

Letshego Holdings Limited Incorporated in the Republic of Botswana Co.98/442



## UNAUDITED INTERIM REPORT

The Directors have pleasure in announcing the reviewed financial results of the Letshego Holdings Group for the six months ended 31 July 2010

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**COMMENTARY** 

• Profit before tax has increased by 40% to P296.7 million

• 29% of profit before tax (2009: 27%) generated outside of Botswana

A number of developments took place during the period under review:

• Approval by shareholders of a 10 for 1 share split during April 2010

that this will bring more stability to our business in Swaziland  $\bullet$  Increase in the Group's shareholding in Letshego Tanzania from 85% to 87%

• Increase in earnings per share of 33% • Cost to income ratio has reduced to below 20%

Developments during the period

16 million) was drawn down by July 2010

and Letshego Financial Services Botswana

the mature operating environment in Botswana.

recommenced in September 2010 at a promising rate.

a small profit before tax of PI.9 million was recorded.

Impairment

Provision (B/S) At 31 July 2010

16.8

4.8

26.3 Impairment provision (B/S): is the % in relation to the period end advances book

Net Loans to

At 31 July 2010

1,250

128

259

1,863

Legal Guard: Letshego Guard (Pty) Limited - sold on 31 January 2010 LFSB: Letshego Financial Services (Pty) Limited - Botswana

Impairment charge (I/S): is the % in relation to the average advances book

Country

Tanzania

Uganda

Total

Country

Botswana - Legal Guard

Botswana - LFSB Swaziland

Tanzania

Uganda

Namibia

Total

1ozambique

LHL: Letshego Holdings Limited

Financial performance

for the six months ended 31 July 2010. The highlights for the financial reporting period include:

• Impairment expense (annualised) on average loans and advances to customers of 1.8% (2009: 1.4%)

• Advances to customers have grown to over P1.8 billion (2009: P1.5 billion), an increase of 22% over the prior period

• Approval by shareholders of a P 240 million (USD 36 million) convertible Pula loan during April 2010, of which P 106 million (USD

• Swaziland subsidiary being licensed as a non deposit taking financial institution by the Central Bank of Swaziland and it is believed

• Letshego Head Office now situated at Letshego Place, Plot 22, Khama Crescent, Gaborone and is occupied by Letshego Holdings

The 22% increase in the Ioan book as from July 2009 is viewed as acceptable on an overall basis. Contributing to the overall increase

were exceptional levels of performance from Namibia (143% increase in Ioans) and Uganda (79% increase in Ioans). The Botswana Ioan book recorded an increase of 22% with this Ioan business remaining the most significant market for Letshego as it accounts for 67%

(2009: 67%) of the period end advances book and 71% (2009: 73%) of the Group's profit before tax. Loan books decreased in Zambia

Botswana - Letshego Financial Services Botswana, has performed to expectations given the large market share it currently has and

Mozambique - Letshego Mozambique did not trade during the period under review and the small loss recorded was in line with

Namibia - Letshego Namibia has performed above expectations and continues to exhibit loan book and market share growth. Since

Swaziland - The decline in the Swaziland loan book was expected due to the disruption in operations arising from the introduction of the Central Registry and the licensing process with the Central Bank of Swaziland. This has since been resolved and lending

Tanzania - Letshego Tanzania's loan book has decreased by 6%. This was mainly due to the impact of more onerous administrative

requirements that were put in place locally by the Central Government and District Authorities. These have now been addressed.

Uganda - Micro Provident Uganda has increased its Ioan book by 79% during the period under review and this subsidiary has now

Zambia - The performance of Letshego Zambia has been disappointing with this subsidiary experiencing a number of operational

and regulatory challenges. No new loans have been written since May 2010 and the situation continues to be monitored. Nevertheless

Overall, despite the issues noted in respect of the Zambian, Swaziland and Tanzanian operations, the Group recorded an increase in

operating income of 25% on July 2009, a reduction in expenses of 4% and a reduction in impairment expenses of 19% for the same period. These elements translated into the overall increase of 40% in the Group profit before tax. It should be noted that if the discontinued results of Legal Guard were to be excluded from the comparative figures, the increase in Group profit before tax would

1.3%

1.6%

0.9%

1.8%

1.4%

22%

79%

143%

N/a

22%

Impairmen

Charge (I/S)

15.3

21.4

17.8

7.6

1.9

24.7

(0.7)

296.7

Profit / (Loss)

**Before Tax** 

reached the critical mass required to trade profitably. This subsidiary will be rebranded to "Letshego Uganda".

this business was acquired in August 2008 the Ioan book has increased from P40 million to P259 million. A comprehensive credit insurance product has been introduced in Namibia during the period which to date has been well received in the market.

(47% decrease on 2009), Swaziland and Tanzania over the period, albeit for individually different reasons as explained later.

Overall the Directors are satisfied with the financial performance of the Group for the period under review.

Highlights

FINANCIAL HIGHLIGHTS \* Profit before tax up 40% \* Advances up 22% \* Operating income up 25% \* Earnings per share up 33% \* Profit before tax of 29% from non Botswana subsidiaries

**New markets** The Board of Directors of Letshego Holdings Limited are pleased to present the consolidated reviewed financial results of the Group New start-up operations and targeted acquisitions continue to be explored by the Group. This is in line with the next phase of the Pan

> The Group is cautiously optimistic that lending operations will commence in Mozambique before the end of the current financial year. A CEO has commenced employment in Maputo during September 2010.

The Group continues pursuing various initiatives regarding transforming the Group into a broader based financial services organisation. Shareholders will be advised of any specific developments regarding this initiative.

### Regulatory environment

African expansion strategy.

Central Registries are now in place in Botswana, Namibia, Swaziland and Uganda (albeit at an early stage) and the Group believes that this is the emerging model of best practice in the industry and the Group will continue to promote the establishment of independent Central Registries.

In Botswana the Non - Bank Financial Institutions Regulatory Authority ("NBFIRA") has not yet formally issued regulations for the industry. The level of proposed fees by NBFIRA is an area of concern and the Group will continue to engage with NBFIRA on this matter

At the period-end date, total borrowings were P348.7 million (2009: P456.7 million) representing a debt to equity ratio of 23% (2009: 40%).

This positions the Group well in terms of ongoing efforts to identify new lines of credit and the Group is exploring a number of alternatives locally, regionally and internationally.

Access to funding remains a key area of focus for the Group. While there has been some recovery in the international financial markets, it remains evident that to source new credit facilities remains a challenge and if available, may come at a premium.

## Related party transaction

The Group increased its shareholding in Letshego Tanzania from 85% to 87%. The consideration for the transaction was USD 300,000 and the 2% additional shareholding was acquired from Dr Hassy H B Kitine, the Current Chairman of Letshego Tanzania and a former Director of Letshego Holdings Limited.

### Post period end developments

The Group's subsidiary in Swaziland was re-launched as Letshego Financial Services Swaziland during September 2010 and has been well received in the market with record new business written during September 2010. As part of the re-launch a new comprehensive credit insurance policy has been introduced

The level of new business being written in Uganda continues to exceed expectations

There has been a modest improvement in new business being written in Tanzania subsequent to the period end date. The Group has also strengthened the management team in Tanzania with the appointment of a COO during September 2010.

A new CEO joined Letshego Zambia during August 2010 and the situation there will continue to be monitored closely but, to date, operational challenges continue

The industry has experienced a significant increase in the competitive environment in Botswana during August and September 2010. Measures are being taken to address this.

# **Future outlook**

**Auditors** review

The Directors anticipate that, current economic conditions prevailing, the results in the second half of the financial year will be in line with the results of the first half.

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.

% of

ave book

0.2%

2.2%

6.6% 4.3%

27.6%

2.9%

1.8%

N/a 41%

461%

(38%) 217%

53%

40%

The Directors do not propose an interim dividend, in order to retain funds for future growth. This is consistent with the last two interim periods

For and on behalf of the Board of Directors

GABORONE, 5 October 2010











EXCUTIVE DIRECTORS: A Claassen (Managing Director) (RSA), D Ndebele (Director: Risk and Compliance) (Botswana) TRANSFER SECRETARIES: PricewaterhouseCoopers (Pty) Limited, Plot 50371, Fairground Office Park, Gaborone, Botswana REGISTERED OFFICE: Plot 50371, Fairground Office Park, Gaborone, Botswana

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NANCIAL	_ HIGHLIGHTS	
me up 25%	* Earnings per share up 33%	* Profit before tax of 29% from non Botswana subsidiaries

* Profit before tax up 40%	* Advances up	22/6 Opci	ating inc	ome up 257
STATEMENT OF COMPREHENSIVE INCOME				
	6 months ended 31 July 2010	6 months ended 31 July 2009	3 I J:	onths ended anuary 2010
	(reviewed) P'000	(reviewed) ( P'000	Change %	(audited) P'000
Interest income	343,419	277,400	24	588,836
Interest income Interest expense	(18,026)	(25,343)	(29)	(50,935)
Net interest income	325,393	252,057	29	537,901
Fee and commission income	58,390	57.061	2	118,444
Other operating income	5,668	2,572	120	4,267
Operating income	389,451	311,690	25	660,612
Operating expenses				
Staff costs	(38,290)	(44,856)	(15)	(80,266)
Other operating costs	(39,120)	(35,724)	10	(67,517)
Operating income before impairment	312.041	231.110	35	512.829
Impairment of advances to customers	(15,328)	(18,815)	(19)	(50,191)
Profit before taxation and divestments	296,713	212,295	40	462,638
Profit from sale of subsidiaries	· -	_	_	42,568
Income tax expense	(75,357)	(52,470)	44	(125,206)
Profit for the period	221,356	159,825	38	380,000
Other comprehensive income				
Foreign currency translation differences arising				
from foreign operations	(3,758)	(12,876)		3,953
Total comprehensive income for the period	217,598	146,949	48	383,953
Profit attributable to :				
Equity holders of the parent company	215,270	156,257		370,160
Minority interest	6,086	3,568		9,840
Profit for the period	221,356	159,825	38	380,000
Total comprehensive income for the				
period attributable to :				
Equity holders of the parent company	212.012	145,304		376,388
Minority interest	5,586	1,645		7,565
Total comprehensive income for the period	217,598	146,949	48	383,953
Weighted average number of shares in issue during				
the period (millions)	1,833.3	1,761.9		1,792.5

1,841.4

1,824.7

1,824.7

Ratios Basic earnings per share (thebe) Diluted earnings per share (thebe) Annualised Return on average assets (%) Annualised Return on average equity (%) Cost to income ratio (%) Debt to equity (%)	12.1	9.1	33 21.2
	11.8	8.8	34 20.3
	23.5	23.1	22.9
	32.2	38.1	37.7
	19.9	25.9	22.4
	23.1	40.0	28.0
STATEMENT OF CASH FLOWS	6 months ended	6 months ended	12 months ended
	31 July 2010	3l July 2009	31 January 2010
	(reviewed)	(reviewed)	(audited)
	P'000	P'000	P'000
Profit before taxation Add :Amortisation and depreciation : Impairment of advances : Loss/( Profit) on disposal non current assets	296,713	212,295	505,206
	1,564	1,905	3,733
	(4,398)	5,596	7,370
including subsidiaries	264	(3)	(42,520)
Movement in working capital	(118,964)	(196,203)	(375,594)
Cash generated from / (used in) operations	175,179	23,590	98,195
Taxation paid	(86,037)	(40,413)	(91,945)
Net cash used in operating activities  Investing activities  Net cash used in investing activities - capital	89,142	(16,823)	6,250
expenditure and acquisitions	(2,933)	(2,236)	53,232
Financing activities Dividends paid (net of withholding taxation) Gross repayments made on borrowings Gross receipts from borrowings Net cash raised from 'Offer for Subscription' during March 2009 Net cash from financing activities	(49,130)	(48,949)	(48,949)
	(138,515)	(196,365)	(266,747)
	109,617	8,755	1,899
	-	353,612	353,612
	(78,028)	117,053	39,815
Net movement in cash and cash equivalents Cash and cash equivalents at the beginning of the p Cash and cash equivalent at the end of the period	8,181 period 104,462	100,230 5,165	99,297 5,165 <b>104,462</b>
p <del></del>		,	

NOTE:All calculations and share related items have been restated to take into account the 10 for 1 share split that was performed

NOTE:The diluted EPS has been calculated based on shares that may vest in terms of the groups long term staff incentive scheme.

No impact of the convertible loan in issue has been calculated due to the uncertainty regarding the timing and quantum of this.

# **BASIS OF PREPARATION**

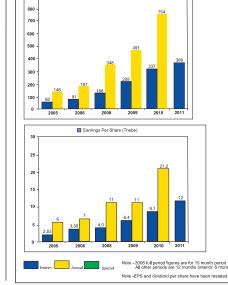
Amortisation of intangible assets

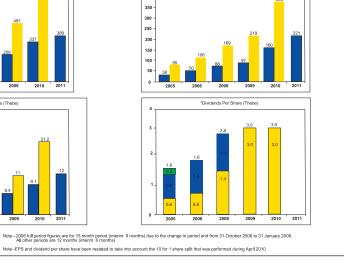
Number of shares in issue at the end of the

he group's accounting and provisioning policies have been applied consistently with those applied in previous periods and are in ompliance, in all material respects, with International Financial Reporting Standards.

STATEMENT OF FINANCIAL	POSITION					
	3 l July 2010 (reviewed) P'000	3 l July 2 (reviev P		Change %	3 I Jai	nuary 2010 (audited) P'000
ASSETS						
Cash and cash equivalents Advances to customers Other receivables Long term receivables Plant and equipment Intangible assets Goodwill Deferred taxation Total assets	112,643 1,862,879 42,408 9,379 5,773 411 27,824 7,996	1,53 1 :	5,395 2,032 5,441 - 7,292 562 5,760 1,514	22		104,462 1,682,257 74,520 8,387 6,610 553 25,760 12,872
Liabilities		•				
Trade and other payables Income taxation Borrowings Total liabilities	153,874 28,799 348,760 <b>531,433</b>	2 45	1,046 0,908 6,774 <b>,728</b>	(24)		129,698 38,769 377,638 <b>546,105</b>
SHAREHOLDERS' EQUITY						
Stated capital Foreign currency translation reserve Shared based payments reserve Retained income	412,814 (2,431) 7,701 1,092,392	(6 15	5,019 ,514) 5,234 8,471			396,019 827 18,287 932,365
Total equity attributable to equity holders	1,510,476	1,123,	210			1,347,498
Minority interest	27,404		5,058			21,818
Total liabilities and equity	2,069,313	1,697,	996	22		1,915,421
STATEMENT OF CHANGE IN	N EQUITY Stated capital	Retained earnings	Shared based payments Reserve	Foreign exchange translation Reserve	Minority interest	Total

STATEMENT OF CHANGE IN	•	Deteined comings	Shared based payments	Foreign exchange translation	Minority interest	<b>T</b> -4-1
	Stated capital P'000	Retained earnings P'000	Reserve P'000	Reserve P'000	P'000	Total P'000
Balance at I February 2009 Total comprehensive income for the period	35,092	616,957	10,588	4,439	4,413	671,489
Profit for the period Other comprehensive income net of income tax	-	156,257	-	-	3,568	159,82
Foreign currency translation reserve Transactions with owners recorded directly in equity	-	-	-	(10,953)	(1,923)	(12,86
New shares issued from offer for subscrip New shares issued from long term incenti Allocation of additional share based payme	ve plan 7,217	-	(7,217) 11,863	- - -	-	353,71 11,86
Dividends to equity holders  Balance at 31 July 2009	396,019	(54,743) <b>7   8,47  </b>	15,234	(6,5 4)	4 050	(54,74
=	370,017	710,471	15,254	(0,314)	0,050	1,127,20
Balance at I August 2009 Total comprehensive income for the period	396,019	718,471	15,234	(6,514)	6,058	1,129,26
one period Profit for the period Other comprehensive income net Income tax	of _	213,894	•	-	6,272	220,16
Foreign currency translation reserve Transactions with owners recorde directly in equity	ed -	ē	-	7,341	9,488	16,82
Allocation to long term incentive plan	-	-	3,053	-	-	3,05
Balance at 31 January 2010	396,019	932,365	18,287	827	21,818	1,369,3
Balance at 1 February 2010 Total comprehensive income for	396,019	923,365	18,287	827	21,818	1,369,31
the period Profit for the period Other comprehensive income net	of	215,270	-	-	6,086	221,35
income tax Foreign currency translation reserve Transaction with owners recorded directly in equity	- d	-	-	(3,258)	(500)	(3,75
New shares issued from long term incenti Allocation of additional share based payme	ve plan 16,795	-	(16,795) 6,209	-	-	6.20
Dividends to equity holders		(55,243)	-	-	-	(55,24
Balance at 31 July 2010	412,814	1,092,392	7,701	(2,431)	27,404	1 527 00





Profit After Tax (P'millions)

Geographical segments																		
Botswana				Tanzania		Uganda		Zambia		Namibia		Mozambique				Consolidation		
	2010 P'000	2009 P'000	2010 P'000	2009 P'000														
	F'000	P-000	P-000	P-000	F-000	P-000	P-000	F-000	P-000	P-000								
Operating income	241,404	221,547	35,205	26,854	35,478	29,000	14,415	5,438	7,820	7,225	55,087	21,579	42	47	_	_	389,45	311,690
Profit / (loss) before tax	224,010	163,878	21,412	22,650	17,758	18,656	7,562	(2,138)	1,871	3,044	24,747	7,718	(647)	(1,513)	_		296,713	212,295
Income taxation expense Period for the profit															_	_	(75,357) <b>221,356</b>	(52,470) <b>159,826</b>
Segment assets	1,731,810	1,452,527	145,788	198,402	132,974	141,156	77,73 I	43,858	33,429	36,783	308,050	119,153	5,900	3,107	(366,369)	(296,990)	2,069,313	1,697,996
Segment liabilities	340,897	368,820	83,007	170,002	104,404	129,669	76,104	45,966	30,694	37,635	253,298	109,006	9,399	4,620	(366,369)	(296,990)	531,434	568,728
Depreciation	528	836	75	84	210	214	87	111	106	107	347	414	34	6	-	-	1,387	1,772
Amortisation of intangible ass	sets 177	133	-	-	-	-	-	-	-	-	-	-	-	-	-		177	133
Capital expenditure	172	408	-	281	54	300	146	295	[43	-	180	54		898	-	-	695	2,236
D																		

**Business segments** Consolidated 2010 2009 P'000 P'000 agency 2009 P'000 2010 2010 P'000 2009 P'000 Profit before taxation Segment assets Segment liabilities 531,434 568,728

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**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.

The Group previously engaged in the marketing and administration of legal expense insurance products. The holding company's interest in this business was fully disposed on 31 January 2010.

The Group operates in seven geographical regions, namely Botswana, Namibia, Mozambique, Swaziland, Tanzania, Uganda and Zambia.