# 2015 ANNUAL REPORT

Letlole la rona

NURTURING SUSTAINABLE WEALTH FOR BOTSWANA

# CONTENTS

## MISSION

To invest prudently in real estate and real estate instruments that create a quality, balanced and diversified property portfolio for optimum returns.

## VISION

To be the premier real estate company in Botswana and selected markets in Africa.

## VALUES

Integrity

Innovation

Agility

Customer focus

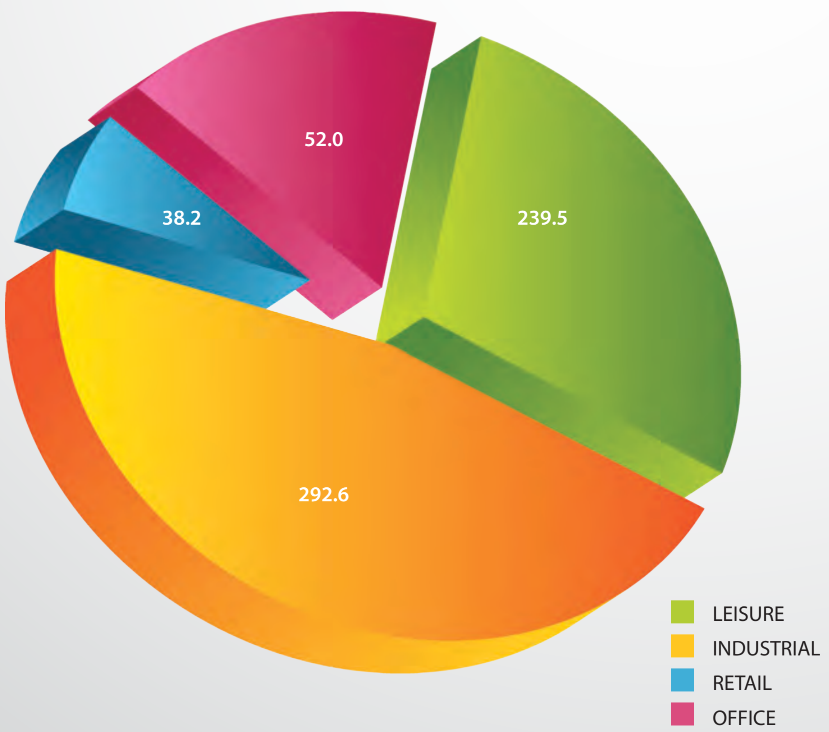
Excellence



# PERFORMANCE HIGHLIGHTS FOR 2015

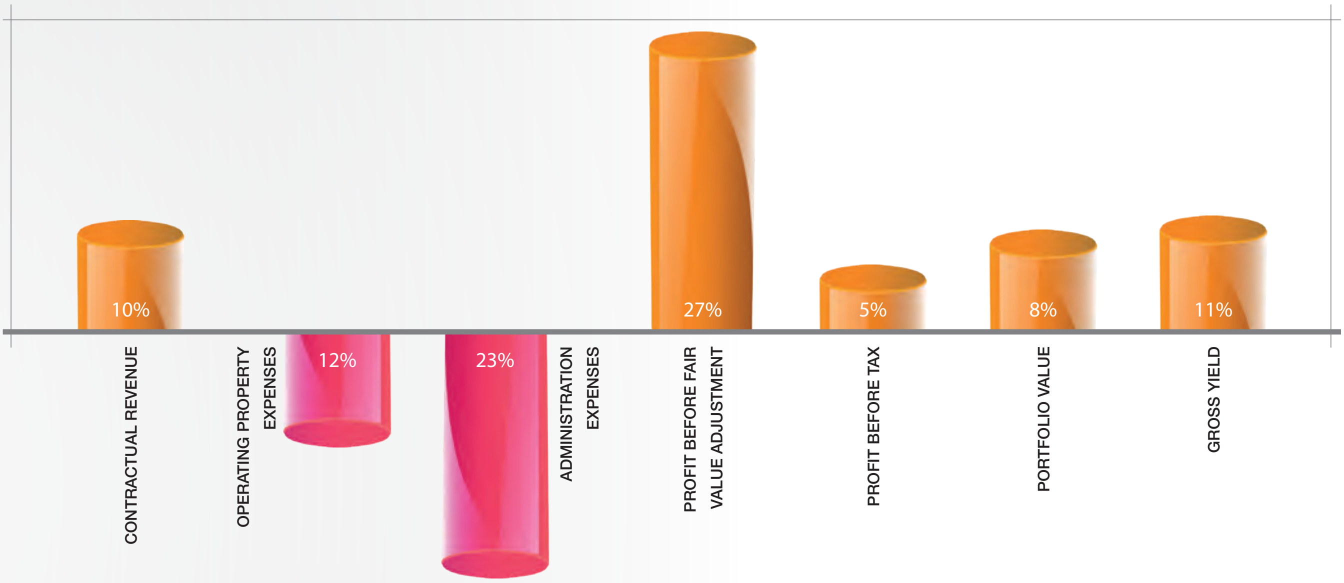
## PROPERTY PORTFOLIO GROWTH (PULA MILLIONS)

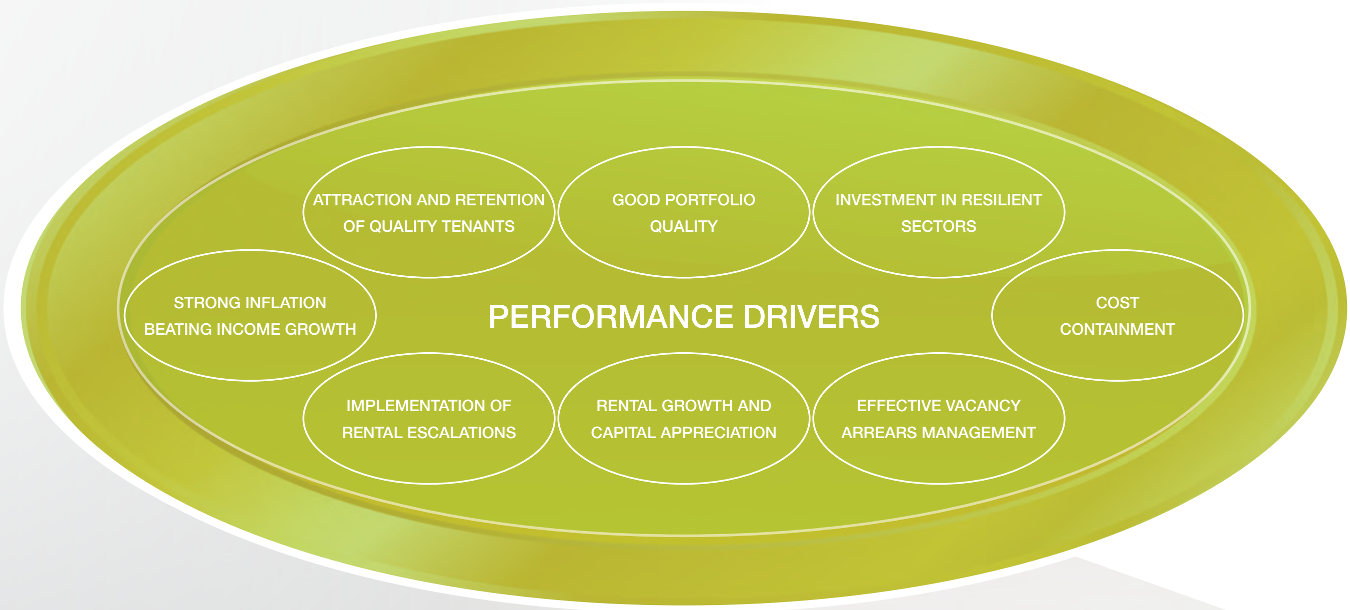

## PORTFOLIO VALUE PER SECTOR (PULA MILLIONS)



# PERFORMANCE HIGHLIGHTS FOR 2015

## MARKET CAPITALISATION P613.2M
## DISTRIBUTION DECLARED P37.1M




# COMPANY PROFILE

The Company is a variable rate loan stock company that was listed on the Botswana Stock Exchange on the 15 June 2011.

The core business of the company is to invest in real estate and real estate instruments in order to maximize returns to unit holders.

Letlole La Rona in direct translation means **“OUR BASKET OF WEALTH”**

To the Company and its Management, wealth translates to investment, education, culture and people.

The mission of the Company being to grow wealth for Batswana, encompasses all these components of wealth to drive its investment principles and guidelines, ensuring that it is indeed a basket of wealth for the unit holders, giving them long term sustainable returns.

## BOARD OF DIRECTORS

The Board of Directors is pleased with this year's performance and looks forward to more years of continued success.

Roderick Boyd Chairman

Terence Dambe Board Member

Boitumelo Mogopa Board Member

# BOARD OF DIRECTORS

Montle Phuthego Board Member

Peter Stevenson Board Member

Jane Tselayakgosi Board Member

# EXECUTIVE MANAGEMENT

Letlole La Rona Management is proud to serve the Letlole La Rona unit holders and deliver good and sustainable returns to them.

Paul More Chief Executive Officer

Katso Kgengwenyane Property Consultant

Merapelo Kefitlhile Finance Manager

# CHAIRMAN'S REPORT

# CHAIRMAN'S REPORT

**The Company's Corporate Strategy is undeniably ambitious. It defines how we will strive to be successful within a challenging and changing property investment environment, not just within Botswana but within sub-Saharan Africa. It provides a clear and important challenge to position Letlole la Rona as a property investment leader in those markets in which we choose to invest.**

**The Strategy provides direction for the development of the Company over the next five years and in doing so lays the foundation for Letlole la Rona to become an even higher-performing and more successful business for many years to come.**

It gives me great pleasure to present to you the 2015 Annual Report for Letlole La Rona Limited (LLR). As a variable rate loan stock company investing in property, LLR's major concern is to ensure that contractual revenue grows in real terms over time and the capital value of the property portfolio appreciates at a competitive rate. Achieving these two important objectives naturally gives investors the confidence that the fund is managed effectively and therefore capable of sustaining its ability to generate value for unit-holders. This Annual Report highlights achievements for the 2015 financial year that I believe will boost investor confidence.

The performance highlighted in this report reflects growth in key areas, such as rental income received for the year, profit generated, market capitalisation and value of LLR's property portfolio. Notably this has been achieved in the face of depressed economic activity in the domestic market, evidenced by the increasing number of tenants seeking rent reductions, citing reduced turnover as the prime driver for such reductions.

The completion of 9,800 square metres of industrial space that I mentioned in my report last year, coupled with refurbishment of 3 burnt industrial units have contributed in no small measure to the bottom line. With LLR's property portfolio somewhat skewed in favour of industrial property, LLR continued to benefit from a stable income flow received from leased industrial space despite challenges in the commercial office sector sparked by speculative development of commercial office space, without corresponding effective demand.

Industrial space continues to be fairly stable, with demand growing especially for smaller units ranging in size from 200 to 500 square metres. This is on the back of relocations by companies motivated by the need to depress their cost base, as smaller spaces are seen to be attractive inasmuch as they command lower rentals. The buoyancy enjoyed by the industrial sector is likely to precipitate interest in new developments for industrial space. For LLR, the vacancy rate for industrial property is low, and the focus of the Board is to ensure that Management maintains the momentum in leasing vacant space to avoid loss of rental income.

A number of property pundits have postulated that the prime retail property market is nearing saturation in Gaborone with the consequence that returns flowing from new developments might be compromised while existing developments will be sustained by contractual obligations from running leases. This notwithstanding there is a substantial area in the Central Business District reserved for a regional shopping centre for which plans have been developed, potential tenants are being courted for pre-letting and development is anticipated to complete in mid-2017.

# CHAIRMAN'S REPORT

Despite assertions regarding the near-saturation of the retail market especially in Gaborone, all major shopping centres in Gaborone enjoy a good rate of occupancy and good rentals. The retail sector remains resilient despite the increased number of retail centres across the city. LLR owns one retail property that enjoys a prime location and a correspondingly competitive rental rate. Performance of the property is good, as evidenced by growth in rental income and capital value of the property. In terms of the portfolio, LLR's exposure to retail property is negligible, but following LLR's strategic shift in investment, and the need to diversify the property portfolio, consideration will now be given to investing in the retail sector. Such investment will of course be driven by objective investment appraisals and appropriate risk profiling.

While for this financial year, the focus of LLR has been on maintaining the existing property portfolio, retaining and attracting quality tenants, the stance taken by the Board now is to go beyond this through property acquisition or development with a view to improving market capitalisation and growing the portfolio significantly.

Again this year, LLR participated in the Independent Property Databank (IPD) assessments of Botswana's property market. The assessment done by IPD provides a benchmark that enables companies to measure their performance against that of competitors in the local market. The results of the assessment revealed that LLR outperformed the benchmark, with value derived from holding investment property and effectively managing it.

During the year under review, the Board welcomed two additional directors; Mr. Terence Dambe and Ms. Boitumelo Mogopa. Their background in the legal and financial sectors will undoubtedly be invaluable in assisting the Board and Management to fully discharge their mandates. The Board now comprises six directors, all of whom are independent and non-executive.

Two Board sub-Committees have been active throughout the year: the Audit, Risk and Compliance Committee under the Chairmanship of Mr. Peter Stevenson and the Investment and Tender Committee with Ms. Montle Phuthego in the Chair.

In March 2015, LLR appointed Mr. Paul More as Chief Executive Officer of the company with the mandate to facilitate the development of a Corporate Strategy for the next five years and from this to develop an appropriate structure to take the Company forward. I am pleased to report that he has acquitted himself well; the Board at its June sitting approved the Corporate Strategy as well as the organisational structure necessary to drive the business forward.

The Corporate Strategy is undeniably ambitious. It defines how we will strive to be successful within a challenging and changing property investment environment, not just within Botswana but within sub-Saharan Africa. It provides a clear and important challenge to position LLR as a property investment leader in those markets in which we choose to invest.

The Strategy provides direction for the development of the Company over the next five years and in doing so lays the foundation for LLR to become an even higher-performing and more successful business for many years to come. An immediate outcome of the Strategy Plan is that those outsourced services, and in particular Property Management and Financial Management, will be brought in-house in the next financial year.

In this context, it would be remiss of me if I failed to acknowledge the support that LLR has received from the Botswana Development Corporation over the last 4 years, particularly with regard to Property Management, Financial and Company Secretarial services.

Finally, it is with regret that I must inform you that this is my final report as Chairman of LLR; my other business interests preclude me from giving Letlole la Rona the attention it requires from the Chairperson. I am confident that my successor will be better able to provide that attention and will enjoy the same level of support from the Board I have enjoyed during my tenure.

I wish to conclude by extending my deepest gratitude to my colleagues in the Board for supporting me and for their enormous contribution to LLR during this and prior years.

**Roderick Boyd**
**Chairman**

# CHIEF EXECUTIVE OFFICER'S REPORT

# CHIEF EXECUTIVE OFFICER'S REPORT

**The buoyancy enjoyed by the industrial property market coupled with the covenant strength and tenant profile for our leisure space have benefited LLR in maintaining a stable regular flow of rental income. LLR's stable tenant base has contributed to contractual revenue growing at an inflation beating rate of close to 10% relative to prior year. While the property market faces challenges, owing to speculative development especially in the commercial office sector combined with reduced economic activity, LLR's portfolio continues to show resilience, achieving a gross yield of 10.8%.**

I am delighted to present my maiden report on Letlole La Rona Limited (LLR). I joined LLR at the time when the country's economic activity was somewhat challenged, on the back of frequent water shortage and power cuts. This problem was further exacerbated by entrepreneurs experiencing lower sales volumes and by extension reduced profits.

This inevitably creates challenges for a listed variable rate loan stock company that primarily does its business through letting of property. More often than not, when turnover declines companies aggressively seek means of containing or reducing costs, not only through strategic sourcing, but also by seeking to reduce fixed costs and in particular those attributable to occupying operational space. This comes in the form of endeavouring to negotiate reduced rentals or the waiving of escalation clauses at the time of lease renewal. Naturally this tends to pose a risk of failing to maintain inflation beating growth, and may compromise the portfolio's competitiveness. While LLR encountered this challenge for the year under review, I am pleased to report that the company emerged in a strong position as it posted good financial results for 2015 and has fulfilled its promise of continuing to declare distributions to its shareholders on a biennial basis.

## LLR'S STRATEGIC DIRECTION

In the year under review the Board and Management of LLR undertook a Strategic Retreat to craft a 5-year Strategy Plan for the Company. I am pleased to advise that the outcome of this was Board approval of the Plan at its June 2015 sitting. The Strategy focuses on 5 critical areas: growing the business, increasing LLR's market capitalisation, increasing receivable income in real terms from year to year, maintaining a diversified property portfolio which appreciates in value over time and is competitive in its levels of return on investment relative to other investment classes and generating value for shareholders. The Strategy targets creation of value for shareholders through this simple over-arching imperative; investing in property that demonstrates potential for income and capital value growth. This is a deliberate shift from depending on year to year capital value appreciation to grow the balance sheet, but rather on inducing such growth through acquisition and development of assets with strategic worth.

## ECONOMIC OUTLOOK

According to the International Monetary Fund's World Economic Outlook, global growth is projected at 3.3% in 2015 and is expected to strengthen to 3.8% in 2016, while growth in advanced economies is projected to increase from 1.9% in 2014 to 2.1% in 2015. Growth in emerging markets and developing economies is projected to decrease from 4.6% in 2014 to 4.3% in 2015.

Botswana's economic growth is estimated at 4.5% in 2015. Bank of Botswana's statistics reflect increase in the inflation rate from 2.8% in March 2015 to 3.1% in June 2015, although this is still well within the Bank's target of 3%-6%. In February 2015, Bank of Botswana reduced the Bank lending rate by one percentage point from 7.5% to 6.5%. According to Bank of Botswana the reduction in the bank rate will keep inflation within the targeted bracket of 3% to 6%.

For LLR, this scenario has consequently led to more demands from tenants to be charged escalation rates that do not go beyond the Consumer Price Index. While this means that for its occupied property LLR will still benefit from a stable flow of contractual income, the pace of growth of that income will be somewhat inhibited by prevailing macro-economic indicators. Despite this challenge, LLR performed well, achieving an inflation beating growth of 9.7% for contractual income received during this financial year.

# CHIEF EXECUTIVE OFFICER'S REPORT

## PROPERTY MARKET

**Office Market:** Prime office space in Gaborone used to be centred at the old Central Business District (CBD). However, the new CBD revolutionised the office sector in Gaborone and somewhat crippled the ageing and now secondary office space in the Main Mall. Companies that had hitherto preferred the old CBD as a good location are now inclined to move to more pristine new office space at the new CBD or Fairgrounds Office Park.

This trend was largely sparked by pressure from the Ministry of Lands and Housing on entities allocated land in the new CBD to fulfil the development covenants in their land allocations or risk having the land repossessed. This has precipitated mushrooming of office space in the new CBD purely driven by speculative development.

The consequence has been an oversupply of office space in Gaborone which has led to lower rentals. In the short to medium term, the expectation is that more office space will come on stream and as supply continues to outstrip demand rentals will at best stay stagnant but are likely to decrease. This means that in the short to medium term, the market, especially in Gaborone will continue to be over-supplied with office space.

LLR's exposure to commercial office space is relatively negligible, with only one office property in Gaborone, which translates to 8% of LLR's property portfolio by value. With rentals for commercial office space being low, and some developers feeling the pinch of bond or loan repayments, during the next financial year LLR will reflect on whether this could be an opportune time to consider the purchase of well selected office space in areas where demand is growing through sectional title. While rental income might not be too impressive, for now the incentive would be the potential for capital growth coupled with income growth likely to accrue after the market reaches equilibrium. Investment in the commercial office sector would be in accordance with the strategic shift of the company, which calls on Management to proactively consider opportunities that would diversify the current property portfolio which is skewed in favour of industrial property.

**Retail Market:** There is a good supply of prime and secondary retail space in Gaborone. Retail space has increased on the back of a number of retail centres developed in recent years in Gaborone. It has been observed that in some cases, anchor tenants for these retail facilities are the same South African retail chain outfits. Fear of losing market share to competition somewhat compels retailers to seek a presence at all progressive shopping centres, especially destination malls.

Currently LLR has one retail property in Gaborone, which translates to 6% of LLR's property portfolio by value. In its quest to diversify its portfolio, LLR is now considering the development of a shopping centre in Selibe-Phikwe, which would target consumers in the same town and surrounding areas. A feasibility study has already been undertaken that has confirmed the demand for more retail space in Selibe-Phikwe, and the targeted development will fill part of the existing gap in the gross lettable retail space. The site targeted for development is conveniently located at the heart of the town's CBD and the envisaged retail development will complement the hotel already situated on the said piece of land.

**Industrial Market:** The industrial market continues to be resilient despite the Ministry of Lands and Housing's requirement to ensure that zoning is strictly observed. Whereas in the past the constrained supply of office space led to offices being set up in light industrial areas, the Ministry has now launched a campaign to close premises where zoning is not observed. This coupled with the increased supply of office space at more cost effective rentals means that demand for industrial space may fall off somewhat. However, in the short to medium term, an increase in the supply of industrial space is not envisaged which gives some sense of comfort to industrial space owners like LLR with property leased to stable lessees.

# CHIEF EXECUTIVE OFFICER'S REPORT

For LLR, the vacancy rate for industrial property is low, and Management will continue to work hard to ensure that tenants of an appropriate covenant strength are attracted and retained in the company's industrial space.

**Residential Market:** The development of over 500 houses by the Botswana Housing Corporation flooded the Gaborone market with residential property. Over half of the units have now been sold, but most of them remain unoccupied in the face of falling rentals for the medium cost and lower end of high cost housing. Some tenants are moving to newer and more cost effective houses, taking advantage of the depressed market. However, the demand for residential property is increasing at the lower end of the low income bracket on the back of demand from students and single parent families.

To date LLR has not invested in residential property. However, in the interest of diversifying the portfolio, LLR is not necessarily averse to opportunities in this area and is now considering the acquisition of residential property situated in prime locations with potential for income and capital growth.

## PROPERTY PORTFOLIO INFORMATION

As is evident from the aforegoing, LLR operates in the industrial, leisure, retail and commercial office property space, with most of the investment skewed in favour of industrial property followed by leisure space. The buoyancy enjoyed by the industrial property market coupled with the covenant strength and tenant profile for our leisure space have benefited the company in maintaining a stable regular flow of rental income. The hotel space continues to be let to one stable operator, with leases that accommodate annual compound escalation of rental. This has contributed to contractual revenue growing at an inflation beating rate of close to 10% relative to prior year. While the property market has faced challenges as a result of speculative development especially in the commercial office sector and the downward pressure on economic activity, LLR's portfolio continues to show resilience as its property portfolio performed well achieving a gross yield of 11%.

## MARKET CAPITALISATION AND CAPITAL VALUE OF THE PROPERTY PORTFOLIO

As at June 2015, market capitalisation of LLR stood at P613.2 million relative to its property portfolio value of P622.3 million.

Over the last four years, the portfolio has enjoyed an average capital value growth of 12% per annum. All the growth was organic and primarily attributable to the retention of good quality well maintained property as well as implementation of annual compound escalations. The strategic shift embraced by LLR's Board and Management now compels the latter to pursue ingenious and creative means of acquiring or developing property that will add value to the company's asset base.

For the next financial year, the company has already identified opportunities that will drive the growth of its property portfolio. The company is in the process of negotiating substantial stand-by facilities with a view to taking full advantage of opportunities as they arise. This is important in view of the fact that throughout the world property markets are known for their dynamism and operators such as LLR who have the mandate to grow shareholders' funds need access to flexible and accessible funding to benefit from opportunities as they arise.

## FINANCIAL PERFORMANCE

**Statement of Comprehensive Income:** For the year under review, contractual revenue increased by 10% and total revenue stood at P70.3 million as a result of application of rental escalations and revenue generated from investment income. Operating property expenses reduced by 12% and this is mainly due to Management's efforts expended in maintaining expenses within budget. For the year under review, a focus on cost efficiencies continued and the company's cost to income ratio stood at 18% relative to 23% achieved in the previous financial year. The Company recorded a Profit before Tax of P97.3 million representing a 5% increase over the prior year.

# CHIEF EXECUTIVE OFFICER'S REPORT

**Statement of Financial Position:** The Company's statement of financial position remains strong as its net assets grew by 9%.The property portfolio value grew by 8%. The fair value of the Company's investment properties was based on open market values of the properties as at year end. Debenture interest and dividends paid to unit holders grew from P36.9 million to P37.1 million in the current year.

## SPREADING LLR'S WINGS TO THE CONTINENT

LLR remains a reputable and growing company that is using its resources judiciously recognising its duty of care towards its stakeholders. The new vision of LLR is "to be the premier real estate company in Botswana and selected markets in Africa."

As LLR considers the option of off shore investments, it is important to consider what real estate markets in Africa have to offer. Property and other investment opportunities in the continent are attracting a lot of interest from both eastern and western countries. This comes on the back of commitment by Governments to improve the quality of infrastructure, investment climates and the ease of doing business. This is further driven by increased purchasing power of people living on the continent.

Naturally, for investors to establish in Africa, they will require operational space of a suitable standard. In research conducted to date it is evident that the supply of operational space in some countries is outstripped by demand while in others the quality of available space does not match the appetite of investors. For the next financial year, LLR will gather market intelligence on markets demonstrating potential for growth in property investment and will piggy back on strategic partners with an established foothold in these markets.

## CONCLUSION

LLR is looking forward to another year of fruitful activity and growth. I would like to express my gratitude to the Management Team, for contributing immensely to the success of the company for the year under review. As we move away from outsourcing to insourcing, LLR will be parting ways with this team, and will be welcoming another team, and stakeholders can be sure that this team will work just as hard in applying itself to catapulting LLR to higher levels of performance.

I also wish to thank all LLR's tenants without whom we would not have posted good results for this financial year. I would like to believe that the relationship we have nurtured over time will be sustained and will keep growing from strength to strength.

Lastly, I would like to thank the Directors of the Board for their commitment and dedication. The strategic guidance received from them as a collective has helped to crystallise and consolidate LLR's position in Botswana's property market. I would also like to say a special word of heartfelt gratitude to the outgoing Chairman Mr Roderick Boyd for selflessly availing himself to maintaining the course of the company and for the professional support he has accorded me during my first few months at LLR.

**Paul More**
**Chief Executive Officer**

# CORPORATE GOVERNANCE

The Board of Directors of LLR recognises that the adoption of sound principles of corporate governance is a key imperative not only for LLR's corporate success but also to ensure sustainable business growth. Since LLR is a listed company, the Board appreciates the need to continuously strive to achieve fairness, accountability, responsibility and transparency in all those activities undertaken by the Company. The bedrock of LLR's corporate governance framework is efficiency grounded in the company's internal controls, ethical behaviour and sound business practices.

# CORPORATE GOVERNANCE

## THE BOARD

The Board exercises objective oversight over operations of LLR and provides Management with sound strategic guidance. Closely riveted to this is the Board's demand that Management pursues sustainable development across the economic, social and environmental aspects of the business. All this is done in the interests of all stakeholders but particularly unitholders, as the Board continuously pushes for creation and enhancement of unitholder value. In this regard, Management reports to the Board on a quarterly basis on company performance, especially with respect to meeting strategic objectives.

The Board of LLR compromises 6 independent non-executive Directors: Mr. Roderick Boyd, serving as the Chairman of the Board, Mr. Terence Dambe, Ms. Boitumelo Mogopa, Ms. Montle Phuthego, Mr. Peter Stevenson and Ms. Jane Tselayakgosi. As reflected in the profiles below, the composition of the Board gives it a well-rounded base in the critical fields of economics, business, finance and law.

## SUB-COMMITTEES OF THE BOARD

To assist in fully discharging its mandate, the Board has established two sub-committees: the Audit, Risk and Compliance Committee (ARAC) and the Investment and Tender Committee.

The ARAC Committee is chaired by Mr. Peter Stevenson with Mr. Boyd and Ms. Tselayakgosi as members. This Committee assists the Board in ensuring that LLR complies with Botswana Stock Exchange (BSE) and other regulatory requirements and that sound financial reporting processes are in place. The Committee also monitors financial performance of the company whilst overseeing the budgeting and auditing processes.

The Investment and Tender Committee is chaired by Ms. Montle Phuthego with Ms. Mogopa and Mr. Dambe sitting on the Committee. This Committee is mandated to evaluate all investment and divestment proposals from Management before they are presented to the Board for consideration. The Committee also ensures that internal processes for procurement are followed, and that in the interest of cost containment strategic sourcing principles are implemented in a fair and transparent manner.

## DIRECTOR'S REMUNERATION

During the year under review, the Board and its Sub-Committees convened a number of meetings for which Board fees were paid. A total of BWP 736 000 was paid to Directors.

**Table 1: Attendance of Board Meetings by Independent Non-Executive Board Members**

| NAME | ARAC | SPECIAL BOARD | BOARD | INVESTMENT AND TENDER COMMITTEE | ANNUAL GENERAL MEETING | STRATEGIC RETREAT | INTERVIEWS | RETAINER |
|---|---|---|---|---|---|---|---|---|
| Roderick Boyd | 3 | 3 | 7 | 1 | 1 | 1 | - | 1 |
| Terence Dambe* | - | - | 2 | - | - | 1 | - | - |
| Boitumelo Mogopa** | - | - | 2 | 1 | - | 1 | - | - |
| Montle Phuthego | - | 2 | 5 | 1 | 1 | 1 | 1 | 1 |
| Peter Stevenson | 3 | 3 | 7 | - | 1 | - | - | 1 |
| Jane Tselayakgosi | 2 | 2 | 6 | - | 1 | - | 1 | 1 |

*Appointed to the Board on 4th, February 2015

**Appointed to the Board on 4th, March 2015.

# CORPORATE GOVERNANCE

## PROFILES OF DIRECTORS OF LLR'S BOARD

### MR. RODERICK BOYD

Board Chairman and Member of the Audit, Risk and Compliance Committee

Mr. Boyd holds a Bachelor of Commerce degree and a Master of Business Administration degree as well as diplomas in Banking and Public Relations. He is an experienced corporate financier with more than 30 years banking and business management experience across the SADC region and the United Kingdom.

He is currently the Executive Director for the largest ICT distributor and stockist in Botswana. Prior to this he was Special Projects Manager for Botswana Development Corporation, in which role he took responsibility for the successful conclusion of projects assigned to him by the Board and executive management. He joined Botswana Development Corporation in 2006 to set up the Invoice Discounting Division.

Before joining Botswana Development Corporation, Mr. Boyd was an Executive Director of Challenge Finance Limited, a UK invoice finance company, having been recruited from Royal Bank of Scotland Invoice Finance where he was Head of Sales for the London region. His extensive experience in finance and banking in Africa and the UK includes all aspects of investment and risk management, project finance, asset finance, invoice finance as well as banking at general management level.

Mr. Boyd sits on the boards of several Botswana companies.

### MR. TERENCE DAMBE

Board Member and Member of the Investment and Tender Committee

Mr. Dambe holds a Bachelor of Laws degree (LLB) from the University of Botswana. He is a seasoned legal practitioner and brings to the Board extensive experience of over 25 years in the legal and business fields. He started his legal career at Minchin & Kelly (Botswana) Attorneys in 1989 as a Professional Assistant and meritoriously rose through the ranks to become a Partner in 1993. He currently serves as the firm's Managing Partner.

Mr. Dambe is a past member of the Judicial Services Commission, Executive Committee member of the Botswana Football Association and the Confederation Africaine de Football (CAF) Legal Affairs and Player Statutes Committee. He is active as a Director of various companies, Chairman of Kabelano Charity Trust and a board member of the Botswana Investment and Trade Centre. Owing to his diverse social and business interests, Mr. Dambe has distinguished himself as a well-rounded leader.

### MS. BOITUMELO MOGOPA

Board Member and Member of the Investment and Tender Committee

Ms. Mogopa holds a Bachelor of Commerce degree from the University of Botswana and is a fellow member of ACCA (UK) and currently serves as the Chief Financial Officer (CFO) of First National Bank of Botswana (FNBB). She has had an outstanding career in Banking and Finance over the past 17 years, during which she has developed a firm understanding of strategy direction and implementation in the banking environment.

Ms. Mogopa joined First National Bank of Botswana in 2007 to set up FNBB Private Clients, a green fields business at the time. Subsequent to successfully heading the very first Private Bank in Botswana, she was promoted to Director; Consumer Segment in 2010. This is the position she held until being appointed CFO. Prior to FNBB Ms. Mogopa worked at Standard Chartered Bank and Barclays bank in the Finance environment. She is a fellow member of the Botswana Institute of Chartered Accountants (BICA).

# CORPORATE GOVERNANCE

### MR. PETER STEVENSON

Board Member and Chairperson of the Audit, Risk and Compliance Committee

Mr. Stevenson is a Chartered Accountant and fellow member of the Botswana Institute of Chartered Accountants with over 35 years extensive management, leadership, business and financial experience gained in Botswana, Namibia and Zimbabwe. He was the Group Managing Director of the Barloworld Botswana Group for 20 years until 2007 and was responsible for its growth into one of the larger commercial operations in Botswana. Mr. Stevenson is currently an independent business consultant. He is the Chairman of First National Bank Botswana where he also serves as the Chairman of the Credit Risk Committee and a Member of the Audit and Risk Committee, Remuneration committee and Directors Affairs and Governance Committee.

Mr. Stevenson is also a non-executive director/trustee of a number of private companies and charitable trusts.

### MS. MONTLE PHUTHEGO

Board Member and Chairperson of the Investment and Tender Committee

Ms. Phuthego holds a Master of Science Degree in Economics from the University of Warwick, United Kingdom and a Bachelor of Arts Degree in Economics from the University of Botswana. She brings a wealth of experience in economics, investment, business and entrepreneurship skills acquired from her broad exposure gained from working for a number of organisations. She is currently Managing Director of Econo Markets Consultancy (Pty) Ltd, which provides business advisory services to a number of companies locally and conducts research on investment, economic and trade issues. Prior to that she worked as General Manager Business Development at Botswana Development Corporation and acted as Managing Director for the Corporation for a period of nine months.

Ms. Phuthego started her career at Botswana Institute for Development Policy Analysis where she held positions of Assistant Research Fellow from 1997 to 2001 and Associate Researcher from 2001 to 2002. In 2002, she joined the Citizen Entrepreneurial Development Agency in a leadership capacity as Head of Research and Strategic Linkages. She has also held various leadership positions within Botswana Export Development and Investment Authority, now Botswana Investment and Trade Centre. She joined the organization in 2003 as Head of the Research Department, a position she held for four years. In 2007, she moved to the BEDIA London office where she developed and implemented successful investment and export promotion strategies for the European Union, Russia and Israel.

Ms. Phuthego brings to Letlole a wealth of experience accumulated over time in strategic leadership derived from complex and challenging business environments.

### MS. JANE TSELAYAKGOSI

Board Member and Member of the Audit, Risk and Compliance Committee

Since June 2005, Ms. Tselayakgosi has been the Managing Director of Hollard Insurance Company of Botswana (Pty) Ltd, a company she set up. Her key responsibilities include the day-to-day running of the company and overseeing the financial, business development, compliance and human resources areas of the business.

Prior to this, she worked for Botswana Insurance Company from the start of her career, working her way up from trainee of their graduate programme to Assistant General Manager of Finance.

Ms. Tselayakgosi has a Bachelor of Commerce degree in Accounting and Business from the University of Botswana, and practices as a chartered accountant having qualified with the Association of Chartered Certified Accountants (ACCA) in the UK.

## SOME OF LLR's PROPERTIES

# PROPERTIES


Shoppers
EXPRESS PRINTING
INTERNET CAFE
BUSINESS CONSULTANTS
GENERAL WING


Marakanelo Conference Centre
PARK

# PROPERTIES


# PROPERTIES


for serious
MEAT LOVERS
BUTCHER SHOP
BUTCHER SHOP
BOTSWANA
for serious
MEAT LOVERS
BUTCHER SHOP


DUNLOP TYRE SERVICES
DUNLOP
ZONE
TEL: 397 4399
TYRES
• REPAIRS • TYRES • BALANCING •
RIMS • TYRES • BALANC

# PROPERTIES


LandMark
LandMark
GARDEN


TRACKER
your tracker a TRACKER?
SILVERTON
RADIATORS
Brake & Clutch (Gaborone) (Pty) L
AGENTS FOR
FERODO
RADIATORS

# PROPERTIES


# PROPERTIES



Business
D45CB84CA

# FINANCIAL STATEMENTS




# CORPORATE **INFORMATION**

## BOARD OF DIRECTORS

R. Boyd* (Chairman)
J. Tselayakgosi
M. Phuthego
P. Stevenson
T. Dambe (Appointed 04 February 2015)
B. Mogopa (Appointed 04 March 2015)
*British

## INCORPORATED IN THE REPUBLIC OF BOTSWANA

Registration number: CO2010/6316
Date of Incorporation: 08 July 2010

## NATURE OF BUSINESS

The company is a Variable Loan Stock company engaged in property investment and deriving revenue primarily from property rentals and trade in property and property instruments.

## REGISTERED OFFICE

Fairscape Precinct
Plot 70667
Fairgrounds Office Park
Private Bag 160
Gaborone

## PHYSICAL ADDRESS

1st Floor
5 Matante Mews
Plot 54373
CBD
P. O. Box 700ABG
Gaborone

## DEBENTURE TRUST TRUSTEE

Desert Secretarial Services (Proprietary) Limited
Plot 64518
Fairgrounds Office Park
P. O. Box 211008
Bontleng
Gaborone

## COMPANY SECRETARY

Botswana Development Corporation Limited
Fairscape Precinct
Plot 70667
Fairgrounds Office Park
Private Bag 160
Gaborone

## INDEPENDENT AUDITORS

Grant Thornton
Plot 50370
Fairgrounds Acumen Park
P. O. Box 1157
Gaborone

## TRANSFER SECRETARIES

DPS Consulting Services (Proprietary) Limited
Plot 50371
Fairgrounds Office Park
P. O. Box 1453
Gaborone

## LEGAL ADVISORS

Armstrongs Attorneys
Acacia House
Plot 54358
CBD
P. O. Box 1368
Gaborone

## PROPERTY MANAGERS

Botswana Development Corporation Limited
Fairscape Precinct
Plot 70667
Fairgrounds Office Park
Private Bag 160
Gaborone

# DIRECTORS' **REPORT**
## 30 JUNE 2015

The directors have pleasure in submitting to the linked unitholders their report and the audited annual financial statements of the Company for the year ended 30 June 2015.

### NATURE OF BUSINESS

The Company is a variable rate loan stock public company and derives its revenue primarily from the rental of investment properties.

### STATED CAPITAL AND DEBENTURES

The stated capital of the Company consists of 280 000 000 linked units, each comprising one ordinary share and one variable debenture which are indivisibly linked. Each linked unit comprises an ordinary share issued at P0.01 and one variable rate unsecured debenture issued at P1.49. The yield on the unit comprises a dividend on the share component and interest on the debenture component of the linked unit.

There were no changes in the stated capital and debentures during the year.

### LINKED UNITS DISTRIBUTION POLICY

Distributions to linked unit holders is primarily in the form of debenture interest. The Company has adopted the policy of distributing profits to linked unit holders by means of debenture interest payments with a nominal amount being dividends. The directors intend to ensure that rolling over any period of three consecutive financial years the Company will distribute at least 75% of available cash after prudent retention and provision for foreseeable capital expenditure and cash flow requirements as per the Trust Deed of the Company.

### ADMINISTRATION AND PROPERTY MANAGEMENT

The administration of the company and management of the properties in the property portfolio is undertaken by Botswana Development Corporation Limited (BDC), pursuant to an administrative and property management services agreement.

### INTERESTS OF DIRECTORS AND SECRETARY

None of the Directors or Secretary who held office at 30 June 2015 had any interest in the Company.

DIRECTOR

DIRECTOR

# DIRECTORS' STATEMENT OF RESPONSIBILITY **AND APPROVAL OF FINANCIAL STATEMENTS**
## 30 JUNE 2015

### DIRECTORS' STATEMENT OF RESPONSIBILITY

The directors are responsible for the preparation and fair presentation of the annual financial statements of Letlole la Rona Limited, comprising the statement of financial position at 30 June 2015, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards ("IFRS").

The directors are required by the Companies Act (Cap 42:01) to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements, give a fair view of the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with IFRS. The external auditors are engaged to express an independent opinion on the annual financial statements.

The directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The annual financial statements are prepared in accordance with IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates. The directors' responsibilities also include maintaining adequate accounting records and an effective system of risk management.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach.

# DIRECTORS' STATEMENT OF RESPONSIBILITY **AND APPROVAL OF FINANCIAL STATEMENTS**
## 30 JUNE 2015

The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. The directors have made an assessment of the Company's ability to continue as a going concern and there is no reason to believe the business will not be a going concern in the year ahead.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditors are responsible for independently reviewing and reporting on the Company's financial statements, and their unmodified report is presented on page 36.

### APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The financial statements set out on pages 37 to 67, which have been prepared on the going concern basis, were approved by the Board of Directors on 17 September 2015 and were signed on its behalf by:

**DIRECTOR**

**DIRECTOR**

# INDEPENDENT AUDITOR'S **REPORT**

## TO THE COMBINED UNITHOLDERS OF LETLOLE LA RONA LIMITED

We have audited the accompanying annual financial statements of Letlole la Rona Limited, which comprise the statement of financial position as at 30 June 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 37 to 67.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the financial statements give a true and fair view of the financial position of Letlole la Rona Limited as at 30 June 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Chartered Accountants
Certified Auditor (Madhavan Venkatachary: 20030049)
Gaborone
Date: 18 September 2015

# STATEMENT OF **COMPREHENSIVE INCOME**
## FOR THE YEAR ENDED 30 JUNE 2015

| | Notes | 2015<br>P | 2014<br>P |
|---|---|---|---|
| Rental income | | 67 186 674 | 60 472 782 |
| - Contractual revenue | | **64 410 659** | **58 702 743** |
| - Straight line lease rental adjustment | 7 | **2 776 015** | **1 770 039** |
| | | | |
| Investment income | 3 | 2 653 995 | 661,668 |
| Other income | 4 | 4,411,401 | 542,424 |
| Finance costs | 2 | (2,699,474) | (746,986) |
| Property related expenses | 1 | (5,783,655) | (6,595,004) |
| Administration expenses | 1 | (5,049,431) | (6,586,818) |
| Profit before fair value adjustment | | 60 719 511 | 47 748 066 |
| Fair value adjustment of investment properties | | 36,538,385 | 44,842,089 |
| - As per valuation | 7 | **39,314,400** | **46,612,128** |
| - Straight line lease adjustment | 7 | **(2,776,015)** | **(1,770,039)** |
| | | | |
| Profit before tax | | 97,257,896 | 92,590,155 |
| Income tax expense | 5 | **(17,799,954)** | **(11,150,884)** |
| Total profit and comprehensive income for the year | | **79 457 942** | **81 439 271** |
| | | | |
| Number of linked units in issue at end of the year | | 280,000,000 | 280,000,000 |
| | | | |
| Weighted average number of linked units in issue | | 280,000,000 | 280,000,000 |
| | | | |
| Earnings per linked unit (thebe) | | **31.27** | **31.97** |
| | | | |
| Earnings per linked unit is calculated based on the average number of linked units in issue and total comprehensive income for the year, adjusted by the taxation on debenture interest credited to the statement of changes in equity of: | 6 | **87,558,342** | **89,508,871** |
| | | | |
| Distribution per linked unit (thebe) | 16 | 13.25 | 13.20 |
| Dividends per linked unit (thebe) | | **0.10** | **0.10** |
| Debenture interest per linked unit (thebe) | | **13.15** | **13.10** |

Distribution per linked unit is calculated on the number of linked units in issue during the period.

# STATEMENT OF **FINANCIAL POSITION**
## 30 JUNE 2015

| | Notes | 2015<br>P | 2014<br>P |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment properties | 7 | 600,186,304 | 559,222,318 |
| Straight line rental adjustment | 7 | 22,073,696 | 19,297,682 |
| Plant & equipment | 8 | 147,197 | 167,980 |
| Deferred taxation recoverable - related party | 9 | 5,738,320 | 5,722,744 |
| | | **628,145,517** | **584,410,724** |
| **Current assets** | | | |
| Taxation refundable | | 115,137 | 185,324 |
| Trade and other receivables | 10 | 9,313,648 | 1,827,793 |
| Cash and cash equivalents | 11 | 49,661,846 | 42,332,616 |
| Total current assets | | **59,090,631** | **44,345,733** |
| **Total assets** | | **687,236,148** | **628,756,457** |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Stated capital | 12 | 2,718,884 | 2,718,884 |
| Debentures | 13 | 405,113,547 | 405,113,547 |
| Accumulated profits | 14 | 189,011,897 | 138,553,555 |
| | | **596,844,328** | **546,385,986** |
| **Non-current liabilities** | | | |
| Borrowings | 18 | 37,937,216 | 41,000,000 |
| Deferred taxation | 15 | 26,680,716 | 16,965,586 |
| | | **64,617,932** | **57,965,586** |
| **Current liabilities** | | | |
| Debenture interest and dividend payable | 16 | 19,460,000 | 18,480,000 |
| Trade and other payables | 17 | 6,313,888 | 5,924,885 |
| | | **25,773,888** | **24,404,885** |
| **Total equity and liabilities** | | **687,236,148** | **628,756,457** |

# STATEMENT OF **CHANGES IN EQUITY**
## FOR THE YEAR ENDED 30 JUNE 2015

| | Notes | Stated capital P | Debentures P | Accumulated profits P | Total P |
|---|---|---|---|---|---|
| **Balance at 30 June 2013** | | **2,718,884** | **405,113,547** | **86,004,684** | **493,837,115** |
| Total comprehensive income for the year | | - | - | 81,439,271 | 81,439,271 |
| Dividends declared | 16 | - | - | (280,000) | (280,000) |
| Debenture interest declared | 16 | - | - | (36,680,000) | (36,680,000) |
| Taxation attributable to debenture interest | 5 | - | - | 8,069,600 | 8,069,600 |
| **Balance at 30 June 2014** | | **2,718,884** | **405,113,547** | **138,553,555** | **546,385,986** |
| Total comprehensive income for the year | | - | - | 79,457,942 | 79,457,942 |
| Dividends declared | 16 | - | - | (280,000) | (280,000) |
| Debenture interest declared | 16 | - | - | (36,820,000) | (36,820,000) |
| Taxation attributable to debenture interest | 5 | - | - | 8,100,400 | 8,100,400 |
| **Balance at 30 June 2015** | | **2,718,884** | **405,113,547** | **189,011,897** | **596,844,328** |

# STATEMENT OF **CASH FLOWS**
## FOR THE YEAR ENDED 30 JUNE 2015

| | Notes | 2015<br>P | 2014<br>P |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 97,257,896 | 92,590,155 |
| Adjustments for: | | | |
| Fair value adjustment of investment properties | 7 | (39,314,400) | (46,612,128) |
| Investment income | 3 | (2,653,995) | (661,668) |
| Finance costs | 2 | 2,699,474 | 746,986 |
| Depreciation expense | | 20,783 | 546 |
| Operating income before working capital changes | | **58,009,758** | **46,063,891** |
| Working capital changes | | | |
| (Increase) in trade and other receivables | | (7,485,854) | (442 209) |
| Increase in trade and other payables | | 389,003 | 789 267 |
| Cash generated from operating activities | | 50,912,906 | 46,410,949 |
| Tax refunded | | 70,187 | 1,779,516 |
| **Net cash generated from operating activities** | | **50,983,093** | **48,190,465** |
| | | | |
| **Cash flows (used in)/from investing activities** | | | |
| Additions to investment properties | 7 | (4,425,601) | (33,807,872) |
| Finance income | 3 | 2,653,995 | 661,668 |
| Acquisition of plant & equipment | 8 | - | (168,526) |
| **Net cash (used in) investing activities** | | **(1,771,606)** | **(33,314,730)** |
| | | | |
| **Cash flows (used in)/from financing activities** | | | |
| Net movement on borrowings | 18 | (3 062 784) | 41,000,000 |
| Finance costs | 2 | (2,699,474) | (746 986) |
| Increase in dividends payable | | 980,000 | - |
| Dividends paid | 16 | (280,000) | (280,000) |
| Debenture interest paid | 16 | (36,820,000) | (36,680,000) |
| **Net cash generated (used in)/from financing activities** | | **(41 882 257)** | **3 293 014** |
| | | | |
| Net increase in cash and cash equivalents | | 7 329 230 | 18 168 749 |
| Cash and cash equivalents at beginning of the year | | 42,332,616 | 24,163,867 |
| **Cash and cash equivalents at end of the year** | 11 | **49 661 846** | **42 332 616** |

# SIGNIFICANT **ACCOUNTING POLICIES**
## 30 JUNE 2015

### PRESENTATION OF ANNUAL FINANCIAL STATEMENTS
These financial statements are presented in Pula (P) as that is the currency of Botswana and functional currency of the Company's operations.

### ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

#### Standards and Interpretations effective and adopted in the current period
In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### Amendment to IFRS 13: Fair Value Measurement: Annual improvements project
The amendment clarifies that references to financial assets and financial liabilities should be read as applying to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 Financial Instruments: Presentation.

The effective date of the amendment is for years beginning on or after 01 July 2014.
The company has adopted the amendment for the first time in the 2015 annual financial statements.
The adoption of this amendment has not had a material impact on the results of the company.

#### Amendment to IAS 24: Related Party Disclosures: Annual improvements project
The definition of a related party has been amended to include an entity, or any member of a group of which it is a part, which provides key management personnel services to the reporting entity or to the parent of the reporting entity ("management entity"). Disclosure is required of payments made to the management entity for these services but not of payments made by the management entity to its directors or employees.

The effective date of the amendment is for years beginning on or after 01 July 2014.

The company has adopted the amendment for the first time in the 2015 annual financial statements. The impact of the amendment is not material.

#### Standards and interpretations not yet effective
The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 July 2015 or later periods:

#### Amendment to IFRS 7: Financial Instruments: Disclosures: Annual Improvements project
The amendment provides additional guidance regarding transfers with continuing involvement. Specifically, it provides that cash flows excludes cash collected which must be remitted to a transferee. It also provides that when an entity transfers a financial asset but retains the right to service the asset for a fee, that the entity should apply the existing guidance to consider whether it has continuing involvement in the asset.

# SIGNIFICANT **ACCOUNTING POLICIES**
## 30 JUNE 2015

Amendment to IFRS 7: Financial Instruments: Disclosures: Annual Improvements project **{continued}**
The effective date of the company is for years beginning on or after 01 January 2016.
The company expects to adopt the amendment for the first time in the 2017 annual financial statements.
It is unlikely that the amendment will have a material impact on the company's annual financial statements.

Key requirements of IFRS 9:
All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.
The company expects to adopt the standard for the first time in the 2019 annual financial statements.
It is unlikely that the standard will have a material impact on the company's annual financial statements.

### STATEMENT OF COMPLIANCE
The financial statements have been prepared in accordance with International Financial Reporting Standards.

# SIGNIFICANT **ACCOUNTING POLICIES**

## 30 JUNE 2015

### BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis as modified by the revaluation of investment properties. The financial statements are based on the following principal accounting policies which have been consistently applied in all material aspects.

### REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer credits, rebates and other similar allowances.

#### Rental Income

Rental income from operating leases is recognised in the statement of comprehensive income on a straight line basis over the term of the relevant leases.

#### Other Operating Revenue

Other operating revenue comprises utility expenses, service levies and other costs recovered from tenants.

#### Interest Revenue

Interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

#### Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# SIGNIFICANT **ACCOUNTING POLICIES**
## 30 JUNE 2015

### Deferred tax {continued}
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

### Current and deferred tax for the period
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

### FOREIGN CURRENCY TRANSACTIONS
Transactions in currencies other than Botswana Pula are recognised at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling on the reporting date.

Profits and losses arising on foreign exchange differences are recognised in profit or loss in the period in which they arise.

### BORROWING COSTS
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

# SIGNIFICANT **ACCOUNTING POLICIES**
## 30 JUNE 2015

### INVESTMENT PROPERTIES
Investment properties, which are properties held to earn rentals and capital appreciation, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Costs incurred for additions to investment properties in the interim period between the fair value measurements are capitalised to the carrying value of such investment properties at cost. Gains and losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the period in which they arise.

The change in fair value of investment properties is offset against the rental straight-line adjustment in the statement of comprehensive income.

### PLANT AND EQUIPMENT
Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of plant and equipment and costs incurred subsequently to add to the asset. If a replacement cost is recognised in the carrying amount of an item of plant and equipment, the carrying amount of the replaced part is derecognised.

Depreciation is charged so as to write off the depreciable value of the assets over their estimated useful lives down to their residual values, using the straight-line method. The estimated useful lives, residuals values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following methods were used during the year to depreciate plant and equipment to estimated residual values:

| | |
|---|---|
| Furniture, fittings and equipment | - 10 years |
| Computers | - 4 years |

### WORK IN PROGRESS
Properties in the course of construction or development for use as investment properties are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy.

### IMPAIRMENT
The carrying amounts of the company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset is impaired, its recoverable amount is estimated. The recoverable amount is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the expected future cash flows from the assets are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

# SIGNIFICANT **ACCOUNTING POLICIES**
## 30 JUNE 2015

### IMPAIRMENT {CONTINUED}
A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of amortisation) had no impairment loss been recognised in prior years.

### FINANCIAL INSTRUMENTS

#### Financial Assets
#### Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Bank balances and cash are defined as cash on hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

#### Impairment of financial assets
Trade receivables are assessed  for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

#### Derecognition of financial assets
The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### Financial Liabilities and Equity Instruments
#### Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments, which comprise stated capital and variable rate unsecured debentures, are recognised at the proceeds received, net of direct issue costs.

# SIGNIFICANT **ACCOUNTING POLICIES**
## 30 JUNE 2015

### FINANCIAL INSTRUMENTS {CONTINUED}

#### Financial liabilities
The company's significant financial liabilities include related party balances and trade payables which have been classified as other financial liabilities.

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### Derecognition of financial liabilities
The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

#### Gains and Losses on Subsequent Measurement of Financial Instruments
Gains and losses arising from a change in the fair value of financial instruments are included in net profit or loss in the period in which the change arises.

#### Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### DEBENTURE INTEREST AND DIVIDENDS
Debenture interest and dividends proposed after the reporting date are shown as a component of equity.

### LEASING
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Company as Lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

# SIGNIFICANT **ACCOUNTING POLICIES**
## 30 JUNE 2015

### LEASING **{CONTINUED}**

The Company as Lessee

Assets held under finance leases are initially recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and funds held in bank accounts. The carrying amounts of these approximates to their fair value.

### PROVISIONS

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### RELATED PARTY TRANSACTIONS

Related parties are defined as those parties:

(a) directly, or indirectly through one or more intermediaries, if the party:
   - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
   - (ii) has an interest in the entity that gives it significant influence over the entity; or

(b) that are members of the key management personnel of the entity, including close members of the family.

All dealings with related parties are transacted on an arm's length basis and accordingly included in profit or loss for the year.

# SIGNIFICANT **ACCOUNTING POLICIES**
## 30 JUNE 2015

### SEGMENTAL REPORTING

A segment is a distinguishable component of a company that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The company's primary segment is based on business segments. There are no secondary segments. The business segments are determined based on the company's management and internal reporting structure.

On a primary basis, the company operates in the following segments:

- Leisure
- Industrial
- Commercial & retail

The company will from time to time invest in/divest from certain primary segments, in which case segmental reporting will be adjusted to reflect only the relevant operating segments.

Segmental results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated on a reasonable basis to a segment. Segmental assets comprise those assets that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

### CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts within the next financial year.

#### Fair value of investment properties

The directors use their judgment in selecting an appropriate valuation technique for the investment properties. Investment properties are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices.

#### Trade and receivables

Management identifies impairment of trade receivables on an ongoing basis. Impairment adjustments are raised against trade receivables when the collectability is considered to be doubtful. Management believes that the impairment write-off is conservative and there are no significant trade receivables that are doubtful and have not been provided for. In determining whether a particular receivable could be doubtful, the following factors are taken into consideration e.g. age, customer current financial status, security held and disputes with customer.

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

| | | | 2015 | 2014 |
|---|---|---|---|---|
| | | | P | P |
| 1 | **PROPERTY RELATED AND ADMINISTRATION EXPENSES** | | | |
| | Included in property related and administration expenses are the following costs: | | | |
| | Asset management fees | - related party (note 20) | - | 2,818,171 |
| | Auditor's remuneration | - audit fees | 220,000 | 200,000 |
| | | - other services | - | 22,500 |
| | Provision for bad debts raised during the year (note 10) | | 187,125 | 1,000,537 |
| | Directors' emoluments | - for fees as directors (note 20) | 736,000 | 600,000 |
| | | - executive remuneration (note 20) | 328,000 | 195,571 |
| | Depreciation (note 8) | | 20,783 | 546 |
| | Management and administration fees - related party (note 20) | | 3,833,916 | 3,690,531 |
| | Rates | | 1,619,965 | 1,664,344 |
| | Rent | | 254,752 | 57,278 |
| | Repairs and maintenance | | 278,408 | 527,062 |
| 2 | **FINANCE COSTS** | | | |
| | Interest on Stanbic Bank loan borrowings | | **2,699,474** | **746,986** |
| 3 | **INVESTMENT INCOME** | | | |
| | Bank interest | | **2 653 995** | **661 668** |
| 4 | **OTHER INCOME** | | | |
| | Administration fees | | 7,300 | 1 000 |
| | Sundry Income | | 4,404,101 | 541 424 |
| | | | **4,411,401** | **542,424** |

# NOTES TO THE **FINANCIAL STATEMENTS**

## 30 JUNE 2015

| | | | 2015 | 2014 |
|---|---|---|---|---|
| | | | P | P |
| 5 | TAXATION | | | |
| 5.1 | Company taxation | | | |
| | Normal taxation | | - | - |
| | Deferred tax charge | | 4,647,170 | 674,183 |
| | Deferred capital gains tax | | 5,052,384 | 2,407,101 |
| | Charge to statement of comprehensive income | | **9,699,554** | **3,081,284** |
| | Income tax expense comprises: | | | |
| | Charged to statement of comprehensive income | | 17,799,954 | 11,150,884 |
| | Attributable to debenture interest credited to statement of changes in equity | | (8,100,400) | (8,069,600) |
| | | | **9,699,554** | **3,081,284** |
| 5.2 | Estimated tax losses | | | |
| | The company has estimated tax losses amounting to P18 712 576 (2014: P29 056 925) available to be set off against future taxable income. | | | |
| 5.3 | Reconciliation of normal tax expense | | | |
| | Profit before taxation | | **97,257,896** | **92,590,155** |
| | Taxation at 22% | | 21,396,737 | 20,369,834 |
| | Allowable deductions | - debenture interest | (8,100,400) | (8,069,600) |
| | Exempt income | - fair value adjustment | (8,649,168) | (10,254,668) |
| | Deferred capital gains tax | | 5,052,384 | 2,407,101 |
| | Utilisation of unrecognised deferred tax asset | | - | (1,371,383) |
| | | | **9,699,554** | **3,081,284** |

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

| | 2015<br>P | 2014<br>P |
|---|---|---|
| **6 EARNINGS PER LINKED UNIT** | | |
| The earnings and weighted average number of linked units used in the calculation of earnings per linked unit are as follows: | | |
| Total profit and comprehensive income for the year | 79 457 942 | 81 439 271 |
| Taxation on debenture interest credited to the statement of changes in equity | 8 100 400 | 8 069 600 |
| Earnings for the period attributable to linked unit holders | **87 558 342** | **89 508 871** |
| Weighted average number of linked units in issue for the year | **280 000 000** | **280 000 000** |
| **7 INVESTMENT PROPERTIES** | | |
| At fair value | | |
| Freehold properties | 76 700 000 | 70 500 000 |
| Leasehold properties | 545 560 000 | 508 020 000 |
| | **622 260 000** | **578 520 000** |
| Straight line rental adjustment | (22 073 696) | (19 297 682) |
| Total investment properties | **600 186 304** | **559 222 318** |
| Reconciliation of fair value: | | |
| Opening fair value | 559,222,318 | 417,572,357 |
| At valuation | **578,520,000** | **435,100,000** |
| Straight line lease rental adjustment | **(19,297,682)** | **(17,527,643)** |
| Additions during the year | 4,425,601 | 33,807,872 |
| Disposals during the year | - | - |
| Increase in fair value during the year | 39 314 400 | 46,612,128 |
| Straight line rental adjustment | (2 776 015) | (1 770 039) |
| Transfer to assets classified as held for sale | - | 63 000 000 |
| | **600 186 304** | **559 222 318** |

The fair value of the company's investment properties at 30 June 2015 has been arrived at on the basis of the open market value of the properties as at year end. The valuation was carried out by Riberry Botswana (Proprietary) Limited, independent valuers. Riberry Botswana (Proprietary) Limited are members of the Real Estate Institute of Botswana and are registered in terms of the Real Estate Professionals Act 2003. The valuations, which conform to International Valuation Standards, were determined by reference to commercial rental streams and market evidence of transaction prices for similar properties.

# NOTES TO THE **FINANCIAL STATEMENTS**

## 30 JUNE 2015

### 7 INVESTMENT PROPERTIES {CONTINUED}

Freehold properties comprise:

- Plot 1169 Gaborone

Leasehold properties comprise:

| | |
|---|---|
| - Plot 4738 Gaborone | 50 year State Grant from 30 August 1977 |
| - Plot 14398 Gaborone | 50 year State Grant from 03 February 1984 |
| - Plot 14453 Gaborone | 50 year State Grant from 16 November 1984 |
| - Plot 14454 Gaborone | 50 year State Grant from 16 November 1984 |
| - Plot 14455 Gaborone | 50 year State Grant from 16 November 1984 |
| - Plot 14457 Gaborone | 50 year State Grant from 28 August 1989 |
| - Plot 14458 Gaborone | 50 year State Grant from 22 August 1986 |
| - Plot 14459 Gaborone | 50 year State Grant from 22 August 1986 |
| - Plot 14460 Gaborone | 50 year State Grant from 22 August 1986 |
| - Plot 22038 Gaborone | 50 year State Grant from 28 June 2002 |
| - Plot 28911 Gaborone | 50 year State Grant from 27 August 1989 |
| - Plot 32084 Gaborone | 50 year State Grant from 10 July 1995 |
| - Plot 50380 Gaborone | 50 year State Grant from 04 February 1994 |
| - Plot 50719 Gaborone | 50 year State Grant from 06 December 1990 |
| - Plot 54233 Gaborone | 50 year State Grant from 10 October 1997 |
| - Plot 6384 Francistown | 50 year State Grant from 06 December 1984 |
| - Plot 9787 Francistown | 50 year State Grant from 23 August 1991 |
| - Plot 276 Selebi Phikwe | 50 year State Grant from 28 June 1973 |

Plots 54233 and 14398, with a total carrying value of P90.5 million have been encumbered as described in note 18.


# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

| | Furniture,fittings & equipment P | Computers P | Total P |
|---|---|---|---|
| **8 PROPERTY PLANT AND EQUIPMENT** | | | |
| **Year ended 30 June 2015** | | | |
| Balance at the beginning of the year | 142,327 | 25,653 | 167,980 |
| Additions | - | - | - |
| Depreciation | (14,233) | (6,550) | (20,783) |
| Disposals | - | - | - |
| **Balance at the end of the year** | **128,094** | **19,103** | **147,197** |
| | | | |
| **At 30 June 2015** | | | |
| Cost | 142,327 | 26,199 | 168,526 |
| Accumulated depreciation | (14,233) | (7,096) | (21,329) |
| Net book value | **128,094** | **19,103** | **147,197** |
| | | | |
| **Year ended 30 June 2014** | | | |
| Additions | 142,327 | 26,199 | 168,526 |
| Depreciation | - | (546) | (546) |
| Disposals | - | - | - |
| Balance at the end of the year | **142,327** | **25,653** | **167,980** |
| | | | |
| **At 30 June 2014** | | | |
| Cost | 142,327 | 26,199 | 168,526 |
| Accumulated depreciation | - | (546) | (546) |
| Net book value | **142,327** | **25,653** | **167,980** |

# NOTES TO THE FINANCIAL STATEMENTS
## 30 JUNE 2015

| | | 2015 P | 2014 P |
|---|---|---|---|
| 9 | **DEFERRED TAXATION RECOVERABLE** | | |
| | Amount of capital gains tax recoverable from Botswana Development Corporation Limited ("the Vendors") on disposal of investment properties acquired as part of listing (note 15). | **5,738,320** | **5,722,744** |

As part of the Initial Public Offer, exemption was obtained from Botswana Unified Revenue Services for the payment of capital gains tax on transfer of properties from the subsidiaries of Botswana Development Corporation Limited ("the Vendors"), until such time as the properties are disposed of by the Company.

The actual liability arising on the disposal of any of the properties will be settled on disposal of the properties by the Company. This amount represents the potential deferred capital gains tax liability at 30 June 2015, calculated on the purchase price of the properties paid by the Company which is recoverable from the Vendors.

| | | 2015 P | 2014 P |
|---|---|---|---|
| 10 | **TRADE AND OTHER RECEIVABLES** | | |
| | Trade receivables | 9,290,790 | 1,372,767 |
| | Less: Provision for doubtful debts | (1,047,787) | (860,662) |
| | | **8,243,003** | **512,105** |
| | Other receivables | 1,070,646 | 1,315,688 |
| | | **9,313,648** | **1,827,793** |

The average credit period is 30 days. No interest is charged on overdue trade receivables. The Company has provided for all past due and impaired trade receivables based on estimated irrecoverable amounts determined by reference to past default experience. There are no past due amounts in trade receivables at the reporting date for which the Company has not provided.

| **Ageing of past due but not impaired** | 2015 P | 2014 P |
|---|---|---|
| 30-60 days | 446,457 | 144,160 |
| 60-90 days | - | 106,400 |
| 90-120 days | - | - |
| Total | **446,457** | **250,560** |

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

### 10 TRADE AND OTHER RECEIVABLES {CONTINUED}

| | 2015<br>P | 2014<br>P |
|---|---|---|
| **Movement in the allowance for doubtful debts** | | |
| Opening balance | 860,662 | 966,566 |
| Provision raised during the year | 187,125 | 1,000,537 |
| Bad debts written off | - | (1,106,441) |
| Closing balance | **1,047,787** | **860,662** |

The Company considers the concentration of credit risk to be limited due to the customer base being small and unrelated. There are no other impaired receivables. Accordingly, the directors believe that no further provision is required in excess of the allowance for doubtful debts.

### 11 CASH AND CASH EQUIVALENTS

| | 2015<br>P | 2014<br>P |
|---|---|---|
| Cash and cash equivalents comprise: | | |
| Bank balances and deposits | **49,661,846** | **42,332,616** |

### 12 STATED CAPITAL

| | 2015<br>P | 2014<br>P |
|---|---|---|
| 280 000 000 (2014: 280 000 000) fully paid up ordinary shares | **2,718,884** | **2,718,884** |

Each Linked Unit in the Company comprises one ordinary share and one variable rate unsecured debenture as per Note 13, which are indivisibly linked. It is not possible to trade the shares or the variable rate unsecured debentures separately from one another.

The linked units are listed on the Botswana Stock Exchange.

All of the issued shares are of the same class and rank pari passu in every respect.

In accordance with the Constitution, at any general meeting, every shareholder present in person or by authorised representative or proxy shall have one vote on a show of hands and on a poll, every member present in person, by authorised representative or by proxy shall have one vote for every share held.

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

| | | 2015<br>P | 2014<br>P |
|---|---|---|---|
| 13 | **DEBENTURES** | | |
| | 280 000 000 (2014: 280 000 000) variable rate unsecured debentures | **405,113,547** | **405,113,547** |
| | Each Linked Unit in the Company comprises one ordinary share as per note 12, and one variable rate unsecured debenture, which are indivisibly linked. It is not possible to trade with the shares or the variable rate unsecured debentures separately from one another. | | |
| | All of the variable rate unsecured debentures are of the same class and rank pari passu in every respect. | | |
| | The debentures are governed in terms of a Trust Deed entered into between the Company and the Trustee for the debenture holders. | | |
| 14 | **ACCUMULATED PROFITS** | | |
| | Arising from normal operations | 43 224 279 | 24 251 938 |
| | Arising from revaluation of investment properties | 145,787,618 | 114,301,617 |
| | | **189 011 897** | **138 553 555** |
| | **Reconciliation** | | |
| | *Arising from normal operations* | | |
| | At the beginning of the year | 24 251 938 | 14 138 055 |
| | Profit from normal operations (net of taxation) | 56 072 341 | 47 073 883 |
| | Dividends and debenture interest declared | (37 100 000) | (36 960 000) |
| | | **43 224 279** | **24 251 938** |
| | *Arising from revaluation of investment properties* | | |
| | At the beginning of the year | 114 301 617 | 71 866 629 |
| | Increase in fair value surplus (Net of taxation) | 34 262 016 | 44 205 027 |
| | Straight line rental adjustment | (2 776 015) | (1 770 039) |
| | | **145 787 618** | **114 301 617** |

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

| | | 2015 P | 2014 P |
|---|---|---|---|
| **15** | **DEFERRED TAXATION** | | |
| | Balance at beginning of the year | 16,965,586 | 14,269,200 |
| | Capital gains tax deferred - related parties (note 9) | 15,576 | (384,898) |
| | Capital gains tax charged to statement of comprehensive income (note 5.1) | 5,052,384 | 2,407,101 |
| | Deferred tax charge | 4,647,170 | 674,183 |
| | Balance at end of the year | **26,680,716** | **16,965,586** |
| | Deferred taxation arises as follows: | | |
| | Deferred taxation - capital gains tax on revaluation of the investment properties | 15,621,043 | 10,568,659 |
| | Deferred taxation - capital allowances | 5,321,353 | 674,183 |
| | Amount of capital gains tax recoverable from Botswana Development Corporation Limited ("the Vendors") on disposal of investment properties acquired as part of listing (note 9). | 5,738,320 | 5,722,744 |
| | | **26,680,716** | **16,965,586** |

| | | | | 2015 P | 2014 P |
|---|---|---|---|---|---|
| **16** | **DEBENTURE INTEREST AND DIVIDENDS DECLARED** | | | | |
| | **Debenture interest** | | | | |
| | Interim paid | 6.25 | (2014: 6.55) thebe | 17 500 000 | 18 340 000 |
| | Final declared | 6.90 | (2014: 6.55) thebe | 19 320 000 | 18 340 000 |
| | | **13.15** | | **36 820 000** | **36 680 000** |
| | Dividends | | | | |
| | Interim paid | 0.05 | (2014: 0.05) thebe | 140 000 | 140 000 |
| | Final declared | 0.05 | (2014: 0.05) thebe | 140 000 | 140 000 |
| | | **0.10** | | **280 000** | **280 000** |
| | | | | **37 100 000** | **36 960 000** |
| | Debenture interest and dividend payable | | | | |
| | Debenture interest | | | 19 320 000 | 18 340 000 |
| | Dividend payable | | | 140 000 | 140 000 |
| | | | | **19 460 000** | **18 480 000** |

The interim debenture interest and dividend per linked unit was paid on 23 April 2015. A final debenture interest and dividend per linked unit was declared by the Board of Directors on 11 June 2015 and was paid to unitholders registered as on 10 July 2015.

# NOTES TO THE **FINANCIAL STATEMENTS**

## 30 JUNE 2015

| | | 2015<br>P | 2014<br>P |
|---|---|---|---|
| 17 | **TRADE AND OTHER PAYABLES** | | |
| | Refundable deposits held for tenants | 3,243,398 | 1,650,994 |
| | Value Added Tax | 979,637 | 674,147 |
| | Trade payables and accruals | 1,896,513 | 3,366,112 |
| | Related parties: | | |
| | Botswana Development Corporation Limited (note 20) | 194,340 | 233,632 |
| | | **6,313,888** | **5,924,885** |
| 18 | **BORROWINGS** | | |
| | Stanbic Bank Botswana Limited | **37,937,216** | **41 000 000** |

The loan facility of P41 million is payable to Stanbic Bank Botswana Limited. The loan accrues interest at base rate minus 2% margin, base rate means Bank's prime lending rate prevailing from time to time which is currently 7.5% per annum. The loan is repayable in 60 months instalments from the signature date in structured capital instalments and interest payments. The loan is secured by a first mortgage bond of P34 million over Lot 54233 and P7 million over Lot 14398.

| | | 2015<br>P | 2014<br>P |
|---|---|---|---|
| 19 | **FINANCIAL RISK MANAGEMENT** | | |
| | **Categories of Financial Instruments** | | |
| | ***Financial assets*** | | |
| | Receivables (including cash and cash equivalents) | **58 975 494** | **43 189 596** |
| | Interest income from financial assets | **2 653 995** | **661 668** |
| | ***Financial liabilities*** | | |
| | Borrowings | 37,937,216 | 41 000 000 |
| | Payables (including related party balances) | 25,773,888 | 23 730 738 |
| | | **63 711 104** | **64 730 738** |
| | Finance costs incurred on financial liabilities | **2 699 474** | **746 986** |

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

### 19 FINANCIAL RISK MANAGEMENT {CONTINUED}

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements represent their fair values.

#### Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

The capital structure of the Company consists of cash and cash equivalents and equity, comprising the stated capital, the variable rate unsecured debentures and accumulated profits as disclosed in the statement of financial position. At 30 June 2015, the Company had interest bearing borrowings of P37 937 216 (2014: P41 000 000) (note 18).

#### Financial Risk Management Objectives

The directors monitor and manage the financial risks relating to the operations of the Company through analysis of exposures by degree and magnitude of each risk. These risks include market risk (including currency risk and interest rate risk) and credit risk.

#### Market Risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates as described below.

#### Foreign Currency Risk

In the normal course of business, the Company enters into transactions denominated in foreign currencies. At 30 June 2015, Company had no liabilities in foreign currencies, which would expose it to fluctuations in foreign currency exchange rates.

#### Credit Risk

At the reporting date there were no significant concentrations of credit risk for receivables. The carrying amount reflected above represents the Company's maximum exposure to credit risk for receivables.

#### Interest Rate Risk

Fluctuations in interest rates impact on the value of short-term cash investment and financing activities, giving rise to interest rate risk. The cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks.

Financial instruments that are sensitive to interest rate risk are bank balances on call and long term borrowings, whose interest rates are linked to the prime lending rate. If interest rates were 1% higher while all other variables were held constant the profit for the year would increase by P139 009 (2014: P9 956). An exact and opposite effect would occur if the interest rates were 1% lower.

# NOTES TO THE FINANCIAL STATEMENTS
## 30 JUNE 2015

| | | 2015 | 2014 |
|---|---|---|---|
| | | P | P |
| 20 | **RELATED PARTY TRANSACTIONS** | | |
| | The Company has entered into a Property Agreement with Botswana Development Corporation (BDC). BDC owned 66% of the issued linked units of the Company at 30 June 2015 (30 June 2014:59%). | | |
| | During the year the Company entered into the following trading transactions with related parties and had the following balances with related parties. | | |
| | **Payables due to related parties (note 17)** | | |
| | Botswana Development Corporation Limited | **194,340** | **233,632** |
| | The following trading transactions were carried out with related parties. | | |
| | **Botswana Development Corporation Limited** | | |
| | Rental Income | **6 663 953** | **9 210 044** |
| | **Management and administration fees** | | |
| | Management fees | 2,352,630 | 2,318,365 |
| | Lease renewal fees | 161,286 | 162,166 |
| | Administration fees | 1,320,000 | 1,210,000 |
| | | 3 833 916 | 3 690 531 |

Management fees are calculated on a fixed percentage of net rental collections. Administration and lease renewal fees are calculated on a commercial basis.

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

### 20 RELATED PARTY TRANSACTIONS {CONTINUED}

| | 2015 P | 2014 P |
|---|---|---|
| Stanlib Investment Management Services (Proprietary) Limited | | |
| **Asset management fees** | **-** | **2 818 171** |

The asset management fees are calculated in terms of an agreement based on market capitalisation.

The amounts owed by or owed to related parties are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of any amounts owed by related parties.

| | 2015 P | 2014 P |
|---|---|---|
| **Directors' emoluments** | | |
| Directors' emoluments-fees as directors | 736 000 | 600 000 |
| Executive remuneration | 328 000 | 195 571 |
| | **1 064 000** | **795 571** |

### 21 OPERATING LEASE ARRANGEMENTS

Operating leases receivable by the Company as a lessor relate to the investment properties owned by the Company with lease terms of between 1 and 10 years. The lessees do not have an option to purchase the properties at the expiry of the lease period.

The property rental income earned by the Company from its investment properties, before straight-line adjustment, amounts to P64 410 659 (2014: P58 702 743) as reflected in the statement of comprehensive income. Direct operating expenses arising on the investment property for the year amounted to P5 783 655 (2014: P6 595 004).

At the end of the reporting period the Company had contracted with tenants for the following future minimum lease payments:

| | 2015 P | 2014 P |
|---|---|---|
| Not longer than 1 year | 43 712 330 | 48 920 898 |
| Longer than 1 year and not longer than 5 years | 201 429 382 | 125 617 440 |
| Longer than 5 years | - | 30 745 328 |
| | **245 141 712** | **205 283 666** |

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

### 22 CAPITAL COMMITMENTS

There were no capital commitments as at the year end.

### 23 EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period that may require adjustment or disclosure in the financial statements.

### 24 SEGMENTAL REPORTING

The Company's business activities are concentrated in the segment of property rentals and are carried out within the geographical region of Botswana.

| **Segmental Statement of Financial Position at 30 June 2015** | **Corporate** | **Commercial & retail** | **Leisure** | **Industrial** | **Total** |
|---|---|---|---|---|---|
| | **P** | **P** | **P** | **P** | **P** |
| Investment property including straight lining of rental income | - | 90,200,000 | 239,500,000 | 292,560,000 | 622,260,000 |
| Property Plant and equipment | 147,197 | - | - | - | 147,197 |
| Deferred tax recoverable from Vendors | - | 3,405,128 | - | 2,333,192 | 5,738,320 |
| Taxation refundable | 115,137 | - | - | - | 115,137 |
| Trade and other receivables | 1,070,645 | - | 13,664 | 8,229,339 | 9,313,648 |
| Cash and cash equivalents | 49,661,846 | | | | 49,661,846 |
| Assets classified as held for sale | - | - | - | - | - |
| Total assets | **50,994,825** | **93,605,128** | **239,513,664** | **303,122,531** | **687,236,148** |

Due to the pooling of funds, disclosure of segmental liabilities has all been included under Corporate.

# NOTES TO THE **FINANCIAL STATEMENTS**

## 30 JUNE 2015

### 20 SEGMENTAL REPORTING {CONTINUED}

| Segmental Statement of Comprehensive Income for the year ended 30 June 2015 | Corporate<br>P | Commercial & retail<br>P | Leisure<br>P | Industrial<br>P | Total<br>P |
|---|---|---|---|---|---|
| Segment revenue-rental income | - | 10,341,690 | 24,545,030 | 32,299,954 | 67,186,674 |
| Property operating expenses | - | (890,247) | (2,112,919) | (2,780,489) | (5,783,655) |
| Net rental and related revenue | **-** | **9,451,442** | **22,432,111** | **29,519,466** | **61,403,019** |
| Finance income | 2,653,995 | - | - | - | 2,653,995 |
| Other income | 4,411,401 | - | - | - | 4,411,401 |
| Finance costs | (2,699,474) | - | - | - | (2,699,474) |
| Fair value gain on investment property net of adjustment resulting from straight lining of rental revenue | | (3,889,506) | 17,925,343 | 22,502,549 | 36,538,385 |
| Depreciation | (20,783) | | | | (20,783) |
| Other administration expenses | (5,028,648) | | | | (5,028,648) |
| Income tax expense | (13,883,964) | (602,768) | (1,430,612) | (1,882,610) | (17,799,954) |
| Total segmental result | **(14,567,472)** | **4,959,169** | **38,926,842** | **50,139,404** | **79,457,942** |
| Rental income from individual customers contributing more than 10% of rental income | **-** | **-** | **7,999,675** | **8,758,603** | **16,758,278** |

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

### 20 SEGMENTAL REPORTING {CONTINUED}

| **Segmental Statement of Financial Position at 30 June 2014** | **Corporate** | **Commercial & retail** | **Leisure** | **Industrial** | **Total** |
|---|---|---|---|---|---|
| | **P** | **P** | **P** | **P** | **P** |
| Investment property including straight lining of rental income | - | 94,500,000 | 219,500,000 | 264,520,000 | 578,520,000 |
| Property Plant and equipment | 167,980 | - | - | - | 167,980 |
| Deferred tax recoverable from Vendors | - | 3,405,128 | - | 2,317,616 | 5,722,744 |
| Taxation refundable | 185,324 | - | - | - | 185,324 |
| Trade and other receivables | 394,575 | 403,617 | 235,167 | 794,434 | 1,827,793 |
| Cash and cash equivalents | 42,332,616 | - | - | - | 42,332,616 |
| Assets classified as held for sale | - | - | - | - | - |
| Total assets | **43,080,495** | **98,308,745** | **219,735,167** | **267,632,050** | **628,756,457** |
| Due to the pooling of funds, disclosure of segmental liabilities has all been included under Corporate. | | | | | |
| **Segmental Statement of Comprehensive Income for the year ended 30 June 2014** | | | | | |
| Segment revenue-rental income | - | 11,562,717 | 24,754,474 | 24,155,591 | 60,472,782 |
| Property operating expenses | - | (1,237,172) | (1,952,236) | (3,405,596) | (6,595,004) |
| Net rental and related revenue | **-** | **10,325,545** | **22,802,238** | **20,749,995** | **53,877,778** |
| Finance income | 661,668 | - | - | - | 661,668 |
| Other income | 542,424 | - | - | - | 542,424 |
| Finance costs | (746,986) | - | - | - | (746,986) |
| Fair value gain on investment property net of adjustment resulting from straight lining of rental revenue | | 3,969,039 | 13,367,854 | 27,505,196 | 44,842,089 |
| Depreciation | 546 | - | - | - | 546 |
| Other administration expenses | (6,587,364) | - | - | - | (6,587,364) |
| Income tax expense | (8,743,783) | (550,000) | (289,855) | (1,567,246) | (11,150,884) |
| Total segmental result | **(14,873,495)** | **13,744,584** | **35,880,237** | **46,687,945** | **81,439,271** |
| Rental income from individual customers contributing more than 10% of rental income | **-** | **8,563,744** | **8,796,817** | **-** | **17,360,561** |


# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

| | 2015 P | 2014 P |
|---|---|---|
| **25 FAIR VALUE MEASUREMENT** | | |
| Assets measure at fair value | | |
| The investment properties of the Company measured at fair value at the end of the reporting period fall under Level 3 - Significant unobservable inputs. The valuation process for the Level 3 category is described below. | | |
| Recurring measurement at the end of the reporting period | | |
| Investment properties | **600 186 304** | **559 222 318** |
| Reconciliation of fair value measurements categorised within Level 3 of fair value hierarchy | | |
| Investment properties | | |
| Opening value | 559 222 318 | 417 572 357 |
| Total gains for the period included in profit or loss | 36 538 385 | 44 842 089 |
| Additions | 4 425 601 | 33 807 872 |
| Transfers | - | 63 000 000 |
| Closing Balance | **600 186 304** | **559 222 318** |
| Gains and losses arising from the fair valuation of the investment properties are shown as the statement of comprehensive income as follows: | | |
| Total gains for the period included in profit or loss | **36 538 385** | **44 842 089** |

Quantitative information about the fair value measurements using significant unobservable inputs (Level 3)

| **Valuation technique** | **Unobservable input** | **Range** |
|---|---|---|
| Discounted cash flow | Capitalisation rate | 8.5%-11% |

# NOTES TO THE **FINANCIAL STATEMENTS**
## 30 JUNE 2015

### 25 FAIR VALUE MEASUREMENT {CONTINUED}

#### Valuation process

The fair value of the company's investment properties at 30 June 2015 has been arrived at on the basis of the open market value of the properties as at year end. The valuation was carried out by Riberry Botswana (Proprietary) Limited, independent valuers. Riberry Botswana (Proprietary) Limited are members of the Real Estate Institute of Botswana and are registered in terms of the Real Estate Professionals Act 2003. The valuations ,which conform to international Valuation Standards, were determined by reference to commercial rental streams and market evidence of transaction prices for similar properties.

#### Information about the sensitivity to changes in unobservable inputs

The significant unobservable inputs used in the fair value measurement of the investment properties are the capitalisation rates. Significant increases/(decreases) in the capitalisation rates would result in significantly lower/(higher) fair value measurement. The changes to capitalisation rates are dependent on various market factors including location of properties, interest rates, length of leases and quality of tenants.

# NOTES

# NOTES

# CONTACTS

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Botswana


LETLOLE 2015 ANNUAL REPORT


NURTURING SUSTAINABLE WEALTH FOR BOTSWANA