PEARL PROPERTIES (2006) LIMITED

# **Unaudited Interim Financial Results**

For the six months ended 30 June 2014

### Chairman's Statement

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 supressing 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.

innovation, prosperity, stability

a member of FIRST MUTUAL HOLDINGS LIMITED

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

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.

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,

### **Property Management**

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

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

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.

The Group is undertaking the Kamfinsa cluster housing development with an approved plan of thirtyeight 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**

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.

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

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

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

Mr William Marere was appointed to the Board on the 27th of May 2014.

Whist 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 facilitates 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**



26 August 2014

### Consolidated Statement of Financial Position

All figures in USD	Note	Unaudited	Unaudited	Audited
All figures in 05D	Note	30 June 2014	30 June 2013	31 Dec 2013
ASSETS				
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
TOTAL ASSETS		146,640,260	129,909,870	139,763,874
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
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
Total Shareholders' Equity		125,323,391	116,125,104	123,958,355
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
Total liabilities		21,316,869	13,784,766	15,805,519
TOTAL EQUITY AND LIABILITIES		146,640,260	129,909,870	139,763,874
Net accet value per chare (LIS cents)		10.12	938	10.01

## Consolidated Income Statement

All figures in USD	Note	Unaudited 30 June 2014	Unaudited 30 June 2013	Audited 31 Dec 2013
Revenue		4,431,014	4,509,333	9,022,322
Rental income		4,387,013	4,508,575	9,012,479
Property services income		44,001	758	9,843
Property expenses	13	(487,165)	(395,454)	(949,899)
Provision for credit losses	14	(653,432)	(252,983)	(733,266)
Net property income		3,290,417	3,860,896	7,339,157
Administration expenses	15	(1,418,669)	(1,839,890)	(3,364,338)
Net property income after administration expenses		1,871,748	2,021,006	3,974,819
Staff rationalisation costs		(216,038)	-	-
Investment loss		(3,897)	-	-
Finance costs	16	(382,199)	-	-
Finance income	17	213,139	361,738	652,641
Dividend & other income		241,869	15,920	56,344
Operating profit before tax		1,724,622	2,398,664	4,683,804
Fair value adjustment		(26,258)	(15,567)	8,018,754
Investment properties	3	-	-	8,061,687
Financial assets at fair value through profit or loss	6	(26,258)	(15,567)	(42,933)
Profit before tax		1,698,364	2,383,097	12,702,558
Taxation	18	(253,437)	(410,139)	(2,878,970)
- Current tax	[	(543,130)	(413,056)	(872,408)
- Deferred tax income/(expense)		289,693	2,917	(2,006,562)
Profit for the period		1,444,927	1,972,958	9,823,588
Profit Attributable to:				
Equity holders to the parent		1,444,927	1,972,958	9,823,588
Profit for the period		1,444,927	1,972,958	9,823,588
Earnings per share (US cents)		0.117	0.159	1.490

## Consolidated Statement of Comprehensive Income

All figures in USD	Unaudited 30 June 2014	Unaudited 30 June 2013	Audited 31 Dec 2013
Profit for the period Other comprehensive loss	1,444,927	1,972,958	9,823,588
Fair value loss on available-for-sale investments Deferred tax effect	(80,796) 905	(189,745) 1,897	(207,299) 2,072
Other comprehensive loss for the period, net of tax	(79,891)	(187,848)	(205,227)
Total comprehensive income for the period, net of tax	1,365,036	1,785,110	9,618,361
Total comprehensive income attributable to: Equity holders to the parent Total comprehensive income	1,365,036 <b>1,365,03</b> 6	1,785,110 <b>1,785,110</b>	9,618,361 <b>9,618,361</b>

### Consolidated Statement of Changes in Equity For the six months ended 30 June 2014

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

## Consolidated Statement of Cash flows

All figures in USD	Note	Unaudited 30 June 2014	Unaudited 30 June 2013	Audited 31 Dec 2013
Profit before tax		1,698,364	2,383,098	12,702,558
Adjust for non-cash items		199,236	19,802	(8,234,292)
Cash flows before working capital changes		1,897,600	2,402,900	4,468,266
Working capital adjustments		4,197,608	(296,174)	(5,232,060)
Cash generated from operations		6,095,208	2,106,726	(763,794)
Tax paid		(197,468)	(419,394)	(1,295,158)
Net cash flows from operating activities		5,897,740	1,687,332	(2,058,952)
Net cash flows from investing activities		(10,697,991)	(18,334)	126,038
Net cash flows from financing activities		5,195,610	170,364	-
Net (decrease)/ increase in cash and cash equivalents		395,359	1,839,362	(1,932,914)
Opening cash and cash equivalents		317,581	2,250,495	2,250,495
Cash and cash equivalents	9	712,940	4,089,857	317,581

### Notes to the Consolidated Financial Results For the six months ended 30 June 2014

## Basis of preparation

The Groups 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

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.

30 June 2014	30 June 2013	31 Dec 2013
128,142,000	120,266,000	120,266,000
-	-	(480,000)
10,448,011	199,738	-
600,181	28,574	294,313
-	_	8,061,687
139,190,192	120,494,312	128,142,000
	128,142,000 - 10,448,011 600,181	10,448,011 199,738 600,181 28,574

461,770

### Property, vehicles and equipment At 1 January

5.	Available- for- sale investments			
	Closing balance	364,340	572,617	461,770
	Depreciation	(42,430)	(114,344)	(204,136)
	Disposals	(55,000)	-	(29,168)
	Additions	-	37,640	45,753

All financial assets that have been set aside for development	al projects as per Init	ial Dublic Offer of	hiactivas have
Closing balance	324,997	433,014	415,460
Decrease in fair value on available for-sale-investments	(81,032)	(189,745)	(207,299)
Disposals	(9,431)	-	
At 1 January	415,460	622,759	622,759

been designated as available-for-sale investments

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

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

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

All figures in USD

	At I January	299,644	342,5//	342,5//
	Disposal	(165,723)	-	-
	Fair value adjustment	(26,258)	(15,567)	(42,933)
	Closing balance	107,663	327,010	299,644
7.	Inventory			
	Property held-for-trading	140,233	140,150	140,150
	Work in progress - Kamfinsa Cluster Houses	1,659,283	-	1,152,034
	Consumables	35,171	29,285	36,009
	Closing balance	1,834,687	169,435	1,328,193
8.	Trade and other receivables			
0.	Trade and other receivables			
	Tenant receivables	2,072,608	1,480,126	1,706,927
	Tenant cost recoveries	549,313	550,443	517,074
	Total tenant receivables	2,621,921	2,030,569	2,224,001
	Less: Provisions	(1,262,023)	(1,018,760)	(986,926)

30 June 2014 30 June 2013

1,237,075

5,214,685

12,964,786

21,094 2,100,857

(114,962)

199,951

2,878,970

(26,258) 241,869

1,068,800

599,280

241,869

672,030

10,579

99,385

27.677

1.067

14.969,274

(16,682)

(271,090)

12.964.786

(2,906)

252,893

94,962

145

61,550

8.513

20.210		
38,210	213,119	233,245
148,060	226,964	133,569
2,433,446	1,618,013	6,888,638
986,926	765,777	765,777
653,432	252,983	733,266
(378,335)	-	(512,117)
1,262,023	1,018,760	986,926
	986,926 653,432 (378,335)	148,060 226,964 <b>2,433,446</b> 1,618,013 986,926 765,777 653,432 252,983 (378,335) -

## 9. Cash and cash equivalents

Net tenant receivables

Accrued investment interest

Owing from creditors

Prepayments

Closing balance	712,940	4,089,857	317,581
Cash at bank	567,831	650,834	127,932
Short term investments	145,109	3,439,023	189,649

).	Long term loan		
	At 1 January	-	-
	Proceeds from financial institution	5,500,000	-
	Repayments	(458,333)	-
	Closing balance	5,041,667	-

The loan is secured by an immovable property in the property portfolio and is stamped to cover \$6,500,000. The loan has a variable interest rate, currently 10% per annum

### 11. Deferred tax At 1 January

Arising on vehicles and equipment

Arising on investment properties

Arising on assessed losses

Arising on financial assets through profit or loss	(1,920)	(156)	(429)
Arising on available-for-sale investments	(905)	(1,897)	(2,072)
Closing balance	14,678,677	12,959,972	14,969,274
. Trade and other payables			
Tenant payables	5,461	69,694	56,577
Accrued expenses	255,356	600	-
Cunda caraditara	201 105	225 202	277 404

### Closing balance 13. Property expenses

Maintenance costs	73,569	75,319	308,627
Property security and utilities	50,731	62,683	135,133
Valuation fees	15,873	400	460
Operating cost under recoveries	346,992	257,052	505,678
	487,165	395,454	949,899
Provision for credit losses			
General provision for credit losses	275.097	252.983	221.149

## 15. Administration expenses

Specific provision for credit losses

•	Administration expenses			
	Directors fees - for services as directors	25,910	24,202	49,80
	Auditors' fees	45,312	56,109	77,1
	ICT expenses	33,958	27,889	49,40
	Staff related costs	726,818	881,680	1,723,2
	Depreciation	97,430	114,344	231,0
	Communications	8,568	9,651	21,0
	Fees and other charges	51,603	55,757	124,78
	Office costs	142,159	230,420	373,86
	Travel and entertainment	2,365	5,800	8,9
	Group shared services	276,976	399,783	642,1
	Advertising	7,570	34,256	62,9
		1,418,669	1,839,890	3,364,33

## 16. Finance costs

17.	Finance income
	Financing fees (Arrangement & Commitment fees)

Interest on overdue tenant accounts

## Interest on short term investments

	213,139	361,738	652,641
. Taxation			
Current income tax	543,130	413,056	872,408
Deferred tax	(289,693)	(2,917)	2,006,562

Finance costs

Liabilities

649,321

649,321

Capital expenditure

Investment property

Fair value through profit or loss Dividend and other income

nterest on overdue accounts Interest on short term investments

18.

19.

Segment Reporting for the six months ended 30 June 2014							
All figures in USD	Office	Retail	Industrial	Adjustment	Total		
Revenue	2,068,323	1,788,508	524,082	50,101	4,431,014		
Property expenses and provisions	(702,277)	(89,217)	(343,434)	(5,669)	(1,140,597)		
Segment profit	1,366,046	1,699,291	180,648	44,432	3,290,417		
Administration expenses	-	-	-	(1,634,707)	(1,634,707)		

Profit before tax	_1,366,04	6 1,699,29	180,648	3 (1,547,621	) 1,698,364
Reconciliation of segment asso	ets for June 2014				
All figures in USD	Office	Retail	Industrial	Adjustment	Total
Assets					
Investment property	84,850,435	31,422,765	11,028,981	11,888,011	139,190,192
Trade receivables	1,269,345	851,362	482,616	18,598	2,621,921
Segment assets	86,119,780	32,274,127	11,511,597	11,906,609	141,812,113
Other non-current assets	-	-	-	1,051,364	1,051,364
Current assets	-	-	-	3,776,781	3,776,781
Total assets	86,119,780	32,274,127	11,511,597	16,734,754	146,640,258

Segment Reporting for the six months ended 30 June 2013						
Revenue	2,872,952	983,829	645,044	7,508	4,509,333	
Property expenses and provisions	(364,380)	(127,056)	(126,848)	(30,153)	(648,437)	
Segment profit	2,508,572	856,773	518,196	(22,645)	3,860,896	
Administration expenses	-	-	-	(1,839,890)	(1,839,890)	
Fair value through profit or loss	-	-	-	(15,567)	(15,567)	
Dividend and other income	-	-	-	15,920	15,920	
Interest on overdue accounts	-	-	-	94,962	94,962	
Interest on short term investments	-	-	-	266,776	266,776	
Profit before tax		-	-	(1,500,444)	2,383,097	

499,895

## Reconciliation of segment assets for June 2013

Liabilities	9,545,465	2,746,745	765,823	726,733	13,784,766
Total assets	87,316,321	20,047,240	11,438,160	11,108,149	129,909,870
Current assets		_	-	7,071,107	7,071,107
Other non-current assets	36,647	22,558	-	1,273,437	1,332,642
Segment assets	87,279,674	20,024,682	11,438,160	2,763,605	121,506,121
Trade receivables	391,078	241,998	305,128	73,605	1,011,809
Capitalised cost	-	194,110	-	34,202	228,312

86,888,596 19,588,574 11,133,032

228,312

34,202

2,655,798 120,266,000