



# ANNUAL REPORT 2016

CREATING A BASKET OF WEALTH FOR BOTSWANA

## 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

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## PERFORMANCE HIGHLIGHTS FOR 2016

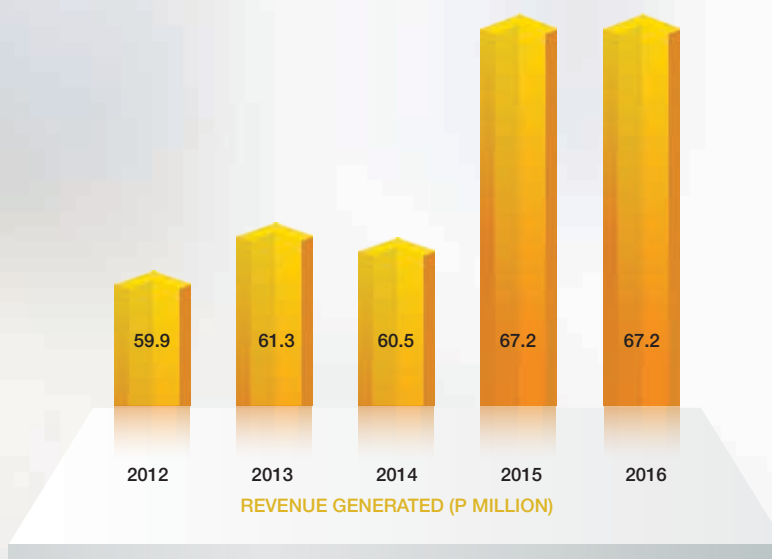


## PERFORMANCE HIGHLIGHTS FOR 2016

### INVESTMENT PROPERTY PORTFOLIO GROWTH

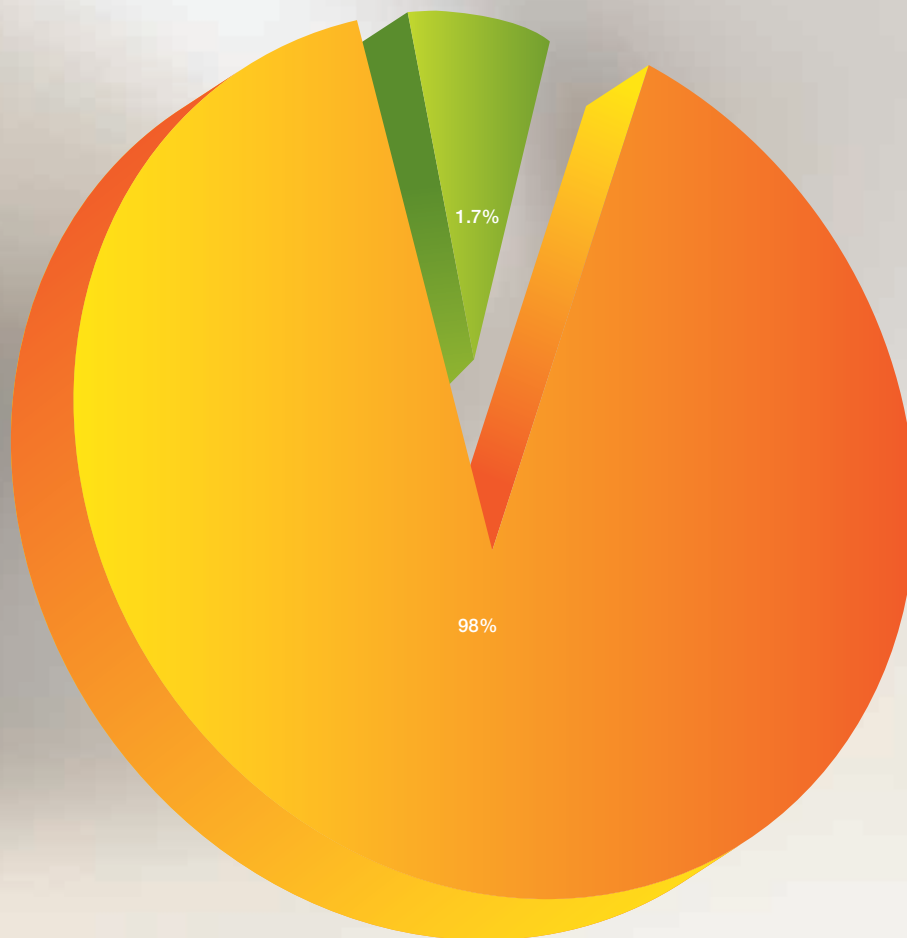


### REVENUE GROWTH



## PERFORMANCE HIGHLIGHTS FOR 2016

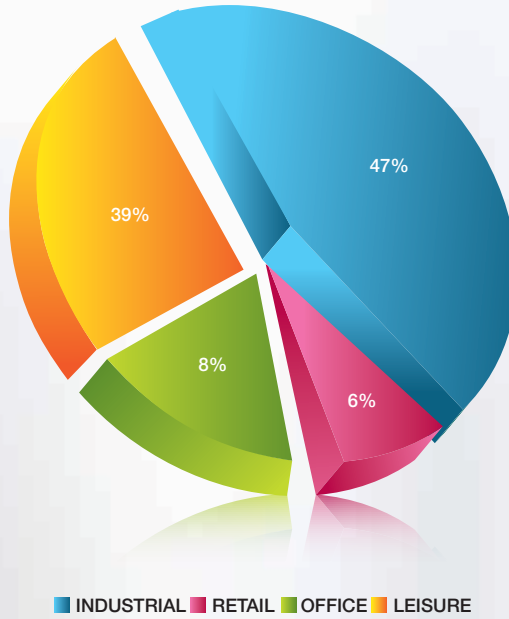
OCCUPANCY OF LLR'S PROPERTY



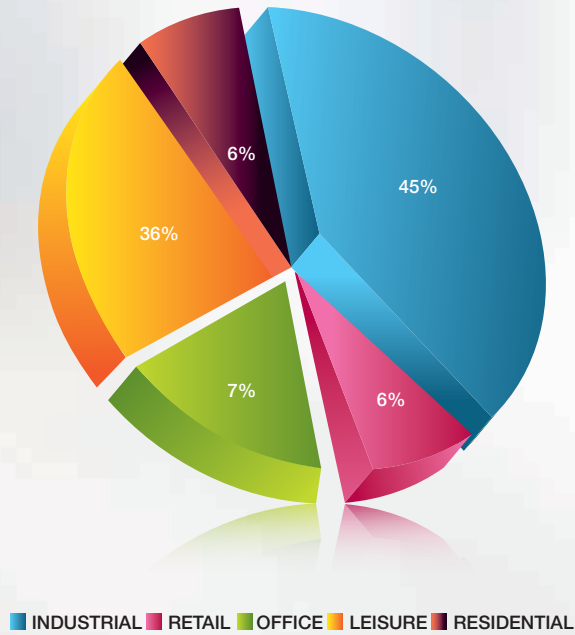
■ OCCUPIED PROPERTY ■ VACANT PROPERTY

## PORTFOLIO DIVERSIFICATION BY MARKET VALUE

2015 SECTORAL SPREAD



2016 SECTORAL SPREAD





**Ms. Boitumelo Mogopa**  
Chairperson



# BOARD OF DIRECTORS



**Mr. Peter Stevenson**

Board Member



**Mr. Terence Dambe**

Board Member



**Ms. Jane Tselayakgosi**

Board Member



**Mr. Bafana Molomo**

Board Member

CREATING A BASKET OF WEALTH FOR BOTSWANA



**Mr. Paul More**  
Chief Executive Officer

# EXECUTIVE MANAGEMENT



**Ms. Magdeline Tsiane**  
Finance and Administration Manager



**Mr. Baalakani Nlumbile**  
Property Manager



# CHAIRPERSON'S REPORT

It is pleasing to report that LLR's performance was fair relative to strategy. Contractual income was not depressed as the company performed well and achieved a competitive gross yield. The quality of the company's assets was sustained as the aggregate capital value of LLR's property portfolio appreciated at an inflation beating growth.

I am particularly pleased that during the year under review LLR acquired property, which enabled it to diversify the portfolio, as for the first time, the company veered off into investing in the residential space. The company is exploring opportunities for investing in Africa. The Board is deeply conscious of the need to ensure that all interventions pursued for investing in Africa are supported by a thorough knowledge of targeted markets as well as informed rigorous investment appraisals. Penetration of markets in Africa will ensure that LLR maintains an efficient and diversified portfolio, with the overarching principle being the need to create and sustain shareholder value.

## CHAIRPERSON'S REPORT

I am delighted to present to you the 2016 Annual Report for Letlole La Rona Limited. This is my maiden report at the helm of LLR, having been appointed the Chairperson of the Company in December 2015.

A special word of gratitude goes to my predecessor Mr. Roderick Boyd, who was one of the founding Board Members of LLR. Mr Boyd resigned from the Board in December 2015 to focus on his business interests. During his tenure as a Board Member and ultimately as Chairman of the Board, LLR saw a significant growth in its share price, as it increased by 45% from the initial Public Offering of P1.50 per share in 2011 to P2.18 by the end of 2015.

LLR is a listed property investment firm, with a Board and a fully-fledged Management Team. It is to be noted that, from 2011 to 2015, operational functions were outsourced. However, through an expansive and detailed cost benefit analysis, the Board sought to bring in an in-house operational structure to resource fundamental functions of the company such as property management, asset management, finance and administration. This decision was informed by the quantum of cost and operational efficiencies to be derived through such an initiative. I am happy to note that, as of January 2016, LLR had a full operational structure charged with the responsibility of driving implementation of the strategy approved by the Board.

The Board and Management work as a solid unit, fully dedicated to achieving the company's explicit mandate of creating and sustaining shareholder value through efficient property management interventions coupled with judicious investment decisions.

As experienced property pundits would concur, performing in compliance with this mandate is easily achievable in a favourable property market, punctuated by positive and enabling factors such as abundance of tradeable investment worthy property assets, competitive and rising rentals, real growth in capital values and investor optimism. However, facts demonstrate that for the year under review, performance of the property market was rather subdued and unfavourable for almost all property sectors.

Consequently, performance of property investment firms was bound to be affected negatively. Despite these market challenges, it is pleasing to report that LLR's performance was fair relative to strategy. Contractual income was not depressed as the company performed well and achieved a competitive gross yield. The quality of the company's assets was sustained as the aggregate capital value of LLR's property portfolio appreciated at an inflation beating growth. I am particularly pleased to note that during the year under review LLR acquired property, which enabled it to diversify the portfolio, as for the first time, the company veered off into investing in the residential space.

For next year, the mettle of LLR will continue to be tested as the company has to demonstrate potential for growth in both capital value and contractual income. These important business fundamentals call on the Board not only to support the company's operations for consolidating its domestic investment base but to be more outward looking in pursuit of bankable property investments in the continent.

## CHAIRPERSON'S REPORT

The Management Team is exploring opportunities for aggressively investing in Africa. The Board is deeply conscious of the need to ensure that all interventions pursued for investing in Africa are supported by a thorough knowledge of targeted markets as well as informed rigorous investment appraisals. Hence, LLR values strategic partnerships as an effective means of driving the company's strategy of penetrating off-shore markets. Penetration of markets in Africa will ensure that LLR maintains an efficient and diversified portfolio, with the overarching principle being the need to create and sustain shareholder value. I would like to assure LLR's investors and potential investors that the company's investment strategy will continue to be permeated by our fiduciary duty of care to our shareholders.

I am pleased to report that the company is not oblivious to investment risks inherent in property investment whether on-shore or off-shore. Hence, as part of the company's governance structure, LLR has a risk register in place, which clearly details risks and ensures that controls and mitigation interventions are aligned to business operations. This initiative is crucial to ensuring that LLR does not secure investments likely to compromise shareholder value.

During the year under review, the Board discharged its mandate effectively through two sub-committees; being the Audit, Risk and Compliance Committee and the Investment and Tender Committee. On behalf of the Board, I would like to welcome Mr. Bafana Molomo, who was appointed to the Board in December 2015. Mr. Molomo is a seasoned investment professional and is a great asset to the Board.

I wish to conclude my report by extending my gratitude to my colleagues in the Board for their full support, commitment and dedication to running the Board and giving Management guidance in pursuing the company's strategy. In the same vein I would like to express my heartfelt thanks to the Management Team for efficiently running the company and making some meaningful inroads to implementation of the approved strategy.



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**Boitumelo Mogopa**  
Chairperson

CREATING A BASKET OF WEALTH FOR BOTSWANA





# CHIEF EXECUTIVE OFFICER'S REPORT

For the year under review, Letlole La Rona Limited (LLR) recorded a profit before tax of P92.3 million. The company's portfolio achieved a gross yield of 10.1%. LLR closed the year with acquisition of a P42.0 million property in Gaborone which contributed to the increase in aggregate market value of the company's property portfolio from prior year's value of P622.3 million to P710.1 million. This resulted in an impressive growth trajectory in the order of 14.1%.

LLR is now on the verge of concluding a deal for acquisition of one-third stake in a well located and thriving shopping centre in Francistown valued at approximately P105.0 million. The Management Team remains confident and optimistic about LLR's future. The operational governance framework in place lends itself to ascending to a higher platform of operational efficiency, including its consequent benefits such as appreciation of the aggregate market value of the company's property portfolio as well as growth of shareholder value in real terms.

## CHIEF EXECUTIVE OFFICER'S REPORT

It gives me great pleasure to present the Chief Executive Officer's report on Letlole La Rona Limited (LLR) for the 2016 financial year. At the time I presented my maiden report to you last year, functions that are critical for the day to day operations of LLR were outsourced. I am therefore pleased to report that after a thorough cost benefit analysis, LLR decided to in-source its operations. This culminated in the recruitment of the Property Manager Mr. Baalakani Nlumbile and the Finance and Administration Manager Ms. Magdeline Tsiane. The said managers are seasoned professionals in their fields of expertise and bring with them a wealth of experience garnered at parastatal and private sector levels and have been instrumental in assisting me to drive implementation of the company's strategy.

### ECONOMIC OUTLOOK

The World Bank's report on Global Economic Prospects for 2016 paints a rather dim picture with regard to prospects for global economic growth. This view is attributable to a number of factors, key among which are; a general slow-down in economic growth, financial conditions that continue to get tighter from year to year and persistently low commodity prices. Whereas all economies work on strengthening their economic outlook, some seem to be persistently haunted by challenges such as; rising volatility of the financial markets, geopolitical and security issues and dampened confidence in effectiveness of policies geared toward turning around economic growth. Growth prospects for Sub-Saharan Africa remain unpromising, with a projection of 2.5% expansion down from an estimated 3% in 2015.

Botswana depends to a high degree on a single commodity export being diamonds. Since the country is not immune to the global commodity slump, the subdued demand and prices for diamonds have affected Botswana's growth potential. While the country appreciates the need to focus on diversifying the economy, it is patently clear that achievement of this goal to a degree that the Government will be comfortable with, will probably take place in the medium to long term. RMB's 2015/16 edition of "Where to Invest in Africa", states that despite maintaining the 4th position in the Region, as an investment destination, Botswana ranks 13th out of 53 economies in Africa and this is largely attributable to the size of the country's market.

Factors such as depressed world markets and slowdown in global economic growth have affected business operations in Botswana. Last year, in an attempt to stimulate economic activity, the central bank reduced its lending rate on two occasions. The said rate was reduced by one percentage point from 7.5% to 6.5% in February 2015, and was further reduced by half a percentage point from 6.5% to 6% in August 2015. The reduction in bank lending rates was aligned to Bank of Botswana's target of keeping the inflation rate within a bracket of 3% to 6%.

For 2016, the BMI Research has projected a 4.0% inflation for Botswana. This means that property investment firms will continue to face the challenge of lower annual compound escalations as shrewd tenants motivate for lower rates riding upon rental reviews occasioned by lease renewals. In such cases, property investment firms face the unenviable possibility of failing to achieve targeted growth, especially firms which were beneficiaries of high compound escalations factored into long leases.

## CHIEF EXECUTIVE OFFICER'S REPORT

### LLR'S PERFORMANCE

For the year under review, LLR recorded a profit before tax of P92.3 million. Relative to last year, fair value adjustment of investment properties increased from P36.5 million to P39.3 million, reflecting an increase of over 7%. LLR's property portfolio achieved a gross yield of 10.1%. At the balance sheet date, the company's net current position was negative due to the use of available cash resources to finance a major acquisition. However, post the balance sheet date, the company's cash flow normalised and the net current position has reverted to positive. The company has negotiated with financial institutions to finance acquisition of properties and expansion of business operations.

### CONTRACTUAL INCOME

LLR's property portfolio performed satisfactorily, recording a revenue of P67,214,037 up to 30th June 2016 compared to prior year's revenue of P67,186,674. The key contributor to the marginal increase in revenue generated, is the decline in contractual income received from leasing one commercial office space, as its rental reduced by a factor of nearly 50% following termination of the previous lease agreement. The said property had over the years benefited from fixed annual compound escalations which pushed rental out of sync with prevailing market rates. However, the property has now been leased at the prevailing market rate.

### PROPERTY ACQUISITION AND PORTFOLIO VALUE

For this financial year, LLR's property portfolio was valued by an independent property valuation firm. The valuation reflects a capital appreciation of 7.4%, as the aggregate market value increased from the previous year's figure of P622.3 million to P668.1 million.

LLR closed the year with acquisition of a residential property sitting on a 1.84 hectare piece of land in a gated estate in Gaborone. The property is situated at the heart of the City and in one of the most sought after locations in Central Gaborone. The development comprises 42 townhouses. The property, which was acquired for a sum of P42 million contributed to the increase in aggregate market value of LLR's property portfolio from last year's value of P622.3 million to P710.1 million. This resulted in an impressive growth trajectory in the order of 14.1%. From a property portfolio diversification perspective, this strategically invaluable acquisition has braced LLR to prop up its exposure to residential property from nil to 6%. Owing to the timing of this acquisition, the financial benefits associated with the addition of the said property asset to LLR's property portfolio will only flow into the fund in the next financial year.

### VACANCIES

One of the ways of ensuring performance of a property portfolio is through effective void management. Management pursued an aggressive stance for marketing LLR's vacant property, and by the end of the financial year, vacant property accounted for only 1.7% of the entire portfolio.

## CHIEF EXECUTIVE OFFICER'S REPORT

### DISTRIBUTION

With a market capitalisation of P616 million, sustained growth in share price over the years and consistency in bi-annual distribution of dividends, LLR's investors have all the reasons to be comfortable and confident about their choice of investment. From 2013 to 2016, LLR's dividend yield has consistently increased, and for the year under review, total distribution stood at P37,240,000.

### PROPERTY MARKET

#### OVERVIEW OF THE PROPERTY MARKET

In the short to medium term, property's resilience to weakening economic conditions is always challenged. The property market in Botswana has not been spared from the economic climate facing the country. Almost all property sectors are affected. However, the longevity of investment potential of property relative to other investment classes will continue to place property at a reasonably competitive level.

#### COMMERCIAL PROPERTY MARKET

##### OFFICE MARKET

Increased offloading of commercial office space in Botswana's prime commercial office centre, Gaborone's Central Business District (CBD), has adversely affected this sector's potential to grow rentals in real terms. Vacancies have increased to over 10%. Some good quality commercial office space located in secondary areas in Gaborone fetch rentals as low as P65 per square metre. Maximum rentals in the order of P110 per square metre are achieved in the CBD, but surplus commercial office space in the market has compelled landlords to review their rental strategy, in favour of reducing rentals as a carrot for attracting and retaining tenants.

It is anticipated that the status quo will remain unchanged in the short to medium term, however, with time, demand will build up again reaching an equilibrium state, following which demand will outstrip supply with the attendant consequence of increased rentals. Huge old office spaces, partitioned with solid walls, which were built with a single tenant in mind are bearing the brunt of excess supply of office space, with potential tenants taking advantage of the market to place onerous obligations on landlords and demanding lower rentals and in some cases zero compound escalations. This was certainly the case with rental of one of LLR's office space, where LLR had to settle for a market related rental rate which was nonetheless lower than rental received from the previous tenant. Prime yields are around 8%.

## CHIEF EXECUTIVE OFFICER'S REPORT

### RETAIL MARKET

It was envisaged that developments that have taken place on the retail front over time, such as the Rail Park Mall, Sebele Centre, Phase 2 expansion of Game City and Phase 2 expansion of Airport Junction Mall, will result in a saturation of retail space in Gaborone. However, this has not happened. As a consequence of the resilience exhibited by this sector, Phase 3 expansion of Game City is ongoing and a huge retail development by the Smart Partnership is taking place right at the heart of the CBD. In the long term, the Smart Partnership commercial development will add more retail space in Gaborone. The increased retail space is anticipated to result in the saturation of retail space in Gaborone, and consequently more secondary retail space will have its rentals depressed. Prime yields for retail space are around 8%.

While occupation of older shopping centres has not been depressed, it has been noted that some of these centres are beginning to feel the pinch of new developments as tenants either seek to relocate or demand favourable lease terms owing to decreased profits. Tenants will keep on piling pressure on landlords to clinch favourable lease terms. The overall impact will be an increased burden on the property portfolio, thus positioning such properties as ideal candidates for shedding off.

For the year under review, LLR's commercial property generated income amounting to 12% of the annual income received.

### INDUSTRIAL MARKET

While rentals have consistently maintained their value in real terms for this sector, vacancies are likely to increase as more industrial space is released to the market. However, it is envisaged that owing to lack of serviced land in key strategic areas, well positioned industrial space will continue enjoying rental growth in real terms and will retain tenants of a competitive covenant strength. In fact, demand for such space will be sustained in the long term.

Where location is not the most important factor, especially for warehousing facilities with minimal or nil investment in machinery, it is anticipated that as leases terminate due to effluxion of time, these may not be renewed as tenants pursue relocation in favour of new industrial space. Old industrial units measuring about a thousand square metres are fetching a minimum rental of P30 per square metre, while new ones fetch a maximum of P50 per square metre. Prime yields for industrial property are around 9%.

LLR's industrial property portfolio is strategically located owing to its centrality in Gaborone West Industrial area and Gaborone Block 3 and it is envisaged that for as long as the property's condition is maintained to keep the quality attractive to tenants, rental value will be maintained in real terms. For the year under review, LLR's industrial space was the major contributor to annual income, as this sector generated 50% of the annual income received by the company.

## CHIEF EXECUTIVE OFFICER'S REPORT

### RESIDENTIAL MARKET

This sector has not really improved for the last 3 to 4 years and there has been a decline on rentals. Executive houses which were resilient in the past are beginning to get affected as the demand ebbs. This has affected even areas that used to be sought after like Phakalane. One of the factors which has contributed to the decline in this sector is affordability. With the Government's increase in remuneration over the last few years having been low, this has tended to affect capacity of most people to secure mortgages as Government is the country's biggest employer. However, rentals for low cost units, some of which are found in multi-residential complexes have not lost their value as demand for these continues to grow in the market.

LLR's acquisition of residential property has resulted in exposure to this sector in the order of 6%.

### LEISURE SPACE

There are two new hotels near the Airport Junction Mall; these are Town Lodge and Aquarian Tide. One hotel space is under construction at Gaborone's CBD and it is to be operated by Hilton. The 54 serviced apartments at Phase 2 of I-Towers to be operated by Travel Lodge have been delivered. There has been a mushrooming of guesthouses in Gaborone and major villages such as Molepolole and Palapye. LLR's performance in the leisure space has been good, with the company benefiting from long leases with favourable escalation clauses. For the year under review, LLR's leisure space contribution to annual rental income stood at 38%.

### POTENTIAL FOR GROWTH

LLR's property portfolio's value stands at P710.1 million. With the portfolio being ungeared, there is ample scope for releasing equity locked in the company's property assets through gearing. In fact financial institutions would be happy to fund new acquisitions and developments by lending the company up to 50% of its portfolio's current market value. This places LLR in good standing for growing its balance sheet, and in aligning its growth to the sharp trajectory espoused in the company's strategy document.

There is a pipeline of potential acquisitions that the company is considering for the next financial year, and some work will be done toward considering potential off-shore investments. LLR is now on the verge of concluding a deal for acquisition of one-third stake in a well located and thriving shopping centre in Francistown valued at approximately P105 million.

Going forward the company will review its business model, and critically reflect on its structures and processes, and further assess the markets it wants to play in and how it will play in those markets. As part of that process, where necessary, the company will take bold decisions for shedding off capital and liquidity inefficient underperforming assets in the interest of consolidating its investment base. Consideration will be given to forming strategic partnerships which will serve as an enabler for penetrating the Africa market. This will assist the company in coming up with strategic interventions targeting competitive advantage as well as growth in revenue and profits.

## CHIEF EXECUTIVE OFFICER'S REPORT

### CONCLUSION

The Management Team remains confident and optimistic about LLR's future. The revised business model will serve as a blue print for driving diversification of its portfolio, not only across sectors but also across geographic areas, and for growth in terms of contractual income and capital value. The operational governance framework in place lends itself to ascending to a higher platform of operational efficiency, including its consequent benefits such as appreciation of the aggregate market value of the company's property portfolio as well as growth of shareholder value in real terms.

I would like to express my gratitude to all LLR's tenants. They occupy quite a prime position in the list of the company's stakeholders. A special word of heartfelt gratitude also goes to the Management team for their unwavering commitment to the performance of the company and for hitting the ground running without the benefit of an existing in-house resourced structure.

Finally, I would like to thank all Board Members for their tireless effort in giving Management strategic direction, and for often demonstrating a high degree of selflessness in agreeing to meet at a short notice to consider issues of strategic value.



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**Paul More**  
Chief Executive Officer

# CORPORATE GOVERNANCE

At the end of the year under review, the Board of LLR comprised 5 independent non-executive directors mandated to exercise oversight over LLR's operations. Directors of the Board appreciate that as trusted representatives of unitholders, it is imperative for them to collectively ensure that there is a sound corporate governance structure in place which creates an environment favourable to ensuring that corporate governance principles are adhered to.

Efficient platforms have been put in place for engaging, challenging and holding Executive Management to account through quarterly board meetings and meetings of the Board's two sub-committees being the Audit, Risk and Compliance Committee and the Investment and Tender Committee. All processes pivotal to running LLR in an accountable, responsible and transparent manner are in place and the governance culture of the company is above board.

Furthermore, in recognition of the need for accounting to unitholders, the Board apprised unitholders of activities of LLR at the Annual General Meeting held in December 2015. Another tool used for reaching out to unitholders is the bi-annual Press Announcements, which among other things give an overview of the company's performance with a set of financials considered by external auditors.

The Board recognises that a well thought out risk management framework is critical for ensuring that LLR continues operating as a going concern and that its integrity and reputation are preserved. There is a high level Risk Register in place, which details risks facing the company and mitigation interventions implemented and monitored by Executive Management. The Board periodically reviews the effectiveness of risk management and LLR's internal controls covering critical areas such as financial, operational and compliance processes. This is done through regular dialogue with Executive Management, communication with consultants and quarterly review of management accounts. For the year under review, the Board is of the considered view that the control system in place at LLR is effective and is decidedly designed to prevent and detect material misstatements of financial results. Consequently, the Board has full appreciation of all key risks facing LLR and is confident that the level of risk is acceptable.



## CORPORATE GOVERNANCE

### THE BOARD AND SUB-COMMITTEES

For the year under review, the following individuals served as independent non-executive Directors of LLR's Board; Ms. Boitumelo Mogopa serving as the Chairperson of the Board, Mr. Terence Dambe serving as the Chairperson of the Investment and Tender Committee, Mr. Peter Stevenson serving as the Chairperson of the Audit, Risk and Compliance Committee, Mr. Bafana Molomo serving as a member of the Investment and Tender Committee and Ms. Jane Tselayakgosi serving as a member of the Audit, Risk and Compliance Committee. During the year under review, two directors resigned from the Board of LLR and these are; Mr. Roderick Boyd and Ms. Montle Phuthego.

**The Audit, Risk and Compliance Committee (ARAC):** this committee is responsible for ensuring that as a listed entity and a registered company, LLR complies with listing requirements of the Botswana Stock Exchange as well as other regulatory and legislative requirements. ARAC is also mandated to monitor financial performance of the company, and therefore ensures that effective processes for budgeting and auditing are in place and periodically holds Executive Management to account for financial performance through quarterly reports.

## CORPORATE GOVERNANCE

**The Investment and Tender Committee (ITC):** the mandate of this committee is to assist the Board in interrogating all proposals from Executive Management on investments and divestments as well as ensuring that the procurement structure in place lends itself to strategic sourcing and cost containment.

### REMUNERATION OF DIRECTORS

As reflected in Table 1 below, the Board and its sub-committees convened a number of meetings for which a total of P912,000 was paid to Directors as a collective.

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

NAME	ARAC	SPECIAL BOARD	BOARD	ITC	ANNUAL GENERAL MEETING	EMERGENCY GENERAL MEETING	INTERVIEWS AND OTHER DUTIES	RETAINER
Roderick Boyd*	2	1	3	-	1	-	4	-
Jane Tselayakgosi	3	-	6	-	1	1	-	1
Peter Stevenson	2	1	4	-	1	-	3	1
Montle Phuthego*	-	1	3	4	1	-	1	-
Boitumelo Mogopa	-	1	7	1	1	1	-	1
Terence Dambe	1	1	7	6	1	-	1	1
Bafana Molomo**	-	-	4	2	-	-	-	1

\*Resigned 14th December 2015

\*\* Appointed 14th December 2015

## BOARD OF DIRECTORS



**MS. BOITUMELO MOGOPA | CHAIRPERSON OF THE BOARD 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 BICA. She currently serves as the Director of Retail Segment at 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 financial services.

Ms. Mogopa joined First National Bank of Botswana in 2007 to set up FNBB Private Clients, a green field 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 in 2012.

Prior to FNBB Ms. Mogopa worked at Standard Chartered Bank and Barclays Bank in the Finance environment.



**MR. TERENCE DAMBE | BOARD MEMBER - CHAIRPERSON 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.

## BOARD OF DIRECTORS



### **MR. BAFANA MOLOMO | BOARD MEMBER - MEMBER OF THE INVESTMENT AND TENDER COMMITTEE**

Mr. Molomo serves as the Chief Investment Officer at the Botswana Development Corporation (BDC). He joined BDC in 2015 from Vantage Capital - a leading mezzanine fund manager based in Johannesburg and operating across Sub-Saharan Africa.

At Vantage, Mr. Molomo was a Senior Associate originating and structuring deals in South Africa, Botswana, Namibia and Mozambique. He brings extensive experience in; private equity, corporate finance, venture capital, mezzanine finance, structured finance and project finance.

He was previously with VPB in Botswana and Namibia as a senior investment professional. He began his career as an investment analyst with Fleming Asset Management Botswana.

Mr. Molomo earned a Bachelor of Commerce (Economics and Finance) and an MBA from University of Cape Town. He also holds a Postgraduate Diploma in Business from the University of Pretoria's Gordon Institute of Business Science.



### **MR. PETER STEVENSON | BOARD MEMBER - CHAIRPERSON OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE**

Mr. Stevenson is a Chartered Accountant and fellow member of the Botswana Institute of Accountants with over 30 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. 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.

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

## BOARD OF DIRECTORS



**MS. JANE TSELAYAKGOSI | BOARD MEMBER - MEMBER OF AUDIT, RISK AND COMPLIANCE COMMITTEE**

Ms. Tselayakgosi has been the Managing Director of Hollard Insurance Company of Botswana (Pty) Ltd since June 2005, a company she set up. She also assisted with the setting up of Hollard Life Botswana in 2013. She is the Country Manager of the Hollard Group of Companies in Botswana (which includes both the short term and life companies).

Her key responsibilities include: strategic development and implementation, the day-to-day running of the company and overseeing the financial, business development, compliance and human resources areas of the business.

She started her career at Botswana Insurance Company, working her way up from trainee graduate to Assistant General Manager of Finance.

Ms. Tselayakgosi has a Bachelor of Commerce degree, majoring in Accounting and Business Studies from the University of Botswana, and is a fellow member of the Association of Chartered Certified Accountants (ACCA) in the UK.

## EXECUTIVE MANAGEMENT



### MR. PAUL MORE | CHIEF EXECUTIVE OFFICER

Mr. Paul More joined Letlole La Rona Limited in March 2015. His career in the property space spans some 23 years. Over the years, he has garnered invaluable experience in the public and private sectors, in critical spheres in the property space arena such as property management, property development and property investment.

He is a graduate of Reading University in the United Kingdom where he obtained a Bachelor of Science (Honours) degree in Land Management. He also pursued a postgraduate degree in Property Investment with the then City University Business School in the United Kingdom (now Cass Business School) where he obtained a Master of Science degree in Property Investment.

Mr. More joined LLR from Botswana Housing Corporation (BHC) where he served for a while as the Acting Deputy Chief Executive Officer in charge of the Corporation's core functions. He also served as a Senior Manager and part of the Senior Leadership Team responsible for implementation of the Corporation's strategy for developing property. He was specifically responsible for driving the core business of the Corporation; property development, and headed a team of professionals cutting across the whole spectrum of property development disciplines. Among others, Mr. More, was responsible for ensuring that all developments were preceded by informed analysis of effective demand, objective profiling of risk and rigorous investment appraisals guaranteeing a reasonable return.

During his tenure at BHC, Mr. More was instrumental in leading the team to deliver several housing projects for the Corporation, ranging from detached houses to multi-family residential units in different parts of the country.

Prior to joining BHC, Mr. More worked for the then Botswana Export Development and Investment Authority (now Botswana Investment Trade Centre); where he led the property services function, and for a while also led mission critical departments such as Investment Promotion and Corporate Strategy functions.

Mr. More is passionate about leading Management in driving LLR's corporate strategy, with a view to generating value for shareholders and boosting investor confidence.

## EXECUTIVE MANAGEMENT



### MS. MAGDELINE TSIANE | FINANCE AND ADMINISTRATION MANAGER

Ms. Magdeline Tsiane is a seasoned certified Chartered Accountant with thorough knowledge and experience in the accounting profession. She worked at Botswana Development Corporation for the past 25 years where she was the Chief Financial Accountant, having previously worked in various positions. Before leaving BDC she served as acting General Manager; Management Services, responsible for various management support services.

She joined Letlole La Rona Limited in October 2015 as the Finance and Administration Manager. At the time of joining LLR, there were no internal systems and processes for running finance and administration functions as these had been outsourced. Ms. Tsiane played a leading role in putting together all requisite systems and processes.

Ms. Tsiane is a committed and dedicated Member of LLR who has to date demonstrated a high level of responsibility in all the different functions she is currently responsible for such as, preparation of Financial Reports, Treasury Function, Human Resources and Administration.

She is a Fellow Member of the Association of Chartered Certified Accountants FCCA, and the Botswana Institute of Chartered Accountants FCA (Bots). She is also a fellow Member of the Association of Accounting Technicians (FMAAT). Ms Tsiane has done a Senior Management Development Program with the University of Stellenbosch.



### MR. BAALAKANI NLUMBILE | PROPERTY MANAGER

Mr. Baalakani Nlumbile holds a Bachelor of Science degree with honours in Estate Management from Birmingham City University (UK). He later obtained a Master of Science with merit in Finance from Bradford University (UK), School of Management. He is a full member of the Real Estate Advisory Council and the Real Estate Institute of Botswana.

Mr. Nlumbile's career spans over a decade, and has covered all facets of the real estate profession, from investment analysis, property development, valuation and property management. He has been exposed to all property sectors, i.e. offices, retail, hotel, industrial and residential properties.

Prior to joining LLR as the Company's Property Manager, Mr. Nlumbile served as a Property Valuation Manager for Bank Gaborone, where he played a critical role in the Bank's lending decision making process. He was responsible for approval of external valuations, project appraisals, and was also involved in undertaking valuations of the Bank's financed assets.

Mr. Nlumbile has also served in different senior positions in various organisations including Botswana Housing Corporation, Botswana Development Corporation and Seeff Properties. During his tenure at BDC, he managed a diverse property portfolio valued in excess of P500 million comprising commercial, hotels and residential properties. He joined Letlole La Rona Limited in October 2015.





# LLR'S PROPERTIES











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FOR THE YEAR ENDED 30 JUNE 2016

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## GENERAL INFORMATION

FOR THE YEAR ENDED 30 JUNE 2016

### COUNTRY OF INCORPORATION AND DOMICILE

Botswana

### NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

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.

### DIRECTORS

B. Mogopa - Chairperson  
P. Stevenson  
J. Tselayakgosi  
T. Dambe  
B. Molomo (Appointed 14/12/2015)  
R. Boyd (Resigned 14/12/2015)  
M. Phuthego (Resigned 14/12/2015)

### REGISTERED OFFICE

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

### BUSINESS ADDRESS

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

### INDEPENDENT AUDITORS

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

### COMPANY SECRETARY

KPMG Chartered Accountants  
(Represented by Nigel Dixon - Warren)  
Plot 67977  
Fairgrounds Office Park  
P. O. Box 1519  
Gaborone

### COMPANY REGISTRATION NUMBER

CO2010/6316

### DATE OF INCORPORATION

8 July 2010

### 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  
New CBD  
P. O. Box 1368  
Gaborone

### DEBENTURE TRUST TRUSTEES

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



## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2016

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 2016.

### 1. REVIEW OF ACTIVITIES

#### MAIN BUSINESS AND OPERATIONS

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

### 2. 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.

### 3. LINKED UNITS DISTRIBUTION POLICY

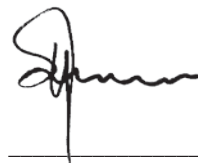
Distributions to linked unitholders is primarily in the form of debenture interest. The company has adopted the policy of distributing profits to linked unitholders by means of debenture interest payments with a nominal amount being dividends. The directors intend to ensure that rolling over any period of three consecutive financial years the company will distribute at least 80% of available cash after prudent retention and provision for foreseeable capital expenditure and cash flow requirements as per the Trust Deed of the Company.

### 4. INTERESTS OF DIRECTORS AND SECRETARY

None of the Directors or Secretary who held office at 30 June 2016 had any interest in the company.



Director



Director

## DIRECTORS' RESPONSIBILITIES AND APPROVAL

FOR THE YEAR ENDED 30 JUNE 2016

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 2016, 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 in terms of the Companies Act of Botswana (Cap 42:01) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present 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 period then ended, in conformity with International Financial Reporting Standards. 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 International Financial Reporting Standards 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 of directors 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. 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.

## DIRECTORS' RESPONSIBILITIES AND APPROVAL

FOR THE YEAR ENDED 30 JUNE 2016

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.

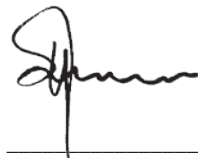
The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements and their unmodified report is presented on page 44.

The annual financial statements set out on pages 45 to 90, which have been prepared on the going concern basis, were approved by the board of directors on 22nd September 2016 and were signed on its behalf by:

### APPROVAL OF FINANCIAL STATEMENTS



Director



Director

Gaborone

## INDEPENDENT AUDITOR'S REPORT

### TO THE COMBINED UNIT HOLDERS OF LETLOLE LA RONA

We have audited the annual financial statements of Letlole La Rona Limited, which comprise the statement of financial position as at 30 June 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 45 to 90.

#### DIRECTORS' RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The company's 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 annual financial statements that are free from material misstatements, whether due to fraud or error.

#### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these annual 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 whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual 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 annual 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 annual 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 annual financial statements give a true and fair view of, the financial position of Letlole La Rona Limited as at 30 June 2016, and 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

## STATEMENT OF PROFIT OR LOSS

AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 P	2015 P
Revenue	3	67 214 037	67 186 674
Other income	4	302 413	4 411 401
Property related expenses	5	(7 390 188)	(5 783 654)
Administration and operating expenses	5	(6 964 206)	(5 049 431)
<b>Operating profit</b>		<b>53 162 056</b>	<b>60 764 990</b>
Finance income	6	1 776 892	2 653 995
Fair value adjustment of investment properties	7	39 322 167	36 538 385
Finance costs	8	(1 994 684)	(2 699 474)
<b>Profit before taxation</b>		<b>92 266 431</b>	<b>97 257 896</b>
Taxation	9	(18 390 731)	(17 799 954)
<b>Profit for the year</b>		<b>73 875 700</b>	<b>79 457 942</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>73 875 700</b>	<b>79 457 942</b>
<b>Earnings per share</b>			
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:	10	<b>82 006 900</b>	<b>87 558 342</b>
Earnings per linked unit (thebe)	10	29.29	31.27
Distribution per linked unit (thebe)		13.30	13.25
Dividends per linked unit (thebe)	21	0.10	0.10
Debenture interest per linked unit (thebe)	21	13.20	13.15
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

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2016 P	2015 P
<b>Assets</b>			
<b>Non-Current Assets</b>			
Investment property	11	685 325 100	600 186 304
Operating lease asset	11	24 774 900	22 073 696
Plant and equipment	12	753 255	147 197
Deferred taxation recoverable - related party	13	5 582 788	5 738 320
		<b>716 436 043</b>	<b>628 145 517</b>
<b>Current Assets</b>			
Taxation refundable		242 294	115 137
Trade and other receivables	14	11 260 023	9 313 648
Cash and cash equivalents	15	13 321 143	49 661 846
		<b>24 823 460</b>	<b>59 090 631</b>
<b>Total Assets</b>		<b>741 259 503</b>	<b>687 236 148</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Stated capital	16	2 718 884	2 718 884
Debentures	17	405 113 547	405 113 547
Accumulated profit	18	233 778 797	189 011 897
		<b>641 611 228</b>	<b>596 844 328</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Borrowings	19	-	37 937 216
Deferred taxation	20	36 784 714	26 680 716
		<b>36 784 714</b>	<b>64 617 932</b>
<b>Current Liabilities</b>			
Debenture interest and dividend payable	21	19 600 000	19 460 000
Trade and other payables	23	6 750 339	6 313 888
Bank overdraft	15	36 513 222	-
		<b>62 863 561</b>	<b>25 773 888</b>
<b>Total Liabilities</b>		<b>99 648 275</b>	<b>90 391 820</b>
<b>Total Equity and Liabilities</b>		<b>741 259 503</b>	<b>687 236 148</b>

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Stated capital	Debentures	Total stated capital and debentures	Accumulated profit	Total equity
	P	P	P	P	P
<b>Balance at 1 July 2014</b>	<b>2 718 884</b>	<b>405 113 547</b>	<b>407 832 431</b>	<b>138 553 555</b>	<b>546 385 986</b>
Profit for the year	-	-	-	79 457 942	79 457 942
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79 457 942</b>	<b>79 457 942</b>
Dividends declared	-	-	-	(280 000)	(280 000)
Debenture interest declared	-	-	-	(36 820 000)	(36 820 000)
Taxation attributable to debenture interest	-	-	-	8 100 400	8 100 400
<b>Total distributions to owners of company recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28 999 600)</b>	<b>(28 999 600)</b>
<b>Balance at 30 June 2015</b>	<b>2 718 884</b>	<b>405 113 547</b>	<b>407 832 431</b>	<b>189 011 897</b>	<b>596 844 328</b>
Profit for the year	-	-	-	73 875 700	73 875 700
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73 875 700</b>	<b>73 875 700</b>
Dividends declared	-	-	-	(280 000)	(280 000)
Debenture interest declared	-	-	-	(36 960 000)	(36 960 000)
Taxation attributable to debenture interest	-	-	-	8 131 200	8 131 200
<b>Total distributions to owners of company recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(29 108 800)</b>	<b>(29 108 800)</b>
<b>Balance at 30 June 2016</b>	<b>2 718 884</b>	<b>405 113 547</b>	<b>407 832 431</b>	<b>233 778 797</b>	<b>641 611 228</b>
Note	16	17		18	

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 P	2015 P
<b>Cash flows from operating activities</b>			
Profit before taxation		92 266 431	97 257 896
<b>Adjustments for:</b>			
Depreciation		102 361	20 783
Loss on sale of plant and equipments		5 687	-
Finance income	6	(1 776 892)	(2 653 995)
Finance costs	8	1 994 684	2 699 474
Fair value adjustment investment properties	7	(39 322 167)	(36 538 385)
Impairment losses on receivables		615 855	187 125
Movements in operating lease asset		(2 701 204)	(2 776 015)
<b>Changes in working capital:</b>			
Trade and other receivables		(2 562 230)	(7 672 980)
Trade and other payables		436 450	389 003
		<b>49 058 975</b>	<b>50 912 906</b>
Tax received (paid)	24	(127 157)	70 187
Net cash from operating activities		<b>48 931 818</b>	<b>50 983 093</b>
<b>Cash flows from investing activities</b>			
Acquisition of plant and equipment	12	(714 106)	-
Acquisition of investment property	11	(45 816 629)	(4 425 601)
Finance Income	6	1 776 892	2 653 995
Net cash from investing activities		<b>(44 753 843)</b>	<b>(1 771 606)</b>
<b>Cash flows from operating activities</b>			
Repayment of borrowings		(37 937 216)	(3 062 784)
Dividends and distribution	22	(37 100 000)	(36 120 000)
Finance costs	8	(1 994 684)	(2 699 474)
Net cash used in financing activities		<b>(77 031 900)</b>	<b>(41 882 258)</b>
<b>Total cash and cash equivalents movement for the year</b>		<b>(72 853 925)</b>	<b>7 329 229</b>
Cash and cash at the beginning of the year		49 661 846	42 332 617
<b>Total cash and cash equivalents at end of the year</b>	15	<b>(23 192 079)</b>	<b>49 661 846</b>



# ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

## 1. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The annual financial statements have been prepared in accordance with International Financial Reporting Standards. The annual financial statements have been prepared on the historical cost basis, except for the measurement of investment properties and certain financial instruments at fair value, and incorporate the principal accounting policies set out below. They are presented in Botswana Pula.

These accounting policies are consistent with the previous period.

### 1.1 REVENUE

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 significantly earned from rental income and is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer credits 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.

### 1.2 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.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

### 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.

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 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.

## 1.3 TRANSLATION OF FOREIGN CURRENCIES

### FOREIGN CURRENCY TRANSACTIONS

A foreign currency transaction is recorded, on initial recognition in Pula, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Pula by applying to the foreign currency amount the exchange rate between the Pula and the foreign currency at the date of the cash flow.

### 1.4 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

### 1.5 INVESTMENT PROPERTY

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.

### 1.6 PLANT AND EQUIPMENT

Plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one period.

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.

Plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	10 years
IT equipment	Straight line	4 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.7 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.

### 1.8 IMPAIRMENT OF ASSETS

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### 1.9 FINANCIAL INSTRUMENTS

#### CLASSIFICATION

The company classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

#### INITIAL RECOGNITION AND MEASUREMENT

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments.

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

#### SUBSEQUENT MEASUREMENT

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

### DERECOGNITION

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.

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

### IMPAIRMENT OF FINANCIAL ASSETS

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

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.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account.

Subsequent recoveries of amounts previously written off are credited in profit or loss.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

### 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.

### TRADE AND OTHER RECEIVABLES

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

### TRADE AND OTHER PAYABLES

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### 1.10 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.



## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

### 1.11 DEBENTURE INTEREST AND DIVIDENDS

Debenture interest and dividends proposed after the reporting date are shown as a component of equity.

### 1.12 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### 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.

#### 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.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

### 1.13 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.

### 1.14 EMPLOYEE BENEFITS

#### SHORT-TERM EMPLOYEE BENEFITS

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

### 1.15 RELATED PARTY

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.

### 1.16 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.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

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

- Leisure
- Industrial
- Commercial & retail
- Residential

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.

### 1.17 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.

#### TRADE 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.

#### FAIR VALUE ESTIMATION

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

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

### IMPAIRMENT TESTING

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply and demand, together with economic factors such as exchange rates, inflation and interest.

### PROVISIONS

Provisions were raised and management determined an estimate based on the information available.

### TAXATION

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax law. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

### USEFUL LIFE AND RESIDUAL VALUE OF PROPERTY, PLANT AND EQUIPMENT

The estimates of useful lives as translated into depreciation rates are detailed in property, plant and equipment policy on the annual financial statements. These rates and residual lives of the assets are reviewed annually taking cognisance of the forecasted commercial and economic realities and through benchmarking of accounting treatments in the industry.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1 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 1 July 2016 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.

The effective date of the amendment is for years beginning on or after 1 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.

#### **Disclosure Initiative: Amendment to IAS 1: Presentation of Financial Statements**

The amendment provides new requirements when an entity presents subtotals in addition to those required by IAS 1 in its annual financial statements. It also provides amended guidance concerning the order of presentation of the notes in the annual financial statements, as well as guidance for identifying which accounting policies should be included. It further clarifies that an entity's share of comprehensive income of an associate or joint venture under the equity method shall be presented separately into its share of items that a) will not be reclassified subsequently to profit or loss and b) that will be reclassified subsequently to profit or loss.

The effective date of the amendment is for years beginning on or after 1 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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

- 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 1 January 2018.

The company expects to adopt the standard for the first time in the 2019 annual financial statements.

The impact of this standard is currently being assessed.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 1 January 2018.

The company expects to adopt the standard for the first time in the 2019 annual financial statements.

The impact of this standard is currently being assessed.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### IFRS 16 Leases

IFRS 16 will supersede IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The effective date of the standard is for years beginning on or after 1 January 2019.

The company expects to adopt the standard for the first time in the 2020 annual financial statements.

The impact of this standard is currently being assessed.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>3. REVENUE</b>		
Contractual revenue	64 512 833	64 410 659
Straight line lease rental adjustment	2 701 204	2 776 015
	<b>67 214 037</b>	<b>67 186 674</b>
<b>4. OTHER INCOME</b>		
Administration fees	19 500	7 300
Bad debts recovered	9 769	-
Sundry Income	273 144	4 404 101
	<b>302 413</b>	<b>4 411 401</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>5. PROPERTY RELATED AND ADMINISTRATION EXPENSES</b>		
<b>Fees paid to related parties</b>		
Management and administration fees	2 664 573	3 833 916
<b>Operating lease charges</b>		
Premises		
- Contractual amounts	224 874	254 752
Advertising	214 893	222 835
Auditor's remuneration	204 353	220 000
Consulting and professional fees	441 092	718 316
Depreciation on property, plant and equipment	102 361	20 783
Directors fees	912 000	736 000
Employee costs	3 011 037	875 157
Garden maintenance	52 000	62 400
Impairment on trade and other receivables	615 855	187 125
Insurance	578 903	520 791
Lease renewal	553 557	161 286
Letting fees	238 698	-
Loss on sale of plant and equipment	5 687	-
Property management fees	1 451 016	2 352 630
Rates	1 689 271	1 619 965
Repairs and maintenance	1 551 151	278 408
Secretarial fees	660 000	1 320 000
Security	357 693	344 955
Utilities	432 845	-

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>6. FINANCE INCOME</b>		
<b>Interest income</b>		
Bank	671 210	466 290
Other interest	1 105 682	2 187 705
	<b>1 776 892</b>	<b>2 653 995</b>
<b>7. FAIR VALUE ADJUSTMENT INVESTMENT PROPERTIES</b>		
As per valuation	42 023 371	39 314 400
Straight line lease adjustment	(2 701 204)	(2 776 015)
	<b>39 322 167</b>	<b>36 538 385</b>
<b>8. FINANCE COSTS</b>		
Bank	1 994 684	2 699 474

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>9. TAXATION</b>		
<b>Major components of the tax expense</b>		
<b>Current</b>		
Attributable to debenture interest credited to statement of changes in equity	8 131 200	8 100 400
<b>Deferred</b>		
Deferred tax charge	3 516 539	4 647 170
Deferred capital gains tax	6 742 992	5 052 384
	<b>10 259 531</b>	<b>9 699 554</b>
	<b>18 390 731</b>	<b>17 799 954</b>
<b>Reconciliation of the tax expense</b>		
Reconciliation between accounting profit and tax expense		
Accounting profit	92 266 431	97 257 896
Tax at the applicable tax rate of 22% (2015: 22%)	20 298 615	21 396 737
<b>Tax effect of adjustments on taxable income</b>		
Exempt income fair value adjustment	(8 650 876)	(8 649 168)
Deferred capital gains tax	6 742 992	5 052 384
	<b>18 390 731</b>	<b>17 799 953</b>

No provision has been made for 2016 tax as the company has no taxable income. The estimated tax loss available for set off against future taxable income is P15 374 950 (2015: P18 712 576).

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>10. EARNINGS PER LINKED UNIT</b>		
The earnings and weighted average number of linked units used in the calculation of earnings per linked unit are as follows:		
Earnings per linked unit (thebe)	29.29	31.27
Total profit and comprehensive income for the year	73 875 700	79 457 942
Taxation on debenture interest credited to the income statement	8 131 200	8 100 400
<b>Earnings attributable to linked unitholders</b>	<b>82 006 900</b>	<b>87 558 342</b>
Weighted average number of linked units in issue for the year	280 000 000	280 000 000
<b>11. INVESTMENT PROPERTY</b>		
<b>At fair value</b>		
Freehold properties	87 240 800	76 600 000
Leasehold properties	622 859 200	545 560 000
	710 100 000	622 160 000
Straight line rental adjustment	(24 774 900)	(22 073 696)
	<b>685 325 100</b>	<b>600 086 304</b>
<b>Reconciliation of fair value:</b>		
At valuation	622 260 000	578 520 000
Straight line lease rental adjustment	(22 073 696)	(19 297 682)
<b>Opening fair value</b>	<b>600 186 304</b>	<b>559 222 318</b>
Additions during the year	45 816 629	4 425 601
Increase in fair value during the year	42 023 371	39 314 400
Straight line rental adjustment	(2 701 204)	(2 776 016)
	<b>685 325 100</b>	<b>600 186 303</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

The fair value of the company's investment properties at 30 June 2016 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.

-	Freehold land comprises of:	
-	Plot 1169 Gaborone	
-	Leasehold properties comprise:	
-	Plot 2989 Gaborone	50 year State Grant from 26 August 1970
-	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 15.

Included in the above is an addition to the investment properties on 30 June 2016. The property has not contributed to the company's rental income during the year as control over the property was assumed only on 30 June 2016.

	2016	2015
	P	P
<b>Amounts recognised in profit and loss for the year</b>		
Rental income from investment property	(67 214 037)	(67 186 674)
Direct operating expenses from rental generating property	7 390 188	5 783 654
	<b>(59 823 849)</b>	<b>(61 403 020)</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### 12. PLANT AND EQUIPMENT

	2016			2015		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Plant and machinery	41 033	(11 968)	29 065	-	-	-
Office equipment	197 606	(32 151)	165 455	142 327	(14 233)	128 094
IT equipment	360 134	(58 391)	301 743	26 199	(7 096)	19 103
Computer software	274 446	(17 454)	256 992	-	-	-
<b>Total</b>	<b>873 219</b>	<b>(119 964)</b>	<b>753 255</b>	<b>168 526</b>	<b>(21 329)</b>	<b>147 197</b>
<b>Reconciliation of plant and equipment - 2016</b>						
	<b>Opening balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Depreciation</b>	<b>Carrying value</b>	
Plant and machinery	-	41 033	-	(11 968)	29 065	
Office equipment	128 094	55 279	-	(17 918)	165 455	
IT equipment	19 103	343 348	(5 687)	(55 021)	301 743	
Computer software	-	274 446	-	(17 454)	256 992	
	<b>147 197</b>	<b>714 106</b>	<b>(5 687)</b>	<b>(102 361)</b>	<b>753 255</b>	
<b>Reconciliation of plant and equipment - 2015</b>						
			<b>Opening balance</b>	<b>Depreciation</b>	<b>Carrying value</b>	
Office equipment			142 327	(14 233)	128 094	
IT equipment			25 653	(6 550)	19 103	
			<b>167 980</b>	<b>(20 783)</b>	<b>147 197</b>	

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P

### 13. DEFERRED TAXATION RECOVERABLE - RELATED PARTY

Amount of capital gains tax recoverable from Botswana Development Corporation Limited ("the Vendors") on disposal of investment properties acquired as part of listing.

Capital gains tax recoverable from Botswana Development Corporation Limited	5 582 788	5 738 320
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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 2016, calculated on the purchase price of the properties paid by the Company which is recoverable from the Vendors.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>14. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	6 373 339	8 243 003
Prepayments	679 672	1 045 996
Deposits	24 649	24 649
Value added tax	4 182 363	-
	<b>11 260 023</b>	<b>9 313 648</b>
<p>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.</p>		
<p><b>Reconciliation of provision for impairment of trade and other receivables</b></p>		
Opening balance	1 047 787	860 662
Provision for impairment	615 855	187 125
Amounts written off as uncollectable	(1 014 000)	-
	<b>649 642</b>	<b>1 047 787</b>

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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>15. CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents consist of:		
Cash on hand	2 000	26
Bank balances	9 761 833	46 277 848
Short-term deposits	3 557 310	3 383 972
Bank overdraft	(36 513 222)	-
	<b>(23 192 079)</b>	<b>49 661 846</b>
Current assets	13 321 143	49 661 846
Current liabilities	(36 513 222)	-
	<b>(23 192 079)</b>	<b>49 661 846</b>
The total amount of undrawn facilities available for future operating activities and commitments	3 486 778	-

Plots 54233 and 14398 were pledged as security for overdraft facilities with Stanbic Bank Botswana Limited of P40 000 000 (2015: P Nil) of the company. At year end the overdraft amounted to P36 513 222 (2015: P Nil).

The company enjoys an overdraft facility of P36 513 222 with Stanbic Bank of Botswana Limited. The purpose of the overdraft facility is to finance refurbishments properties within the company's portfolio, it is repayable on demand and attracts interest at prime less 1% (prime is currently 7.5%) per annum. Borrowing in excess of the overdraft facility will be charged at 10% per annum. Default interest payments attract interest at prime plus 10% per annum.

The overdraft facility is covered by financial covenants that shall be maintained by the company during the tenor of the facility.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P

### 16. STATED CAPITAL

#### Issued

280 000 000 (2015: 280 000 000) Ordinary shares of no par value	2 718 884	2 718 884
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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.

### 17. DEBENTURES

280 000 000 (2015: 280 000 000) Ordinary shares of no par value	405 113 547	405 113 547
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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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>18. ACCUMULATED PROFITS</b>		
<b>Accumulated profits</b>		
Arising from normal operations	55 412 005	43 224 279
Arising from revaluation of investment property	178 366 792	145 787 618
	<b>233 778 797</b>	<b>189 011 897</b>
<b>Reconciliation</b>		
<b>Arising from normal operations</b>		
At the beginning of the year	43 224 279	24 251 938
Profits from normal operations (net of taxation)	49 427 726	56 072 341
Dividends and debenture interest declared	(37 240 000)	(37 100 000)
	<b>55 412 005</b>	<b>43 224 279</b>
<b>Arising from revaluation of investment property</b>		
At the beginning of the year	145 787 618	114 301 617
Increase in fair value surplus (net of taxation)	35 280 378	34 262 016
Straight line rental adjustment	(2 701 204)	(2 776 015)
	<b>178 366 792</b>	<b>145 787 618</b>
<b>19. BORROWINGS</b>		
<b>Held at amortised cost</b>		
Stanbic Bank Botswana Limited	-	37 937 216
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.		
The company has not breached any covenants of this facility.		
Non-current liabilities		
At amortised cost	-	37 937 216

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

			2016	2015
			P	P
<b>20. DEFERRED TAXATION</b>				
<b>Deferred tax liability</b>				
Capital gains on revaluation of investment property			(22 364 035)	(15 621 043)
Accelerated capital allowances			(8 837 891)	(5 321 353)
Capital gains recoverable on disposal of investment property			(5 582 788)	(5 738 320)
<b>Total deferred tax liability</b>			<b>(36 784 714)</b>	<b>(26 680 716)</b>
Deferred tax liability			(36 784 714)	(26 680 716)
<b>Reconciliation of deferred tax liability</b>				
At beginning of year			(26 680 716)	(16 965 586)
Capital gains tax recoverable/(payable) to related party			155 532	(15 576)
Capital gains charges to the statement of comprehensive income			(6 742 992)	(5 052 384)
Deferred tax charge			(3 516 538)	(4 647 170)
			<b>(36 784 714)</b>	<b>(26 680 716)</b>
<b>21. DEBENTURE INTEREST AND DIVIDEND PAYABLE</b>				
<b>Debenture interest</b>				
Interim paid	6.25	(2015: 6.25) thebe	17 500 000	17 500 000
Final declared	6.95	(2015: 6.90) thebe	19 460 000	19 320 000
Subtotal	13.20	-	36 960 000	36 820 000
Interim paid	0.05	(2015: 0.05) thebe	140 000	140 000
Final declared	0.05	(2015: 0.05) thebe	140 000	140 000
	<b>13.30</b>	-	<b>37 240 000</b>	<b>37 100 000</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>Debenture interest and dividend payable</b>		
Debenture interest	(19 460 000)	19 320 000
Dividend payable	(140 000)	140 000
	<b>(19 600 000)</b>	<b>19 460 000</b>
<p>The interim debenture interest and dividend per linked unit was paid on 15 April 2016. A final debenture interest and dividend per linked unit has been declared for.</p>		
<b>22. DIVIDENDS AND DISTRIBUTION</b>		
Balance at beginning of the year	(19 460 000)	(18 480 000)
Dividends and distribution	(37 240 000)	(37 100 000)
Balance at end of the year	19 600 000	19 460 000
	<b>(37 100 000)</b>	<b>(36 120 000)</b>
<b>23. TRADE AND OTHER PAYABLES</b>		
Trade payables and accruals	2 512 554	1 896 513
Refundable deposit held for tenants	3 989 246	3 243 398
Amounts due to related parties	248 539	194 340
Value Added Tax	-	979 637
	<b>6 750 339</b>	<b>6 313 888</b>
<b>24. TAX REFUNDED (PAID)</b>		
Balance at beginning of the year	115 137	185 324
Balance at end of the year	(242 294)	(115 137)
	<b>(127 157)</b>	<b>70 187</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P

### 25. COMMITMENTS

#### Authorised capital expenditure

The company has entered into a sale agreement to acquire one-third participatory Interest in NBC Partnership. The Partnership owns Lot 16186 a shopping centre development in Francistown. The transaction is estimated to cost approximately P35 million.

#### Investment properties

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 572 833 (2015: P64 410 659) as reflected in the statement of comprehensive income. Direct operating expenses arising on the investment property for the year amounted to P4 691 438 (2015: P5 783 655).

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

#### Minimum lease rent receivable

- within one year	65 065 098	43 712 320
- in second to fifth year inclusive	217 600 074	201 429 382
- later than five years	35 290 546	-
	<b>317 955 718</b>	<b>245 141 702</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	P	P
<b>26. RELATED PARTIES</b>		
The Company was administered and managed by Botswana Development Corporation (BDC). BDC owns 66% of the issued linked units of the Company at 30 June 2016 (30 June 2015:66%).		
During the year the Company entered into the following trading transactions with related parties and had the following balances with related parties.		
<b>Related party balances</b>		
<b>Amounts included in Trade Payable regarding related parties</b>		
Botswana Development Corporation Limited	(248 539)	(194 340)
<b>Amounts included in Trade receivable regarding related parties</b>		
Botswana Development Corporation Limited	4 060 791	-
<b>Related party transactions</b>		
<b>Rental income received from related parties</b>		
Botswana Development Corporation Limited	(3 369 808)	(6 663 953)
<b>Management fees</b>		
Botswana Development Corporation Limited	1 451 016	2 352 630
<b>Lease renewal fees</b>		
Botswana Development Corporation Limited	553 557	161 286
<b>Administration fees</b>		
Botswana Development Corporation Limited	660 000	1 320 000
<b>Directors emoluments</b>		
Directors's emoluments-fees as directors	912 000	736 000
Executive remuneration	1 277 878	328 000
	<b>2 189 878</b>	<b>1 064 000</b>

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 ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

## 27. CATEGORIES OF FINANCIAL INSTRUMENTS

	Note	Loans and receivables	Financial liabilities at amortised cost	Leases	Equity and non financial assets and liabilities	Total
		P	P	P	P	P
<b>Categories of financial instruments - 2016</b>						
<b>Non-Current Assets</b>						
Investment property	11	-	-	-	685 325 100	685 325 100
Straight line rental adjustment	11	-	-	24 774 900	-	24 774 900
Property, plant and equipment	12	-	-	-	753 255	753 255
Deferred taxation recoverable - related party	13	-	-	-	5 582 788	5 582 788
		-	-	<b>24 774 900</b>	<b>691 661 143</b>	<b>716 436 043</b>
<b>Current Assets</b>						
Current tax receivable		-	-	-	242 294	242 294
Trade and other receivables	14	6 397 988	-	-	4 862 035	11 260 023
Cash and cash equivalents	15	13 321 143	-	-	-	13 321 143
		<b>19 719 131</b>	-	-	<b>5 104 329</b>	<b>24 823 460</b>
<b>Total Assets</b>		<b>19 719 131</b>	-	<b>24 774 900</b>	<b>696 765 472</b>	<b>741 259 503</b>
<b>Equity</b>						
Stated capital	16	-	-	-	2 718 884	2 718 884
Debentures	17	-	-	-	405 113 547	405 113 547
Accumulated profit		-	-	-	233 778 797	233 778 797
		-	-	-	<b>641 611 228</b>	<b>641 611 228</b>
<b>Total Equity</b>		-	-	-	<b>641 611 228</b>	<b>641 611 228</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### 27. CATEGORIES OF FINANCIAL INSTRUMENTS [CONTINUED]

	Note	Loans and receivables	Financial liabilities at amortised cost	Leases	Equity and non financial assets and liabilities	Total
		P	P	P	P	P
<b>Non-Current Liabilities</b>						
Deferred tax	20	-	-	-	36 784 714	36 784 714
<b>Current Liabilities</b>						
Dividend payable	21	-	19 600 000	-	-	19 600 000
Trade and other payables	23	-	6 750 339	-	-	6 750 339
Bank overdraft	15	-	36 513 222	-	-	36 513 222
		-	<b>62 863 561</b>	-	-	<b>62 863 561</b>
<b>Total Liabilities</b>		-	<b>62 863 561</b>	-	<b>36 784 714</b>	<b>99 648 275</b>
<b>Total Equity and Liabilities</b>		-	<b>62 863 561</b>	-	<b>678 395 942</b>	<b>741 259 503</b>
<b>Non-Current Assets</b>						
Investment property	11	-	-	-	600 186 304	600 186 304
Straight line rental adjustment	11	-	-	22 073 696	-	22 073 696
Property, plant and equipment	12	-	-	-	147 197	147 197
Deferred taxation recoverable - related party	13	-	-	-	5 738 320	5 738 320
		-	-	<b>22 073 696</b>	<b>606 071 821</b>	<b>628 145 517</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### 27. CATEGORIES OF FINANCIAL INSTRUMENTS [CONTINUED]

	Note	Loans and receivables	Financial liabilities at amortised cost	Leases	Equity and non financial assets and liabilities	Total
		P	P	P	P	P
<b>Current Assets</b>						
Current tax receivable		-	-	-	115 137	115 137
Trade and other receivables	14	8 267 652	-	-	1 045 996	9 313 648
Cash and cash equivalents	15	49 661 846	-	-	-	49 661 846
		<b>57 929 498</b>	<b>-</b>	<b>-</b>	<b>1 161 133</b>	<b>59 090 631</b>
<b>Total Assets</b>		<b>57 929 498</b>	<b>-</b>	<b>22 073 696</b>	<b>607 232 954</b>	<b>687 236 148</b>
<b>Equity</b>						
Stated capital	16	-	-	-	2 718 884	2 718 884
Debentures	17	-	-	-	405 113 547	405 113 547
Accumulated profit		-	-	-	189 011 897	189 011 897
		<b>-</b>	<b>-</b>	<b>-</b>	<b>596 844 328</b>	<b>596 844 328</b>
<b>Total Equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>596 844 328</b>	<b>596 844 328</b>
<b>Non-Current Liabilities</b>						
Borrowings	19	-	37 937 216	-	-	37 937 216
Deferred tax	20	-	-	-	26 680 716	26 680 716
		<b>-</b>	<b>37 937 216</b>	<b>-</b>	<b>26 680 716</b>	<b>64 617 932</b>
<b>Current Liabilities</b>						
Dividend payable	21	-	19 460 000	-	-	19 460 000
Trade and other payables	23	-	5 334 251	-	979 637	6 313 888
		<b>-</b>	<b>24 794 251</b>	<b>-</b>	<b>979 637</b>	<b>25 773 888</b>
<b>Total Liabilities</b>		<b>-</b>	<b>62 731 467</b>	<b>-</b>	<b>27 660 353</b>	<b>90 391 820</b>
<b>Total Equity and Liabilities</b>		<b>-</b>	<b>62 731 467</b>	<b>-</b>	<b>624 504 681</b>	<b>687 236 148</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### 28. RISK MANAGEMENT

#### 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 2016, the Company had interest bearing borrowings of P36 513 222 (2015: P37 937 216) .

#### FINANCIAL RISK MANAGEMENT

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 interest rates as described below.

#### 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 P390 391 (2015: P139 009). An exact and opposite effect would occur if the interest rates were 1% lower.

#### CREDIT RISK

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### 29. 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 2016	Corporate P	Commercial & retail P	Leisure P	Industrial P	Residential P	Total P
Investment property including straight lining of rental income	-	95 300 000	256 100 000	316 700 000	42 000 000	710 100 000
Property Plant and equipment	753 255	-	-	-	-	753 255
Deferred tax recoverable from Vendors	-	3 351 237	-	2 231 551	-	5 582 788
Taxation refundable	242 294	-	-	-	-	242 294
Trade and other receivables	4 300 991	5 992 652	285 869	680 511	-	11 260 023
Cash and cash equivalents	13 321 143	-	-	-	-	13 321 143
<b>Total assets</b>	<b>18 617 683</b>	<b>104 643 889</b>	<b>256 385 869</b>	<b>319 612 062</b>	<b>42 000 000</b>	<b>741 259 503</b>

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Segmental Statement of Comprehensive Income for the year ended 30 June 2016	Corporate	Commercial & retail	Leisure	Industrial	Residential	Total
	P	P	P	P	P	P
<b>29. SEGMENTAL REPORTING</b>						
<b>[CONTINUED]</b>						
Segment revenue-rental income	-	8 341 444	24 703 467	34 169 126	-	67 214 037
Property operating expenses	-	(1 239 227)	(1 166 358)	(4 984 603)	-	(7 390 188)
Net rental and relate revenue	-	<b>7 102 217</b>	<b>23 537 109</b>	<b>29 184 523</b>	-	<b>59 823 849</b>
Finance income	1 776 892	-	-	-	-	1 776 892
Other income	302 413	-	-	-	-	302 413
Finance costs	(1 994 684)	-	-	-	-	(1 994 684)
Fair value gain on investment property net of adjustment resulting from straight lining of rental revenue	-	4 773 466	16 196 747	18 351 954	-	39 322 167
Depreciation	(102 361)	-	-	-	-	(102 361)
Other administration expenses	(6 861 845)	-	-	-	-	(6 861 845)
Income tax expense	(11 647 741)	(1 018 111)	(819 153)	(4 905 726)	-	(18 390 731)
<b>Total segment result</b>	<b>(18 527 326)</b>	<b>10 857 572</b>	<b>38 914 703</b>	<b>42 630 751</b>	<b>-</b>	<b>73 875 700</b>
Rental income from individual customers contributing more than 10% of rental income		-	8 639 649	8 345 051	-	16 984 700

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Segmental Statement of Financial Position at 30 June 2015	Corporate	Commercial & retail	Leisure	Industrial	Total
	P	P	P	P	P
<b>29. SEGMENTAL REPORTING</b>					
<b>[CONTINUED]</b>					
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
<b>Total assets</b>	<b>50 994 825</b>	<b>93 605 128</b>	<b>239 513 664</b>	<b>303 122 531</b>	<b>687 236 148</b>

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 2015	Corporate	Commercial & retail	Leisure	Industrial	Total
	P	P	P	P	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	-	<b>9 451 443</b>	<b>22 432 111</b>	<b>29 519 465</b>	<b>61 403 019</b>
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	22 502 548	36 538 385
Depreciation	(20 783)	-	-	-	(20 783)
Other administration expenses	(5 028 647)	-	-	-	(5 028 647)
Income tax expense	(13 883 964)	(602 768)	(1 430 612)	(1 882 610)	(17 799 954)
<b>Total segment result</b>	<b>(14 567 472)</b>	<b>4 959 169</b>	<b>38 926 842</b>	<b>50 139 403</b>	<b>79 457 942</b>
Rental income from individual customers contributing more than 10% of rental income	-	7 999 675	8 758 603	-	16 758 278

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### Reconciliation of assets and liabilities measured at level 3

#### 30. FAIR VALUE INFORMATION

##### Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the company can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly. Level 3: Unobservable inputs for the asset or liability.

##### Levels of fair value measurements

##### Level 3

##### Recurring fair value measurements

Assets	Note	2016	2015
<b>Investment property</b>			
Investment property	11	685 325 100	600 186 304
<b>Total</b>		<b>685 325 100</b>	<b>600 186 304</b>

Note	Opening balance	Fair value adjustment	Straight line rental adjustment	Additions	Closing balance
	P	P	P	P	P

##### 2016

##### Assets

##### Investment property

Investment property	11	600 186 304	42 023 372	(2 701 204)	45 816 628	685 325 100
<b>Total</b>		<b>600 186 304</b>	<b>42 023 372</b>	<b>(2 701 204)</b>	<b>45 816 628</b>	<b>685 325 100</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### 30. FAIR VALUE INFORMATION

[CONTINUED]

	Note	Opening balance	Fair value adjustment	Straight line rental adjustment	Additions	Closing balance
		P	P	P	P	P
<b>2015</b>						
<b>Assets</b>						
<b>Investment property</b>						
Investment property	11	559 222 318	39 314 401	(2 776 016)	4 425 601	600 186 304
<b>Total</b>		<b>559 222 318</b>	<b>39 314 401</b>	<b>(2 776 016)</b>	<b>4 425 601</b>	<b>600 186 304</b>

#### Information about valuation techniques and inputs used to derive level 3 fair values

##### Valuation process

The fair value of the company's investment properties at 30 June 2016 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.

Valuation techniques	Unobservable input	Range
Discounted cash flow	Capitalisation rate	8.5% - 11%

### 31. EVENTS AFTER THE REPORTING PERIOD

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

**DETAILED INCOME STATEMENT**

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 P	2015 P
<b>Revenue</b>			
Contractual revenue		64 512 833	64 410 659
Straight line lease rental adjustment		2 701 204	2 776 015
	3	<b>67 214 037</b>	<b>67 186 674</b>
<b>Other income</b>			
Administration and management fees received		19 500	7 300
Recoveries		9 769	-
Sundry Income		273 144	4 404 101
		<b>302 413</b>	<b>4 411 401</b>
<b>Expenses</b>		<b>(14 354 394)</b>	<b>(10 833 085)</b>
<b>Operating profit</b>	5	<b>53 162 056</b>	<b>60 764 990</b>
Finance income	6	1 776 892	2 653 995
Finance costs	8	(1 994 684)	(2 699 474)
Fair value adjustment of investment properties	7	39 322 167	36 538 385
		<b>39 104 375</b>	<b>36 492 906</b>
<b>Profit before taxation</b>		<b>92 266 431</b>	<b>97 257 896</b>
Taxation	9	(18 390 731)	(17 799 954)
<b>Profit for the year</b>		<b>73 875 700</b>	<b>79 457 942</b>

## FORM OF PROXY

The Sixth Annual General Meeting of members to be held on 15th December 2016 at 12:30 hrs at Cresta Lodge, Fairgrounds Gaborone.

I/We .....of.....being a member/ members of the above named Company do hereby appoint:

.....of.....or failing that person the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Sixth Annual General Meeting of the Company to be held on 15th December 2016 at 12:30 hrs.

	Number of linked units		
	For	Against	Abstain
Ordinary Resolution No. 1			
Ordinary Resolution No. 2			
Ordinary Resolution No. 3			
Ordinary Resolution No. 4			
Ordinary Resolution No. 5			
Ordinary Resolution No. 6			
Ordinary Resolution No. 7			
Ordinary Resolution No. 8			
Ordinary Resolution No. 9			

Signed this.....day of.....2016

Signature.....

Unless otherwise instructed, the proxy will vote as he/she deems fit.

A member entitled to attend and vote may appoint a proxy to attend and vote for him/her on his/her, behalf and such proxy need not also be a member of the Company. The instrument appointing such a proxy must be deposited at the registered office of the Company not less than 48 hours before the meeting with the Company Secretary.



# CONTACTS

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