PEARL PROPERTIES

innovation, prosperity, stability

A MEMBER OF FIRST MUTUAL HOLDINGS LIMITED

Abridged Audited Financial Results

For the year ended 31 December 2016

CHAIRMAN'S STATEMENT

The Economy

The economy continues to weaken due to illiquidity, deflation and declining local industry competitiveness. The changes in the monetary and foreign currency policy boosted activity on the Zimbabwe Stock Exchange, however the impact on the operating environment is yet to be fully realised.

Fiscal revenues declined during the year across individual, corporate, customs duty and value added tax heads, on the back of low domestic demand. Deflation continued during the year, although softening from -2.47% to -0.90% at year-end. The country's Gross Domestic Product growth declined to 0.60% compared to 1.10% at December 2015, reflecting the worsening performance of the key productive sectors.

The Property Market

The real estate market remained subdued as reflected by the fact that only 1.60% of bank credit issued in the market was absorbed by the construction industry.

Low demand for space, increasing vacancy levels due to voluntary space surrenders and evictions compounded by increasing defaults characterised the property market. These market conditions negatively affected rental levels and property values in selected sub-sectors of the property market, with the central business district offices and large factory and specialised industrial sectors being the worst affected. The retail sector maintained the highest occupancy levels within the property market.

Residential developments, albeit the infrastructure deficit, continue to dominate the property development market, especially in the high and medium density sectors. There was low activity on commercial property development due to low aggregate demand and punitive pricing of long term debt.

Human Capital Development

The Group continues to develop its staff through various training programs aimed at meeting short to medium term strategic objectives.

Corporate Social Responsibility

Through the First Mutual Foundation, the Group continues to support selected children throughout the country with educational assistance as well as supporting tertiary education.

Directorate

Mr Francis Nyambiri resigned from his position as Managing Director on 10 October 2016 and Mr Joseph Mutizwa resigned as a non-executive Director with effect from 6 March 2017. We would like to thank the outgoing Directors for their invaluable service during their tenure.

Mr Christopher Kudakwashe Manyowa was appointed as Managing Director on 1 March 2017. We wish him every success in his new position.

Dividend

At a meeting held on 6 March 2017, the Board resolved that a final dividend of US0.059 cents per share be declared from the profits for the year ended 31 December 2016. The dividend will be payable on or about 28 April 2017 to all shareholders of the Company registered at close of business on 7 April 2017. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to 31 March 2017 and ex-dividend as from 3 April 2017.

Outlook

Performance of the real estate market is dependent on performance of other economic fundamentals. In the short to medium term, the prospects for growth are minimal due to the weakening economy.

The continued weak demand for space, over-supply of existing space compounded by the non-availability of competitively priced long term finance and physical infrastructure deficit will restrict significant property developments in the short to medium term.

The Group remains strategically positioned to exploit opportunities that may arise within the market, through its investments in brownfield and prime greenfield developmental sites. In addition, the Group is actively pursuing refurbishments and reinvestment into the existing portfolio to enhance the quality of space available as well as maintain the long-term sustainability of returns.

Acknowledgements

On behalf of the Board, I wish to thank our clients, staff, management and all other stakeholders for their invaluable support.

E.K Moyo
Chairman
6 March 2017

MANAGING DIRECTOR'S ABRIDGED OPERATIONS REVIEW

Performance Overview

The persistent pressure on rentals and occupancy levels resulted in revenue declining by 5.72% to US$7.983 million (FY2015:US$8.468 million), driven by declining rental income. Rental income declined by 7.36% during the year to US$7.728 million (FY2015: US$8.342 million) due to the unfavourable property market fundamentals, with the office sector worst affected.

The Net Property Income ("NPI") after administration expenses declined by 7.07% at US$3.343 million (FY2015:US$3.598 million) mainly due to the reduction in revenue.

Knight Frank Zimbabwe, an independent property valuer, performed a full valuation at 31 December 2016. The property portfolio was valued at US$137.30 million (FY2015: US$135.03 million) representing a 1.68% increase. The increase was driven by the reclassification of George Square Mews Cluster Houses from Inventory to Investment Property, following a change in investment strategy for the residential development. On a like for like basis, the portfolio had an impairment of 0.94%, driven by declining rentals and decreasing occupancy levels which were mitigated by an uplift in the suburban retail segment. The sectors most affected were Central Business District ("CBD") Office and industrial.

Occupancy levels remained under pressure during the year, declining to 71.77% (FY2015: 78.74%) with vacations largely within the CBD and industrial properties.

Tenant arrears marginally improved to US$2.355 million (FY2015: US$2.399 million). Due to the liquidity challenges prevailing in the economy, tenant defaults remain high.

With the weak economic fundamentals expected to persist in the short term, the key productive sectors of the local economy are expected to remain subdued affecting demand for real estate. To this end, the Group expects 2017 to experience further downward pressure on rentals and occupancy levels. However, the Group forecast sustained operating profitability and cash flow generation from operations.

Christopher K. Manyowa
Managing Director
6 March 2017

Consolidated statement of financial position
As at 31 December 2016

All figures in US$	Note	2016	2015
ASSETS			
Non-current assets			
Investment properties	5	137 302 000	135 027 000
Vehicles and equipment	6	98 454	136 406
Available-for-sale financial assets		388 952	388 952
Loans and other receivables	7	630 000	488 511
Deferred tax assets		262 850	249 068
Financial assets held to maturity		277 385	277 113
		138 959 641	**136 567 050**
Current assets			
Inventory	8	42 028	2 938 082
Short-term portion of the loans and other receivables	7	320 000	488 511
Financial assets at fair value thorough profit or loss	9	124 005	126 034
Tax receivables		563 879	588 024
Trade and other receivables	10	1 266 976	1 675 984
Cash and cash equivalents	11	2 194 131	1 511 986
		4 511 019	**7 328 621**
Total assets		**143 470 660**	**143 895 671**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Ordinary share capital		1 218 148	1 238 157
Retained earnings		125 561 380	125 151 535
Total shareholders' equity		**126 779 528**	**126 389 692**
Non-current liabilities			
Deferred tax liabilities	13	12 322 492	12 473 701
Borrowings	12	1 191 667	2 291 667
		13 514 159	**14 765 368**
Current liabilities			
Short-term portion of the borrowings	12	1 100 000	1 100 000
Tax payable		476 896	29 563
Trade and other payables	14	1 600 077	1 611 048
		3 176 973	**2 740 611**
Total liabilities		**16 691 132**	**17 505 979**
Total equity and liabilities		**143 470 660**	**143 895 671**

Consolidated statement of profit or loss
For the year ended 31 December 2016

All figures in US$	Note	2016	2015
Revenue		**7 983 436**	**8 467 692**
Rent income		7 728 179	8 342 349
Property sales		240 870	100 000
Property service income		14 387	25 343
Property expenses	15	(1 479 641)	(1 319 145)
Provision for credit losses		(294 523)	(864 764)
Net property income ("NPI")		**6 209 272**	**6 283 783**
Administration expenses		(2 865 968)	(2 686 040)
NPI after admin expenses		**3 343 304**	**3 597 743**
Fair value adjustments		(1 529 852)	(6 641 001)
Investments and finance income	17	377 517	348 453
Other income		137 028	158 375
Finance costs		(296 125)	(419 789)
Profit/(Loss) before income tax	16	**2 031 872**	**(2 956 219)**
Income tax expense	13.1	(892 621)	2 474 883
Profit/(Loss) for the period		**1 139 251**	**(481 336)**
Attributable to:			
-Owners of the parent		1 139 251	(481 336)
-Non controlling interest		-	-
Total Profit/(Loss) for the year		**1 139 251**	**(481 336)**
Basic and diluted earnings per share (US cents)		**0.092**	**(0.039)**
Weighted average number of shares in issue		**1 237 952 370**	**1 238 157 310**

Consolidated statement of other comprehensive income
For the year ended 31 December 2016

All figures in US$	2016	2015
Profit/(Loss) for the period	**1 139 251**	**(481 336)**
Other comprehensive income - items to be reclassified to profit or loss in subsequent periods		
Fair value adjustments on available-for-sale financial assets	-	(97 239)
Available for sale reserve reclassified to profit or loss	-	135 412
Deferred tax effect	-	972
Other comprehensive income for the year net of tax	**-**	**39 146**
Total comprehensive Income/(Loss) for the year net of tax	**1 139 251**	**(442 191)**
Total comprehensive income attributable to:		
-Owners of the parent	1 139 251	(442 191)
-Non controlling interest	-	-
Total comprehensive Income/(Loss)	**1 139 251**	**(442 191)**

Consolidated statement of changes in equity
For the year ended 31 December 2016

	Attributable to owners of the parent			
All figures in US$	Ordinary share capital	Available-for-sale reserve	Retained earnings	Total shareholders equity
At 1 January 2015	1 238 157	(39 146)	126 313 858	127 512 869
Loss for 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**
Profit of the year	-	-	1 139 251	1 139 251
Acquisition of treasury shares	(20 009)	-	-	(20 009)
Other comprehensive loss	-	-	-	-
Dividend paid	-	-	(729 406)	(729 406)
At 31 December 2016	**1 218 148**	**-**	**125 561 380**	**126 779 528**

The shareholders at an Annual General Meeting held on 31 May 2016 passed an ordinary resolution for the Company to purchase its shares in terms of section 79 of the Zimbabwe Companies Act [Chapter 24:03] and the Zimbabwe Stock Exchange Listing Requirements. 1 229 638 shares were purchased at US2 cents per share and are utilised for treasury purposes.

Consolidated statement of cash flows
As at 31 December 2016

All figures in US$	2016	2015
Profit/(Loss) before income tax	**2 031 872**	**(2 956 219)**
Adjustment for non-cash items	2 045 826	8 008 411
Cash flows from operating activities before working capital adjustments	**4 077 698**	**5 052 192**
Working capital adjustments	(213 102)	(1 259 598)
Cash generated from operations	**3 864 596**	**3 792 596**
Tax paid	(778 781)	(748 600)
Interest paid	(296 125)	(419 789)
Net cash flow from operating activities	**2 789 690**	**2 624 205**
Net cash flows used in investing activities	(258 130)	(149 997)
Net cash flows used in financing activities	(1 849 415)	(1 927 181)
Net increase in cash and cash equivalents	**682 145**	**547 027**
Opening cash and cash equivalents	1 511 986	964 959
Cash and cash equivalents at 31 December	**2 194 131**	**1 511 986**

Notes to the consolidated financial results
For the year ended 31 December 2016

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 2016 were authorised for issue in accordance with a resolution of the directors at a meeting held on 6 March 2017.

2. Basis of preparation

The financial statements of the Group from which this press release has been extracted have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRS IC") interpretations applicable under IFRS and in the manner required by the Zimbabwe Companies Act [Chapter 24:03]. 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.

3. Reporting period and currency

The reporting period is 1 January 2016 to 31 December 2016. 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

These financial results should be read in conjunction with the complete set of financial statements for the year ended 31 December 2016, which have been audited by PricewaterhouseCoopers Chartered Accountants (Zimbabwe). An unqualified audit opinion has been issued which also includes a section on key audit matters as defined by ISA 701, 'Communicating key audit matters in the independent auditor's report'. This includes both the rationale for determining the key audit matters and how they were addressed during the audit.

5. Investment properties

All figures in US$	2016	2015
At 1 January	135 027 000	140 797 000
Transfer from inventory	3 550 000	189 001
Additions	-	339 244
Improvements to existing properties	427 089	311 247
Fair value adjustments	(1 702 089)	(6 609 492)
	137 302 000	**135 027 000**

Investment property with a total carrying amount of US$20.500 million was encumbered at 31 December 2016 (FY2015:US$20.800 million).

Investment property with a fair value of US$3.550 million was reclassified from inventory during the year ended 31 December 2016 (FY2015:US$0.189 million) as a result of a change in use from property held for disposal to rental units.

6. Vehicles and equipment

All figures in US$	2016	2015
At I January	136 406	339 553
Additions	50 610	18 346
Disposals	(39 890)	(95 864)
Depreciation	(48 672)	(125 629)
	98 454	**136 406**

7. Loans and other receivables

At 1 January	977 022	977 022
Repayments of interest and principal	(141 165)	(125 870)
Amortised interest	114 143	125 870
	950 000	**977 022**
Short-term portion	320 000	488 511
Long-term portion	630 000	488 511
	950 000	**977 022**

The loan was restructured effective 31 December 2016. The revised terms are as follows:

Final maturity date	31 October 2019
Repayment	Six bi-annual instalments beginning 30 April 2017
Interest rate	Remains 13% paid monthly

8. Inventory

All figures in US$	2016	2015
George Square Mews Cluster Houses	-	2 897 813
Consumables	42 028	40 269
	42 028	**2 938 082**

9. Financial assets at fair value through profit or loss

At 1 January	126 034	157 543
Disposals	(2 752)	-
Fair value adjustment	723	(31 509)
	124 005	**126 034**

10. Trade and other receivables

Tenant receivables	2 355 004	2 398 718
Tenant operating cost recoveries	535 342	638 355
Property sales receivables	111 000	-
Trade receivables	**3 001 346**	**3 037 073**
Less: Allowance for credit losses	(2 170 799)	(2 209 996)
Net trade receivables	**830 547**	**827 077**
Prepayments	169 855	459 295
Other receivables	125 366	111 486
Related party receivables	141 208	278 126
	1 266 976	**1 675 984**

10.1 Reconciliation of allowances for credit losses

At 1 January	2 209 996	1 647 666
Add: charge for the year	294 523	864 764
Less: utilised through write-offs of trade receivables	(333 720)	(302 434)
	2 170 799	**2 209 996**

11. Cash and cash equivalents

Short-term investments	1 700 774	860 210
Cash at bank	493 357	651 776
	2 194 131	**1 511 986**

12. Borrowings

At 1 January	3 391 667	4 491 666
Amortised interest	296 125	419 789
Capital and interest repayments	(1 396 125)	(1 519 788)
	2 291 667	**3 391 667**
Short-term portion	1 100 000	1 100 000
Long-term portion	1 191 667	2 291 667
	2 291 667	**3 391 667**

The loan is secured by an immovable property stamped to cover US$6.500 million. The loan has an interest rate currently at a base rate minus 6.5% p.a. (base rate at drawdown – 13% p.a.)

13. Deferred tax liabilities

All figures in US$	2016	2015
At 1 January	12 473 701	15 631 662
Recognised in the statement of profit or loss		
-Arising on vehicles and equipment	503	1 753
-Arising on investment properties	(229 580)	(2 948 456)
-Arising on assessed losses	77 868	(211 258)
	12 322 492	**12 473 701**

13.1 Income tax expenses

Current income tax	(1 062 113)	(810 774)
Deferred income tax	169 492	3 285 657
	(892 621)	**2 474 883**

14. Trade and other payables

Tenant payables	212 525	348 726
Sundry payables	928 885	569 110
Trade payables	458 667	693 212
	1 600 077	**1 611 048**

15. Property expenses

Maintenance costs	515 663	404 801
Property security and utilities	25 503	304 141
Valuation fees	9 396	10 510
Operating cost under recoveries	754 596	521 429
Property cost of sale	174 483	78 264
	1 479 641	**1 319 145**

16. Profit/(loss) before income tax takes into account the following

Directors fees-for services as directors	48 330	70 528
Auditors fees	61 318	79 959
Inormation communication technology expenses	59 968	85 265
Staff related costs	1 515 067	1 497 464
Depreciation	48 672	125 629
Office costs	186 717	226 543
Group shared services	629 453	462 895

17. Investment and finance income

Interest on overdue tenant accounts	180 955	301 266
Interest on long term loan	124 160	131 731
Interest on short term investments	72 402	50 868
Reclassification of available for sale to profit or loss	-	(135 412)
	377 517	**348 453**

18. Segment reporting for the year ended 31 December 2016

All figures in US$	Office	Retail	Industrial	Other***	Adjustment**	Total
Revenue	4 380 369	2 155 447	1 160 068	330 288	(42 736)	7 983 436
Allowance for credit losses	200 728	(155 664)	(322 042)	(17 545)	-	(294 523)
Property expenses	(839 677)	(214 163)	(199 351)	(226 449)	-	(1 479 641)
Fair value adjustments	**3 741 420**	**1 785 620**	**638 675**	**86 293**	**(42 736)**	**6 209 272**
Net gain from valuation of inventory	-	-	-	171 515	-	171 515
Investment property	(2 722 325)	1 515 030	(524 084)	29 289	-	(1 702 090)
Segment profit	**1 019 095**	**3 300 650**	**114 590**	**287 098**	**(42 736)**	**4 678 697**
Administration expenses	-	-	-	-	42 736	(2 865 968)
Finance costs	-	-	-	(296 125)	-	(296 125)
Fair value through profit or loss	-	-	-	-	-	723
Other income	-	-	-	-	-	137 028
Investments and financial income	-	-	-	-	-	377 517
Profit before income tax	**1 019 095**	**3 300 649**	**114 590**	**(9 027)**	**-**	**2 031 872**

Reconciliation of segment results for 31 December 2016

All figures in US$	Office	Retail	Industrial	Other***	Adjustment**	Total
Assets						
Investment property	72 300 000	28 405 000	12 030 000	24 567 000	-	137 302 000
Trade receivables	336 318	265 504	97 665	131 060	-	830 547
Segment assets	**72 673 318**	**28 670 504**	**12 127 665**	**24 698 060**	**-**	**138 132 547**
Other non-current assets	-	-	-	-	-	1 657 641
Current assets	-	-	-	-	-	3 680 472
Total assets	**72 636 318**	**28 670 504**	**12 127 665**	**24 698 060**	**-**	**143 470 660**
Current Liabilities	730 721	151 542	220 912	2 073 798	-	3 176 973
Capital expenditure	**278 189**	**56 976**	**62 078**	**80 456**	**-**	**477 699**

Segment reporting for the year ended 31 December 2015*

All figures in US$	Office	Retail	Industrial	Other***	Adjustment**	Total
Revenue	4 792 871	2 275 361	1 345 730	141 692	(87 963)	8 467 692
Allowance for credit losses	(307 987)	(230 064)	(325 698)	(1 016)	-	(864 764)
Property expenses	(854 623)	(217 568)	(127 553)	(119 399)	-	(1 319 145)
Segment results	**3 630 261**	**1 827 729**	**892 479**	**21 227**	**(87 963)**	**6 283 782**
Fair value adjustment - investment property	(5 396 051)	(612 568)	(528 376)	(72 497)	-	(6 609 492)
Segment profit	**(1 765 791)**	**1 215 161**	**364 102**	**(51 220)**	**(87 963)**	**(325 709)**
Administration expenses	-	-	-	-	87 963	(2 686 041)
Finance costs	-	-	-	(419 789)	-	(419 789)
Fair value through profit or loss	-	-	-	-	-	(31 509)
Other income	-	-	-	-	-	158 375
Investment and financial income	-	-	-	-	-	348 453
Loss before income tax	**(1 765 791)**	**1 215 161**	**364 102**	**(471 009)**	**-**	**(2 956 219)**

Reconciliation of segment results for 31 December 2015*

All figures in US$	Office	Retail	Industrial	Other***	Adjustment**	Total
Assets						
Investment property	74 690 000	26 920 000	12 430 000	20 987 000	-	135 027 000
Trade receivables	322 816	338 457	160 112	5 692	-	827 077
Segment assets	**75 012 816**	**27 258 457**	**12 590 112**	**20 992 692**	**-**	**135 854 077**
Other non-current assets	-	-	-	-	-	1 540 050
Current assets	-	-	-	-	-	6 501 545
Total assets	**75 012 816**	**27 258 457**	**12 590 112**	**20 992 692**	**-**	**143 895 671**
Liabilities	**766 100**	**240 999**	**177 946**	**1 555 565**	**-**	**2 740 610**
Capital expenditure	**96 708**	**27 998**	**118 376**	**86 511**	**-**	**329 593**

*Some properties were reclassified from CBD offices to CBD retail based on predominant use determined by gross lettable area.

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

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

Directors: Elisha K. Moyo (Chairman), Christopher K. Manyowa*, Douglas Hoto, William Marere, Dr Shasekant Jogi, Ms. E. Mkondo, Ms. Ruth B. Ncube. *Executive Director

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