

Letshego



Annual Report **2003**

MICRO PROVIDENT BOTSWANA LIMITED

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MICRO PROVIDENT BOTSWANA LIMITED CORPORATE INFORMATION

Incorporated in the Republic of Botswana

Registration number : Co. 98/442

Date of incorporation : 4 March 1998

Company Secretary and Registered Office

D. Ndebele

Plot 50371

Fairground Office Park

Gaborone

Attorneys / Legal Advisors

Armstrongs

5th Floor, Barclays House

Khama Crescent

Gaborone

Independent External Auditors

PricewaterhouseCoopers

Plot 50371

Fairground Office Park

Gaborone

Branch Network

Gaborone

Debswana House

West Wing, Ground Floor

The Mall

Gaborone

Palapye

Modern Auto Motors Building

Lot 82, Shop 1(b)

Palapye

Transfer Secretaries

PricewaterhouseCoopers (Proprietary) Limited

Plot 50371

Fairground Office Park

Gaborone

Independent Internal Auditors

Ernst & Young

UN Place

Khama Crescent

Gaborone

Bankers

Barclays Bank of Botswana Limited

First National Bank of Botswana Limited

Standard Chartered Bank Botswana Limited

Francistown

Suite 52, Bays 4A and 4B

Level 5, Barclays Plaza

Francistown

Maun

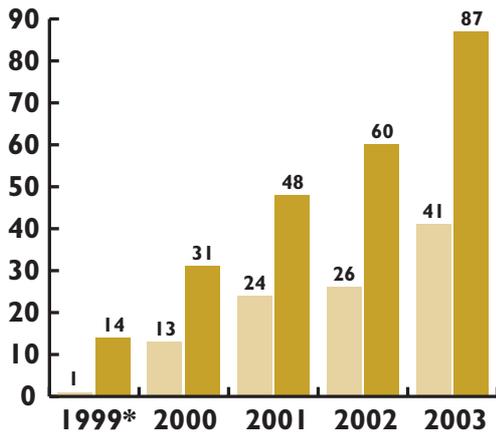
Tribal Lots 711 and 712

S K Cho Building

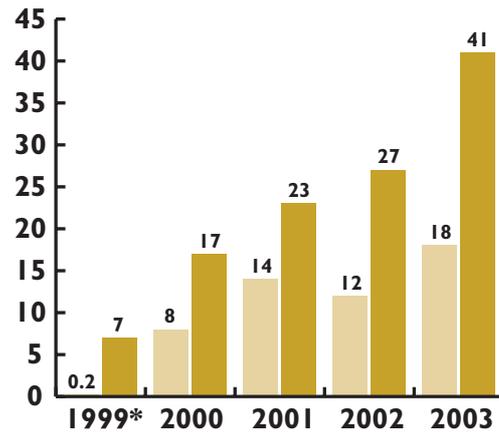
Maun Mall Extension

Maun

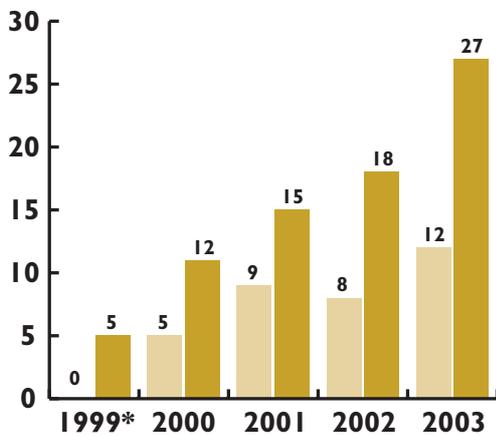
Total Revenue (P'millions)



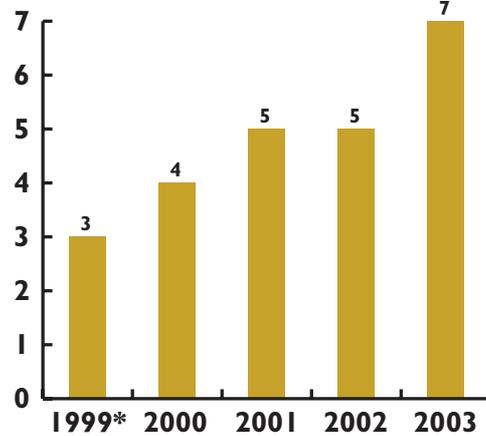
Income After Taxation (P'millions)



Earnings Per Share (Thebe)



Total Dividends Per Share (Thebe)



■ Interim ■ Annual

*Fourteen Months

(Assuming 150 million shares were in issue since 1999)

MICRO PROVIDENT BOTSWANA LIMITED

CHAIRMAN'S REPORT

I take great pleasure in presenting to shareholders the financial results of Micro Provident Botswana Limited for the year ended 31 October 2003.

Results

After tax income amounted to P41.0 million which was 49.3% higher than in the previous year and some 20.3% better than that forecast in the company's prospectus for placing which was issued on 6 September 2002. A final dividend of 4 thebe per share has been declared which brings to 7 thebe per share the total dividend for the full year. This approximates a four times dividend cover which, for the time being, the board considers to be appropriate.

These excellent results were achieved in a year which was both challenging and rewarding for the company. The net disposable income of a portion of our customer base was eroded as a result of Government not awarding salary increases during the year and through the introduction of value added tax.

Despite these events and a general reduction in Government expenditure, the substantial improvement in the after tax revenues of the company bears witness to the quantitative increase in our client base, the demographics of which is constantly changing. Moreover, substantial improvements to our computer systems, internal controls and cash management techniques together contributed to an outstanding result for the year.

The decrease of 50 bases points in the prime lending rate during the third week of October 2003 had no impact on the profitability of the company for the current year. It is envisaged that any re-pricing that results from this decline will only be felt, in the form of reduced margins, in the 2004 financial year. A lower net interest turn should be negated by increased payouts, new and top-up loans. In addition, Government has recently announced salary increments with effect from 1 April 2004. This will enhance payout prospects considerably in the second half of the company's forthcoming financial year.

In line with recent developments in accounting standards, the provision for impairment against performing advances has been determined on the present value of expected future discounted cash flows. As a consequence, this provision has been raised to 8% of the total performing advances compared to 5% in the previous year. Shareholders will recall that this percentage was predicated at 6% in the company's prospectus for placing. This increase resulted in profit after taxation being diminished by P3.7 million. Nevertheless, the quantum of the impairment provision remains a dynamic and ever-changing number which is driven by a variety of market circumstances.

Balance sheet

The effective management of the company's assets together with enhanced cash management techniques and lower than anticipated payouts have combined to improve the company's cash flow and profitability. This is reflected in an increase of 47.3% in shareholders' equity and a decrease in borrowings of 36.4%. The resultant debt to equity ratio fell from 74.7% to 32.3% whilst total assets increased by 17.6% as at 31 October 2003.

Business environment

As was to be expected, competition within the financial services sector continues to grow. The commercial banking sector, having weathered the storm of a significant downturn in the global economy from which Botswana was not immune, has re-focussed its attention on its retail clients. This, together with increased competition for disposable income from a variety of industries, has forced management to focus even more strongly on business efficiency and improved service delivery.

In order to give effect to the foregoing it was decided by the board to appoint a managing director. This post was filled in July 2003 by Mr Jan Claassen, a seasoned commercial banker, who brings with him some thirty years of banking experience. He has reviewed the company's operational processes and procedures and with his many years of credit experience, strengthened the risk management systems which included, amongst other issues, the appointment of Ernst & Young as internal auditors.

Botswana offers an alluring mix of political and economic stability coupled with commendable fiscal and monetary discipline and, with the highest credit rating of any African country, remains a preferred investment option in emerging markets. Within this stable environment and a continuing improvement in global economies, the financial services sector should reflect good prospects for continued growth.

Social responsibility and investment

The company subscribes to and supports the principle of social responsibility which it regards as one of the pillars of good corporate citizenship. This year the board set aside funds to support what it considered to be deserving charitable organizations. These were the Botswana Council of the Disabled, Child Line, SOS and the Masiela Trust Fund. In addition, support was forthcoming for certain staff associations in order to enable them to improve their services to members.

Apart from charitable contributions, the board believes that real economic transformation in Botswana requires sustainable participation of entrepreneurs at all levels of society. To this end and in the belief that education is fundamental to the future of Botswana, the board is considering support to educational initiatives that improve financial studies in the country.

Prospects

The strengths of and opportunities for the company have been identified. In striving to reach full potential the strengths will continue to be built upon and the opportunities explored. Efforts to diversify the company's earnings stream have continued during the course of the year and I am hopeful that these will result in a positive outcome.

The budget that has been set for the coming year is a demanding one. However, a continuing increase in our customer base, the prospect of new earnings streams coming to fruition during the course of next year and the recent salary increases awarded by Government should result in the company producing real rates of return for shareholders in the 2004 financial year. The board is optimistic about future prospects and opportunities for the company and is committed to the enhancement of shareholder value.

Appreciation

In the first instance my sincere appreciation is extended to my fellow directors for their commitment, support and sage advice during the year. To the board I welcome Jan Claassen and Fareed Chothia and I look forward to a beneficial relationship with them. I would also like to express my thanks to Carl Kirstein, who resigned as a director on 2 July 2003, for his valuable contribution to the company whilst he was in office.

An outstanding effort, coupled with energy and enthusiasm, makes the management and staff deserving of my sincere gratitude for a job well done. The excellent results of the company bear testimony to their ongoing dedication.

In concluding, my thankfulness is extended to those Government departments and staff associations whose relationships with the company have contributed to its success and to our customers and shareholders for their continued and invaluable support.



**C.M. LEKAUKAU
CHAIRMAN**

10 December 2003

MICRO PROVIDENT BOTSWANA LIMITED DIRECTORS' REPORT AND RESPONSIBILITY STATEMENT

The directors have pleasure in submitting to the shareholders their report and the audited financial statements of the company for the year ended 31 October 2003.

Nature of business

The company is engaged in the provision of short to medium-term unsecured loans to employees of the public, quasi-public and private sectors.

Alteration to share capital

There were no changes to the share capital during the period under review.

During the prior year the following changes in the share capital took place:

- 2 900 ordinary shares were issued to the shareholders registered in the books of the company on 21 August 2002 in proportion to their shareholding on that date.
- The authorised share capital was increased from 3 000 to 2 000 000 ordinary shares with a nominal value of P1.00 per share. Subsequently a share split of 1 to 100 was made. This resulted in the authorised and issued share capital increasing to 200 000 000 and 300 000 ordinary shares of P0.01 each with respective values of P2 000 000 and P3 000.
- 119 700 000 ordinary shares of P0.01 each with a value of P1 197 000 were issued to shareholders registered in the books of the company on 21 August 2002 by way of a bonus issue which involved the capitalisation of retained earnings.
- 30 000 000 ordinary shares of P0.01 each, representing 20% of the ultimate issued share capital, were privately placed at P1.00 per share with institutional and public investors through a prospectus for placing which was registered on 4 September 2002.
- The changes to the authorised share capital were registered on 28 August 2002.
- The company was listed on the Botswana Stock Exchange on 25 September 2002.

Results

The profits for the year are disclosed in the income statement on page 11. These reflect the following changes over 2002:

- Net income before taxation - P56.2 million (+59.6%)
- Net income after taxation - P41.0 million (+49.3%)

Dividends

Current year

An interim dividend amounting to P4.5 million (3 thebe per share) for the half year ended 30 April 2003 was declared on 27 May 2003 and paid on 4 July 2003. A final dividend of P6.0 million (4 thebe per share) was declared on 10 December 2003 and will be paid on or about 16 January 2004.

Prior year

A first interim dividend amounting to P4 million (4 000 000 thebe per share) was declared on 29 May 2002 and paid on 21 August 2002.

A second interim dividend of P3.7 million (3 thebe per share) was declared and paid on 21 August 2002.

Directors

The following were directors of the company during the period under review.

- * C.M. Lekaukau ¹ (Chairman)
- J.A. Claassen ³ (Managing Director) (Appointed 2 July 2003)
- D. Ndebele ⁴ (Financial Director)
- * P.S. Abrahams ³
- * S.F. Cairns ²
- * F. Chothia ³ (Appointed 31 October 2003)
- * D. Kgomotso ¹ (Alternate O.E. Moarabi)
- * C.F. Kirstein ³ (Resigned 2 July 2003)
- * M. Law ³
- * M.C. Letshwiti ¹

* non-executive ¹ Motswana ² British ³ South African ⁴ Zimbabwean

MICRO PROVIDENT BOTSWANA LIMITED
DIRECTORS' REPORT AND RESPONSIBILITY STATEMENT (Continued)

Directors' shareholdings

The aggregate number of shares held directly and indirectly by directors is 1 782 300 (2002 – 1 932 300) and 74 970 000 (2002 – 74 970 000) respectively. Full details of this shareholding are available at the registered office of the company or at the office of the transfer secretaries.

Employee share option scheme

No shares/options have been issued during the year to 31 October 2003.

Matters not dealt with in the financial statements

There are no matters which have not been dealt with elsewhere in the financial statements.

Contingent liabilities

There were no known material contingent liabilities at 31 October 2003.

Statement of responsibility

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Botswana Companies Act (CAP 42:01).

The directors are also responsible for the company's systems of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect mis-statement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The directors have reviewed the economic environment in which the company operates, the liquidity risks in terms of maturities of the company's assets and liabilities and the financial projections for the period ending 31 October 2004. The directors are satisfied that the company has adequate resources in place to continue in operation for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

The annual financial statements of the company which appear on pages 11 to 30 were approved by the board of directors on 10 December 2003 and are signed on its behalf by:



C.M. LEKAUKAU
CHAIRMAN



J.A. CLAASSEN
MANAGING DIRECTOR

MICRO PROVIDENT BOTSWANA LIMITED

CORPORATE GOVERNANCE

The ongoing maintenance of high standards of corporate governance is considered by the company to be of the utmost importance. The board of directors is committed to attaining the highest standards of integrity, accountability and transparency in order to gain the support of all stakeholders.

Board of directors

The formal maintenance of high standards of corporate ethics in the conduct of the company's affairs is the responsibility of the board. To this end, the company endorses the King II code of corporate governance and strives to operate in broad compliance with its recommendations. Both the board and senior management are required to constantly assess the control and risk management procedures and to ensure that implementation and regular reviews of such procedures take place.

The board comprises seven non-executive and two executive directors. It is chaired by an independent non-executive. All board members are suitably experienced and have a clear understanding of their role in corporate governance. The non-executive directors are considered to be independent of the management and their role is to bring objectivity and independent judgement to board deliberations and decisions. They are also responsible for chairing key board sub-committees and have unrestricted access to management and all company records.

All directors may take independent professional advice, as is required to fulfil their duties, at the company's expense.

The board is responsible for the maintenance of sound internal controls, risk management, the preparation and integrity of the annual financial statements, compliance with all laws and regulations and the establishment of key policies and objectives. It therefore has full and effective control of the company and is accountable and responsible for its performance to all stakeholders.

Meetings of the board take place on a quarterly basis to monitor performance against budget, to formulate and review strategies and policies and to consider those issues on which they will be requested to make decisions. Management is responsible for the provision to the board of appropriate and timely information.

All directors are subject to retirement by rotation and re-election by shareholders at least every three years. Directors have no fixed term of appointment and their contributions are subject to regular review.

Executive committee

The executive committee is responsible for the implementation of strategy and managing the company's affairs. The committee comprises the two executive directors, two non-executive directors and six members of senior management and meets on a monthly basis. The process of risk management design and implementation, after board approval, forms a significant part of this committee's function.

Audit committee

The membership of the audit committee is as follows:

C. F. Kirstein (Chairman) (Resigned 2 July 2003)
F. Chothia (Chairman) (Appointed 31 October 2003)
P. S. Abrahams (Appointed 10 December 2003)
M.C. Letshwiti
D. Ndebele (Secretary)

Audit committee (Continued)

The duties and responsibilities of the audit committee include, but are not limited to, the following:

- the monitoring of the adequacy and effectiveness of internal controls
- the review of accounting policies
- the review of interim and annual financial reports and accounts
- the review of the external auditor's audit plan and the scope and cost of the annual audit.

In the company's ongoing efforts to improve risk management an independent firm of auditors, Ernst and Young, was appointed to fill the position of internal auditor. The internal auditor's duties include, but are not limited to, the following:

- evaluating the adequacy of internal controls and procedures to manage risks
- providing on-going assurance on the effectiveness of the procedures employed by management and the board to manage risks
- reviewing the integrity of financial and operating information systems
- safeguarding of the company's assets.

Representatives of the internal and external auditors are expected to attend audit committee meetings. On an ad hoc basis the Chairman has the right to call in any other employee of the company. Members of the executive committee, the internal auditor, the external auditors and non-executive directors have unrestricted access to the Chairman of the audit committee. The committee meets at least two times a year.

Remuneration committee

The remuneration committee is chaired by a non-executive director, Mr M.C. Letshwiti. One further non-executive director, Mr M. Law, is a member of the committee. Mr D. Ndebele is the committee secretary. The Managing Director, Mr J.A. Claassen, attends the committee meetings by invitation. The main responsibilities and objectives of the committee are the following:

- monitor and review the remuneration policies of the company
- ensure that executive directors and senior management are appropriately and fairly rewarded
- ensure that market related reward strategies are adhered to
- establish performance targets for the company's bonus scheme.

The executive directors play no part in decisions regarding their own remuneration.

Closed periods

In order to align itself with the Botswana Stock Exchange's recommendations, the closed periods for trading in the company's shares by directors and employees has changed. The closed periods now commence from the beginning of the months of both the interim and year ends (i.e. 1 April and 1 October) up to the date of publication of the interim and final results in the print media.

Directors and employees are prohibited from dealing in the company's shares during such periods in which they are privy to unpublished price-sensitive information.

Succession planning

The company is committed to ensuring that a sufficient number of talented people are employed from which senior management can be replenished if and when required.

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF MICRO PROVIDENT BOTSWANA LIMITED

We have audited the accompanying financial statements of Micro Provident Botswana Limited set out on pages 11 to 30 for the year ended 31 October 2003. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Botswana Companies Act (CAP: 42:01) and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We have examined the books, accounts and vouchers of the company to the extent we considered necessary and have obtained all the information and explanations which we required. We have satisfied ourselves of the existence of the securities. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- the company has kept proper books of account with which the financial statements are in agreement; and
- the financial statements give a true and fair view of the state of the company's affairs as of 31 October 2003 and of the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Botswana Companies Act (CAP:42:01).



PRICEWATERHOUSECOOPERS 

Certified Public Accountants

10 December 2003

Gaborone

MICRO PROVIDENT BOTSWANA LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 OCTOBER 2003

	<u>Note</u>	<u>2003</u> P	<u>2002</u> P
Interest income	1	85 949 607	58 994 104
Net interest expense	2	(10 124 324)	(9 503 400)
Net interest income		75 825 283	49 490 704
Impairment of advances	8	(7 160 756)	(3 309 135)
Other operating income	1	1 525 356	709 478
Other operating costs	3	(9 142 500)	(7 772 777)
Staff costs	4	(4 814 538)	(3 890 185)
Income before taxation		56 232 845	35 228 085
Taxation	5	(15 211 938)	(7 745 328)
Net income for the year		41 020 907	27 482 757
Earnings per share – basic (thebe)	6	27	93
Dividends per share : first interim (thebe) - paid		3	4 000 000
: second interim (thebe) - paid		-	3
: final (thebe) - proposed		4	-
		7	4 000 003
Weighted average number of shares in issue during the year	6	150 000 000	29 523 288
Number of shares in issue relating to the first interim dividend		150 000 000	100
Number of shares in issue relating to the second interim dividend		-	120 000 000
Number of shares in issue at the end of the year	13	150 000 000	150 000 000

MICRO PROVIDENT BOTSWANA LIMITED
BALANCE SHEET
AT 31 OCTOBER 2003

	<u>Note</u>	<u>2003</u> P	<u>2002</u> P
ASSETS			
Cash and cash equivalents	7	2 794 996	994 662
Advances to customers	8	170 969 838	146 417 544
Other receivables	9	391 217	540 073
Motor vehicles and equipment	10	371 596	465 535
Deferred taxation	5	62 336	10 936
Total assets		174 589 983	148 428 750
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Trade and other payables	11	7 206 012	5 825 739
Taxation		16 871 427	7 591 642
Borrowings	12	36 712 237	57 731 969
Total liabilities		60 789 676	71 149 350
Shareholders' equity			
Share capital	13	1 500 000	1 500 000
Share premium	14	28 571 331	28 571 331
Retained earnings		83 728 976	47 208 069
Total shareholders' equity		113 800 307	77 279 400
Total liabilities and shareholders' equity		174 589 983	148 428 750

**MICRO PROVIDENT BOTSWANA LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2003**

	<u>Note</u>	<u>Share Capital</u>	<u>Share Premium</u>	<u>Retained Earnings</u>	<u>Dividends</u>	<u>Total</u>
		P	P	P	P	P
YEAR ENDED 31 OCTOBER 2003						
Balance at 1 November 2002		1 500 000	28 571 331	47 208 069	-	77 279 400
Income after taxation		-	-	41 020 907	-	41 020 907
Dividends declared : interim		-	-	(4 500 000)	4 500 000	-
Dividends paid : interim		-	-	-	(4 500 000)	(4 500 000)
Balance at 31 October 2003		1 500 000	28 571 331	83 728 976	-	113 800 307
YEAR ENDED 31 OCTOBER 2002						
Balance at 1 November 2001		100	599 900	28 622 312	8 000 000	37 222 312
Issue of shares	14	1 499 900	29 700 000	(1 197 000)	-	30 002 900
Share issue expenses	14	-	(1 728 569)	-	-	(1 728 569)
Income after taxation		-	-	27 482 757	-	27 482 757
Dividends declared: interim		-	-	(4 000 000)	4 000 000	-
: second interim		-	-	(3 700 000)	3 700 000	-
Dividends paid : interim		-	-	-	(4 000 000)	(4 000 000)
: second interim		-	-	-	(3 700 000)	(3 700 000)
: final (2001)		-	-	-	(8 000 000)	(8 000 000)
Balance at 31 October 2002		1 500 000	28 571 331	47 208 069	-	77 279 400

MICRO PROVIDENT BOTSWANA LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 OCTOBER 2003

	<u>Note</u>	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		P	P
Cash generated from/(used in) operations	15	34 950 226	(15 857 789)
Taxation paid		(7 467 473)	(12 816 440)
Net cash generated from/(used in) operating activities		27 482 753	(28 674 229)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of motor vehicles and equipment		75 000	10 500
Purchase of motor vehicles and equipment	10	(237 687)	(290 982)
Net cash used in investing activities		(162 687)	(280 482)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		-	30 002 900
Share issue expenses		-	(1 728 569)
Short and long term borrowings capital (repayments) / receipts		(20 956 088)	17 634 981
Finance lease capital payments		(63 644)	(128 323)
Dividends paid		(4 500 000)	(15 700 000)
Net cash (used in)/ generated from financing activities		(25 519 732)	30 080 989
Net increase in cash and cash equivalents		1 800 334	1 126 278
Movement in cash and cash equivalents			
At the beginning of the year		994 662	(131 616)
Increase during the year		1 800 334	1 126 278
At the end of the year	7	2 794 996	994 662

The following principal accounting policies, which are consistent with prior years, have been adopted in the preparation of these financial statements:

Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements are prepared under the historical cost convention. No information is given to reflect the impact of changing prices on the financial position of the company or the results of its operations.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amount of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Motor vehicles and equipment

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on the straight line method at the following rates, which are designed to reduce the cost of the assets to residual values at the end of their useful lives.

Computers	33%	p.a.
Furniture and fittings	25 %	p.a.
Office equipment	20 %	p.a.
Motor vehicles	25 %	p.a.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the operating profit.

Foreign currencies

Assets and liabilities in foreign currencies are translated into the currency of Botswana at the rates ruling at the financial period end. Transactions during the period are translated at rates approximating those ruling at the dates of the transactions.

All exchange gains and losses relating to hedge transactions are recognised in the income statement in the same period as the exchange differences on the items covered by the hedge transactions. Costs on hedging contracts are amortised over the life of the hedge contract. Gains and losses on contracts which are no longer designed as hedges are included in the income statement.

Finance leases

Leases of motor vehicles and equipment where the company assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance charge is charged to the income statement over the lease period. Motor vehicles and equipment acquired under finance leasing contracts are depreciated over the useful life of the asset.

Operating leases

Leases which merely confer the right to the use of an asset are treated as operating leases, with the lease payments being charged to the income statement as they become due.

Computer software development costs

Costs associated with developing computer software programmes are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable and unique product that has a probable benefit exceeding one year, are shown as intangible assets and are amortised on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding 3 years. Any impairment to the carrying value is recognised in the income statement when incurred.

Advances to customers and provisions for loan impairment

Loans originated by the company by providing money directly to the borrower are categorised as advances to customers and are carried at amortised cost, which is defined as fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date.

Advances to customers and provisions for loan impairment (Continued)

All loans and advances are recognised when cash is advanced to borrowers. An allowance for loan impairment is established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective interest rate of loans.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the provision for loan losses in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after write-down, the release of the provision is credited as a reduction of the provision for loan losses.

Other receivables

Other receivables comprise prepayments, deposits and other recoverables which arise during the normal course of business.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdraft facilities. Bank overdraft facilities are disclosed under borrowings.

Provisions

Provisions are recognised when the company has a present legal obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Taxation

Taxation is provided for at current rates on the taxable income for the period after taking into account income and expenditure which is not subject to taxation and the tax effects of charges and credits, including depreciation, attributable to periods other than the current period.

Withholding tax, which is payable on the gross value of dividends at 15%, is set off against additional company taxation in the year in which the dividends are paid. Dividends are disclosed gross.

Deferred income tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on motor vehicles and equipment. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

Revenue recognition

The company recognises interest income on an accruals basis by applying the effective yield on the advances. The effective yield takes into account all costs, discounts or premiums on advances.

The company suspends the accrual of contractual interest on the non-recoverable portion of an advance, when the recovery of the advance is considered doubtful. Advances are considered doubtful when an instalment thereon has not been received within thirty days of due date. Interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount. The difference between the recoverable amount and the original carrying value is released to interest income over the expected collection period of the advance.

Insurance and administration fee income

Insurance commission, insurance administration fees and finance charges on loans are credited to income over the lives of the relevant instruments on a time apportionment basis.

Interest bank deposits

Interest from bank deposits is earned on an accruals basis at the agreed interest rate with the respective financial institution.

Other income

Other income comprises profit share from the credit life insurance scheme. The company shares in the profits and not in any losses that may be incurred by the insurer of the scheme. Income is recognised as profits are declared by the insurer on the anniversary of the scheme.

Share capital

Ordinary share capital is recognised at the fair value of the consideration received.

Borrowings

Borrowings are recognised initially as the proceeds are received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings.

Employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. The company does not operate any retirement benefit fund. However severance pay is provided for in accordance with Botswana statute.

The company operates an Employee Share Incentive Trust and Deed of Trust which was approved by the directors on 21 August 2002. Under the scheme, shares are to be issued to employees who meet a certain performance criteria. The shares carry full dividend and voting rights and are subject to a restrictive share sale agreement.

Payroll administration costs

Administration costs are charged by employers for payroll deduction facilities. These costs are set-off against recoveries made from clients. Where the company is not able to recover in full such administration costs, they are recognised in the income statement as incurred.

Related party transactions

Related parties comprise directors of the company and companies with common ownership and/or directors. Transactions with related parties are in the normal course of business and on an arms length basis.

Financial instruments

The company's policy regarding financial instruments are discussed under various financial risk management activities which follow:

Credit risk

The financial assets of the company, which are subject to credit risk, consist mainly of cash resources and debtors. The cash resources are placed with reputable financial institutions. In accordance with risk provisioning, adequate provisions are made for performing and non-performing advances to customers.

Liquidity risk

Liquidity risk is the risk that operations cannot be funded and financial commitments cannot be met timeously and cost effectively. The risk arises from both the difference between the magnitude of assets and liabilities and the disproportion in their maturities. Liquidity risk management deals with the overall profile of the balance sheet, the funding requirements of the company and cash flows.

Foreign currency risk

In the normal course of business, the company enters into transactions denominated in foreign currencies. In addition, the company has liabilities in foreign currency which expose it to fluctuation in foreign currency exchange rates from time to time.

Interest rate risk

Fluctuations in interest rate impacts on the value of short-term cash investments 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.

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2003

I. REVENUE	<u>2003</u> P	<u>2002</u> P
Interest income – advances	85 949 607	58 994 104
Other operating income		
Credit life insurance commission (note 11)	652 086	327 794
Credit life administration fees (note 11)	581 123	149 035
Administration fees	70 750	68 179
Profit share from credit life insurance scheme (note 9)	202 655	157 390
Profit on sale of motor vehicles and equipment	15 193	7 080
Sundry income	3 549	-
	<u>1 525 356</u>	<u>709 478</u>
	87 474 963	59 703 582
2. NET INTEREST EXPENSE		
Interest income – bank deposit interest	(194 977)	(209 846)
Interest expense :		
- Overdraft	3 323 207	3 373 140
- Finance leases	6 627	21 632
- Shareholders' loans : Interest cost (note 19)	6 180 547	5 665 408
- Other	808 920	653 066
	<u>10 124 324</u>	<u>9 503 400</u>
3. OTHER OPERATING COSTS		
Advances to customers written off	2 975 327	1 293 691
Audit fees	92 400	96 800
Depreciation		
- Computer equipment (note 10)	138 840	126 877
- Motor vehicles (note 10)	11 957	50 772
- Office furniture and equipment (note 10)	121 021	117 864
Directors' fees – (non executive)	133 250	-
Directors' remuneration – for management services (executive)	762 250	390 000
Management fees paid to holding company (note 19)	1 794 439	2 991 514
Operating lease rentals - property	443 166	404 475
Other operating expenses	2 413 851	2 152 420
Payroll administration costs - net	206 654	140 954
Professional fees	49 345	7 410
	<u>9 142 500</u>	<u>7 772 777</u>

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

4. STAFF COSTS	<u>2003</u>	<u>2002</u>
	P	P
Salaries and wages	2 763 501	2 516 185
Staff incentive (note 11)	2 051 037	1 374 000
	4 814 538	3 890 185

Average number of employees during the year	42	37
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5. TAXATION

Botswana company tax

- Basic tax at 15%	9 637 504	5 689 904
- Additional company tax at 10%	6 425 003	3 793 269
- Over provision from prior year	(124 169)	(2 780)
- Withholding tax on dividends paid	(675 000)	(1 766 250)
	15 263 338	7 714 143
- Deferred taxation (reversal)/charge	(51 400)	31 185
	15 211 938	7 745 328

Additional company taxation available to be offset against withholding tax on dividends

Balance at the beginning of the year	7 150 715	5 124 808
Current year	6 425 003	3 793 269
Over provision from prior year	(49 667)	(1 112)
Withholding tax on dividends paid	(675 000)	(1 766 250)

Balance at the end of the year	12 851 051	7 150 715
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Deferred taxation

Balance at the beginning of the year	(10 936)	(42 121)
Current year (reversal) /charge	(51 400)	31 185

Balance at the end of the year	(62 336)	(10 936)
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Reconciliation of current taxation

Income before taxation	56 232 845	35 228 085
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Tax calculated at 25%	14 058 211	8 807 021
Expenses not deductible for tax purposes	2 005 332	1 102 994
Effect of timing differences	13 862	17 504
Other – including listing expenses	(139 067)	(447 126)
Withholding tax set off	(675 000)	(1 766 250)
	15 263 338	7 714 143

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

6. EARNINGS PER SHARE

The calculation of earnings per share is based on after tax earnings of P41 020 907 (2002 : P27 482 757) and the weighted average number of shares in issue of 150 000 000 (2002 : 29 523 288).

On 21 August 2002, the nominal value of ordinary shares was re-denominated from P1.00 per share to P0.01 per share followed by a bonus issue of 400 shares for every 1 share. The company was listed on the Botswana Stock Exchange on 25 September 2002.

7. CASH AND CASH EQUIVALENTS

	<u>2003</u>	<u>2002</u>
	P	P
Cash at bank and in hand	994 662	426 081
Short term bank deposits	1 800 334	1 060 774
Bank overdraft	-	(492 193)
	2 794 996	994 662

8. ADVANCES TO CUSTOMERS

Advances to customers	185 836 781	154 123 731
Less : provision for impairment	(14 866 943)	(7 706 187)
	170 969 838	146 417 544

Maturity analysis of advances to customers

Maturity within 1 year	8 865 413	4 150 688
Maturity after 1 year but within 2 years	54 358 781	28 299 714
Maturity after 2 years but before 5 years	107 745 644	113 967 142
	170 969 838	146 417 544

Advances to customers are ceded as set out in note 12.

Provision for impairment

Balance at the beginning of the year	7 706 187	4 780 220
Charge to the income statement	7 160 756	3 309 135
Write back	-	(383 168)
Balance at the end of the year	14 866 943	7 706 187

Non-performing advances

Included in advances to customers are non-interest earning accounts which represent pending credit life insurance claims with a value of P632 676 (2002 – P646 730). These accounts have not been included in the calculation of the provision for impairment.

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

9. OTHER RECEIVABLES	<u>2003</u>	<u>2002</u>
	P	P
Credit life insurance profit share	202 655	157 390
Deposits and prepayments	45 677	47 310
Accounts receivable from related parties (note 19)	117 912	321 817
Other receivables	24 973	13 556
	<u>391 217</u>	<u>540 073</u>

10. MOTOR VEHICLES AND EQUIPMENT

	Motor vehicles	Computer equipment	Office furniture & equipment	Total
<u>Cost</u>	P	P	P	P
Balance at 1 November 2002	203 090	557 560	513 839	1 274 489
Additions	-	149 681	88 006	237 687
Disposals	(95 652)	(40 001)	-	(135 653)
Balance at 31 October 2003	<u>107 438</u>	<u>667 240</u>	<u>601 845</u>	<u>1 376 523</u>
 Accumulated Depreciation				
Balance at 1 November 2002	119 368	415 998	273 588	808 954
Charge for the year	11 957	138 840	121 021	271 818
Disposals	(35 844)	(40 001)	-	(75 845)
Balance at 31 October 2003	<u>95 481</u>	<u>514 837</u>	<u>394 609</u>	<u>1 004 927</u>
 Net Book Value at				
31 OCTOBER 2003	<u>11 957</u>	<u>152 403</u>	<u>207 236</u>	<u>371 596</u>
 Net Book Value at				
31 OCTOBER 2002	<u>83 722</u>	<u>141 562</u>	<u>240 251</u>	<u>465 535</u>

Assets with a net book value of PNil - (2002 : P5 344) were acquired under finance leases (note 12).

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

11. TRADE AND OTHER PAYABLES	<u>2003</u> P	<u>2002</u> P
Trade and other payables	1 439 943	1 815 647
Staff incentive provision	2 517 925	1 825 014
Deferred income	3 248 144	2 185 078
	7 206 012	5 825 739
Staff incentive provision		
Balance at the beginning of the year	1 825 014	1 515 833
Current year charge (note 4)	2 051 037	1 374 000
Paid	(1 358 126)	(1 064 819)
Balance at the end of the year	2 517 925	1 825 014
Deferred income		
Balance at the beginning of the year	2 185 078	1 016 453
Raised during the year	2 296 275	1 645 454
Credited to the income statement (note 1)	(1 233 209)	(476 829)
Balance at the end of the year	3 248 144	2 185 078
12. BORROWINGS		
Shareholders' loans		
12.1 Botswana Insurance Fund Management Ltd – Facility (note 19)	15 577 778	21 026 282
12.2 Botswana Life Insurance Ltd (note 19)	3 007 920	4 648 603
12.3 Micro Provident Ltd (note 19)	8 234 449	14 804 491
12.4 Other shareholders' loans (note 19)	978 633	1 512 433
	27 798 780	41 991 809
Bank overdraft facilities		
12.5 First National Bank of Botswana Ltd	4 004 171	7 085 066
12.6 Standard Chartered Bank of Botswana Ltd	4 909 286	8 591 450
	8 913 457	15 676 516
12.7 Finance leases	-	63 644
	36 712 237	57 731 969

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

12. BORROWINGS (Continued)	<u>2003</u>	<u>2002</u>
	P	P
<u>Current portion</u>		
<u>Shareholders' loans</u>		
12.1 Botswana Insurance Fund Management Ltd	9 219 480	5 448 503
12.2 Botswana Life Insurance Ltd	1 640 683	1 640 683
12.3 Micro Provident Ltd	4 860 945	6 956 990
12.4 Other shareholders' loans	533 800	533 800
	16 254 908	14 579 976
<u>Bank overdraft facilities</u>		
12.5 First National Bank of Botswana Ltd	4 004 171	7 085 066
12.6 Standard Chartered Bank Botswana Ltd	4 909 286	8 591 450
	8 913 457	15 676 516
12.7 Finance leases	-	60 107
	25 168 365	30 316 599
<u>Finance lease liabilities</u>		
Not later than 1 year	-	65 556
Later than 1 year	-	3 537
	-	69 093
Less future finance charges	-	(5 449)
	-	63 644
<u>Representing lease liabilities</u>		
Current	-	60 107
Non-current	-	3 537
	-	63 644

Details of security

Shareholders' loans

12.1 The P25 million facility from Botswana Life Insurance Ltd is secured by a first cession of the advances book dated 15 December 1998. Repayments have been agreed over 48 months beginning from October 2001 and interest is charged at prime rate per annum. The first cession was amended on 1 September 2002 to rank pari passu with other company's financiers. At year end 16 (2002 – 28) repayments were outstanding. The facility was transferred to Botswana Insurance Fund Management Limited under the same terms and conditions with effect from 1 September 2002.

12.2 The loan from Botswana Life Insurance Ltd is unsecured, is repayable over 36 equal monthly instalments and interest is charged at the monthly weighted average interest rate of other borrowings made by the company, which exclude all shareholders' loans. At year end 22 (2002 – 34) repayments were outstanding.

12.3 The loan from Micro Provident Ltd comprising GBP934 485 (P8 234 449), is unsecured, is repayable over 36 equal monthly instalments and interest is charged at the monthly weighted average interest rate of other borrowings made by the company, which exclude all shareholders loans, less the cost of forward cover. The foreign currency risk exposure is covered by sterling forward exchange contracts, which expire on 5 July 2004 (note 18.3). At year end 23 (2002 – 35) repayments were outstanding.

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

12. BORROWINGS (Continued)
Details of security (Continued)
Shareholders' loans (Continued)

12.4 The loans from other shareholders are unsecured, are repayable over 36 equal monthly instalments and interest is charged at the monthly weighted average interest rate of other borrowings made by the company, which exclude all shareholders' loans. At year end 22 (2002 – 34) repayments were outstanding.

Bank overdraft facilities

12.5 The P15 million facility from First National Bank of Botswana Ltd is secured by a first reversionary cession of the advances book dated 20 September 2000 and interest is charged at prime rate per annum. The facility is repayable on demand.

12.6 The Standard Bank Botswana Ltd facility comprises two tiers of P15 million each. The facility is secured as follows:

- second reversionary cession of the advances book for P30 million dated 28 March 2001,
- guarantee by the holding company of P12 million,
- guarantee by Botswana Life Insurance Ltd for P3 million,
- interest is charged at prime rate per annum for the first tier and at prime less 50 bases points per annum for the second tier and
- the facility is repayable on demand.

Finance leases

12.7 All finance leases were repaid during the year.

13. SHARE CAPITAL

	<u>2003</u> P	<u>2002</u> P
Authorised :		
200 000 000 ordinary shares of P0.01 each	2 000 000	2 000 000
Issued and fully paid:		
150 000 000 ordinary shares of P0.01 each	1 500 000	1 500 000

14. SHARE PREMIUM

Balance at the beginning of the year	28 571 331	599 900
Arising on new shares issued	-	29 700 000
Share issue expenses	-	(1 728 569)
Balance at the end of the year	28 571 331	28 571 331

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

15. CASH GENERATED FROM OPERATING ACTIVITIES	<u>2003</u>	<u>2002</u>
	P	P
Operating income before net finance costs and taxation	56 232 845	35 228 085
Adjustments for:		
- Depreciation	271 818	295 513
- Impairment of advances to customers	7 160 756	2 925 967
- Deferred income	(1 233 209)	(476 829)
- Profit on disposal of motor vehicles and equipment	(15 193)	(7 080)
Changes in working capital:		
- Increase in trade and other receivables	(31 564 197)	(56 134 065)
- Increase in trade and other payables	4 097 406	2 310 620
	<hr/>	<hr/>
Cash generated from/(used) in operations	34 950 226	(15 857 789)
	<hr/> <hr/>	<hr/> <hr/>

16. EMPLOYEE SHARE INCENTIVE TRUST

The company operates an Employee Share Incentive Trust and Deed of Trust which was approved by the directors on 21 August 2002. Under the scheme, shares are to be issued to employees who meet certain performance criteria. The shares carry full dividend and voting rights and are subject to a restrictive share sale agreement.

1 000 000 ordinary shares of P0.01 each were issued to the trust on 21 August 2002. No new shares will be issued under this scheme.

17. CAPITAL COMMITMENTS

Authorised by the directors:

- Not contracted for	520 000	94 018
	<hr/> <hr/>	<hr/> <hr/>

The capital expenditure will be financed from the company's existing facilities.

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

18. FINANCIAL RISK

18.1. Interest rate risk

The company is exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on the financial position and cash flows. The cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks. The table below summarises the company's exposure to interest rate risk through grouping of assets and liabilities into repricing categories, determined to be the earlier of the contractual repricing date or maturity.

31 October 2003	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 3 years	Non interest bearing	Total
	P	P	P	P	P	P
ASSETS						
Cash and cash equivalents	2 794 996	-	-	-	-	2 794 996
Advances to customers - net	108 452	310 797	8 446 164	162 104 425	-	170 969 838
Other receivables	-	-	-	-	391 217	391 217
Motor vehicle and equipment	-	-	-	-	371 596	371 596
Deferred taxation	-	-	-	-	62 336	62 336
	<u>2 903 448</u>	<u>310 797</u>	<u>8 446 164</u>	<u>162 104 425</u>	<u>825 149</u>	<u>174 589 983</u>
LIABILITIES AND SHAREHOLDERS' EQUITY						
Trade and other payables	-	-	-	-	7 206 012	7 206 012
Borrowings	10 046 768	2 372 846	12 748 751	11 543 872	-	36 712 237
Taxation	-	-	-	-	16 871 427	16 871 427
Shareholders' equity	-	-	-	-	113 800 307	113 800 307
	<u>10 046 768</u>	<u>2 372 846</u>	<u>12 748 751</u>	<u>11 543 872</u>	<u>137 877 746</u>	<u>174 589 983</u>
(Liabilities) / assets	(7 143 320)	(2 062 049)	(4 302 587)	150 560 553	(137 052 597)	-

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

18. FINANCIAL RISK (Continued)

18.1. Interest rate risk (Continued)

31 October 2002	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 3 years	Non interest bearing	Total
	P	P	P	P	P	P
ASSETS						
Cash and cash equivalents	994 662	-	-	-	-	994 662
Advances to customers - net	75 655	163 876	3 911 157	142 266 856	-	146 417 544
Other receivables	-	-	-	-	540 073	540 073
Motor vehicle and equipment	-	-	-	-	465 535	465 535
Deferred taxation	-	-	-	-	10 936	10 936
	<u>1 070 317</u>	<u>163 876</u>	<u>3 911 157</u>	<u>142 266 856</u>	<u>1 016 544</u>	<u>148 428 750</u>
LIABILITIES AND SHAREHOLDERS' EQUITY						
Trade and other payables	-	-	-	-	5 825 739	5 825 739
Borrowings	16 778 156	2 257 548	11 280 895	27 415 370	-	57 731 969
Taxation	-	-	-	-	7 591 642	7 591 642
Shareholders' equity	-	-	-	-	77 279 400	77 279 400
	<u>16 778 156</u>	<u>2 257 548</u>	<u>11 280 895</u>	<u>27 415 370</u>	<u>90 696 781</u>	<u>148 428 750</u>
Net (liabilities) / assets	(15 707 839)	(2 093 672)	(7 369 738)	114 851 486	(89 680 237)	-

18.2. Liquidity risk

Liquidity risk is the risk that operations cannot be funded and financial commitments cannot be met timeously and cost effectively. The risk arises from both the difference between the magnitude of assets and liabilities and the disproportion in their maturities. Liquidity risk management deals with overall profile of the balance sheet, the funding requirements of the company and cash flows. In quantifying the liquidity risk, future cash flow projections are simulated and necessary arrangements are put in place in order to ensure that all future cash flow commitments are met from the working capital generated by the company and also from available banking facilities.

18.3. Currency risk

At the end of the period the only significant foreign currency exposure involved a loan from Micro Provident Limited amounting to GBP934 485 (P8 234 449) (note 12). Forward exchange contracts were taken to cover against foreign currency risk for the monthly repayment of capital (note 12). Additional forward cover amounting to GBP34 162 (P268 991) was taken to cover the interest. The forward exchange contracts for the repayment of capital and interest expire on 5 July 2004. There were no other significant unhedged foreign currency positions at the end of the period.

18.4. Credit risk

All loans granted by the company are in the Republic of Botswana. The maximum loan limits per employer are dependent on the perceived risk of the employer. All loans given to customers are within their affordability levels. The directors are satisfied that the impairment provision is sufficient to cover all known and any other doubtful debts that may exist in the current portfolio of advances.

18.5. Early settlement risk

Early settlement risk is the risk that loans will be settled before the end of their term. An increase in early settlements may result in depletion in loans to customers. At the end of the period, the loans under early settlement notice were insignificant.

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

19. RELATED PARTY TRANSACTIONS

The company is controlled by Micro Provident Limited (incorporated in The Isle of Man) which owns 49.98% of the company's shares. Botswana Life Insurance Limited (BLIL) holds 13.23%, Botswana Insurance Fund Management Limited (BIFM) holds another 5.84% with the remainder being held by other investors.

The founding shareholders entered into a restrictive share sale agreement under which any of the founding shareholders were restricted to selling a maximum of one third of their entire shareholding in any one financial year from the listing date.

BLIL disposed of one third of their shares in October 2002. As set out in note 12 certain loan facilities were transferred from BLIL to BIFM in September 2002.

BLIL and BIFM are both wholly owned subsidiaries of Botswana Insurance Holdings Limited.

The following transactions were carried out with related parties:

	<u>2003</u> P	<u>2002</u> P
i) <u>Income received from related parties</u>		
Botswana Life Insurance Limited		
- Credit life insurance commission	56 100	88 346
- Interest income	-	45 529
- Administration fees	67 296	57 326
	<u>123 396</u>	<u>191 201</u>

Transactions were carried out on commercial terms and conditions and at market rates.

ii) Expenses paid to related parties

Micro Provident Limited		
- Management fees	1 794 439	2 991 514
- Interest on loans	2 175 339	1 348 489
Botswana Life Insurance Limited		
- Interest on facility	-	3 406 721
- Interest on loans	651 691	293 297
Botswana Insurance Fund Management Limited		
- Interest on facility	3 141 631	567 972
Other shareholders' loans		
- Interest on loans	211 886	48 929
	<u>7 974 986</u>	<u>8 656 922</u>

Directors' remuneration is set out in note 3.

Transactions were carried out on commercial terms and conditions and at market rates (note 12).

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

19. RELATED PARTY TRANSACTIONS (Continued)	<u>2003</u> P	<u>2002</u> P
iii) <u>Year end balances from transaction with related parties</u>		
Receivable from related parties		
Botswana Life Insurance Limited	36 359	195 781
Botswana Civil Servants Association	81 553	126 036
	117 912	321 817
Botswana Life Insurance Limited and Botswana Civil Servants Association hold 13.23% and 0.79% stake in the company respectively. Each of the entities has one director representation on the company's board of directors.		
Payables to related parties		
Micro Provident Limited	42 448	262 046
iv) <u>Loans from related parties</u>		
Facility from Botswana Insurance Fund Management Limited		
At beginning of the year	21 026 282	-
Arising during the year	-	21 640 217
Repaid during the year	(5 448 504)	(613 935)
At end of the year (note 12)	15 577 778	21 026 282
Loan from Botswana Life Insurance Limited		
At beginning of the year	4 648 603	997 050
Arising during the year	-	3 788 277
Repaid during the year	(1 640 683)	(136 724)
At end of the year (note 12)	3 007 920	4 648 603
Loan from Micro Provident Limited		
At beginning of the year	14 804 491	4 804 458
Arising during the year	-	10 405 965
Repaid during the year	(6 570 042)	(405 932)
At end of the year (note 12)	8 234 449	14 804 491
Loan from Botswana Life Insurance Limited		
At beginning of the year	-	23 892 094
Repaid during the year	-	(23 892 094)
At end of the year (note 12)	-	-
Loans from other shareholders		
At beginning of the year	1 512 433	-
Arising during the year	-	1 601 400
Repaid during the year	(533 800)	(88 967)
At end of the year (note 12)	978 633	1 512 433

Repayment terms and security are as set out in note 12.

MICRO PROVIDENT BOTSWANA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 OCTOBER 2003

20. SEGMENT INFORMATION

The company offers loan packages to a segment comprising largely government and quasi-government employees throughout the country through a centralised processing system. Most of the interest revenue, insurance commission and insurance administration fees are derived from this segment. Income from other revenue sources is considered to be insignificant. Thus the risk and returns associated with the business are therefore largely concentrated in one segment. As such, the directors consider that segment information will not serve any useful purposes.

21. COMPARATIVES

Where necessary, comparative figures have been re-stated or re-classified to conform to presentations and disclosures made in the current year.

In the previous year, the payroll commission recoveries (2002 - P1 639 888) and payroll administration costs (2002 - P1 780 842) were disclosed separately under revenues and expenses respectively. During the current year, these two line items have been netted off for more appropriate disclosure in line with the accounting policy on payroll administration costs as noted on page 17.

22. POST BALANCE SHEET EVENTS

There were no significant post balance sheet events other than the proposed final dividend as set out in the directors' report on page 6.

MICRO PROVIDENT BOTSWANA LIMITED
VALUE ADDED STATEMENT
FOR THE YEAR ENDED 31 OCTOBER 2003

	<u>2003</u>	<u>2002</u>
	P	P
Value added		
Value added is the wealth the company has created by providing loans to clients		
Interest income	85 949 607	58 994 104
Cost of services	(10 124 324)	(9 503 400)
Value added services	75 825 283	49 490 704
Non-operating and other income and expenditure	(14 506 082)	(10 076 921)
	61 319 201	39 413 783
Value allocated		
To employees		
Staff costs	4 814 538	3 890 185
To providers of capital		
Dividends to shareholders	4 500 000	7 700 000
Bonus issue	-	1 197 000
	4 500 000	8 897 000
To Government		
Taxation	15 263 338	7 714 143
To expansion and growth		
Retained income	36 520 907	18 585 757
Depreciation	271 818	295 513
Deferred taxation	(51 400)	31 185
	36 741 325	18 912 455
	61 319 201	39 413 783
Summary	<u>%</u>	<u>%</u>
Employees	8	10
Providers of capital	7	22
Government	25	20
Expansion and growth	60	48
	100	100

MICRO PROVIDENT BOTSWANA LIMITED
SHARE ANALYSIS
FOR THE YEAR ENDED 31 OCTOBER 2003

Top ten shareholders	2003		2002	
	Shares held Number	%	Shares held Number	%
I. Stockbrokers Botswana Nominees (Pty) Ltd				
• Micro Provident Limited	74 970 000	49.98	74 970 000	49.98
• Botswana Life Insurance Ltd	19 833 333	13.23	29 750 000	19.83
• Mr L.G. Nchindo	9 520 000	6.35	9 520 000	6.35
• Botswana Civil Servants Association	1 190 000	0.79	1 190 000	0.79
• Weten (Pty) Limited	1 190 000	0.79	1 190 000	0.79
• Bio Bio Consultants (Pty) Ltd	1 190 000	0.79	1 190 000	0.79
• Mr C.M. Lekaukau	1 190 000	0.79	1 190 000	0.79
2. Barclays Botswana Nominees (Pty) Ltd - State Street Bank, USA	9 000 000	6.00	9 000 000	6.00
3. Stanbic Nominees Botswana (Pty) Ltd				
- Botswana Insurance Fund Management Holdings Limited	8 756 800	5.84	2 446 700	1.63
4. Fleming Asset Management Nominees (Pty) Ltd	2 735 600	1.82	3 221 600	2.15
5. Barclays Botswana Nominees (Pty) Ltd				
- Debswana Pension Fund	2 427 600	1.62	2 018 900	1.35
6. Stanbic Nominees Botswana (Pty) Ltd				
- Botswana Public Officers Pension Fund	2 282 700	1.52	2 282 700	1.52
7. Harex Asset Management	1 040 900	0.69	1 040 900	0.69
8. Micro Provident Botswana Employee Share Scheme Trust	944 900	0.63	1 000 000	0.67
9. Barclays Botswana Nominees (Pty) Ltd				
- Metropolitan Life Assurance	855 600	0.57	1 445 300	0.97
10. Motswedi Securities (Pty) Ltd	-	-	1 269 300	0.85
11. African Alliance - Botswana Value Fund	541 100	0.37	-	-
	137 668 533	91.78	142 725 400	95.15
Other corporate bodies, nominees, trusts and individuals	12 331 467	8.22	7 274 600	4.85
Total	150 000 000	100.00	150 000 000	100.00

Directors' shareholdings

	2003				2002	
	(Directly)	(Indirectly)	Total	%	Total	%
1. C. M. Lekaukau	1 190 000	-	1 190 000	0.79	1 190 000	0.79
2. S. F. Cairns	-	74 970 000	74 970 000	49.98	74 970 000	49.98
3. M. Law	99 700	-	99 700	0.07	99 700	0.07
4. M. C. Letshwiti	42 600	-	42 600	0.03	42 600	0.03
5. C. Kirstein	-	-	-	-	150 000	0.10
6. D. Ndebele	450 000	-	450 000	0.30	450 000	0.30
Total	1 782 300	74 970 000	76 752 300	51.17	76 902 300	51.27

MICRO PROVIDENT BOTSWANA LIMITED
FINANCIAL HISTORY
BALANCE SHEETS - FIVE YEAR REVIEW

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	P	P	P	P	P
ASSETS					
Cash and cash equivalents	2 794 996	994 662	-	4 495 556	1 210 633
Advances to customers - net	170 969 838	146 417 544	92 932 050	59 157 057	20 929 527
Other receivables	391 217	540 073	817 469	148 904	20 260
Motor vehicles and equipment					
Trade receivables	371 596	465 535	473 486	320 062	322 442
Deferred taxation	62 336	10 936	42 121	9 997	-
Total assets	174 589 983	148 428 750	94 265 126	64 131 576	22 482 862
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Cash and cash equivalents	-	-	131 616	-	-
Trade and other payables	7 206 012	5 825 739	3 991 948	2 911 871	892 467
Taxation	16 871 427	7 591 642	12 693 939	7 730 808	2 543 191
Borrowings	36 712 237	57 731 969	40 225 311	33 184 312	11 400 012
Deferred taxation	-	-	-	-	10 131
Total liabilities	60 789 676	71 149 350	57 042 814	43 826 991	14 845 801
Shareholders' equity					
Share capital	1 500 000	1 500 000	100	100	100
Share premium	28 571 331	28 571 331	599 900	599 900	599 900
Retained earnings	83 728 976	47 208 069	28 622 312	19 704 585	2 345 061
Proposed dividends	-	-	8 000 000	-	4 692 000
Total shareholders' equity	113 800 307	77 279 400	37 222 312	20 304 585	7 637 061
Total liabilities and shareholders' equity	174 589 983	148 428 750	94 265 126	64 131 576	22 482 862

MICRO PROVIDENT BOTSWANA LIMITED
FINANCIAL HISTORY
INCOME STATEMENTS - FIVE YEAR REVIEW

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	P	P	P	P	P
Interest income	85 949 607	58 994 104	47 335 271	30 935 723	14 178 970
Net Interest expense	(10 124 324)	(9 503 400)	(5 536 668)	(2 479 529)	(1 354 850)
Net interest income	75 825 283	49 490 704	41 798 603	28 456 194	12 824 120
Impairment of advances	(7 160 756)	(3 309 135)	(2 906 719)	(2 855 223)	(1 270 625)
Other operating income	1 525 356	709 478	550 449	296 446	90 946
Other operating costs	(9 142 500)	(7 772 777)	(5 931 844)	(1 119 659)	(718 121)
Staff costs	(4 814 538)	(3 890 185)	(3 261 755)	(2 250 745)	(1 335 937)
Operating income before taxation	56 232 845	35 228 085	30 248 734	22 527 013	9 590 383
Taxation	(15 211 938)	(7 745 328)	(7 331 007)	(5 167 489)	(2 553 322)
Net income for the year	41 020 907	27 482 757	22 917 727	17 359 524	7 037 061
Appropriations					
Bonus issue	-	(1 197 000)	-	-	-
Dividends	(4 500 000)	(7 700 000)	(14 000 000)	-	(4 692 000)
Retained income	36 520 907	18 585 757	8 917 727	17 359 524	2 345 061

**MICRO PROVIDENT BOTSWANA LIMITED
NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the 5th Annual General Meeting of the shareholders of Micro Provident Botswana Limited will be held at Grand Palm Hotel Casino and Convention Resort in the Serondela Conference Room of the Gaborone International Convention Centre on 15 March 2004 at 10.30am for the following purposes:

1. To receive, consider and adopt the annual financial statements for the year ended 31 October 2003 together with the directors' and auditors' reports thereon.
2. To confirm the appointment of Mr D. Ndebele, Mr M.C. Letshwiti and Mrs D. Kgomotso who retire in accordance with Article 63 of the Articles of Association and, being eligible, offer themselves for re-election; and also to confirm the appointments of Mr J.A. Claassen and Mr F. Chothia to the board of directors of the company during the year ended 31 October 2003.
3. To approve the remuneration of the directors for the past financial year.
4. To approve the remuneration of the auditors for the past financial year.
5. To appoint PricewaterhouseCoopers as auditors for the ensuing year.
6. To transact such other business which may be transacted at an Annual General Meeting.

Proxies

A shareholder entitled to attend and vote is entitled to appoint a proxy to attend, speak and vote in his/her stead. The person so appointed need not be a shareholder. Proxy forms should be deposited at Micro Provident Botswana Limited, Ground Floor, West Wing, Debswana House, The Mall, P.O. Box 381, Gaborone, not less than 48 hours before the meeting.

By order of the board



**D. NDEBELE
SECRETARY**

10 December 2003

**MICRO PROVIDENT BOTSWANA LIMITED
PROXY FORM**

Please complete in block letters

I / We _____

of (address) _____

being of member of Micro Provident Botswana Limited hereby appoint

_____ or failing him or her

_____ or failing him or her

_____ or failing him or her

the chairman of the meeting as my proxy to vote on my behalf at the annual general meeting to be held on 15 March 2004 at 10h30.

Unless otherwise indicated, my proxy may vote as he / she thinks fit.

Signed _____ date _____ 2004

Notes

1. Any alteration to this proxy form must be initialled by the signatory.
2. This form of proxy should be returned, so as to reach the Secretary of the company on the Ground Floor; West Wing, Debswana House, The Mall, P.O. Box 381, Gaborone, not later than 48 hours before the meeting.