PEARL PROPERTIES (2006) LIMITED

Audited Abridged Financial Results

For the year ended 31 December 2015

PEARL PROPERTIES

innovation, prosperity, stability

A MEMBER OF FIRST MUTUAL HOLDINGS LIMITED

CHAIRMAN'S STATEMENT

Overview

The past few years have been characterised by a deflationary environment with persistent pressure on rentals, occupancy and property values. As a result of these pressures, revenue has been declining, with 2015 registering a 3.53% fall. The diversified nature of our property portfolio has helped reduce the impact of the operating environment on the property portfolio, resulting in the growth in property values in the past five years. In 2015, the pressures on rentals and occupancy levels resulted in a 4.10% impairment on property values. However despite the tough operating environment, the Group has maintained operating profitability. In 2015, net property income after administration expenses grew by 3.45% driven by declining administration expenses, a function of our ongoing rationalisation of overheads and the exclusion of the once-off staff rationalisation costs that occurred in 2014.

As a result of the growth in operating profitability, we are pleased to report that the dividend of 0.055 US cents per share for FY2014 will grow by 7.11% to 0.059 US cents payable from the profits for the year ended 31 December 2015.

The Economy

The macroeconomic environment continued to weaken in 2015 as Zimbabwe's economic and financial conditions continued to worsen with GDP growth slowing down to an estimated 1.5% against initial estimates of 3.2% for the year, unemployment rising and economic activity increasingly shifting to the informal sector. Annual inflation at December 2015 was -2.47% as the deflationary pressures continued due to the further weakening of the regional currencies to the United States dollar, as well as corporate entities/retailers lowering prices in a bid to stimulate aggregate demand. As more corporate entities down sized, rationalised operations and or shut down, aggregate demand weakened further reducing disposable income.

The key productive sectors of the economy remained subdued during the year. The mining sector remained under pressure as international metal prices continued to decline reducing export earnings, while the agricultural sector continued to under perform due to high operating costs and the inconsistent climate patterns suppressing production. Persistent illiquidity remains in the banking sector with continuing concerns over non-performing loans. Despite the most recent restructuring of the interest rate regime following pressure from the central bank, the cost of funds remains punitive limiting opportunities for companies within these key productive sectors to access competitively priced project and working capital. As these key productive sectors remained under pressure, the demand for commercial real estate remained subdued impeding on prospects for meaningful real estate development.

Business Model

We believe our business model is a simple yet effective model, focusing on our core property portfolio, trading and developing opportunities and property services. The model is supported by our strategic priorities, which drive the business and provide measurable insight into the overall performance. Implementing innovative and practical real estate solutions will be critical in navigating the prevailing operating environment to ensure the property portfolio delivers competitive and sustainable returns.

Appointment of Auditors

PricewaterhouseCoopers Chartered Accountants (Zimbabwe) were appointed as auditors of the Group at the last Annual General Meeting. We thank the outgoing auditors, Ernst & Young Chartered Accountants (Zimbabwe), for the services rendered.

Directorate

Mr John P. Travlos and Mr Munyaradzi J-R Dube resigned from the Board effective 31 December 2015. We thank the outgoing directors for their invaluable service during their tenure.

Dividend

At a meeting held on 19 February 2016, your Board resolved that a final dividend of 0.059 US cents per share be declared from the profits for the year ended 31 December 2015. The dividend will be payable on or about 29 April 2016 to all shareholders of the company registered at close of business on 08 April 2016. The shares of the company will be traded cum-dividend on the Zimbabwe Stock Exchange upto 01 April 2016 and ex-dividend as from 04 April 2016.

Outlook

Investor and business confidence is low, as a result of inadequate infrastructure to support meaningful productive activity thereby limiting economic prospects. There is significant risk of financial distress in the face of persistent de-industrialisation and a growing informal economy. Implementation of structural reforms to improve the operating environment will be the stimulus to attracting foreign direct investment to revive the key productive sectors where demand for commercial real estate is derived.

We continue to be optimistic of the medium to long term prospects of the economy, with the group positioned to exploit opportunities for growth while seeking opportunities to reshape the structure and location of our property assets. In the short term, priority will be to consolidate the existing performance in light of the challenging operating environment by expanding the revenue base while continuing to rationalise overheads to preserve earnings.

Acknowledgements

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

E.K Moyo
Chairman
19 February 2016

MANAGING DIRECTOR'S OPERATIONS OVERVIEW

The Property Market

The property market remained subdued during the year due to the illiquid and deflationary operating environment. As was the case in the prior year, the property market continued to experience increasing levels of rental defaults, pressure for downward rental reviews, increasing voluntary space surrenders and legal evictions resulting in declining occupancy levels.

The limited number of new companies into the economy has also resulted in weakened demand for space, mainly affecting the office and specialised industrial sectors where vacancies are increasing. In the retail sector, the occupancy levels have remained stable although tenants are requesting for downward rent reviews to remain in operation and maintain sustainable earnings to combat competition from the rising number of informal traders with marginal overheads. Declining productivity in the economy has adversely affected the capacity utilisation especially in the manufacturing sector with most industrial facilities becoming dormant.

The expensive mortgage facilities resulted in property sales transactions being completed at suppressed prices with the affordability of mortgages being restricted to a smaller segment of the formally employed. The non-availability of competitively priced long term finance restricted meaningful property development. The current pricing and tenures of available funding is punitive and restrictive for new property developments to take place. However, in our current environment, most developments would be speculative in nature due to the low demand for new space as recent developments are struggling to attract tenants.

The absence of long-term, competitively priced mortgage finance and poor liquidity has negatively affected the residential property market. To this end, residential property prices and the respective rentals are falling as a result of the weak demand and low disposable incomes. In response, some financial institutions have taken strides by softening mortgage terms in order to increase uptake of residential properties by home seekers. However there is limited demand for high value residential properties.

Operations Update

In 2015, the pressure on rentals and occupancy levels resulted in a 3.53% decline in revenue to US$8.468 million (FY2014: US$8.778 million), however net operating income after administration expenses grew by 3.45% driven by rationalisation of overheads.

Rental income for the year declined by 4.11% to US$8.342 million (FY2014: US$8.699 million), worse than deflation at 2.47%, driven by decline in the occupancy level and reduced turnover based rentals in retail properties. Administration expenses declined by 2.90% benefiting from the rationalisation initiatives the Group is undertaking.

The property portfolio was revalued at US$135.027 million (FY2014: US$140.797 million) representing a 4.10% impairment on property values. The decline in property values was driven by declining rentals and decreasing occupancy levels especially in the CBD Office and industrial sectors.

During the year, the operating environment continued to subdue the performance of the property portfolio. The occupancy level declined to 78.54% (FY2014: 79.93%) with vacations largely within the CBD properties.

Tenant arrears increased by 0.25% to US$2.399 million (FY2014: US$2.393 million) due to the liquidity challenges prevailing in the economy resulting in tenants defaulting on their lease obligations. During the period, the Group committed a total of US$0.405 million (FY2014: US$0.213 million) towards property maintenance to improve the quality of space to retain existing quality tenants.

The Group continues to dispose the George Square Mews cluster houses after sectional titles for the cluster houses were finalised. However, as sales have been below expectations due to the tight market liquidity and unfavourable mortgage finance terms, the Group continues to explore viable alternative options to generate profitable sales.

Performance Outlook

We remain optimistic for a positive change in the operating environment, and in the interim, the priority will be to consolidate the existing performance in light of the challenging operating environment by expanding the revenue base while continuing to rationalise overheads to preserve earnings.

F. Nyambiri
Managing Director
19 February 2016

Consolidated Statement of Financial Position
As at 31 December 2015

All figures in USD	Note	2015	2014
ASSETS			
Investment properties	5	135,027,000	140,797,000
Vehicles and equipment	6	136,406	339,553
Available-for-sale financial assets	7	388,952	486,190
Financial assets at fair value through profit or loss	8	126,034	157,543
Long-term receivable		488,511	977,022
Deferred income tax assets		249,068	120,469
Long-term investments		277,113	287,910
Inventory	9	2,938,082	2,785,738
Short-term portion of the long-term receivable		488,511	-
Tax receivables		588,024	630,972
Trade and other receivables	10	1,675,984	1,934,423
Cash and cash equivalents	11	1,511,986	964,958
Total Assets		**143,895,671**	**149,481,778**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Ordinary share capital		1,238,157	1,238,157
Available-for-sale reserve		-	(39,146)
Retained earnings		125,151,535	126,313,858
Total shareholders' equity		**126,389,692**	**127,512,869**
Deferred income tax liabilities	13	12,473,701	15,631,662
Long term borrowings	12	2,291,667	3,391,666
Short-term portion of the long-term borrowings	12	1,100,000	1,100,000
Tax payable		29,562	10,334
Trade and other payables	14	1,611,048	1,689,053
Loans and other payables		-	146,194
Total liabilities		**17,505,978**	**21,968,909**
Total equity and liabilities		**143,895,671**	**149,481,778**

Consolidated Statement of Profit or Loss
For the year ended 31 December 2015

All figures in USD	Note	2015	2014
Revenue		**8,467,692**	**8,777,892**
Rent income		8,342,349	8,699,564
Property sales		100,000	-
Property service income		25,343	78,328
Property expenses	15	(1,319,145)	(1,102,797)
Provision for credit losses		(864,764)	(1,215,199)
Net property income (NPI)		**6,283,783**	**6,459,896**
Administration expenses		(2,686,040)	(2,766,230)
Staff rationalisation costs		-	(216,038)
NPI after administration expenses		**3,597,743**	**3,477,628**
Fair value adjustment - investment properties		(6,609,492)	1,205,630
Fair value adjustment - equities		(31,509)	26,257
Investment and finance income	17	348,453	476,783
Dividend and other income		158,375	268,884
Finance costs		(419,789)	(643,623)
(Loss)/Profit before tax		**(2,956,219)**	**4,811,559**
Taxation credit/(charge)	13.1	2,474,883	(1,286,578)
(Loss)/Profit for the year		**(481,336)**	**3,524,981**
Basic and diluted earnings per share (US cents)		(0.039)	0.285
Headline earnings per share (US cents)		0.241	0.242
Weighted average number of shares in issue		1,238,157,310	1,238,157,310

Consolidated Statement of Other Comprehensive Income
For the year ended 31 December 2015

All figures in USD	2015	2014
(Loss) /Profit for the year	**(481,336)**	**3,524,981**
Other comprehensive income - items to subsequently be classified to profit or loss		
Fair value adjustments on available-for-sale financial assets	(97,239)	80,795
Available for sale reserve reclassified to profit or loss	135,412	(50,547)
Deferred tax effect	972	(715)
Other comprehensive income for the year, net of tax	**39,146**	**29,533**
Total comprehensive (loss)/ income for the year, net of tax	**(442,191)**	**3,554,514**
Total comprehensive (loss)/ income attributable to:		
Equity holders of the parent	(442,191)	3,554,514
Total comprehensive (loss)/income	**(442,191)**	**3,554,514**

Consolidated Statement of Changes in Equity
For the year ended 31 December 2015

All figures in USD	Ordinary Share Capital	Available-for-Sale Reserve	Retained Earnings	Total Shareholders Equity
At 1 January 2014	**1,238,157**	**(68,679)**	**122,788,877**	**123,958,355**
Profit for the year	-	-	3,524,981	3,524,981
Other comprehensive income	-	29,533	-	29,533
At 31 December 2014	**1,238,157**	**(39,146)**	**126,313,858**	**127,512,869**
Loss of the year	-	-	(481,336)	(481,336)
Other comprehensive income	-	39,146	-	39,146
Dividend paid	-	-	(680,987)	(680,987)
At 31 December 2015	**1,238,157**	**-**	**125,151,535**	**126,389,692**

Consolidated Statement of Cashflows
As at 31 December 2015

All figures in USD	Note	2015	2014
(Loss)/Profit before tax		**(2,956,219)**	**4,811,559**
Adjustment for non-cash items		8,008,413	599,316
Cash flows before working capital changes		**5,052,194**	**5,410,875**
Working capital adjustments		(1,259,599)	3,151,709
Cash generated from operations		**3,792,595**	**8,562,584**
Tax paid		(748,600)	(844,336)
Interest paid		(419,789)	(643,624)
Net cash flow from operating activities		**2,624,206**	**7,074,624**
Net cash flows used in investing activities		(149,997)	(11,065,108)
Net cash flows (used)/generated from financing activities		(1,927,182)	4,637,861
Net increase in cash and cash equivalents		**547,027**	**647,377**
Opening cash and cash equivalents		964,959	317,581
Cash and cash equivalents at 31 December	11	**1,511,986**	**964,958**

Notes to the Consolidated Financial Results
For the year ended 31 December 2015

1. Corporate Information

Pearl Properties (2006) Limited is a public Company incorporated and domiciled in Zimbabwe and its shares are publicly traded on the Zimbabwe Stock Exchange. The principal activities of the Group are property investment, development and management. The consolidated financial statements of the Group for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors at a meeting held on 19 February 2016.

2. Basis of Preparation

The consolidated financial statements of the Group from which this press release has been extracted have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements are based on statutory records that are maintained under the historical cost convention except for investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss that have been measured at fair value.

The financial statements have been prepared in compliance with the Companies Act [Chapter 24:03].

3. Reporting Period and Currency

The reporting period is 1 January 2015 to 31 December 2015. The financial statements are presented in United States dollars being the functional and reporting currency of the primary economic environment in which the Group operates.

4. Audit Opinion

The Group's independent auditor's, PricewaterhouseCoopers Chartered Accountants (Zimbabwe) have expressed an unqualified opinion on the Group's financial statements.

5. Investment Properties

All figures in USD	2015	2014
At 1 January	140,797,000	128,142,000
Transfer from inventory	189,000	-
Additions	339,245	10,727,341
Improvements to existing properties	311,247	722,029
Fair value adjustments	(6,609,492)	1,205,630
Closing balance	**135,027,000**	**140,797,000**

Investment property with a total carrying amount of US$20.800 million was encumbered at 31 December 2015.

6. Vehicles and Equipment

At I January	339,553	461,770
Additions	18,346	73,239
Disposals	(95,864)	(23,403)
Depreciation	(125,629)	(172,053)
Closing balance	**136,406**	**339,553**

7. Available-for-sale Financial Assets

At 1 January	486,190	415,460
Disposals	-	(9,195)
Write-off	-	(870)
Fair value adjustment	(97,238)	80,795
Closing balance	**388,952**	**486,190**

8. Financial Assets at Fair Value through Profit or Loss

At 1 January	157,543	299,644
Disposal	-	(165,724)
Write-off	-	(2,634)
Fair value adjustment	(31,509)	26,257
Closing balance	**126,034**	**157,543**

9. Inventory

Property held-for-trading	-	140,233
Kamfinsa Cluser Housing Development	2,897,813	2,608,309
Consumables	40,269	37,196
Closing balance	**2,938,082**	**2,785,738**

10. Trade and Other Receivables

Tenant receivables	2,398,718	2,393,036
Tenant operating cost recoveries	638,355	573,565
Trade receivables	**3,037,073**	**2,966,601**
Less: Allowance for credit losses	(2,209,996)	(1,647,666)
Net trade receivables	**827,077**	**1,318,935**
Prepayments	459,296	417,953
Other receivables	111,485	18,493
Related party receivables	278,126	179,042
Closing balance	**1,675,984**	**1,934,423**

10.1 Reconciliation of Allowances for Credit Losses

At 1 January	1,647,666	986,926
Add: Charge for the year	864,764	1,215,199
Less: Utilised through write-offs	(302,434)	(554,459)
Closing balance	**2,209,996**	**1,647,666**

11. Cash and Cash Equivalents

Short-term investments	860,210	54,364
Cash at bank	651,776	910,595
Closing balance	**1,511,986**	**964,959**

12. Long-term Borrowings

At 1 January	4,491,666	-
Proceeds from financial institution	-	5,500,000
Amortised interest	419,790	604,372
Capital and interest repayments	(1,519,789)	(1,612,706)
Closing balance	**3,391,667**	**4,491,666**
Short-term portion	1,100,000	1,100,000
Long-term portion	2,291,667	3,391,666
	3,391,667	**4,491,666**

The loan is secured by an immovable property stamped to cover US$6.500 million. The loan has an interest rate currently at 10% per annum.

13. Deferred Income Tax Liabilities

All figures in USD	2015	2014
At 1 January	15,631,662	14,871,520
Arising on vehicles and equipment	1,753	(1,206)
Arising on investment properties	(2,948,456)	873,351
Arising on assessed losses	(211,258)	(132,002)
Closing balance	**12,473,701**	**15,631,662**

13.1 Tax Credit/(Charge)

Current income tax	(810,774)	(745,375)
Deferred tax	3,285,657	(541,203)
Closing balance	**2,474,883**	**(1,286,578)**

14. Trade and Other Payables

Tenant payables	348,727	500,220
Sundry payables	569,110	474,210
Trade payables	693,211	714,623
Closing balance	**1,611,048**	**1,689,053**

15. Property Expenses

Maintenance costs	404,801	212,888
Property security and utilities	304,141	237,632
Valuation fees	10,510	15,873
Operating cost under recoveries	521,429	636,404
Property cost of sale	78,264	-
	1,319,145	**1,102,797**

16. (Loss)/Profit before tax takes into account the following:

Directors fees -for services as directors	70,528	55,199
Auditors fees	79,959	84,907
ICT expenses	85,265	69,597
Staff related costs	1,497,464	1,424,920
Depreciation	125,629	172,053
Group shared services	462,895	554,301
Office costs	226,543	277,505

17. Investments and Finance Income

Interest on overdue tenant accounts	301,266	263,906
Interest on long term loan	131,731	126,878
Interest on short term investments	50,868	38,875
Investment (loss)/income	(135,412)	47,124
	348,453	**476,783**

18. Segment Reporting for the year ended 31 December 2015

All figures in USD	Office	Retail	Industrial	Other	Adjustment	Total
Revenue	4,973,212	1,869,975	1,380,484	331,984	(87,964)	8,467,692
Property expenses	(916,002)	(186,199)	(123,384)	(93,560)	-	(1,319,145)
Allowance for credit losses	(307,497)	(198,004)	(311,103)	(48,160)	-	(864,764)
Segment results	**3,749,713**	**1,485,772**	**945,997**	**190,264**	**(87,964)**	**6,283,783**
Fair value adjustment- Investment property	(5,406,051)	(602,568)	(528,376)	(72,497)	-	(6,609,492)
Segment (loss)/profit	**(1,656,338)**	**883,204**	**417,621**	**117,767**	**(87,964)**	**(325,709)**
Administration expenses	-	-	-	-	87,964	(2,686,040)
Finance costs	-	-	-	-	-	(419,789)
Fair value adjustment - equities	-	-	-	-	-	(31,509)
Dividend and other income	-	-	-	-	-	158,375
Investment and financial income	-	-	-	-	-	348,453
(Loss)/Profit before tax	**(1,656,338)**	**883,204**	**417,621**	**117,767**	**-**	**(2,956,219)**

Reconciliation of Segment Results for 31 December 2015

All figures in USD	Office	Retail	Industrial	Other	Adjustment	Total
Assets						
Investment property	79,650,000	21,960,000	12,430,000	20,987,000	-	135,027,000
Trade receivables	1,494,080	651,275	814,324	77,394	-	3,037,073
Segment assets	**81,144,080**	**22,611,275**	**13,244,324**	**21,064,394**	**-**	**138,064,073**
Other non-current assets	-	-	-	-	-	1,427,926
Current assets	-	-	-	-	-	4,403,672
Total assets	**81,144,080**	**22,611,275**	**13,244,324**	**21,064,394**	**-**	**143,895,671**
Liabilities	845,811	161,288	177,946	1,555,565	-	2,740,610
Capital expenditure	**96,708**	**27,998**	**118,376**	**257,165**	**-**	**500,247**

Segment Reporting for the year ended 31 December 2014

All figures in USD	Office	Retail	Industrial	Other	Adjustment	Total
Revenue	5,418,295	2,057,055	1,314,736	78,328	(90,522)	8,777,892
Property expenses	(790,479)	(157,099)	(119,944)	(35,275)	-	(1,102,797)
Allowance for credit losses	(672,659)	(128,812)	(385,896)	(27,833)	-	(1,215,199)
Segment results	**3,955,157**	**1,771,144**	**808,896**	**15,220**	**(90,522)**	**6,459,896**
Fair value adjustment- Investment property	(144,170)	1,494,033	449,968	(594,201)	-	1,205,630
Segment profit	**3,810,987**	**3,265,177**	**1,258,864**	**(578,981)**	**(90,522)**	**7,665,526**
Administration expenses	-	-	-	-	90,522	(2,766,230)
Staff rationalisation	-	-	-	-	-	(216,038)
Finance costs	-	-	-	-	-	(643,623)
Fair value adjustment - equities	-	-	-	-	-	26,257
Dividend and other income	-	-	-	-	-	268,884
Investment and financial income	-	-	-	-	-	476,783
Profit before tax	**3,810,987**	**3,265,177**	**1,258,864**	**(578,981)**	**-**	**4,811,559**

Reconciliation of Segment Results for 31 December 2014

All figures in USD	Office	Retail	Industrial	Other	Adjustment	Total
Assets						
Investment property	84,940,000	22,200,000	12,840,000	20,817,000	-	140,797,000
Trade receivables	1,143,186	957,073	811,015	55,327	-	2,966,601
Segment assets	**86,083,186**	**23,157,073**	**13,651,015**	**20,872,327**	**-**	**143,763,601**
Other non-current assets	-	-	-	-	-	2,368,685
Current assets	-	-	-	-	-	3,349,492
Total assets	**86,083,186**	**23,157,073**	**13,651,015**	**20,872,327**	**-**	**149,481,778**
Liabilities	648,312	655,922	299,369	1,341,978	-	2,945,581
Capital expenditure	**734,164**	**25,967**	**180,032**	**10,582,439**	**-**	**11,522,608**

Other segment comprises of residential properties, undeveloped land and income generated from other property services.

Adjustment column relates to rental income for space occupied by Pearl Properties (2006) Limited.

Directors: Elisha K. Moyo (Chairman), Francis Nyambiri* (Managing Director), Douglas Hoto, William Marere, Dr Shasekant Jogi, Ms. Eve Mkondo, Ms. Ruth B. Ncube and Joseph Mutizwa. *Executive Director

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