Micro Provident Botswana Limited

Incorporated in the Republic of Botswana Co. 98/442
trading as Letshego

INTERIM REPORT

The Directors have pleasure in announcing the reviewed financial results of the Group for the six months ended 31 July 2008

FINANCIAL HIGHLIGHTS

• Advances up 65% • Operating income up 57% • Earnings per share up 62%

CONDENSED INCOME STATEMENT

	6 months ended 31 July 2008 (reviewed) P'000	6 months ended 31 July 2007 (reviewed) P'000	change %	15 months ended 31 January 2008 (audited) P'000
Interest income	167,365	102,963		278,357
Interest expense	(26,537)	(13,230)		(34,485)
Net interest income	140,828	89,733		243,872
Fee and commission income	39,210	23,554		64,788
Other operating income	2,233	2,792		5,655
Operating income	**182,271**	**116,079**	57	**314,315**
Operating expenses				
Staff costs	(23,771)	(18,793)	26	(44,037)
Other operating costs	(21,080)	(15,657)	35	(37,170)
Operating income before impairment	137,420	81,629	68	233,108
Impairment of loans and advances to customers	(8,551)	(4,888)	75	(15,666)
Profit before tax	**128,869**	**76,741**	68	**217,442**
Income tax expense	(31,872)	(16,987)		(48,481)
Profit for the period	**96,997**	**59,754**	62	**168,961**
Attributable to :				
Equity holders of the parent company	95,685	58,994		167,229
Minority interest	1,312	760		1,7332
Profit for the period	**96,997**	**59,754**	62	**168,961**
Appropriations				
Dividends (P'000) - interim	-	21,150		21,170
Dividends (P'000) - final	-	-		21,216
	-	21,150		42,386
Weighted average number of shares in issue during the period (millions)	151,5	150,8		151,1
Dilution effect - number of shares (millions)	2,2	2,2		2,2
Number of shares in issue at the end of the period (millions)	151,5	151,2		151,5
Ratios				
Basic earnings per share (thebe)	64,0	39,6	62	111,8
Diluted earnings per share (thebe)	63,1	39,1		109,9
Dividend per share (thebe)	-	14,0		28,0
Dividend cover (times)	-	2,8		4,0
Cost to income ratio (%)	24,6	29,7		25,8

CONDENSED CASH FLOW STATEMENT

	6 months ended 31 July 2008 (reviewed) P'000	6 months ended 31 July 2007 (reviewed) P'000	15 months ended 31 January 2008 (reviewed) P'000
Opening activities			
Profit before tax	128,869	76,741	217,442
Add : Amortisation and depreciation	1,512	1,263	3,176
: Impairment of advances	3,707	1,256	6,607
: Loss on disposal of plant and equipment	-	-	290
Movement in working capital and other adjustments	(233,007)	(120,878)	(348,118)
Cash (used in) / generated from operations	(98,919)	(41,618)	(120,603)
Tax paid	(34,490)	(23,923)	(47,425)
Net cash utilised in operating activities	(133,409)	(65,541)	(168,028)
Investing activities			
Net utilised in investing activities - capital expenditure	(1,001)	(1,206)	(3,361)
Financing activities			
Dividends paid (net of withholding tax)	(19,252)	(13,270)	(32,482)
Net cash raised from borrowings	148,118	78,974	208,796
Net movement in cash and cash equivalents	(5,544)	(1,043)	4,925
Cash and cash equivalent at the beginning of the period	9,201	4,807	4,276
Cash and cash equivalent at the end of the period	**3,657**	**3,764**	**9,201**

SEGMENT INFORMATION

The main business segments of the Group are as follows:
Lending - provision of short to medium term unsecured loans to employees of the public, quasi-public and private sectors.
Insurance Agency - Marketing and administration of insurance products.

The Group operates in five geographical regions, namely Botswana, Swaziland, Tanzania, Uganda and Zambia.

Geographical segments

	Botswana		Swaziland		Tanzania		Uganda		Zambia		Consolidated	
	2008 P'000	2007 P'000	2008 P'000	2007 P'000	2008 P'000	2007 P'000	2008 P'000	2007 P'000	2008 P'000	2007 P'000	2008 P'000	2007 P'000
Operating income	**147,790**	**104,069**	**14,331**	**8,380**	**14,967**	**1,080**	**3,702**	**2,550**	**1,481**	**-**	**182,271**	**116,079**
Profit / (loss) before tax	110,415	71,863	10,225	6,437	8,761	(529)	1,059	(624)	(1,591)	(406)	128,869	76,741
Income tax expense											(31,872)	(16,987)
Profit for the period											**96,997**	**59,754**
Segment assets	772,077	511,333	160,102	78,932	77,474	32,022	25,371	16,841	16,560	1,368	1,051,584	640,496
Segment liabilities	343,540	171,080	63,918	22,667	68,414	32,312	25,621	17,550	12,073	-	513,566	243,609
Depreciation	594	603	65	57	198	114	86	63	87	-	1,030	837
Amortisation of intangible assets	482	426	-	-	-	-	-	-	-	-	482	426
Capital expenditure	325	740	21	93	341	306	53	67	261	-	1,001	1,206

Business segments

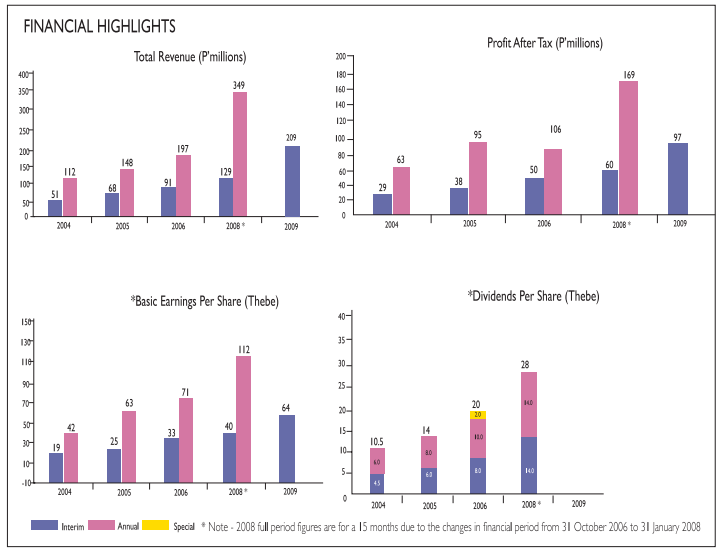
	Lending		Insurance agency		Consolidated	
	2008 P'000	2007 P'000	2008 P'000	2007 P'000	2008 P'000	2007 P'000
Profit before tax	123,119	72,686	5,750	4,055	128,869	76,741
Segment assets	1,045,754	634,919	5,830	5,577	1,051,584	640,496
Segment liabilities	509,402	239,382	4,164	4,227	513,566	243,609
Depreciation	913	777	117	60	1,030	837
Amortisation of intangible assets	453	350	29	76	482	426
Capital expenditure	982	772	19	434	1,001	1,206

CONDENSED BALANCE SHEET

	31 July 2008 (reviewed) P'000	31 July 2007 (reviewed) P'000	Change %	31 January 2008 (audited) P'000
ASSETS				
Cash and cash equivalents	3,657	3,764		9,201
Advances to customers	1,032,861	625,460	65	787,926
Other receivables	3,757	2,713		3,050
Income tax	-	1,054		-
Property, plant and equipment	4,243	4,141		4,384
Intangible assets	589	1,020		991
Deferred taxation	6,477	2,344		6,367
Total assets	**1,051,584**	**640,496**	**64**	**811,919**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Trade and other payables	47,466	31,195		31,109
Income tax	11,257	-		12,818
Borrowings	454,843	212,414	114	306,725
Share capital and reserves	535,746	396,453		459,673
Minority interest	2,272	434		1,594
Total liabilities and shareholders' equity	**1,051,584**	**640,496**	64	**811,919**

CONDENSED STATEMENT OF CHANGES IN EQUITY

	6 months ended 31 July 2008 (reviewed) P'000	6 months ended 31 July 2007 (reviewed) P'000	15 months ended 31 January 2008 (audited) P'000
Balance at the beginning of the period	461,267	351,239	323,565
Income after tax	96,997	59,754	168,961
Allocation to share based payment reserve	2,652	1,500	4,044
Foreign currency translation reserve	(1,179)	(485)	988
Dividends declared and paid - (gross of withholding tax)	(21,216)	(15,121)	(36,292)
Dividends paid to minorty shareholders	(503)	-	-
Balance at the end of the period	**538,018**	**396,887**	**461,267**



BASIS OF PREPARATION

There have been no changes to the Group's accounting or provisioning policies during the period and the accounting and provisioning policies, as set out in the Groups annual report for the period ended 31 January 2008, have been consistently applied.

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COMMENTARY

Highlights
The Board of Directors of Letshego are pleased to present the financial results of the Group for the six month period ended 31 July 2008. Strong growth and performance across all Group companies is reflected in:

- A 68% increase in profit before tax;
- A 65% increase in advances to customers;
- Total advances to customers exceeding P1 billion for the first time during July 2008; and
- The completion of the first phase of the Group's African expansion and the growing contribution of these operations to Group profitability.

Results
The Group profit before tax of P128.8 million for the six month period reflected an increase of 68% over the corresponding period. The Group's strategy of developing into a Pan African consumer finance group are well established, with the first phase of this expansion contributing P18.4 million (31 July 2007: P4.9 million) to Group profit before tax for the period.

Total income from lending activities, including fees and commission, where applicable, was P198.8 million (31 July 2007: P120.5 million) reflecting an increase of 65% which is in line with the increase in the loan book. Income from Letshego Guard, the Botswana based short term legal insurance agency, increased by 13%.

To sustain its expansion strategy, the Group increased its staff complement to 358, compared to 254 employees in the corresponding period. This increase in the staff complement, together with continuing investment in the branch network infrastructure and the related costs of operating a larger Pan African Group resulted in an increase of 33% in total Group expenses.

The Group continues to invest in human capital, and a number of senior management appointments have been made during the last twelve months, to ensure that Letshego has the necessary skills and experience in place to continue to grow the Group in the months and years ahead.

The cost to income ratio of the Group was 24.5% (31 July 2008 29.6%) which is in line the Group's target range of 20% to 25%. Based on the benchmarks available, we believe that this is very competitive in the industry.

The Tanzanian Shilling, Ugandan Shilling and Zambian Kwacha have strengthened during the period which has impacted on the Group's Pula reported results. This is a phenomenon of operating a multi-national Group. The Group currently matches its foreign currency assets and liabilities and does not have any exposure to USD, Euro or Sterling.

Results – Botswana
The Botswana loan book grew by 52% during the period under review to P758.5 million (31 July 2007: P498.6 million). A new branch was opened in Jwaneng in April 2008 to bring the number of branches in Botswana to nine.

Competition in the Botswana market remains challenging – but Letshego continues to deliver on its proven promise to customers of efficient turnaround time, which incorporates a mandatory 'cool off' period, liaison with the Central Registry, complemented by consistently friendly and quality customer service which we believe will allow us to continue to be the preferred financial partner in the Botswana market.

The introduction of higher value and longer term loans continues to be well received in the market and this has contributed to the continued success of Letshego in Botswana.

New sales channels, along with new products, specifically 'Letshego Direct' have been introduced and are contributing to the Botswana business. The introduction of 'Letshego Direct' is expected, over time, to increase the customer base in Botswana to include a wider market of formally employed individuals.

Results – Letshego Guard (Botswana)
The Legal Expenses Insurance Agency in Botswana contributed P5.8 million to Group profit before tax for the period (31 July 2007: P4.1 million). This is a 39% increase from the prior period. At the period end, Letshego Guard had over 50,000 active customers (31 July 2007: 43,000).

The continuing growth in policy holders has been achieved by the underlying quality of the product offered, customer focus and service delivery.

Results – Swaziland
Swaziland continues to perform above expectations. The loan book now stands at P159.1 million (31 July 2007: P 81.0 million) – a 96% increase. Profit before tax was P10.2 million (31 July 2007: P6.4 million).

During the period longer term and higher value loans were introduced which have been well received in the market.

Results – Tanzania
Operations in Tanzania have now started to yield the expected return from this market. A profit before tax of P8.7 million was recorded for the six month period compared to the start up loss of P0.5 million in the corresponding period. The loan book has grown to P75.9 million at the half year period (31 July 2007: P30.7 million). This is an increase of 147%.

The management team in Tanzania will introduce new products to continue to grow the business and the outlook remains very positive.

Results – Uganda
We have now achieved the level of business that allows our Ugandan subsidiary to contribute positively, albeit on a modest basis, to Group profitability. The loan book now stands at P24.8 million at the period end compared to P14.9 million at 31 July 2007. This is an increase of 66%.

Profit before tax for the six month period was P1.0 million compared to a loss of P0.6 million for the corresponding period. Contribution to Group profitability is expected to improve in future reporting periods. A new management team has been recruited to drive the business going forward.

Results – Zambia
We are very pleased with the progress made by Zambia to date. From the start of operations in October 2007, the loan book has grown to P14.4 million at 31 July 2008 (31 July 2007: P nil) and the loss for the period of P1.5 million was well within expectations. We are very positive regarding the prospects of the Zambian business with record new loans being written during August 2008.

Impairment
The trend of higher value and long term loans has, as expected, impacted on the impairment charge for the period. However, the impairment provision against advances to customers is below 2% of the gross loan book – this is in line with our target levels and we believe that the overall impairment levels are acceptable and rank favourably in comparison to industry benchmarks. This is, in the main, a product of our business model, and all Letshego customers go through a straight forward, but effective credit assessment before loans are disbursed.

Borrowings
The Group has put in place the necessary funding arrangements to support the continued strong growth of its operations. The debt to equity ratio of the Group was 85% at the period end (31 July 2007: 54%) as a consequence of continuing funding demands from the expansion. The Group is reviewing its capital structure to ensure that it matches its commitments to fund its growth with a sustainable capital structure. During the 2008 financial period long term loans (seven years) were arranged with the International Finance Corporation ("IFC") and the Netherlands Development Finance Company ("FMO"). This was the first step in moving the Group to longer term borrowings. As set out in the Circular to Shareholders dated 10thSeptember 2008, approval was sought to raise up to P1 billion in debt or quasi debt instruments. This is necessary to:

- Fund the expansion strategies of the Group; and
- Address the mismatch in the maturity profile of assets and liabilities.

The Directors are pleased to announce that the Shareholders approved this resolution at the General Meeting held on 9th October 2008 in Gaborone.

In line with this approval, debt funding endeavours will be pursued and Shareholders will be kept up to date with developments. The Group is also considering equity rated fund raising to further enhance the capital structure of the Group.

This is a necessary development to allow the Group to meet its expansion targets, achieve appropriate debt to equity levels, restructure the balance sheet and thereby contribute to the future growth and profitability of the Group.

Change of name and Adoption of New Constitution
Also included in the Circular to Shareholders, dated 10th September 2008, was a proposal to change the name of the holding company to Letshego Holdings Limited and to adopt a new constitution in line with the new Botswana Companies Act that came into effect on 3 July 2007.

The Directors are pleased to announce that Shareholders approved these resolutions and that, once all formalities have been put in place, the holding company will change its name to Letshego Holdings Limited from Micro Provident Botswana Limited.

Prospects
The Directors note the current challenging economic conditions that the Group operates in. On a wider context, the recent international events, whereby established global institutions, have faced significant difficulties, and even closed in certain instances, are also noted.

Shareholders are reminded that the fundamentals of the Letshego group remain as strong as they always have been:

- Letshego continues to operate a business model that is very effective in terms of knowing who our customers are and keeping these on our balance sheet
- Effective customer affordability policies and procedures remain in place whereby Letshego only provides customers with access to finance that is within (regulated or Letshego prescribed) affordability levels
- Almost all of the Group's loan product are fixed interest rate products and therefore, the recent increases in interest rates have not been passed to customers (which is consistent with our practice ove the last 10 years of operations).

Undoubtedly increases in interest rates will have an impact on the cost of the Group's borrowings, however the Directors are confident that the earnings for the first half of the financial year will be maintained during the second half of the financial year.

A key aspect of the success achieved by the Group to date has been building a trusted and respected brand that delivers reliable and efficient access to credit facilities to consumers. The Directors believe that this will continue to drive the Group going forward.

The future outlook of the Group is very promising with the Group well positioned to take advantage of current market opportunities and to continue to grow and develop its existing businesses.

New Prospects – African Expansion
As previously reported to Shareholders, the Group is actively pursuing further expansion opportunities in other African territories. Some of these are at an advanced stage and we hope to be in a position to commence trading in some countries during the current financial year.

However, we advise Shareholders that, based on our experiences to date, the establishment and set up of new operations can take time.

The Group is also looking at targeted acquisitions as an entry mode into markets where Letshego currently does not have a presence or to grow existing businesses. Shareholders will be appraised accordingly of developments.

Auditors' Review
The financial information set out in this announcement has been reviewed but not audited by KPMG. Their unqualified review report is available for inspection at the holding company's registered office.

Dividend
Due to the various fundraising initiatives currently being explored an interim dividend is being deferred and will be paid along with the final dividend when the groups full years results are released.
The directors believe that this action is in the best interest of the group.

Shareholders will be offered the option to take the final dividend in cash or share in lieu.

For and on behalf of the Board of Directors

C M Lekaukau
Chairman

J A Claassen
Managing Director

GABORONE, 10 October 2008

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NON EXECUTIVE DIRECTORS: C M Lekaukau (Chairman), J A Burbidge (British), Dr Hassy H B Kitine (Tanzania), J K Bucknor (Ghana), P Voutyritsas (Greek)
EXECUTIVE DIRECTORS: J A Claassen (Managing Director) (RSA), D Ndebele, (Director: Risk and Compliance)
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