will continue to engage tenants in an effort to improve the collection rate.

In the six months ended 30 June 2014, the Group committed a total of \$0.074 million (HY2013: \$0.075 million) towards property maintenance. Property maintenance programmes will continue to be implemented in order to restore and improve the quality of lettable space.

### Property Development

The Group is undertaking the Kamfinsa cluster housing development with an approved plan of thirty-eight units. At reporting date, fifteen single storey unit shells had been completed while other units are at various stages of construction. The Group plans to complete the cluster housing development in the fourth quarter of 2014.

### Property Refurbishment

The Group commissioned the air conditioning system that was replaced at a total cost of \$0.700 million in March 2014 at 99 Jason Moyo Avenue, Harare. The Group will continue to undertake refurbishment programmes on its property portfolio in order to improve the quality of space offered to tenants.

### Human Capital Development

The Group is currently concluding an organisational transformation exercise, aimed at realigning its human capital to enhance operational effectiveness and efficiency and implement a talent management system to optimise human capital productivity. The Group continued to support staff members in pursuing relevant academic and professional qualifications to improve productivity.

### Dividend

Your Board has deemed it prudent not to declare an interim dividend in light of cash outlays required for on-going projects and developments.

### Directorate

I regret to report the passing on of Mr. James Keith Gibbons on 26 April 2014. I would like to acknowledge his invaluable contributions during his tenure. Your Board would like to express its condolences to the Gibbons family on the sad loss.

Dr Christopher U Hokonya and Mrs Nangaisi J Mugabe resigned from the Board at the last Annual General Meeting on the 27<sup>th</sup> of May 2014. We thank them for their invaluable contribution during their tenure.

Mr William Marere was appointed to the Board on the 27<sup>th</sup> of May 2014.

### Outlook

Whilst the current economic uncertainties continue to pose challenges to the operating environment, your Board remains optimistic about Zimbabwe's medium to long term economic outlook. The availability of improved mortgage terms and long term financing facilities will provide the necessary stimulus for the property industry. Successful implementation of macro-economic and financial policies are imperative for sustainable growth in all key productive sectors, which will positively correlate with effective demand for space in the property market.

### Acknowledgements

On behalf of your Board, I appreciate the invaluable support received from all stakeholders.

### God Bless

**E.K Moyo**  
Chairman

26 August 2014

## Consolidated Statement of Financial Position

At 30 June 2014				
All figures in USD				
Note	Unaudited 30 June 2014	Unaudited 30 June 2013	Audited 31 Dec 2013	
<b>ASSETS</b>				
Investment properties	3	139,190,192	120,494,312	128,142,000
Property, vehicles and equipment	4	364,340	572,617	461,770
Available-for-sale investments	5	324,997	433,014	415,460
Financial assets at fair value through profit or loss	6	107,663	327,010	299,644
Other non-current assets		254,365	-	-
Inventory	7	1,834,687	169,435	1,328,193
Tax asset		440,608	322,907	554,846
Trade and other receivables	8	2,433,446	1,618,013	6,888,638
Loans and other receivables		977,022	1,882,705	1,355,742
Cash and cash equivalents	9	712,940	4,089,857	317,581
<b>TOTAL ASSETS</b>		<b>146,640,260</b>	<b>129,909,870</b>	<b>139,763,874</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Issued ordinary share capital		1,238,157	1,238,157	1,238,157
Available-for-sale reserve		(148,570)	(51,300)	(68,679)
Retained earnings		124,233,804	114,938,247	122,788,877
<b>Total Shareholders' Equity</b>		<b>125,323,391</b>	<b>116,125,104</b>	<b>123,958,355</b>
<b>Liabilities</b>				
Long term loan	10	5,041,667	-	-
Deferred tax	11	14,678,677	12,959,972	14,969,274
Tax payable		264,594	217,642	33,171
Trade and other payables	12	1,069,591	523,375	738,208
Short term loans and other payables		182,010	-	-
Provisions		80,330	83,777	64,866
<b>Total liabilities</b>		<b>21,316,869</b>	<b>13,784,766</b>	<b>15,805,519</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>146,640,260</b>	<b>129,909,870</b>	<b>139,763,874</b>
Net asset value per share (US cents)		10.12	9.38	10.01

## Consolidated Income Statement

For the six months ended 30 June 2014				
All figures in USD				
Note	Unaudited 30 June 2014	Unaudited 30 June 2013	Audited 31 Dec 2013	
<b>Revenue</b>				
	<b>4,431,014</b>	<b>4,509,333</b>	<b>9,022,322</b>	
Rental income	4,387,013	4,508,575	9,012,479	
Property services income	44,001	758	9,843	
Property expenses	(487,165)	(395,454)	(949,899)	
Provision for credit losses	(653,432)	(252,983)	(733,266)	
<b>Net property income</b>	<b>3,290,417</b>	<b>3,860,896</b>	<b>7,339,157</b>	
Administration expenses	(1,418,669)	(1,839,890)	(3,364,338)	
<b>Net property income after administration expenses</b>	<b>1,871,748</b>	<b>2,021,006</b>	<b>3,974,819</b>	
Staff rationalisation costs	(216,038)	-	-	
Investment loss	(3,897)	-	-	
Finance costs	(382,199)	-	-	
Finance income	213,139	361,738	652,641	
Dividend & other income	241,869	15,920	56,344	
<b>Operating profit before tax</b>	<b>1,724,622</b>	<b>2,398,664</b>	<b>4,683,804</b>	
<b>Fair value adjustment</b>	<b>(26,258)</b>	<b>(15,567)</b>	<b>8,018,754</b>	
Investment properties	3	-	8,061,687	
Financial assets at fair value through profit or loss	6	(26,258)	(15,567)	(42,933)
<b>Profit before tax</b>	<b>1,698,364</b>	<b>2,383,097</b>	<b>12,702,558</b>	
<b>Taxation</b>	<b>(253,437)</b>	<b>(410,139)</b>	<b>(2,878,970)</b>	
- Current tax	(543,130)	(413,056)	(872,408)	
- Deferred tax income/(expense)	289,693	2,917	(2,006,562)	
<b>Profit for the period</b>	<b>1,444,927</b>	<b>1,972,958</b>	<b>9,823,588</b>	
<b>Profit Attributable to:</b>				
Equity holders to the parent	1,444,927	1,972,958	9,823,588	
<b>Profit for the period</b>	<b>1,444,927</b>	<b>1,972,958</b>	<b>9,823,588</b>	
Earnings per share (US cents)		0.117	0.159	1.490

## Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014				
All figures in USD				
Note	Unaudited 30 June 2014	Unaudited 30 June 2013	Audited 31 Dec 2013	
<b>Profit for the period</b>				
	<b>1,444,927</b>	<b>1,972,958</b>	<b>9,823,588</b>	
Other comprehensive loss				
Fair value loss on available-for-sale investments	(80,796)	(189,745)	(207,299)	
Deferred tax effect	905	1,897	2,072	
<b>Other comprehensive loss for the period, net of tax</b>	<b>(79,891)</b>	<b>(187,848)</b>	<b>(205,227)</b>	
<b>Total comprehensive income for the period, net of tax</b>	<b>1,365,036</b>	<b>1,785,110</b>	<b>9,618,361</b>	
<b>Total comprehensive income attributable to:</b>				
Equity holders to the parent	1,365,036	1,785,110	9,618,361	
<b>Total comprehensive income</b>	<b>1,365,036</b>	<b>1,785,110</b>	<b>9,618,361</b>	

## Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014				
All figures in USD				
	Ordinary Share Capital	Available for sale Reserve	Retained earnings	Total Shareholders Equity
1 January 2013	1,238,157	136,548	112,965,289	<b>114,339,994</b>
Other comprehensive loss	-	(207,299)	-	(207,299)
Deferred tax	-	2,072	-	2,072
<b>Profit for the year</b>	-	-	9,823,588	<b>9,823,588</b>
<b>At 31 December 2013</b>	<b>1,238,157</b>	<b>(68,679)</b>	<b>122,788,877</b>	<b>123,958,355</b>
Other comprehensive loss	-	(80,796)	-	(80,796)
Deferred tax	-	905	-	905
<b>Profit for the period</b>	-	-	1,444,927	<b>1,444,927</b>
<b>At 30 June 2014</b>	<b>1,238,157</b>	<b>(148,570)</b>	<b>124,233,804</b>	<b>125,323,391</b>

## Consolidated Statement of Cash flows

For the six months ended 30 June 2014				
All figures in USD				
Note	Unaudited 30 June 2014	Unaudited 30 June 2013	Audited 31 Dec 2013	
<b>Profit before tax</b>				
	<b>1,698,364</b>	<b>2,383,097</b>	<b>12,702,558</b>	
Adjust for non-cash items	199,236	19,802	(8,234,292)	
<b>Cash flows before working capital changes</b>	<b>1,897,600</b>	<b>2,402,900</b>	<b>4,468,266</b>	
Working capital adjustments	4,197,608	(296,174)	(5,232,060)	
<b>Cash generated from operations</b>	<b>6,095,208</b>	<b>2,106,726</b>	<b>(763,794)</b>	
Tax paid	(197,468)	(419,394)	(1,295,158)	
<b>Net cash flows from operating activities</b>	<b>5,897,740</b>	<b>1,687,332</b>	<b>(2,058,952)</b>	
Net cash flows from investing activities	(10,697,991)	(18,334)	1,260,338	
Net cash flows from financing activities	5,195,610	170,364	-	
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>395,359</b>	<b>1,839,362</b>	<b>(1,932,914)</b>	
Opening cash and cash equivalents	317,581	2,250,495	2,250,495	
<b>Cash and cash equivalents</b>	<b>712,940</b>	<b>4,089,857</b>	<b>317,581</b>	

## Notes to the Consolidated Financial Results

### For the six months ended 30 June 2014

#### 1. Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretation Committee (IFRIC). The financial statements are based on the statutory records that were maintained under the historical cost convention except for investment properties, financial assets available-for-sale and financial assets at fair value through profit or loss that have been measured at fair value.

#### 2. Accounting policies

The accounting policies adopted in the preparation of the interim results are consistent with those followed in the preparation of the Group's annual report for the year ended 31 December 2013.

#### 3. Investment properties

All figures in USD				
	30 June 2014	30 June 2013	31 Dec 2013	
At 1 January	128,142,000	120,266,000	120,266,000	
Reclassification of investment properties	-	-	(480,000)	
Additions	10,448,011	199,738	-	
Improvements to existing properties	600,181	28,574	294,313	
Fair value adjustment	-	-	8,061,687	
<b>Closing balance</b>	<b>139,190,192</b>	<b>120,494,312</b>	<b>128,142,000</b>	

#### 4. Property, vehicles and equipment

At 1 January	461,770	649,321	649,321
Additions	-	37,640	45,753
Disposals	(55,000)	-	(29,168)
Depreciation	(42,430)	(114,344)	(204,136)
<b>Closing balance</b>	<b>364,340</b>	<b>572,617</b>	<b>461,770</b>

#### 5. Available-for-sale investments

At 1 January	415,460	622,759	622,759
Disposals	(9,431)	-	-
Decrease in fair value on available-for-sale-investments	(81,032)	(189,745)	(207,299)
<b>Closing balance</b>	<b>324,997</b>	<b>433,014</b>	<b>415,460</b>

All financial assets that have been set aside for developmental projects as per Initial Public Offer objectives have been designated as available-for-sale investments.

#### 5.1 Fair value reconciliation: Available-for-sale assets

At 1 January	(68,679)	136,548	136,548
Unrealised loss	(81,032)	-	(207,299)
Transfer to realised gain/(loss)	236	(189,745)	-
Deferred tax	905	1,897	2,072
<b>Closing balance</b>	<b>(148,570)</b>	<b>(51,300)</b>	<b>(68,679)</b>

## 6. Financial assets at fair value though profit or loss

All figures in USD			
	30 June 2014	30 June 2013	31 Dec 2013
At 1 January	299,644	342,577	342,577
Disposal	(165,723)	-	-
Fair value adjustment	(26,258)	(15,567)	(42,933)
<b>Closing balance</b>	<b>107,663</b>	<b>327,010</b>	<b>299,644</b>

## 7. Inventory

Property held-for-trading	140,233	140,150	140,150
Work in progress - Kamfinsa Cluster Houses	1,659,288	-	1,152,034
Consumables	35,171</		