EXPANDING OUR **HORIZON**

BUILDING WEALTH

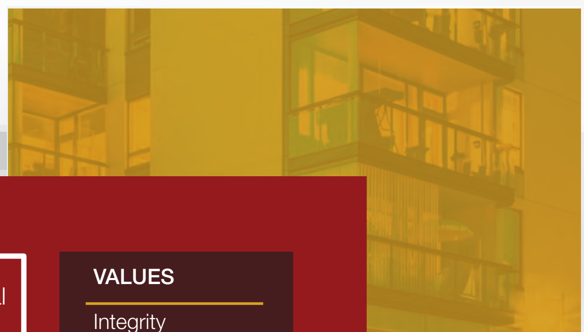
ANNUAL REPORT
2018

COMPANY OVERVIEW

In direct translation, Letlole La Rona means **'our basket of wealth'.** To us the basket of wealth is symbolical to a collection of principles that nurture true wealth and success.

In **everything we do** we strive to create *a basket of wealth for Batswana.*

2018 ANNUAL REPORT



MISSION

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

VALUES

- Integrity
- Innovation
- Agility
- Customer focus
- Excellence

VISION

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

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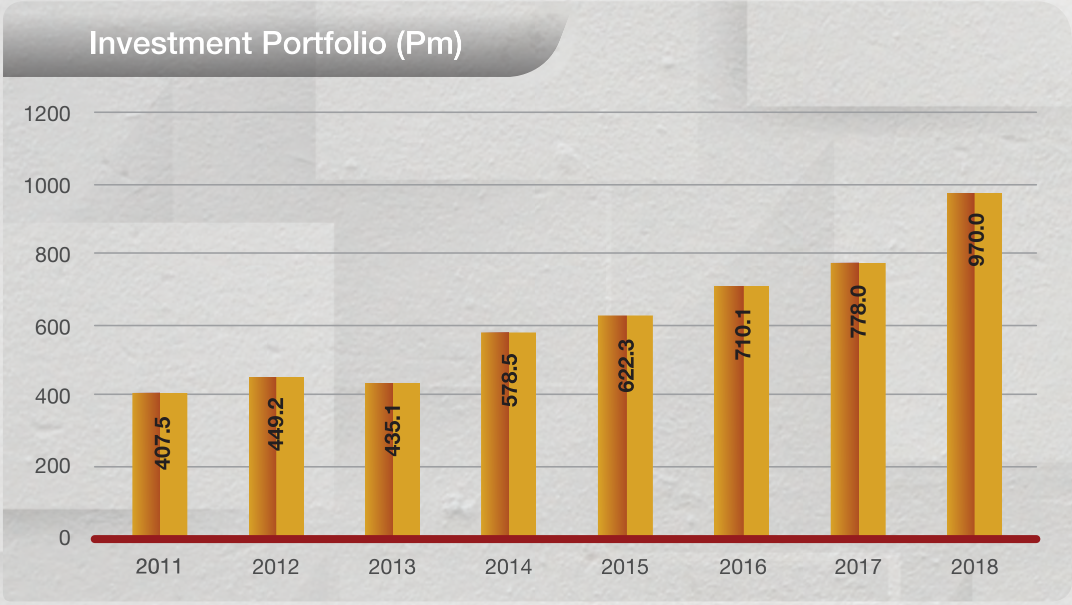

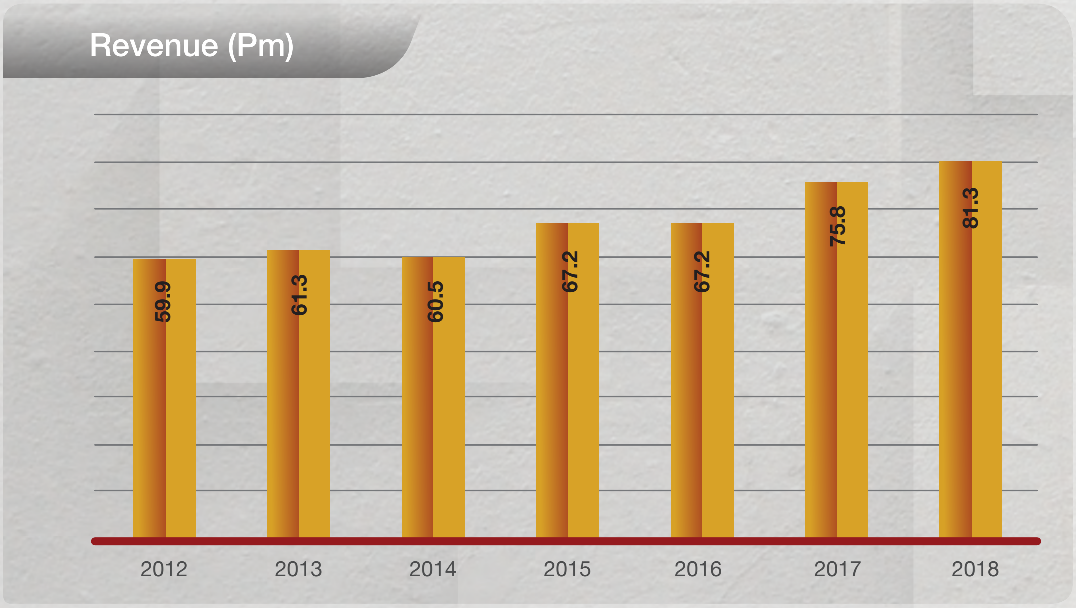

FINANCIAL PERFORMANCE Highlights

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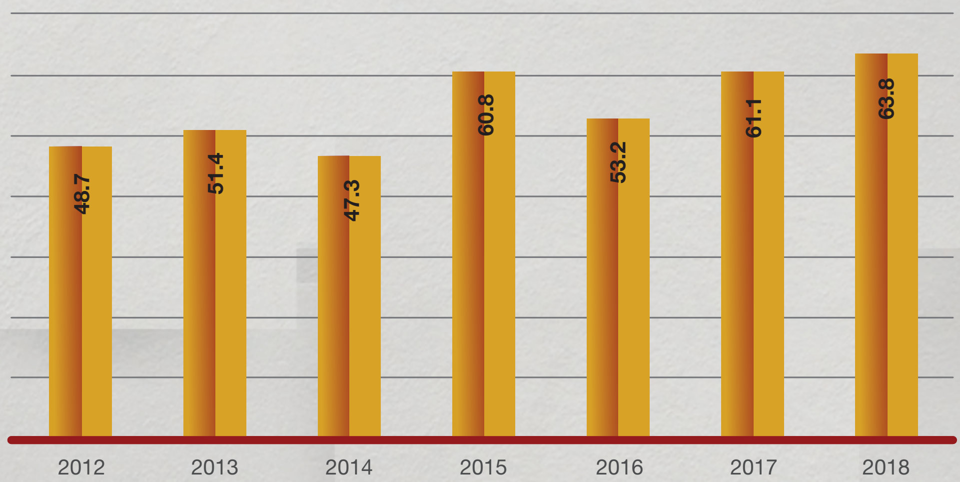

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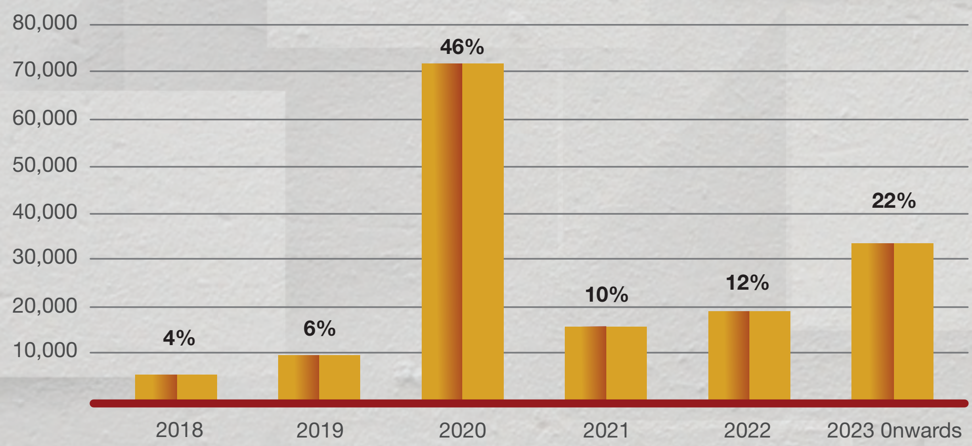

FINANCIAL PERFORMANCE Highlights

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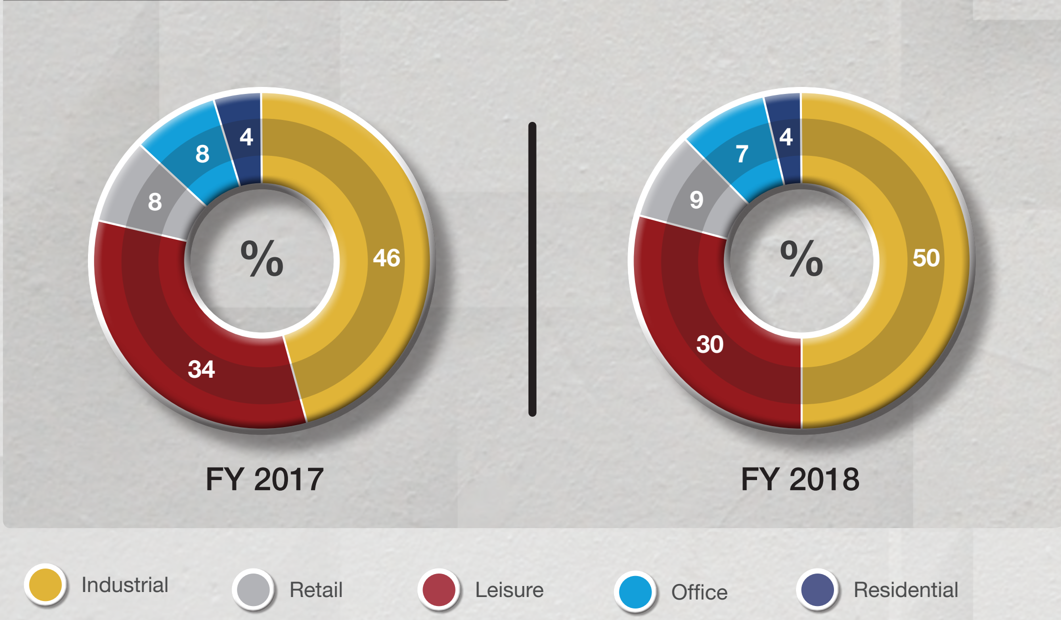

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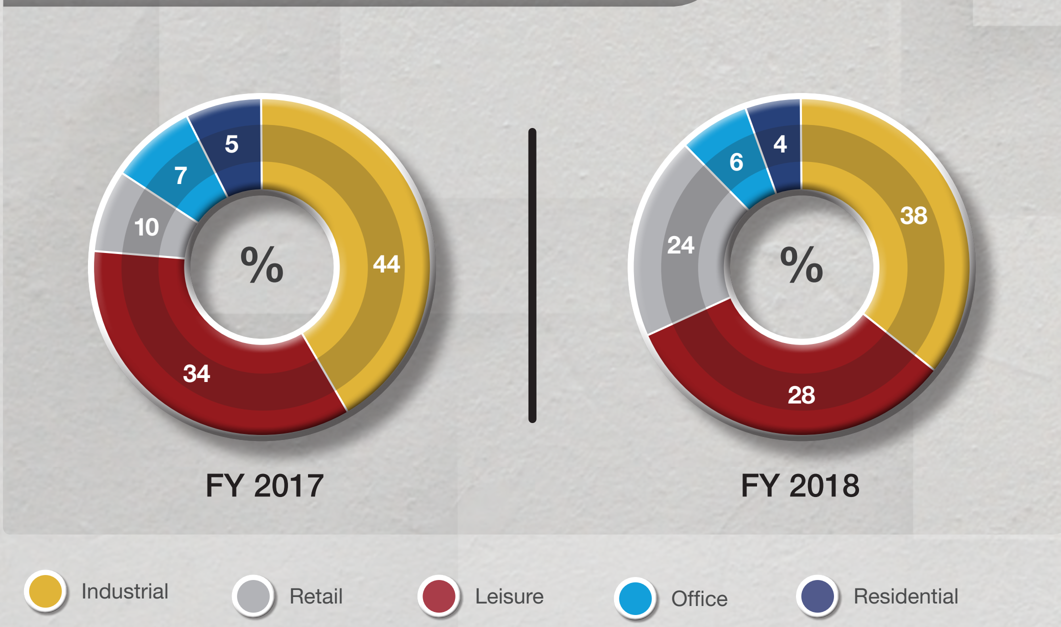

LLR UNIT HOLDERS Highlights

LLR TOP 15 UNIT HOLDERS

Beneficial Shareholder	%
BOTSWANA DEVELOPMENT CORPORATION LIMITED	65.79
BIFM BPOPF-EQUITY	6.71
DELTA INTERNATIONAL MAURITIUS LIMITED	6.25
FNB BOTSWANA NOMINEES (PTY) LTD RE: ALLANGRAY BPOPF EQUITY PORTFOLIO B	4.09
AG BPOPF EQUITY	3.78
STANBIC NOMINEES RE: BOTSWANA INSURANCE FUND MANAGEMENT	2.25
FNB NOMS BW (PTY) LTD RE: BPOPF EQUITY PORTFOLIO C - ALLAN GRAY	1.84
ALLAN GRAY RE DEBSWANA PENSION FUND	1.73
THE BANK OF NEW YORK MELLON SA/NV AS CUSTODIAN OR TRUSTEE FOR ABSA BANK AC STANLIB AFRICA PROP	0.88
ZAC CONSTRUCTION (PTY) LTD	0.36
STANBIC MANAGED PRUDENTIAL FUND	0.3
BIFM DPPF	0.21
STANBIC NOMINEES BOTSWANA RE: BOTSWANA INSURANCE FUND MANAGEMENT BOTSWANA MEDICAL AID SOCIETY	0.20
STANBIC NOMINEES BOTSWANA RE: BOTSWANA INSURANCE FUND MANAGEMENT BOTSWANA UNIFIED REVENUE SERVICE EMPLOYEE PENSION FUND	0.19
BTCL STAFF PENSION FUND GROWTH	0.18

LLR UNIT HOLDERS ANALYSIS

Linked Units	No. of Holders	%
>100 000 linked units	42	97.01
>50 000 linked units	32	0.88
>10 000 linked units	147	1.24
>5 000 linked units	128	0.36
>2 000 linked units	190	0.25
>1000 linked units	175	0.11
1000 linked units or less	931	0.15
	1645.00	100.00

BOARD of Directors

MS. BOITUMELO MOGOPA

Chairperson of the Board

MR. TERENCE DAMBE

Vice Chairperson of the Board and Chairman of the Investment Committee

A

B

A MS. TINY KGATLWANE
Board Member and Chairperson of Audit Risk & Compliance Committee

B MR. BAFANA MOLOMO
Board Member and Member of the Investment Committee

C

D

C MR CURTIS MATOBOLO
Board Member and Member of the Investment Committee and Audit Risk & Compliance Committee

D MS. SERTY LEBURU
Board Member and Member of the Audit Risk & Compliance Committee

EXECUTIVE Management

MR CHIKUNI SHENJERE - MUTISWA
Chief Executive Officer

MR BAALAKANI NLUMBILE
Property Manager

MS MAGDELINE TSIANE
Finance and Administration Manager

CHAIRPERSON'S Statement

> ***"Cashflow from the business continued to be solid and the company has maintained its proud tradition of paying out an increased annual distributions."***

It again gives me great pleasure to present LLR's results, this time for the year ended 30 June 2018.

Growth of 7% in contractual rent revenue reflected the underlying quality of the company's assets.

Cashflow from the business continued to be solid and the company has maintained its proud tradition of paying out an increased annual dividend.

The year under review saw LLR make its maiden direct foray into a dominant retail property asset by way of purchasing Mahalapye main shopping centre, Watershed Piazza. This acquisition significantly increased the firm's portfolio value which ended the year just short of the P1 billion milestone. It is worth noting that in Botswana, opportunities for the purchase of secondary assets are far and few between. Management certainly did well to successfully close the deal in what was a competitive bidding process.

The Watershed Mall has seen the company's retail exposure increase from 10% in 2017 to 24% at present. Going forward, LLR will be actively looking to increase the weighting of this sector as the portfolio grows and becomes more focused.

For year ended June 2018, the Board of Directors declared a distribution of 13.50 thebe per linked unit, comprising of a dividend of 0.10 thebe and debenture interest of 13.40 thebe per linked unit. This brought the total payout for the year to P37.8 million.

The declared interim and final distributions were paid to linked unit holders in April and August 2018 respectively. The Transfer Secretaries executed the distribution the requirements of the Botswana Income Tax Act (CAP 52.01), withholding tax at the applicable rate was deducted by the company from interest paid to unit holders unless they were specifically exempted.

During the year under review, the Board deepened its strategic skill set by welcoming Ms. Serty Leburu. Ms. Leburu is a highly regarded business professional who is currently Executive Director of Botswana Accountancy College.

Ms. Jane Tselayakgosi, one of LLR's founding directors, resigned in December 2017 after having served on the Board from the time of its listing in 2011. The Board would like to thank Ms. Tselayakgosi for her invaluable contribution over the years.

I also wish to express the company's gratitude to Mr. Paul More for guiding the ship during his tenure as Chief Executive Officer. We wish him all the best in his future endeavours.

In May 2018, Mr Chikuni Shenjere – Mutiswa was appointed Chief Executive Officer. Chikuni is a CFA charter holder and has a Masters in Finance from London Business School with close to two decades of experience in global investment. He will be driving LLR's three – pronged strategy: grow the portfolio, execute the Africa expansion vision while continuing to increase the bottom line and distribution to our unitholders.

CHIEF EXECUTIVE Officer's Report

"As we take the bold steps on this exciting journey of growth, my team and I are confident of delivering a transformed LLR."

LLR'S FINANCIAL PERFORMANCE

A solid performance saw total rental income increase 7% to P81.3m from the prior year's P75.8m.

This was again driven by a remarkably low vacancy rate (under 1% of gross lettable area), above inflation escalation and favourable lease renewals. The topline performance actually came in under expectations, directly as a result of the delay in the closing of the Watershed transaction.

Earnings per unit rose 6% to 31.12 thebe on the back of an increase in profit before tax to P94.8m from last year's P88.9m. With a debt load of P194m, LLR remains conservatively geared, moreso in the light of its excellent cash conversion rate which is in the 80% territory. This headroom provides ample opportunity to fund acquisitions without resorting to relatively expensive equity.

THE GLOBAL ECONOMY

Botswana's economic performance during the year under review was sluggish but with indications pointing to a pick up in the 3% GDP growth figure achieve. Inflation was tame at 3.1% which lent itself to fairly historically low interest rates (Bank of Botswana's base rate closed the year at 5%) and the Pula was stable.

Globally, growth accelerated particularly in the US economy where the so-called Trump boom – fueled by tax cuts and a loosening business regulatory environment - saw equity markets advancing to historic highs. However, the growth has been uneven with concerns about the increasing oil prices and the fallout from an escalating trade war between the US and China, the world's two largest economies, leading the IMF to recently shave global growth projections to 3.7%.

On the continent, strong commodity prices have pulled up the resource based economies such as Zambia, Nigeria and Ghana and helped buttress the buffeting suffered by other emerging markets such as South Africa, Turkey and Argentina. This good luck was not a moment too soon – regional countries such as Kenya, Mozambique and Zambia have come under increasing scrutiny of possible default as the cost of servicing their sovereign debt take up to 40% of GDP.

CORPORATE ACTIVITY AND PORTFOLIO GROWTH

As alluded to by the Board Chairperson, LLR made a significant retail acquisition via the purchase of the Watershed Mall in Mahalapye. This P149m acquisition has seen the portfolio's allocation to the retail sector increase from 10% to a material 24% as well as broaden the company's geographical footprint in Botswana. Overall, the portfolio growth was 24% to P970m (2017 – P778m).

The acquisition was funded by debt, financing which increased the company's loan-to-value from 6% in 2017 to the present 24%. This gearing is well in line with the strategy of optimizing the company's capital structure by sweating LLR's relatively lazy balance sheet.

PROPERTY MARKET OVERVIEW

As an asset class, real estate was not without its own turbulence in the year under review, particularly in the pockets of the residential and office markets. However, the resilience of the sector as a whole and a dependable store of value and generator of reliable income streams was apparent during a year when many other economic segments suffered hiccups.

1.1 Industrial

It was as you were in the industrial niche – robust demand which has stretched over the medium to long term. The market, whose key drivers are logistics and manufacturing, continued to maintain its markedly better performance relative to the other sectors.

Industrial prime rentals currently stand at P45/m², with yields at 9%. Despite its seemingly healthy demand especially in Gaborone, development in the sector has been surprisingly low, with only 15,000m² in GLA entering the market recently.

1.2 Retail

The retail sector has experienced its own share of robust growth over the past 15 years and this did not slow during the period under review; most of the major existing shopping centres, such as Airport Junction and Game City are expanding.

About 70,000m² in GLA is expected to enter the market within the next 18-24 months, indicating that despite longstanding concerns of overtrading and overborrowed consumers, retail demand is still on the rise.

Rentals in the sector are testament to the sector's resilience with the anchors still ranging between P80-90/m² and yields at 8%. Notwithstanding the amount of space coming into the market, the market continues to enjoy good occupancy rates and inflation beating escalations.

1.3 Hospitality

The last few years have seen an introduction of a good number of hotel rooms into the market, more especially in Gaborone. This development has led to a decline in ADR and occupancy levels as the market becomes more competitive.

The latest entrant being Hilton Garden Inn which will be opening soon, and there are other two potential developments in CBD which are at planning stage with a plan to house well established international brands.

1.4 Office

Increased market stock in the sector has seen rental growth flatlining over the past five years. Downward market reversions have become the norm during lease renewals, sometimes resulting in dramatic decline in rentals.

Prime rentals continue to hover around the P100/m² mark with yields in the 7 - 8.5% range; secondary rates vary between P65 – P75/m².

Despite the above dynamics, the sector continues to experience expansion, with a number of new office developments nearing completion stage, particularly in the new CBD where a number of land development covenants are expiring.

1.5 Residential

The Gaborone residential market has seen a slight improvement after a 5-year of subdued spell. The improvement has been particularly notable in the low to middle end of the market, while the high end is still experiencing a weaker demand.

Upcoming developments in the short to medium term include Gaborone North, Thobo Hamlet/Peto Estate and KHill Developments' Kgale Lake City in the southern part of the city is billed to the next major residential development.

THE ROAD AHEAD

The company is embarking on a new strategic path whose underlying pillars are an annual double digit growth in the property portfolio with a focused acquisition of industrial, retail and prime grade commercial real estate assets while diversifying into selected markets in Africa. This shall be underpinned by a prudent, efficient capital structure.

As we make the first bold steps on this exciting journey, my team and I are confident of delivering a transformed LLR: domestically strong, with a laser focus in the key property segment and a significant regional presence. All this having delivered portfolio growth and increasing, consistent distributions.

THANKS

In conclusion, my sincere thanks to Board and the entire LLR team.

They delivered a strong performance in the face of the economic headwinds while Watershed Piazza also managed to secure a key asset which will make a significant contribution to the bottom line for many years to come earnings from many years to come.

It indeed has been a short while since I joined the company yet, with each day's interaction, my conviction only gets deeper and strong: we will dramatically grow this business and drive it to where it should be.

CORPORATE Governance

Corporate governance continues to be a key issue for LLR and its stakeholders. The Board of Directors are directly accountable to the unitholders and each year the company holds an annual general meeting (AGM) at which the directors provide a report to the stakeholders on the performance of the company, it's future and strategies. The Board guides and monitors the business and affairs of LLR.

The Board is committed to maintaining the highest standards of corporate governance practices. They are collectively responsible for the long-term success of the company.

The Board provides strategic direction for, and approval of the company's business strategies and objectives. It establishes procedures to ensure that financial results are appropriately and accurately reported on a timely basis in accordance with all legal and regulatory requirements. The Board's responsibilities include approval and reviewing the company's internal compliance procedures and any codes of conduct, taking all reasonable steps to ensure that the business of the company is conducted in an open and ethical manner. It also reviews and amends the Board and Committees Charters as and when necessary.

The Board has delegated the day-to-day responsibility for operating the company to executive management and it is focused on attending matters affecting the company's overall strategic objectives. It's leadership responsibilities involve working with management to set corporate values and to develop strategy, including deciding which risks it is prepared to take in pursuing its strategic objectives. Its oversight responsibilities involve it providing constructive challenge to the management team in relation to operational aspects of the business, including approval of the budgets and business plans, and probing whether risk management and internal controls are sound. The company recently appointed Mr. Chikuni Shenjere-Mutiswa as the Chief Executive Officer. Mr. Mutiswa is a CFA charter holder who brings with him a wealth of experience in investment management spanning close to two decades across multiple jurisdictions.

To ensure that the responsibilities of the Board are upheld and executed to the highest level, the Board has established two committees: the Audit, Risk and Compliance Committee and the Investment Committee. Each of these committees has established charters and have operating procedures in place which are reviewed on a regular basis. The committees have access to the company's executive management as well as independent advice.

The company also engages Internal Auditors in pursuit of discharging the responsibility for corporate governance. In addition, the Board has also established a framework for the management of the company including a system of internal controls, a business risk management process and establishment of appropriate ethical standards.

CORPORATE Governance [continued]

The Audit, Risk and Compliance Committee (ARAC); is constituted as a sub- Committee of the LLR Board to assist in fulfilling its statutory duties in terms of the Companies Act (Cap 42:01), the Company's Constitution and the BSE Listings rules and regulations. The committee has been established to, amongst others, assist the Board in overseeing the quality and integrity of the Company's annual report and annual financial statements, qualifications and independence of the external auditors, scope and effectiveness of internal controls, effectiveness of risk management and compliance with legal and regulatory requirements to the extent that it might have an impact on the financial statements. The duties and responsibilities of members are set out in the Audit Risk and Compliance Charter. The committee comprises three members, all of whom are independent non-executive directors.

The Investment Committee (IC); is constituted as a sub- committee of the Board to assist in fulfilling its statutory duties in terms of the Companies Act (Cap 42:01), the Company's Constitution and the BSE Listings rules and regulations. The Committee has been established primarily to assist the Board in overseeing the development and implementation of the Company's investment policies, guidelines, strategies and activities including but not limited to ensuring that there is an appropriate, robust and consistent framework for objective analysis of proposed real estate investment, analysis of divestment/ disposals, review and approval of major property refurbishments and performance review of the Company's investment portfolio. The committee comprises three members, all of whom are independent non-executive directors.

Table1:

Board of Directors: Attendance at meetings during the year ended 30 June 2018.

Name	Audit Risk and Compliance Committee	Investment Committee	BOARD	INTER VIEWS	ANNUAL GENERAL MEETING
*Jane Tselayakgosi	3	-	2	-	-
Boitumelo Mogopa	2	-	2	1	1
Terence Dambe	-	4	5	-	1
Bafana Molomo	-	6	4	3	1
Curtis Matobolo	6	6	5	-	1
Tiny Kgatlwane	4	-	5	2	1
**Serty Leburu	3	-	2	-	-

*Resigned 07/12/2017
**Appointed 01/02/2018

LLR BOARD COMPOSITION and Profiles

The Board comprises six non-executive Directors, who possess adequate experience and expertise necessary to manage the company's affairs. The Board's objective is to have the appropriate mix of skills, knowledge and experience, from which a wide range of industries and backgrounds necessary to address any challenges for the company can be met.

CORPORATE Governance [continued]

BOITUMELO MOGOPA

Board Chairperson

Ms. Boitumelo Mogopa is the Director of Retail Segment at First National Bank of Botswana (FNBB). She holds a Bachelor of Commerce degree majoring in Accounting and Business from the University of Botswana and is a fellow member of Association of Chartered Certified Accountants (UK) and BICA.

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 and implementation in financial services. A result oriented and effective leader with proven skills she 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 elevated to Chief Financial Officer in 2012. It was during her time as CFO that First National Bank of Botswana claimed its current number one position in the market by most all measures.

As the Director of Retail, her key responsibilities include: strategic development and implementation, the day-to-day running of the Segment and overseeing the financial, business development, client experience, risk and compliance and human resources areas of the business. The segment has consistently outperformed and is a significant contributor to the banks bottom line.

Prior to First National Bank of Botswana Ms. Mogopa worked at Standard Chartered Bank as a General Manager for Wealth Management and Shared Distribution, and Barclays Bank in the Finance environment.

Boitumelo is the Chairperson of Letlole La Rona, LLR, listed property company in the Botswana Stock Exchange.

TERENCE DAMBE

Vice Chairperson of the Board and Chairperson of the Investment 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 29 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.

CURTIS MATOBOLO

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

Curtis Matobolo is a Chartered Surveyor who has had an illustrious career within the property consultancy field, which spans over 23 years. He joined Knight Frank as a graduate surveyor and rose through the ranks to become the managing director, a position he holds to date.

He holds a BSc (Honours) degree in Estate Management from Oxford Brookes University, UK. He attained his chartership with the Royal institute of chartered surveyors London in 1999. He is a seasoned property valuer with vast experience in the Botswana Market and some southern African countries including Namibia and Lesotho. He has advised almost all listed property funds in Botswana including Primetime where upon he was a transactional valuer. He was a joint lead adviser with CBRE in property consulting in the transactional listing of Turnstar Holdings. He was the property consultant in the listing of Letlole La Rona whereupon he advised from the due diligence stage to the final portfolio selection. He is the lead valuer on annual valuations for FAR properties, Primtime Holdings and NAFPROP on retention basis. He has over the years advised at a strategic level pension funds, affluent individual property investors and institutions on matters of property development, property investments and town planning.

BAFANA MOLOMO

Board Member and Member of the Investment Committee

Mr. Molomo is Co-founder and Managing Partner at Aleyo Capital, a Botswana -based private equity fund manager. He was previously the Chief Investment Officer at the Botswana Development Corporation (BDC) having joined BDC from Vantage Capital - a leading mezzanine fund manager based in Johannesburg and operating across Sub-Saharan Africa.

At Vantage Capital, Mr. Molomo was a Senior Associate originating and structuring deals in South Africa, Botswana, Namibia and Mozambique. Prior to that he was with Venture Partners Botswana as a senior investment professional in their private equity team in Botswana and Namibia. Mr Molomo who began his career as an investment analyst and has extensive experience in private equity, corporate finance, strategy and project finance, has held a number of Board roles in Hospitality, Healthcare, ICT, Property, Fast Moving Consumer Goods (FCMG) and Beverage companies.

He holds a Bachelor of Commerce (Economics and Finance) and an Master of Business Admiration (MBA) both from the University of Cape Town. He also earned a Post-graduate Diploma in Business from the University of Pretoria's Gordon Institute of Business Science.

CORPORATE Governance [continued]

LLR BOARD COMPOSITION AND PROFILES [continued]

TINY KGATLWANE

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

Tiny has an extensive career in the banking sector as well as the broader financial services industry.

Her career started with Botswana Development Corporation where she was in the Projects Division where she was exposed to projects development as well as projects management earlier in her career. She then had an opportunity to work locally as well as internationally for Standard Chartered Bank (Pty) Ltd in Corporate Banking, Board Secretariat as well as in the Treasury divisions where she rose to the position of Country Treasurer. Tiny later on worked for another international bank, Barclays Bank of Botswana where she was Country Treasurer as well as Head of Retail Sales.

A result oriented and effective leader with proven skills, she held the position of Principal Executive Officer for the largest private pension fund, Debswana Pension Fund for a number of years, this was followed by the position of Chief Executive Officer of Botswana Insurance Fund Management (BIFM). The company is the largest asset management firm in Botswana and a 100% subsidiary of BIHL, a company listed on the Botswana Stock Exchange.

Tiny has, held a number of Executive Directorships as well as non - Executive positions. She has served as a Director in the following companies; Botswana Competition Authority, Botswana Medical Aid Society, Botswana Red Cross, Sechaba Breweries Holdings Limited, Botswana Tourism Organization, Botswana Privatization Asset Holding just to mention a few.

She is currently a Director at Letlole La Rona Limited, Ridge Reality and ABM University College. She also holds the position of Managing Director at Kgare Insurance Brokers (Pty) Ltd.

MS. SERTY LEBURU

Board Member and Member of Audit, Risk and Compliance Committee

Ms. Serty Leburu joined the LLR Board of Directors at the beginning of 2018. She is currently Executive Director at Botswana Accountancy College. She was previously a Deputy Chief Executive Officer - Support Services at Botswana Housing Corporation

She also served as Deputy Chief Executive Officer at Standard Chartered Bank of Botswana before joining BHC and was an Executive Director of the Bank. Prior to joining Standard Chartered Bank, she spent 17 years in the Diamond Mining Sector within the Debswana Group. She has a broad experience in all areas of strategy, finance, governance, supply chain, property, risk management, general administration and leadership.

Ms. Leburu graduated with a Bachelor of Commerce from the University of Botswana and is a BICA Fellow Chartered Public Accountant (FCPA) and a Chartered Global Management Accountant. Ms. Leburu has done a Leading Across Boundaries Executive Leadership Programme from Oxford University in the UK and a Management Development Programme at the University of Stellenbosch in South Africa. Other training includes Securitization, Mortgage Bonds and International Housing Finance Programs from the Wharton School of Business - University of Pennsylvania, Philadelphia USA. Ms. Leburu has a passion for community engagement through volunteerism to give back to communities.

EXECUTIVE MANAGEMENT PROFILES

MR CHIKUNI SHENJERE - MUTISWA

Chief Executive Officer

Mr. Shenjere-Mutiswa is a CFA charter holder whose experience in investment management spans close to two decades.

After completing a Bachelor in Accountancy degree at the University of Zimbabwe, he joined First Mutual Asset Management Company in Harare as a trainee investment analyst. At the time, the company was the country's largest domestic asset manager.

Over the next years, he held various portfolio management roles, covering the investment process including origination, research and analysis, execution and monitoring.

Prior to joining LLR, Chikuni spent the previous 10 years as Investment Director at Ceres Funds, a period of steady growth in the firm's global assets. Here he had oversight of the complete cradle-to-grave investment cycle where he committed and managed funds in diverse alternative asset classes – private equity, real estate, hedge funds and mezzanine finance.

More recently, his mandate focus has been sub Saharan Africa where he made a number of property - related investments across the capital structure. These include direct equity investments in property development consortiums in Swaziland and Malawi, syndicated debt financing of Nairobi student housing, pre-IPO investments in two Zimbabwean property companies carved out of insurance businesses as well as advisory work on the unbundling and subsequent listing of a pan-African hotel group's real estate holdings.

Chikuni holds an MSc in Finance from London Business School.

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.

CORPORATE Governance [continued]

EXECUTIVE MANAGEMENT PROFILES [continued]

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

MAGDELINE TSIANE

Finance and Administration Manager

Magdeline Tsiane joined Letlole La Rona Limited (LLR) in October 2015 as the Finance and Administration Manager. She is responsible for the financial accounting function as well as various operational services. Her role includes overseeing the day-to-day administrative functions of the company. 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 responsible for.

Prior to joining LLR, Magdeline Tsiane was the Chief Financial Accountant at Botswana Development Corporation where she worked for the past 25 years, having previously worked in various positions.

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.

COMPLIANCE STATEMENT

The Board of Directors recognise the need to conduct the business of the company with integrity and in accordance with generally accepted practices and endorses the internationally accepted principles of Corporate Governance and public responsibility.

LLR has complied with the provisions as set out in the Companies Act (CAP 42:01) and the requirements of the Botswana Stock Exchange during the year ended 30 June 2018.

HOSPITALITY

CRESTA LODGE
- GABORONE
VALUE: BWP 85,500,000

HOSPITALITY

PRESIDENT HOTEL - GABORONE

VALUE: BWP 84,000,000

RESIDENTIAL

RED SQUARE
- GABORONE
VALUE: BWP 42,000,000

COMMERCIAL

MOEDI HOUSE - GABORONE

VALUE: BWP 54,000,000

RETAIL

WATERSHED PIAZZA - MAHALAPYE

VALUE: BWP 149,000,000

(Recent acquisition)

INDUSTRIAL

LOT 14459 - GABORONE
VALUE: BWP 7,300,000

LOT 28911- GABORONE
VALUE: BWP 73,500 000

LOT 14457 - GABORONE
VALUE: BWP 8,000,000

LOT 14460 - GABORONE
VALUE: BWP 7,000,000

INDUSTRIAL

LOT 14458 - GABORONE
VALUE: BWP 7,000,000

LOT 14457 - GABORONE
VALUE: BWP 8,100,000

LOT 14453 - GABORONE
VALUE: BWP 9,250,000

LOT 74204 - GABORONE
VALUE: BWP 97,500,000

INDUSTRIAL

LOT 14398 - GABORONE
VALUE: BWP 22,000,000

LOT 74204 - GABORONE
VALUE: BWP 97,500,000

LOT 4738: RETAIL - GABORONE
VALUE: BWP 47,700,000

LOT 32084 - GABORONE
VALUE: BWP 84,500,000

INDUSTRIAL

LOT 74204 - GABORONE
VALUE: BWP 97,500,000

LOT 28911 - GABORONE
VALUE: BWP 73,500 000

LOT 22038 - GABORONE
VALUE: BWP 32,250,000

LOT 14398 - GABORONE
VALUE: BWP 22,000,000

General Information

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) J Tselayakgosi (Resigned 7 December 2017) B Molomo T Dambe C Matobolo T Kgatlwane S Leburu (Appointed 01 February 2018)
Registered office	Letlole La Rona Limited 1st Floor, 5 Matante Mews, Plot 54373, CBD P O Box 700ABG Gaborone Botswana
Business address	1st Floor, 5 Matante Mews, Plot 54373, CBD P O Box 700ABG Gaborone Botswana
Auditors	Grant Thornton Chartered Accountants and Certified Auditors of Public Interest Entities
Secretary	KPMG Plot 67977, Fairgrounds Office Park P O Box 1519 Gaborone Botswana
Company registration number	CO2010/6316
Date of incorporation	08 July 2010
Transfer secretaries	DPS Consulting Services (Proprietary) Limited Plot 50371, Fairgrounds Office Park P O Box 1453 Gaborone Botswana
Legal Advisors	Armstrongs Attorneys Acacia House Plot 54358,New CBD P O Box 1368 Gaborone Botswana
Debenture Trust Trustees	Corpserve Transaction Management Services (Proprietary) Limited

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The reports and statements set out below comprise the annual financial statements presented to the shareholders:

The following supplementary information does not form part of the annual financial statements and is unaudited:

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2018

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 2018.

1. Review of activities

Main business and operations

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. and operates principally in Botswana.

The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net profit of the company was P 78 870 705 (2017: P 74 142 441 profit), after taxation of P (15 893 108) (2017: P (14 760 322)).

2. Events after the reporting period

The directors are not aware of any matter or circumstance arising since the end of the financial year that affects these financial statements. Capital commitments are included in the capital commitments note.

3. 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.

4. Linked Units Distribution Policy

Distributions to linked unit holders is primarily in the form of debenture interest. The company has adopted the policy of distributing profits to linked unit holders by means of debenture interest payments with a nominal amount being dividends. The directors intend to ensure that rolling over any period of three consecutive financial years the company will distribute at least 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.

5. Interests of Directors and Secretary

None of the Directors or Secretary who held office at 30 June 2018 had any interest in the company.

Director **Director**

Directors' Responsibilities and Approval

FOR THE YEAR ENDED 30 JUNE 2018

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 2018, 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 and 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.

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 pages 37 to 40.

The annual financial statements set out on pages 41 to 77, which have been prepared on the going concern basis, were approved by the board of directors on 20 September 2018 and were signed on its behalf by:

Approval of financial statements

Director **Director**

Gaborone

Independent Auditor's Report

FOR THE YEAR ENDED 30 JUNE 2018

To the unit holders of Letlole La Rona Limited

Opinion

We have audited the annual financial statements of Letlole La Rona Limited set out on pages 41 to 77, which comprise the statement of financial position as at 30 June 2018, 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 notes to the annual financial statements, including a summary of significant accounting policies.

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 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the annual financial statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of annual financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report [continued]

FOR THE YEAR ENDED 30 JUNE 2018

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and the report below is not intended to constitute separate opinions on those key audit matters.

Key audit matter	How the matter was addressed in our audit
Valuation of the investment property The company's significant assets are the investment properties in various segments. The values of these properties are determined using valuation experts in the field of real estate valuations. Due to the significant assumptions, estimates and judgements involved in the process of determining the market values of these investment properties, these matters are considered as key audit matters.	The fair values of the external properties were determined by experts appointed by the management. We have held discussions with these experts to gather an understanding of the various inputs, assumptions, estimates and process used in arriving at the values. We have assessed the competence, independence and integrity of the external valuers. We have verified the underlying data used by them significant ones being rental yields, escalation terms and lease period on a sample basis. Also, a part of our audit procedure, we sampled individual properties and verified the registration of the title deeds of these properties to establish the ownership as belonging to the company. Our audit procedures have resulted in appropriate audit evidence towards ownership and values of these investment properties.
Recognition of revenue The company's significant portion of revenue is derived through rents from its tenants. The company applies IAS 17 to recognise rental income on a straight line basis over the lease term. Operating lease asset is the cumulative difference between the contractual rent and the straight line rent over the period of lease	We have performed walkthroughs on the revenue cycle to gain an understanding of various process and controls over revenue recognition. This testing includes the verification of the details of lease agreements, approvals and changes to the lease terms and upload of this information to the company's management system. We have obtained the rental income schedule from the operating system and determined that rental income has been appropriately recorded in the general ledger. We selected a sample of lease agreements to verify that the rental has been appropriately recognised in the operating system and the operating lease asset has been computed appropriately.

Independent Auditor's Report [continued]

FOR THE YEAR ENDED 30 JUNE 2018

Key audit matter	How the matter was addressed in our audit
Investment in Associate The company holds 1/3rd stake in a partnership whose underlying assets are made up of investment properties. The value of the stake was determined based on the fair value of the investment property belonging to the partnership as at the date of acquisition and subsequently adjusted to reflect the company's share of net profit or loss of the associate. The underlying investment property of this associate was determined using external valuation experts.	We obtained the valuation report of the underlying investment property of the partnership, held discussions with the external valuation experts to gather an understanding of the various assumptions and inputs used. We also obtained the management accounts of the partnership and determined if the share of profits from the associate was appropriately accounted based on these accounts. Our audit procedures have resulted in appropriate audit evidence towards the investment in the associate.

Responsibilities of the directors for the Annual Financial Statements

The directors are responsible for the preparation and fair presentation of the 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 misstatement, whether due to fraud or error.

In preparing the annual financial Statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

Independent Auditor's Report [continued]

FOR THE YEAR ENDED 30 JUNE 2018

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Grant Thornton,

21 SEP 2018

Chartered Accountants
Certified Auditor: Mr. Madhavan Venkatachary: 20030049
Certified Auditor of Public Interest Entity
Certificate Number: CAP 0017 2018

Gaborone

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 P	2017 P
Revenue	3	81 302 570	75 858 589
Other income	4	1 444 998	465 374
Property related expenses	5	(5 765 720)	(4 895 994)
Administration and operating expenses	5	(13 224 467)	(10 353 310)
Operating profit		**63 757 381**	**61 074 659**
Finance income	6	821 785	416 489
Fair value adjustment of investment properties	7	32 115 408	24 472 153
Share of profit from equity accounted investments	12	3 165 208	6 331 486
Finance costs	8	(5 095 969)	(3 392 024)
Profit before taxation		**94 763 813**	**88 902 763**
Taxation	9	(15 893 108)	(14 760 322)
Profit for the year		**78 870 705**	**74 142 441**
Other comprehensive income		-	-
Total comprehensive income for the year		**78 870 705**	**74 142 441**
Earnings per share			
Basic earnings per linked unit (thebe)	21	31.12	29.41
Distribution per linked unit (thebe)	22	13.50	13.40
Dividends per linked unit (thebe)	22	0.10	0.10
Debenture interest per linked unit (thebe)	22	13.40	13.30

Statement of Financial Position

AS AT 30 JUNE 2018

	Notes	2018 P	2017 P
Assets			
Non-Current Assets			
Investment property	10	901 851 990	712 083 069
Operating lease asset	10	27 748 010	27 316 932
Property, plant and equipment	11	768 922	817 069
Investments in associates	12	40 296 694	38 631 486
Deferred taxation recoverable - related party	13	5 250 192	5 387 628
		975 915 808	**784 236 184**
Current Assets			
Taxation refundable		491 834	282 275
Trade and other receivables	14	3 538 466	3 250 346
Cash and cash equivalents	15	34 467 719	19 486 931
		38 498 019	**23 019 552**
Total Assets		**1 014 413 827**	**807 255 736**
Equity and Liabilities			
Equity			
Stated capital	16	2 718 884	2 718 884
Debentures - unit linked	17	405 113 547	405 113 547
Accumulated profit	18	327 919 143	278 594 038
		735 751 574	**686 426 469**
Liabilities			
Non-Current Liabilities			
Borrowings	19	194 390 467	44 762 004
Deferred tax	20	49 358 480	43 157 076
		243 748 947	**87 919 080**
Current Liabilities			
Debenture interest and dividend payable	22	19 880 000	19 740 000
Trade and other payables	23	11 716 796	11 195 287
Borrowings	19	2 016 642	1 974 900
Current tax payable		1 299 868	-
		34 913 306	**32 910 187**
Total Liabilities		**278 662 253**	**120 829 267**
Total Equity and Liabilities		**1 014 413 827**	**807 255 736**

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2018

	Stated capital P	Debentures P	Total stated capital and debentures P	Accumulated profit P	Total equity P
Balance at 01 July 2016	**2 718 884**	**405 113 547**	**407 832 431**	**233 778 797**	**641 611 228**
Profit for the year	-	-	-	74 142 441	74 142 441
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**74 142 441**	**74 142 441**
Dividends declared	-	-	-	(280 000)	(280 000)
Debenture interest declared	-	-	-	(37 240 000)	(37 240 000)
Taxation attributable to debenture interest	-	-	-	8 192 800	8 192 800
Total distributions to owners of company recognised directly in equity	**-**	**-**	**-**	**(29 327 200)**	**(29 327 200)**
Balance at 01 July 2017	**2 718 884**	**405 113 547**	**407 832 431**	**278 594 038**	**686 426 469**
Profit for the year	-	-	-	78 870 705	78 870 705
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**78 870 705**	**78 870 705**
Dividends declared	-	-	-	(280 000)	(280 000)
Debenture interest declared	-	-	-	(37 520 000)	(37 520 000)
Taxation attributable to debenture interest	-	-	-	8 254 400	8 254 400
Total distributions to owners of company recognised directly in equity	**-**	**-**	**-**	**(29 545 600)**	**(29 545 600)**
Balance at 30 June 2018	**2 718 884**	**405 113 547**	**407 832 431**	**327 919 143**	**735 751 574**
Note	16	17		18	

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 P	2017 P
Cash flows from operating activities			
Profit before taxation		94 763 813	88 902 763
Adjustments for:			
Depreciation		260 870	220 353
Loss on sale of plant and equipment		12 805	11 789
Results from equity accounted investments	12	(3 165 208)	(6 331 486)
Finance income	4&6	(821 785)	(416 489)
Finance costs	8	5 095 969	3 392 024
Fair value adjustment of investment properties	7	(32 115 408)	(24 472 153)
Impairment losses on receivables		1 043 918	595 531
Movements in operating lease asset		(431 078)	(2 542 032)
Changes in working capital:			
Trade and other receivables		(1 332 038)	7 414 146
Trade and other payables		521 509	4 444 949
		63 833 367	**71 219 395**
Tax paid	24	(209 559)	(39 981)
Net cash from operating activities		**63 623 808**	**71 179 414**
Cash flows from investing activities			
Acquisition of plant and equipment	11	(225 528)	(295 956)
Additions of investment property	10	(157 653 513)	(2 285 817)
Investment in associate		-	(35 000 000)
Finance Income	4&6	821 785	416 489
Distributions from associate	12	1 500 000	2 700 000
Net cash from investing activities		**(155 557 256)**	**(34 465 284)**
Cash flows from financing activities			
Proceeds from borrowings		151 576 000	47 756 000
Repayment of borrowings		(1 905 795)	(1 019 096)
Dividends and debenture interest paid		(37 660 000)	(37 380 000)
Finance costs	8	(5 095 969)	(3 392 024)
Net cash used in financing activities		**106 914 236**	**5 964 880**
Total cash and cash equivalents movement for the year		**14 980 788**	**42 679 010**
Cash and cash at the beginning of the year		19 486 931	(23 192 079)
Total cash and cash equivalents at end of the year	15	**34 467 719**	**19 486 931**

Accounting Policies

FOR THE YEAR ENDED 30 JUNE 2018

1. Basis of preparation and statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards using 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 and income

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.

Dividend and distribution Income

Dividend and distribution income is recognised when the right to receive payment is established.

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 by the reporting date.

Deferred tax

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

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.

Accounting Policies [continued]

FOR THE YEAR ENDED 30 JUNE 2018

1.2 Taxation [continued]

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.

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.

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 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.

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 profit or loss and other 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 profit or loss and other comprehensive income.

Accounting Policies [continued]

FOR THE YEAR ENDED 30 JUNE 2018

1.6 Property, plant and equipment

Property, 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 property, 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.

Property, 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.

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 property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Plant and machinery	Straight line	6-7 years
Motor vehicles	Straight line	4 years
Office equipment	Straight line	6-7 years
IT equipment	Straight line	4 years
Computer software	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.

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 property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, 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 property, 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 property, 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 property, 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 construction costs, professional fees and for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy.

1.8 Investments in associates

An associate is an entity over which the company has significant influence and which is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. It generally accompanies a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method, except when the investment is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the Statement of Financial Position at cost adjusted for post-acquisition changes in the company's share of net assets of the associate, less any impairment losses.

Accounting Policies [continued]

FOR THE YEAR ENDED 30 JUNE 2018

1.8 Investments in associates [continued]

The company's share of post-acquisition profit or loss is recognised in profit or loss, and its share of movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Losses in an associate in excess of the company's interest in that associate, including any other unsecured receivables, are recognised only to the extent that the group has incurred a legal or constructive obligation to make payments on behalf of the associate.

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in profit or loss.

Profits or losses on transactions between the company and an associate are eliminated to the extent of the company's interest therein. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the company.

When the company reduces its level of significant influence or loses significant influence, the company proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

1.9 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.

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.

Accounting Policies [continued]

FOR THE YEAR ENDED 30 JUNE 2018

1.10 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.

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, financial assets and liabilities, are measured initially at fair value.

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

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, 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.

Accounting Policies [continued]

FOR THE YEAR ENDED 30 JUNE 2018

1.10 Financial instruments [continued]

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.

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

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.

Cash and cash equivalents are classified as loans and receivables and are subsequently measured at amortised cost, using the effective interest method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

1.11 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 [continued]

FOR THE YEAR ENDED 30 JUNE 2018

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

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

The Company as Lessee

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.

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.

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.

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

- Leisure
- Industrial
- Commercial & retail
- Residential

In addition, the company's corporate and administrative functions are managed at corporate level.

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

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

Critical accounting judgements
and key sources of estimation uncertainty
FOR THE YEAR ENDED 30 JUNE 2018

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.

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.

Critical accounting judgements

and key sources of estimation uncertainty [continued]

FOR THE YEAR ENDED 30 JUNE 2018

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 2018

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Amendments to IAS 7: Disclosure initiative

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchanges;
- changes in fair values; and
- other changes.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The company has adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is not material.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

In terms of IAS 12 Income Taxes, deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The following amendments have been made, which may have an impact on the company:

If tax law restricts the utilisation of losses to deductions against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Additional guidelines were prescribed for evaluating whether the company will have sufficient taxable profit in future periods. The company is required to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

The amendment also provides that the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The company has adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 July 2018 or later periods:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parents' profit or loss.

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

2. New Standards and Interpretations [continued]

The effective date of the amendment is to be determined by the IASB.

It is unlikely that the amendment will have a material impact on the company's annual financial statements.

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the company are as follows:

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Company as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

2. New Standards and Interpretations [continued]

- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 01 January 2019.

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

It is unlikely that the standard will have a material impact on the company's annual financial statements.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after 01 January 2018.

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

It is unlikely that the amendment will have a material impact on the company's annual financial statements.

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.

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

2. New Standards and Interpretations [continued]

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

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

It is unlikely that the standard will have a material impact on the company's annual financial statements.

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 01 January 2018.

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

It is unlikely that the standard will have a material impact on the company's annual financial statements.

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	2018 P	2017 P
3. Revenue		
Contractual revenue	80 871 492	73 316 558
Straight line lease rental adjustment	431 078	2 542 031
	81 302 570	**75 858 589**
4. Other income		
Administration fees	38 978	61 975
Bad debts recovered	493 128	40 620
Sundry Income	912 892	362 779
	1 444 998	**465 374**
5. Property related and administration expenses		
Operating lease charges		
Premises		
• Contractual amounts	238 129	228 512
Auditor's remuneration	250 000	211 000
Consulting and professional fees	2 315 816	2 306 130
Depreciation on property, plant and equipment	260 870	220 353
Directors fees	882 400	880 000
Employee costs	5 940 874	4 274 603
Impairment on trade and other receivables	1 043 918	595 531
Insurance	735 797	680 034
Loss on sale of property, plant and equipment	-	11 789
Security	890 302	386 134
Assessment rates	798 333	956 480
Legal expenses	603 683	767 153
Repairs and maintenance	1 357 099	1 108 968
6. Finance income		
Interest revenue		
Bank	719 846	416 489
Interest charged on trade and other receivables	101 939	-
	821 785	**416 489**
7. Fair value adjustment of investment properties		
Fair value surplus for the year - as per valuation	32 546 486	27 014 184
Straight line lease adjustment	(431 078)	(2 542 031)
	32 115 408	**24 472 153**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	2018 P	2017 P
8. Finance costs		
Bank borrowings and interest	5 095 969	3 392 024
9. Taxation		
Major components of the tax expense		
Current		
Local income tax - current period	1 299 868	-
Attributable to debenture interest credited to statement of changes in equity	8 254 400	8 192 800
	9 554 268	**8 192 800**
Deferred		
Deferred tax charge	4 131 342	5 110 480
Deferred capital gains tax	2 012 338	1 457 042
Arising from prior period adjustments	195 160	-
	6 338 840	**6 567 522**
	15 893 108	**14 760 322**
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	94 763 813	88 902 763
Tax at the applicable tax rate of 22% (2017: 22%)	20 848 039	19 558 608
Tax effect of adjustments on taxable income		
Effects of fair value surplus	(7 065 390)	(5 383 875)
Prior period tax adjustment recognised in current year	195 160	-
Effects of debenture interest	(61 600)	2 000
Expenses not deductible for tax	39 664	193 600
Income from associate not subject to tax	(75 103)	(1 065 053)
Tax effect due to capital gains	2 012 338	1 457 042
	15 893 108	**14 762 322**

No provision was made for 2017 tax as the company had no taxable income. The estimated tax loss available for set off against future taxable income is P Nil (2017: P 4 826 520).

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	2018 P	2017 P
10. Investment property		
At fair value		
Freehold properties	81 000 000	84 000 000
Leasehold properties	848 600 000	655 400 000
	929 600 000	739 400 000
Straight line rental adjustment	(27 748 010)	(27 316 931)
	901 851 990	**712 083 069**
Reconciliation of fair value:		
At valuation	739 400 000	710 100 000
Straight line lease rental adjustment at the beginning of the year	(27 316 931)	(24 774 901)
Opening fair value	**712 083 069**	**685 325 099**
Additions during the year	157 653 513	2 285 817
Increase in fair value during the year	32 546 486	27 014 184
Straight line rental adjustment	(431 078)	(2 542 031)
	901 851 990	**712 083 069**

The fair value of the company's investment properties at 30 June 2018 has been arrived at on the basis of the open market value of the properties as at year end. The valuation was carried out by Riberry Botswana (Proprietary) Limited, independent valuers. Riberry Botswana (Proprietary) Limited are members of the Real Estate Institute of Botswana and are registered in terms of the Real Estate Professionals Act 2003. The valuations, which conform to International Valuation Standards, were determined by reference to commercial rental streams and market evidence of transaction prices for similar properties.

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

10. Investment property [continued]

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 74204 Gaborone	50 year State Grant from 10 October 1997
- Plot 6348 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
- Plot 29052 Mahalapye	50 year State Grant from 21 March 2003

Plots 4738,50380, 74204,32084,50719,1169 and 29052 have been encumbered as described in note 19.

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 25 years. The lessees do not have an option to purchase the properties at the expiry of the lease period.

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

	2018 P	2017 P
Minimum lease payments due		
- within one year	95 113 379	73 110 356
- in second to fifth year inclusive	213 655 135	198 937 817
- later than five years	22 434 473	17 462 435
	331 202 987	**289 510 608**
Amounts recognised in profit and loss for the year		
Rental income from investment property after straightline adjustment	(81 302 570)	(75 858 589)
Direct operating expenses from rental generating property	5 765 720	4 895 994
	(75 536 850)	**(70 962 595)**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

11. Property, plant and equipment

	2018			2017		
	Cost	Accumulated Depreciation	Carrying value	Cost	Accumulated Depreciation	Carrying value
Plant and machinery	41 033	(41 033)	-	41 033	(32 484)	8 549
Motor vehicles	232 383	(111 350)	121 033	232 383	(53 255)	179 128
Office equipment	236 116	(73 822)	162 294	197 606	(51 911)	145 695
IT equipment	576 825	(284 377)	292 448	410 234	(151 606)	258 628
Computer software	274 446	(81 299)	193 147	274 446	(49 377)	225 069
Total	**1 360 803**	**(591 881)**	**768 922**	**1 155 702**	**(338 633)**	**817 069**

Reconciliation of property, plant and equipment - 2018

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
Plant and machinery	8 549	-	-	(8 549)	-
Motor vehicles	179 128	-	-	(58 095)	121 033
Office equipment	145 695	38 509	-	(21 910)	162 294
IT equipment	258 628	187 019	(12 805)	(140 394)	292 448
Computer software	225 069	-	-	(31 922)	193 147
	817 069	**225 528**	**(12 805)**	**(260 870)**	**768 922**

Reconciliation of property, plant and equipment - 2017

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
Plant and machinery	29 065	-	-	(20 516)	8 549
Motor vehicles	-	232 383	-	(53 255)	179 128
Office equipment	165 455	-	-	(19 760)	145 695
IT equipment	301 743	63 573	(11 789)	(94 899)	258 628
Computer software	256 992	-	-	(31 923)	225 069
	753 255	**295 956**	**(11 789)**	**(220 353)**	**817 069**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

12. Investments in associates

The following table lists all of the associates in the company:

Name of company	% ownership interest 2018	% ownership interest 2017	Carrying amount 2018	Carrying amount 2017
NBC Developments (Partnership)	33.33 %	33.33 %	40 296 694	38 631 486

Summarised financial information of material associates

Summarised Statement of Profit or Loss and Other Comprehensive Income	NBC Developments 2018	NBC Developments 2017
Revenue	12 924 588	6 227 096
Other income and expenses	(3 428 180)	(1 756 093)
Profit from continuing operations	9 496 408	4 471 003
Total comprehensive income	9 496 408	4 471 003

Summarised Statement of Financial Position	NBC Developments 2018	NBC Developments 2017
Assets		
Non-current	113 377 196	112 115 830
Current	14 188 297	5 627 468
Total assets	127 565 493	117 743 298
Liabilities		
Current	6 663 320	1 837 249
Total liabilities	6 663 320	1 837 249
Total net assets	120 902 173	115 906 049

Reconciliation of net assets to equity accounted investments in associates	NBC Developments 2018	NBC Developments 2017
Interest in associates at percentage ownership	40 296 694	38 631 486
Carrying value of investment in associate	40 296 694	38 631 486
Investment at beginning of period	38 631 486	-
Acquisitions	-	35 000 000
Share of profit	3 165 208	6 331 486
Dividends received from associate	(1 500 000)	(2 700 000)
Investment at end of year	40 296 694	38 631 486

The summarised information presented above reflects the financial statements of the associates after adjusting for differences in accounting policies between the company and the associate.

The stake in NBC Development (Partnership) was acquired from a related party, Botswana Development Corporation Limited.

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	2018 P	2017 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	5 250 192	5 387 628

In the year ended 30 June 2011, the company acquired all the investment properties that were held by Botswana Development Corporation Limited.

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. As per the terms of acquisition, vendors have given commitment to the company to reimburse the capital gains tax upon eventual disposal of the property on a future date.

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 2018, calculated on the purchase price of the properties paid by the Company which is recoverable from the Vendors.

14. Trade and other receivables

	2018 P	2017 P
Trade receivables (net of impairments)	1 164 582	2 556 471
Prepayments	824 364	651 226
Deposits	49 520	42 649
Related party receivable	1 500 000	-
	3 538 466	**3 250 346**

The average credit period is 30 days. 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.

Reconciliation of provision for impairment of trade and other receivables

	2018 P	2017 P
Opening balance	1 127 654	649 642
Provision for impairment	1 043 918	595 531
Amounts written off as uncollectable	(321 419)	(117 519)
Recoveries	(493 128)	-
	1 357 025	**1 127 654**

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 [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	2018 P	2017 P
15. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	2 000	2 000
Bank balances	29 459 812	15 813 617
Short-term deposits	5 005 907	3 671 314
	34 467 719	**19 486 931**
16. Stated capital		
Issued		
280 000 000 (2017: 280 000 000) Ordinary shares of no par value	2 718 884	2 718 884

Each Linked Unit in the Company comprises one ordinary share and one variable rate unsecured debenture as per Note 17, 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.

	2018 P	2017 P
17. Debentures		
280 000 000 (2017: 280 000 000) Ordinary shares of no par value	405 113 547	405 113 547

Each Linked Unit in the Company comprises one ordinary share as per note 16, 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.

The debentures have been sub-ordinated to First National bank of Botswana Limited for facilities availed.

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	2018 P	2017 P
18. Accumulated profits		
Accumulated profits		
Arising from normal operations	96 434 170	77 273 736
Arising from revaluation of investment property	231 484 973	201 320 302
	327 919 143	**278 594 038**
Reconciliation		
Arising from normal operations		
At the beginning of the year	77 273 736	55 412 005
Profits from normal operations (net of taxation)	56 960 434	59 381 731
Dividends and debenture interest declared	(37 800 000)	(37 520 000)
	96 434 170	**77 273 736**
Arising from revaluation of investment property		
At the beginning of the year	201 381 903	178 366 792
Increase in fair value surplus (net of taxation)	30 534 148	25 495 541
Straight line rental adjustment	(431 078)	(2 542 031)
	231 484 973	**201 320 302**
19. Borrowings		
Held at amortised cost		
Bank Gaborone Limited	44 831 109	46 736 904
First National Bank of Botswana Limited	151 576 000	-
	196 407 109	**46 736 904**

Bank Gaborone Limited

The Loan facility of P47.75 million carries interest at prime rate (base rate of the bank) plus 1% currently at 7.5% per annum. The loan is repayable in 180 months installments and is secured by a first covering mortgage bond of P24 million over Lot 4738 Station, Gaborone and first covering mortgage bond of P24 million over Lot 50380, Showground, Gaborone.

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	2018 P	2017 P
19. Borrowings [continued]		

First National Bank of Botswana Limited

The loan facility is for P230 million split as Tranche A carrying interest at 7.28% and Tranche B carrying interest at 6.5%. The loan is repayable after 5 years.

The loan is secured by

(i) a first covering mortgage bond for P40 million over Lot 74204, Gaborone.
(ii) a first covering mortgage bond for P41 million over Lot 32084, Gaborone
(iii) a first covering mortgage bond for P41.75 million over Lot 50719, Gaborone
(iv) a first covering mortgage bond for P42 million over Lot 1169, Gaborone
(v) a first covering mortgage bond of P68.5 million over Lot 29052, Gaborone
(vi) subordination of debentures

	2018 P	2017 P
Non-current liabilities		
At amortised cost	194 390 467	44 762 004
Current liabilities		
At amortised cost	2 016 642	1 974 900
	196 407 109	**46 736 904**

20. Deferred tax

Deferred tax asset/(liability)

	2018 P	2017 P
Tax losses available for set off against future taxable income	-	1 061 834
Capital gains on fair value increase in investment property	(26 028 573)	(23 821 077)
Accelerated capital allowances	(18 079 715)	(15 010 206)
Capital gains on disposal of investment property recoverable from related party	(5 250 192)	(5 387 627)
Total net deferred tax liability	**(49 358 480)**	**(43 157 076)**
Deferred tax liability	(49 358 480)	(43 157 076)

Reconciliation of deferred tax liability

	2018 P	2017 P
At beginning of year	(43 157 076)	(36 784 714)
Movement in capital gains tax recoverable/payable to related party	(57 724)	195 160
Capital gains charges to the statement of comprehensive income	(4 131 342)	(1 457 042)
Deferred tax charge	(2 012 338)	(5 110 480)
	(49 358 480)	**(43 157 076)**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

		2018 P	2017 P
21. Earnings per linked unit			
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.			
The earnings and weighted average number of linked units used in the calculation of earnings per linked unit are as follows:			
Total profit and comprehensive income for the year		78 870 705	74 142 441
Taxation on debenture interest credited to the income statement		8 254 400	8 192 800
Earnings attributable to linked unit holders		**87 125 105**	**82 335 241**
Weighted average number of linked units in issue for the year		280 000 000	280 000 000
Earnings per linked unit (thebe)		31.12	29.41
22. Debenture interest and dividend payable			
Debenture interest			
Interim paid	6.35 (2017: 6.30) thebe	17 780 000	17 640 000
Final declared	7.05 (2017: 7.00) thebe	19 740 000	19 600 000
Total debenture interest	13.40	37 520 000	37 240 000
Interim paid	0.05 (2017: 0.05) thebe	140 000	140 000
Final declared	0.05 (2017: 0.05) thebe	140 000	140 000
Total distribution	**13.50**	**37 800 000**	**37 520 000**
Debenture interest and dividend payable			
Debenture interest		(19 740 000)	(19 600 000)
Dividend payable		(140 000)	(140 000)
		(19 880 000)	**(19 740 000)**
The interim debenture interest and dividend per linked unit was paid on 16 March 2018. A final debenture interest and dividend per linked unit has been declared.			
23. Trade and other payables			
Trade payables and accruals		3 100 298	3 142 056
Amounts received in advance		846 130	1 684 048
Refundable deposit held		6 696 561	5 546 033
Accrued gratuity and leave pay		977 581	809 587
Value Added Tax		96 226	13 563
		11 716 796	**11 195 287**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	2018 P	2017 P
24. Tax paid		
Balance at beginning of the year	282 275	242 294
Current tax for the year recognised in profit or loss	(1 299 868)	-
Balance at end of the year	808 034	(282 275)
	(209 559)	**(39 981)**

25. Related parties

Parties are considered related when one has power, through ownership, contractual right, family relationship, or otherwise, to directly or indirectly control or significantly influence the other party. Parties also are related when they are under the common control or significant influence of a third party.

Botswana Development Corporation Limited owns 66% of the issued linked units of the Company at 30 June 2018 (2017: 66%)

During the year the Company entered into the following trading transactions with related parties and had the following balances with related parties.

Relationships

Holding company	Botswana Development Corporation Limited
Directors	Refer to page 1
Associates	Refer to note 12
Members of key management	Mr C Shenjere-Mutiswa (CEO)
	Ms M Tsiane (Finance Manager)
	Mr B Nlumbile (Property Manager)

Related party balances

	2018 P	2017 P
Deferred tax recoverable from related party		
Botswana Development Corporation Limited	5 250 192	5 387 628
Amounts included in Trade receivable regarding related parties		
NBC Development (Partnership)	1 500 000	-
Related party transactions		
Share of profit from partnership		
NBC Partnership	3 165 208	6 331 486
Directors emoluments		
Directors' emoluments- fees as directors	882 400	880 000
Executive remuneration	3 681 007	3 373 651
	4 563 407	**4 253 651**
Investment in associate (acquisition of NBC Development partnership)		
Botswana Development Corporation Limited	-	35 000 000

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

26. Categories of financial instruments

Categories of financial instruments - 2018	Carrying amount	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Non-Financial assets
Assets					
Investment property	901 851 990	-	-	-	901 851 990
Operating lease asset	27 748 010	-	-	-	27 748 010
Plant and equipment	768 922	-	-	-	768 922
Investment in associate	40 296 694	-	-	-	40 296 694
Deferred taxation recoverable					
- related party	5 250 192	-	-	-	5 250 192
Taxation refundable	491 834	-	-	-	491 834
Trade and other receivables	3 538 466	-	2 664 582	-	873 884
Cash and cash equivalents	34 467 719	-	34 467 719	-	-
	1 014 413 827	**-**	**37 132 301**	**-**	**977 281 526**

Equity and Liabilities

	Carrying amount	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Non-Financial assets
Stated capital	2 718 884	-	-	-	2 718 884
Debentures	405 113 547	-	-	-	405 113 547
Accumulated profit	327 919 144	-	-	-	327 919 144
Borrowings	194 390 467	-	-	194 390 467	-
Deferred taxation	49 358 480	-	-	-	49 358 480
Debenture interest and dividend payable	19 880 000	-	-	-	19 880 000
Trade and other payables	11 716 795	-	-	3 946 427	7 770 368
Borrowings	2 016 642	-	-	2 016 642	-
Current tax payable	1 299 868	-	-	-	1 299 868
	1 014 413 827	**-**	**-**	**200 353 536**	**814 060 291**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

26. Categories of financial instruments [continued]

Categories of financial instruments - 2017	Carrying amount	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Non-Financial assets
Assets					
Investment property	712 083 069	-	-	-	712 083 069
Operating lease asset	27 316 932	-	-	-	27 316 932
Plant and equipment	817 069	-	-	-	817 069
Investment in associate	38 631 486	-	-	-	38 631 486
Deferred taxation recoverable					
- related party	5 387 628	-	-	-	5 387 628
Taxation refundable	282 275	-	-	-	282 275
Trade and other receivables	3 250 346	-	2 556 471	-	693 875
Cash and cash equivalents	19 486 931	-	19 486 931	-	-
	807 255 736	**-**	**22 043 402**	**-**	**785 212 334**

Equity and Liabilities

	Carrying amount	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Non-Financial assets
Stated capital	2 718 884	-	-	-	2 718 884
Debentures	405 113 547	-	-	-	405 113 547
Accumulated profit	278 594 038	-	-	-	278 594 038
Borrowings	44 762 004	-	-	44 762 004	-
Deferred taxation	43 157 076	-	-	-	43 157 076
Debenture interest and dividend payable	19 740 000	-	-	-	19 740 000
Trade and other payables	11 195 287	-	-	4 826 104	6 369 183
Bank overdraft	1 974 900	-	-	1 974 900	-
	807 255 736	**-**	**-**	**51 563 008**	**755 692 728**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

27. 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 2018, the Company had interest bearing borrowings of P 196 407 109 (2017: P 46 736 904).

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 P 509 597 (2017: P 397 264). 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 [continued]

FOR THE YEAR ENDED 30 JUNE 2018

28. 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 2018	Corporate P	Commercial & retail P	Leisure P	Industrial P	Residential P	Total P
Investment property including straight lining of rental income	-	244 700 000	269 000 000	373 900 000	42 000 000	929 600 000
Property Plant and equipment	768 922	-	-	-	-	768 922
Deferred tax recoverable from Vendors	5 250 192	-	-	-	-	5 250 192
Taxation refundable	491 834	-	-	-	-	491 834
Investment in joint venture	40 296 694	-	-	-	-	40 296 694
Trade and other receivables	2 373 883	316 796	211 085	551 645	85 057	3 538 466
Cash and cash equivalents	34 467 719	-	-	-	-	34 467 719
Total assets	**83 649 244**	**245 016 796**	**269 211 085**	**374 451 645**	**42 085 057**	**1 014 413 827**

Due to the pooling of funds, all liabilities in staement of financial position are Corporate liabilities.

Segmental Statement of Comprehensive Income for the year ended 30 June 2018	Corporate P	Commercial & retail P	Leisure P	Industrial P	Residential P	Total P
Segment revenue-rental income	-	12 995 623	24 431 291	40 757 369	3 118 287	81 302 570
Property operating expenses	(180 290)	(360 600)	(895 556)	(2 891 007)	(1 438 267)	(5 765 720)
Net rental and relate revenue	**(180 290)**	**12 635 023**	**23 535 735**	**37 866 362**	**1 680 020**	**75 536 850**
Finance income	821 785	-	-	-	-	821 785
Other income	-	104 017	106 739	966 719	267 523	1 444 998
Income from equity accounted	3 165 208	-	-	-	-	3 165 208
investments Finance costs	(5 095 969)	-	-	-	-	(5 095 969)
Fair value gain on investment property net of adjustment resulting from straight lining of rental revenue	-	(5 007 136)	9 824 404	28 425 418	(1 127 278)	32 115 408
Depreciation	(260 870)	-	-	-	-	(260 870)
Other administration expenses	(12 963 597)	-	-	-	-	(12 963 597)
Income tax expense	(15 893 108)	-	-	-	-	(15 893 108)
Total segment result	**(30 406 841)**	**7 731 904**	**33 466 878**	**67 258 499**	**820 265**	**78 870 705**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

28. Segmental reporting [continued]

Segmental Statement of Financial Position at 30 June 2017	Corporate P	Commercial & retail P	Leisure P	Industrial P	Residential P	Total P
Investment property including straight lining of rental income	-	96 000 000	262 500 000	338 900 000	42 000 000	739 400 000
Property Plant and equipment	817 069	-	-	-	-	817 069
Taxation refundable	282 275	-	-	-	-	282 275
Investment in joint venture	38 631 486	-	-	-	-	38 631 486
Trade and other receivables	693 875	1 757 418	180 180	491 622	307 251	3 250 346
Cash and cash equivalents	19 486 93	-	-	-	-	19 486 931
Total assets	**59 911 636**	**97 757 418**	**262 680 180**	**339 391 622**	**42 307 251**	**801 868 107**

Due to the pooling of funds, all liabilities in statement of financial position are Corporate liabilities.

Segmental Statement of Comprehensive Income for the year ended 30 June 2017	Corporate P	Commercial & retail P	Leisure P	Industrial P	Residential P	Total P
Segment revenue-rental income	-	12 548 662	24 514 892	35 952 073	2 842 962	75 858 589
Property operating expenses	(163 900)	(958 315)	(704 972)	(2 108 569)	(960 238)	(4 895 994)
Net rental and related revenue	**(163 900)**	**11 590 347**	**23 809 920**	**33 843 504**	**1 882 724**	**70 962 595**
Finance income	416 489	-	-	-	-	416 489
Other income	465 374	-	-	-	-	465 374
Income from equity accounted investments	6 331 486	-	-	-	-	6 331 486
Finance costs	(3 392 024)	-	-	-	-	(3 392 024)
Fair value gain on investment property net of adjustment resulting from starlight lining of rental revenue	-	584 659	5 345 453	18 542 041	-	24 472 153
Depreciation	(220 353)	-	-	-	-	(220 353)
Other administration expenses	(10 132 957)	-	-	-	-	(10 132 957)
Income tax expense	(12 921 280)	86 417	42 485	(1 967 944)	-	(14 760 322)
Total segment result	**(19 617 165)**	**12 261 423**	**29 197 858**	**50 417 601**	**1 882 724**	**74 142 441**
Rental income from customers contributing more than 10% of rental income		-	20 276 728	13 134 841	-	33 411 569

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

29. 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	Notes	2018 P	2017 P
Investment property			
Investment property (net of straightlining leases)	10	901 851 990	712 082 069
Total		**901 851 990**	**712 082 069**

Reconciliation of assets and liabilities measured at level 3

	Note	Opening balance	Fair value adjustment	Straight line rental adjustment	Additions	Closing balance
2018						
Assets						
Investment property						
Investment property	10	712 082 069	32 546 486	(431 078)	157 653 513	901 850 990
Total		**712 082 069**	**32 546 486**	**(431 078)**	**157 653 513**	**901 850 990**
2017						
Assets						
Investment property						
Investment property	10	685 325 100	27 014 183	(2 542 031)	2 285 817	712 083 069
Total		**685 325 100**	**27 014 183**	**(2 542 031)**	**2 285 817**	**712 083 069**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

29. Fair value information [continued]

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 2018 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%

30. Comparative figures

Dividend income in the comparative figures have been reclassified from 'other income' to 'Share of profit from equity accounted investments'. This is deemed to be a better presentation of the nature and extent of the entities financial interest and relationship with its associate.

The effects of the reclassification are as follows:

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017	Previously reported	Reclassi-fication	Restated
Revenue	75 858 589	-	75 858 589
Other income	465 374	-	465 374
Dividend and distribution income	2 700 000	(2 700 000)	-
Property related expenses	(4 895 994)	-	(4 895 994)
Administration and operating expenses	(10 353 310)	-	(10 353 310)
Finance income	416 489	-	416 489
Fair value adjustment of investment properties	24 472 153	-	24 472 153
Income from equity accounted investments	3 631 486	2 700 000	6 331 486
Finance costs	(3 392 024)	-	(3 392 024)
Taxation	(14 760 322)	-	(14 760 322)
Profit for the year	**74 142 441**	**-**	**74 142 441**

Notes to the Annual Financial Statements [continued]

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 P	2017 P
31. Commitments			
Authorised capital expenditure			
Already contracted for but not provided for			
• Investment property		31 500 000	-

This committed expenditure relates to acquisition of investment property and will be financed by available bank facilities.

32. 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 2018

	Notes	2018 P	2017 P
Revenue			
Contractual revenue		80 871 492	73 316 558
Straight line lease rental adjustment		431 078	2 542 031
	3	**81 302 570**	**75 858 589**
Other income			
Administration and management fees received		38 978	61 975
Bad debts recovered		493 128	40 620
Sundry Income		912 892	362 779
		1 444 998	**465 374**
Expenses (Refer to page 43)		**(18 990 187)**	**(15 249 304)**
Operating profit		**63 757 381**	**61 074 659**
Finance income	6	719 846	416 489
Fair value adjustment of investment properties	7	32 115 408	24 472 153
Share of profit from equity accounted investments	12	3 165 208	6 331 486
Finance costs	8	(5 095 969)	(3 392 024)
		30 904 493	**27 828 104**
Profit before taxation		**94 661 874**	**88 902 763**
Taxation	9	(15 893 108)	(14 760 322)
Profit for the year		**78 768 766**	**74 142 441**

The supplementary information presented does not form part of the annual financial statements and is unaudited.

Form of Proxy

The Eighth Annual General Meeting of members to be held on 06 December 2018 at 12:30 hrs. at Masa Square, Gaborone.

I/We ....of ....being a member/member 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 Eighth Annual General Meeting of the Company to be held on 06 December 2018 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 2018

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.

CONTACT US: www.letlole.co.bw or info@letlole.co.bw