



B O T S W A N A

I · F · S · C

**BOTSWANA
INTERNATIONAL
FINANCIAL
SERVICES
CENTRE**

*Annual
Report*

2005

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BOARD OF DIRECTORS

MR H.C.L. HERMANS,
IFSC Chairman
Independent Consultant
Director Of Companies



MR P. K. MOLEFE
Chief Executive
Officer
Botswana
Building
Society. (BBS)



**MR A.P.
BOSHWAEEN**
CEO
Botswana
International
Financial Services
Company (IFSC).



DR N. H. FIDZANI
Executive Director
Botswana Institute
For Development
Policy Analysis
(BIDPA)



MRS I.O. SENNANYANA
Deputy Secretary for
Financial Affairs,
Ministry Of Finance
And Development
Planning (MFDP)



MR J. KAMYUKA
General Manager
Management Services
Botswana Development
Corporation Limited.
(BDC)



MRS I.O. SENNANYANA
Deputy Secretary for
Financial Affairs,
Ministry Of Finance
And Development
Planning (MFDP)



MRS E.GONSALVES
Director
Insurance And Pension
Ministry Of Finance
And Development
Planning (MFDP)

MRS G. MBANGA
Deputy Commissioner
Internal Revenue
Botswana Unified
Revenue Services
(BURS)



DR. B.K. SINAH
Principal Inspector
Of Taxes (BURS)

MR O. MABUSA
Director Of Banking
Supervision Department
- Bank Of Botswana (BOB)



**MRS M.
MASIRE-MWAMBA**
Chief Executive Officer,
Botswana Export
Development And
Investment Authority
(BEDIA)

MR M. TAU
Head Of Management
Accounting And
Corporate Treasury
Division
Botswana Development
Corporation Limited.
(BDC)



**MR A.P.
BOSHWAEN**
CEO
Botswana
International
Financial Services
Company (IFSC).

MANAGEMENT TEAM



MR. M.O MORULANE
Corporate Affairs Executive
BA (Hons.) Accounting
(University of Luton) ACCA (UK)



MRS. O. MABEO
Marketing Executive
BA Economics
(Connecticut College, USA)



MR. L. SEJOE
Marketing Executive
B Com. Accounting (University of Botswana)
M.A. International Economics and Finance
(Brandeis University, USA)



MS. T. LEKALAKE
Marketing Executive
Msc. Development Economics
(London School of Economics, UK)



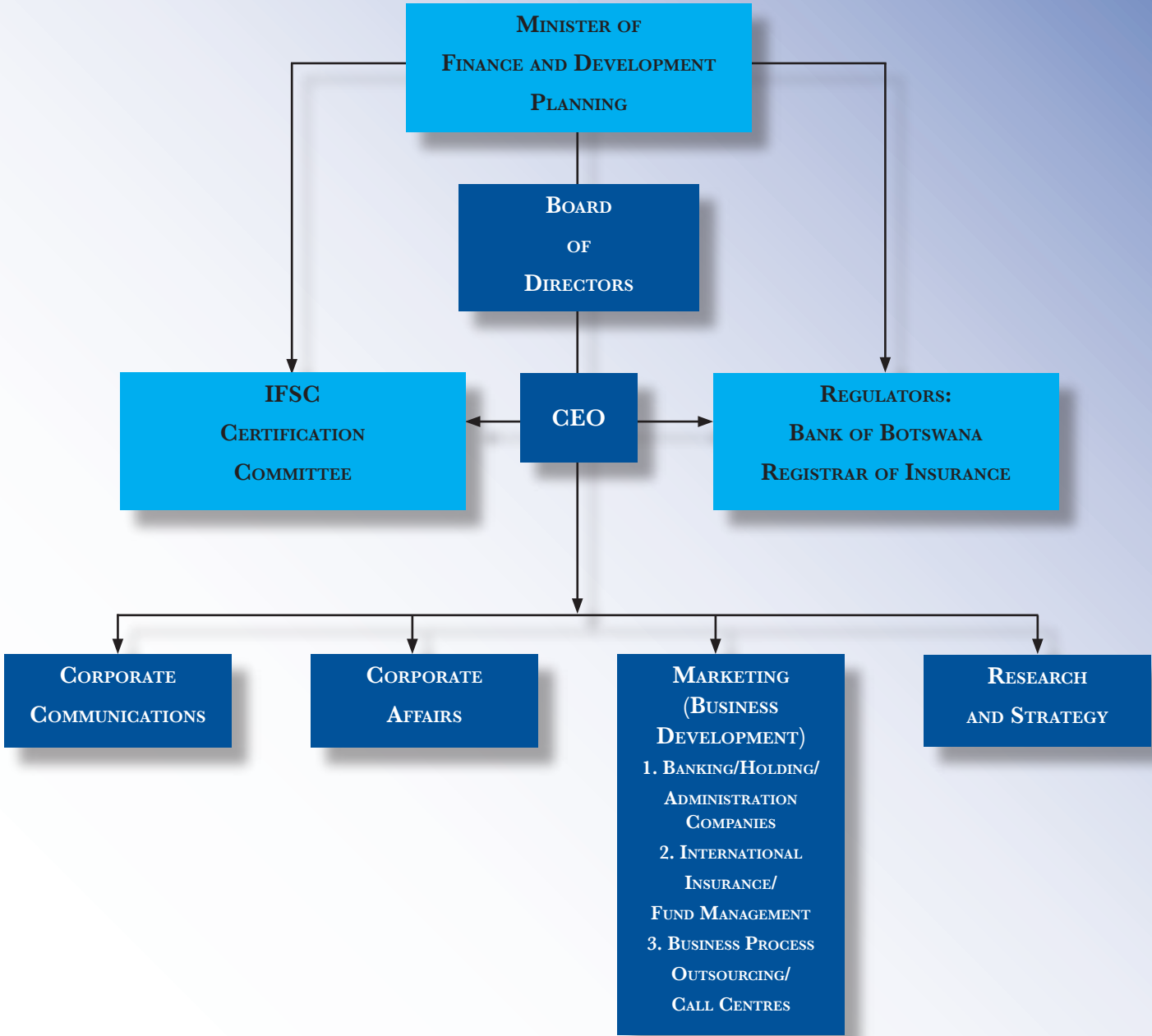
MRS. R. MOTHIBATSELA
Corporate Communications
Executive
BA Social Sciences
(University of Botswana),
PGDE-Marketing (CIM)



MR. K. LEMO
Strategy and Research Executive
BA (Hons) Economics
(Harvard University, USA)



MR. M. MASALILA
Corporate Affairs Officer
B Com Degree (University of Botswana)



NAME:

Botswana International Financial Services Centre

COMPANY NUMBER:

2003/1144

NATURE OF BUSINESS:

The main activities of the Company are:

- to promote/market Botswana as a hub for financial services
- to encourage foreign investment
- to assist financial services companies obtain IFSC certification under the provisions of the Income Tax Amendment Act (1999).

DIRECTORS:

H C L Hermans (Chairman)

A P Boshwaen (Chief Executive Officer)

N H Fidzani

J N Kamyuka

P K Molefe

I O Sennanyana

SECRETARY:

C and C Management Services (Pty) Limited

REGISTERED OFFICE:

Plot 50676

Fairgrounds Office Park

Off Machel Drive

Private Bag 160

Gaborone

INDEPENDENT AUDITORS:

PricewaterhouseCoopers

BANKERS:

Stanbic Bank Botswana Limited

TELEPHONE NUMBER:

(267) 3651406

FAX NUMBER:

(267) 3913075

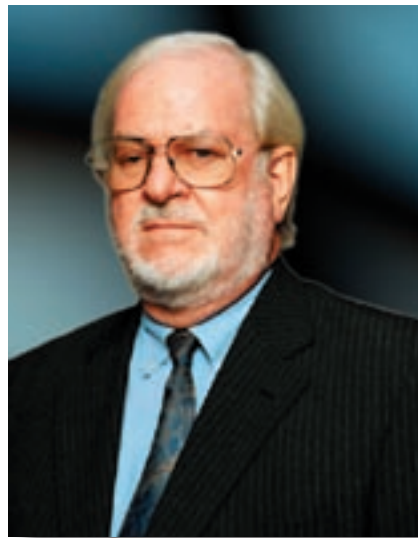
WEBSITE ADDRESS:

www.ifsc.co.bw

IFSC's offices are at Fairgrounds Office Park in Gaborone



“In the case of the financial services industry, Botswana’s comparative advantage lies in the country’s established record of good governance, its deeply embedded democratic traditions and respect for the rule of law, its political stability, independent judiciary, and the transparent market-oriented policies consistently implemented by the Government since Independence in 1966.”



The approach of the midterm review of National Development Plan 9 provides an opportune time to review the progress made by the Botswana International Financial Services Centre (IFSC) since its inception two years ago and to take stock of the challenges and obstacles it faces in the years ahead.

The establishment of the IFSC was predicated on the realisation that for Botswana to sustain its impressive historical rate of economic growth it would have to find ways of diversifying its economy, and reducing its dependence on the mining industry.

Apart from the need to develop new revenue sources, economic diversification is essential to create new employment and commercial opportunities in sectors where Botswana enjoys some comparative advantage. In the case of the financial services industry, Botswana’s comparative advantage lies in the country’s established record of good governance, its deeply embedded democratic traditions and respect for the rule of law, its political stability, independent judiciary, and the transparent market-oriented policies consistently implemented by the Government since Independence in 1966.

These factors created a favourable environment for foreign investment

CHAIRMAN'S STATEMENT (CONTINUED)

and enabled Botswana to mobilise the substantial capital inflows necessary to develop its mineral resources, notably diamonds, copper, nickel and coal. Mineral production and exports generated substantial balance of payments and fiscal surpluses.

The disciplined management and investment of those financial resources led in turn to major improvements in the country's physical and social infrastructure. It also contributed to derivative private sector developments in the financial services sector, in retail and wholesale trading, and in hotels and tourism. This 'virtuous' cycle of good governance, market friendly policies, private investment and prudent public spending reduced poverty, created employment and business opportunities, and enabled Botswana to achieve and sustain one of the highest rates of economic growth in the world.

The heavy public investments in education and health services over the past 25 years have yielded high levels of literacy, English proficiency and technical skills in various disciplines that support new investment opportunities. The IFSC was established to uncover and exploit these opportunities, and to capitalise on Botswana's comparative advantage.

Although the IFSC suffers from a major disadvantage as a consequence of being a late-comer in the provision of incentives to attract cross-border financial services, it has made an encouraging start. With initial technical assistance from the Botswana Development Corporation and an Irish consulting company, and generous financial backing from the Government, the necessary legislation was enacted and a nucleus of citizen staff was created. Internal institution-building, policy formulation and marketing efforts were the initial priorities.

The Botswana IFSC has already met with some success in promoting Botswana as the location for group treasury and holding structures for companies interested in expanding their activities and presence in the Southern African region.

To date, our holding company and group treasury offering has attracted companies from a number of sectors, including tourism, telecommunications, financial and investment services, engineering, catering and real estate. Additionally, the IFSC still remains a suitable platform for financial intermediation, particularly in facilitating capital flows to countries where financing is considered to be relatively risky and accordingly expensive.

That so much has been accomplished in the first two years of IFSC's existence reflects favourably on the efforts and energy of Alan Boshwaen and his team of young professionals.

As the IFSC enters its third year of operations as an independent company, we need to take stock of the challenges that lie ahead. The IFSC has been greatly assisted in this task by the major study undertaken by the Accenture consulting group last financial year. That study reviewed the developments which have taken place in the international financial services market over the past twenty years or so. It also assessed prospects for future expansion, with particular reference to Botswana's potential. The findings of that study were most encouraging. The demand for efficient cross-border financial and other services is considerable. The global market for business process outsourcing (BPO) is large and growing rapidly. Of special interest to Botswana, an educated and motivated workforce and fluency in English are two of the factors influencing outsourcing decisions. First World telecommunications services and competitive tax rates are equally essential desiderata.

With some 28 000 Botswana currently studying or training in tertiary institutions in Botswana and elsewhere, the supply of well educated young people to fill positions or to receive

The Accenture study indicates that thousands of jobs could be created if Botswana could establish itself as a viable regional BPO centre, provided that the environment is supportive of such activities

specialised training in Botswana's financial services sector should be assured. There are already a few small call centre operations in Botswana. The Accenture study indicates that thousands of jobs could be created if Botswana could establish itself as a viable regional BPO centre, provided that the environment is supportive of such activities. Other possibilities exist.

The Board of the Botswana International Financial Services Centre remains confident that Botswana could position itself to take advantage of these opportunities. Success will ultimately depend, in my judgement, on the following factors. First, the fiscal and other incentives offered to prospective entrants must be attractive. The effective rates of tax must be competitive and sensitive to global market realities. Second, the processing of applications for accreditation must be streamlined and speeded up. Third, communications and IT systems must comply with the highest international standards. Fourth, any firms considering establishing operations in Botswana must be made to feel welcome here. Access to policy-makers and regulators, and assistance in complying with corporate and other statutory requirements, must be assured. Fifth, the incentive and regulatory framework must remain flexible so that Botswana continues to be attractive to international business. Sixth, it goes without saying that the IFSC's

marketing efforts must be supported by all involved. Experience in other countries that offer similar incentives shows quite clearly that the active involvement and support of government ministers is critical to the success of such efforts.

Tax-based incentives alone are unlikely to attract quality investments. Government's commitment to the further development of infrastructure and institutional capacity will set the stage for further growth. Accordingly, the Government is at advanced stages of launching Maitlamo, a national ICT policy. Principal components of the policy include an effort to improve Botswana's telecommunications connectivity, reliability and pricing. In addition, guidelines are being developed for data privacy legislation to ensure the security of digital information entering or leaving data networks in Botswana. Concurrently, funds are currently being channelled into improving technology literacy via a number of interventions in the classroom. On the whole, the Maitlamo policy will give communications and technology a central role in the Government's future development plans. This focus bodes well for the IFSC as it aspires to offer best-in-class telecommunications infrastructure to compete with the leading cross-border services centres.

Botswana's private sector can benefit from this initiative and should now increasingly leverage its local experience and expertise to enter neighbouring markets. The passage of comprehensive legislation concerning the supervision of the non-bank financial sector, encompassing both domestic and cross-border activities, can be used to sharpen the competitive edge of the IFSC offering.

The initial success in attracting outward-looking companies is evidence of the efficacy of the IFSC initiative. The challenge in the next few years lies in building on foundations already laid to afford the IFSC a position of prominence in the minds of investors at home, throughout Africa and abroad. If successful in this endeavour, the IFSC can, in time, play a significant role in contributing to Botswana's Vision 2016 goal of becoming a prosperous, productive and innovative nation.

The challenge in the next few years lies in building on foundations already laid to afford the IFSC a position of prominence in the minds of investors at home, throughout Africa and abroad.



H.C.L. HERMANS

CHAIRMAN



IFSC's website, at www.ifsc.co.bw



It gives me pleasure to report that the Botswana IFSC has continued to grow in its second year, succeeding in attracting new companies, expanding the sectors under the program and broadening its outreach initiatives. The increasing number and diversity of companies participating in the IFSC is testimony to the potential of this new industry to become a significant contributor to economic diversification. Additionally, the IFSC is positioning Botswana to become a key player in cross border services in an increasingly integrated African economy.

The early rationale for Botswana to become a cross-border financial services centre based on the country's comparative advantages still remains valid. These advantages include exemplary fiscal and monetary discipline and careful

stewardship of the economy, along with the stable socio-political environment. By leveraging these attributes, the IFSC continues to position itself to be a sustainable engine of economic growth as well as a catalyst for the transfer of cutting edge skills and technology into Botswana.

The medium-term strategy encompasses attracting quality "anchor tenants" to operate cross-border services from Botswana.

To this end, the IFSC has worked to create a broad and robust program that meets international best practise. However, we also realise that there is no universal template for success, and that continued growth will increasingly rest on our innovation and adaptability.

We have noted success in attracting a higher profile of investor and this year certified LSG Sky Chefs, a subsidiary of Deutsche Lufthansa AG, who will create a holding and administration company in Gaborone; along with African Express International, a subsidiary of Unitrans, a leading African logistics firm. African Express International will create a courier hub to support various African subsidiaries.

IFSC CERTIFIED COMPANIES

In the past year, the IFSC Certification Committee approved 11 companies, bringing to 31 the cumulative number of companies accredited to the IFSC since its inception. Twenty five companies are either operational or in the process of setting up a physical presence in Botswana. In line with the vagaries of business, 3 companies discontinued their operations, while a further 3 are re-evaluating their continued presence in the IFSC. Concurrently, the IFSC has managed to build a growing pipeline of potential companies, positioning the initiative for continued growth in the coming financial year.

EMPLOYMENT

A key objective of the IFSC remains creating higher quality employment opportunities to the steadily rising number of Batswana emerging from tertiary institutions in Botswana and in places like Australia, South Africa, United Kingdom and United States of America. Indeed, this year the IFSC furthered this objective with projected employment growth up to 296 persons by the end of the current year derived from new certifications and the organic growth of previously certified companies. The majority of these jobs are higher skilled jobs accompanied by higher salaries.

CAPITAL EMPLOYED

Accredited companies employed capital of USD 16.4 million (BWP 74.8 million at March 31, 2005) in their operations in the current year, a significant increase from last year's total of USD 8.7 million.

The capital employed figures for the last financial year take into account capital employed by only those companies that had submitted financial statements to the IFSC by 31 March 2005.

IFSC INITIATIVES

During the course of the year, the Botswana IFSC undertook a number of important initiatives to enhance strategy, raise awareness of the wider community, and improve the business environment for present and future affiliate companies.

Developments included the formulation and implementation of a strategy for entering the Business Process Outsourcing (BPO) / Call Centre market; enabling the participation of a strong team from Botswana in a premier international conference on the BPO / Call Centre industry in Cape Town, South Africa; and contributing input into the new International Insurance Act in conjunction with the Ministry of Finance and Development Planning.



*Business Process Outsourcing Conference
-Cape Town, November 2004*

INTERNATIONAL INSURANCE

The International Insurance Act (2005) extends the scope of IFSC sectors into international reinsurance and specialized captive insurance companies which had hitherto not been possible due to lack of appropriate legislation. Several large international insurance firms were consulted to ensure the efficacy of the draft legislation. The legislation has now been enacted, and Government, in conjunction with IFSC, is working towards regulations for the industry. In the context of the legislation, the IFSC has already started identifying potential captive insurance and reinsurance firms.

BUSINESS PROCESS OUTSOURCING CALL CENTRE STUDY

A study of the global business process outsourcing market was undertaken in the year with the consulting partnership of Accenture / DCDM. The report assesses Botswana's capabilities in this market and identifies viable niche offerings for Botswana in this growing sector. The study found that with concerted effort from all relevant parties, Botswana could become an important player in the global offshore BPO and Call Centre market, and economic benefits could include significant capital investment as well as the creation of thousands of jobs. A number of follow-up developments emerged from the study, including a Cabinet Briefing Note; a National BPO and Call Centre Lobby Group; and a National Stakeholders Breakfast Forum.



Virtual Wave Call Centre

IFSC CAREER FAIR

The inaugural IFSC Careers Fair was held in September 2004 in Gaborone and up to 350 young Batswana comprising students, the unemployed and employed professionals participated. The fair presented an ideal forum for IFSC's operating companies to educate job-seekers on their activities and recruit individuals.

CV DATABASE / INTERNSHIP PROGRAM

The IFSC has established an electronic CV database which currently holds over 1000 CVs. Approximately 90% of these CVs have been posted by Batswana, including students and professionals based all over the world. In conjunction with the Career Fair, the IFSC developed an Internship Program. To date, 11 recent Batswana graduates have already been accepted on short training internships by IFSC companies. This is an opportunity for these companies to complement the Government's investment in training Batswana.



2004 Internship Recipients

SIMPLIFIED TAX INCENTIVES AND ACCREDITATION FRAMEWORK

The Botswana IFSC has continued to monitor the efficacy of the Income Tax Amendment Act (1999) that created the IFSC platform of incentives and accreditation framework. To this end, the BIFSC and Botswana Unified Revenue Service held a joint seminar in Gaborone, and the Company has engaged various stakeholders with a view to making presentations to the Ministry of Finance and Development Planning for possible implementation in 2006 / 2007. These presentations will be important to the future growth of the IFSC initiative as they will include proposals to broaden the range of the questions permissible in the legislation.

LOOKING AHEAD TO 2005 – 2006

The advancements that the IFSC has already made in marketing, certifying companies and reaching out to various stakeholders over the last year will act as a springboard for greater success.

The IFSC will continue to play a leading role in laying the groundwork for cementing Botswana's emerging role as a niche centre with a viable offering to companies in all sectors of business seeking to invest or grow their operations in the SADC region and farther afield in Africa.

The IFSC will continue its collaboration with the Bank of Botswana and the Ministry of Finance and Development Planning with a view to devising a more streamlined regulatory process for IFSC accreditation. Furthermore, the IFSC will actively participate in the upcoming review of the Income Tax Amendment Act to ensure that the tax framework that is a fundamental element of the IFSC offering remains competitive and relevant to potential companies.

The IFSC is further committed to coordinating efforts with the business community, policy makers and other Government agencies to steer this important initiative onto a growth path that embeds the services sector as a significant contributor to the continued development of Botswana.

A handwritten signature in black ink, appearing to read 'A.P. Boshwaen'.

A.P. BOSHWAEEN
CEO

Companies currently operating in the Botswana IFSC cover a wide range of sectors, from financial and investment services, to IT, tourism, telecommunications, wholesaling, and engineering firms. Most of the companies have established in the IFSC to provide financial and administrative services to group companies and qualify for IFSC accreditation as defined in section 137 of the Botswana Income Tax Act (1999). In the year 2004-2005 the following companies were granted IFSC certification.

LSG SKY CHEFS AFRICA

LSG Sky Chefs Africa will hold LSG Sky Chefs assets in Africa and provide a range of finance and administration support services to the operating subsidiaries. LSG Sky Chefs is a provider of integrated in-flight culinary solutions. The company is not only dedicated to excellence in airline catering, but it also provides a complete range of accompanying services to meet the requirements of its client base, including catering solutions; equipment solutions; procurements solutions; retail solutions. The sponsor of the company is LSG Lufthansa Service Europe/Africa GmbH, a wholly owned subsidiary of LSG Lufthansa Service Holding AG based in Germany. LSG Lufthansa Service Holding AG is itself a wholly owned subsidiary of Germany's Deutsche Lufthansa AG, Europe's 3rd largest airline.

SICAPITAL

Sicapital is a Special Purpose Vehicle whose sole mandate is to purchase deferred payment receivables from Siemens and finance these receivables by issuing commercial paper to institutional investors in the African region. Siemens is a global technology group, listed on the New York Stock Exchange, with a regional headquarters in Johannesburg, South Africa. The group provides a range of technology products, solutions and services in the areas of information and communications, automation and control, power, transportation, medicine, lighting, and financing and real estate.

VIRTUAL WAVE (PTY) LTD

Virtual Wave (Pty) Ltd is a proprietary corporation owned by Virtual Wave Group, a subsidiary of Grayling Wireless USA Inc., a publicly traded company listed on the NASDAQ stock exchange. Virtual Wave has established a call centre in Gaborone International Commerce Park. The centre serves as

the backbone support structure for a satellite navigation-enabled tracking system for the motor insurance sector to be deployed regionally.

AFRICAN ADVANCED METALS

African Advanced Metals Ltd (AAM) is the holding company and head office for the AMM group and subsidiary companies. The shareholding of mining interests in several African countries will be held by the Botswana IFSC company. AAM is a joint venture between three mining companies: Mining Projects Development (Pty) Ltd (MPD) of South Africa, Cortec (Pty) Ltd of South Africa and Western Mining Investments (WMI) of Australia. AAM aims to become a significant international player in the global tantalite market.

AFRICAN EXPRESS INTERNATIONAL

African Express International (Pty) Ltd (AEI) will become the holding company in the IFSC of African Express operations in Swaziland, Botswana, Lesotho, Namibia and South Africa. In addition, AEI will implement a proprietary tracking technology to enable customers to constantly monitor their packages. African Express is a regional courier and logistics company. AEI is jointly promoted by Unitrans Limited (a JSE-listed company) and Nebojsa Graorac, who is the Managing Director of African Express Botswana

BERGSTAN

Bergstan Financial Services (Pty) Ltd is a wholly owned subsidiary of Bergstan Africa. It will provide corporate, financial and management services to the network of Bergstan business units across Africa. Liebenberg & Stander International, the international engineering consulting firm, is the majority shareholder of Bergstan Africa.

CB RICHARD ELLIS REGIONAL

CB Richard Ellis operates in five African countries, two of which will initially fall under the IFSC company CBRE Regional. CBRE Regional will consolidate the regional and cross-border business of the CB Richard Ellis offices in Africa. CBRE is the world's largest premier full-service commercial real estate agent company.

(Continued)

F^{INLUCA}

Finluca International was incorporated in the British Virgin Islands in 2002. Finluca provides financial advisory and brokerage services to individual clients located in 19 countries in Africa. It assists clients in planning and managing their financial affairs by offering specific and unique solutions that best suit their individual requirements. It provides all aspects of offshore financial planning, such as, banking, trust, tax and estate planning, retirement and education planning, life insurance (corporate and individual), health insurance and offshore investment. The company will also provide a centralized shared service centre for Finluca's other international operations.

G^{LOBAL INTELLIGENCE MANAGEMENT BOTSWANA}

Global Intelligence Management Botswana will market and manage 2 Funds registered in Botswana. Global Intelligence has been operating a fund in Isle of Man for the last 5 years. Global Intelligence aims to achieve capital growth through investment principally in worldwide equities, bonds or derivatives quoted on any recognised stock market on the basis of technical or fundamental analysis.

I^{BEX HILL}

Ibex Hill (Pty) Ltd is a subsidiary of Kingdom Bank Africa Limited (KBAL). Ibex Hill is a software development company, focused on the provision of customized software products and services to medium sized financial services companies in the region. Ibex Hill has developed software solutions for the treasury division of KBAL, and has identified an opportunity to provide similar solutions to other companies in the region at a very competitive cost.

• **DIRECT BOTSWANA**

I

iDirect is a technology-based marketing and research organization that utilises call centre and internet services to provide information to out of country financial services companies. iDirect has undertaken trials for UK-based financial services companies. iDirect Botswana has been conceived through a partnership from the United Kingdom, South Africa and Botswana. Although iDirect will not directly employ more than about 10 Botswana, the outsourced requirement for call centre services is significant.

CORPORATE GOVERNANCE STATEMENT

The Botswana IFSC, through its Board of Directors, endorses the standards of the best practice on Corporate Governance.

THE BOARD

The Board consists of a Non-Executive Chairman, the Chief Executive Officer, and other Directors drawn from the private and parastatal sectors. Five (5) of the six (6) Directors are non-executive and independent of the Management and, between them, have a wide range of experience at senior levels. Non-Executive Directors bring an independent judgement on issues of strategy, performance, resources, key appointments, and standards of conduct.

The Board meets at least four (4) times a year and retains full and effective control over the Company, monitors the Executive Management and ensures that decisions of material matters are in its hands.

The Members of the Board have declared their interests and are free from any business or other relationship which interfere with their independence or the exercise of their judgement in directing the affairs of the Company.

All Directors have access to the advice and services of the Company's Secretary and are entitled to seek independent professional advice about the affairs of the Company, at the Company's expense.

All Directors have unrestricted access to all Company information, records, documents and property.

FINANCIAL STATEMENTS

It is the Directors' responsibility to prepare financial statements that fairly present the state of affairs of the Company as at the end of the financial year and the profit and loss for that period. The external auditors are responsible for independently reviewing and reporting on 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).

INTERNAL CONTROLS

The Directors are responsible for the Company's system of internal control, which includes internal financial controls. Management sets standards and implements systems of internal control designed to reduce the risk of error or loss.

STATEMENT OF DIRECTORS' RESPONSIBILITY

FOR THE YEAR ENDED 31 MARCH 2005

The Directors 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 to report 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 misstatement 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 financial statements have been prepared on the going concern basis, since the Directors have reviewed the Company's forecasts and have every reason to believe that the Company has adequate resources in place to continue in operation for the foreseeable future.

Independent Auditors conduct an examination of the financial statements in conformity with International Standards on Auditing, which include tests of transactions and selective tests of internal accounting controls. Regular meetings are held between Members of the Board, Management and Independent Auditors to review matters relating to internal controls and financial reporting. The Independent Auditors have unrestricted access to the Members of the Board.

The financial statements set out on pages 18 to 26 and supplementary information on pages 27 to 28 were approved by the Board of Directors on 7 July 2005 and are signed on its behalf by:



.....
CHAIRMAN



.....
DIRECTOR

INDEPENDENT AUDITORS' REPORT

REPORT OF THE INDEPENDENT AUDITORS TO THE DIRECTORS AND MEMBERS OF BOTSWANA INTERNATIONAL FINANCIAL SERVICES CENTRE

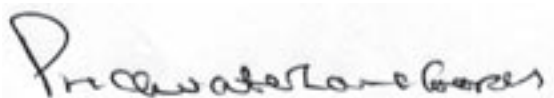
(Company limited by guarantee)

We have audited the accompanying balance sheet of Botswana International Financial Services Centre as of 31 March 2005 and the related statements of income, changes in equity and cash flow for the year then ended. These financial statements set out on pages 18 to 26 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 misstatement. 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 as to 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 accompanying financial statements give a true and fair view of the state of the Company's affairs as of 31 March 2005 and of the results of its operations and cash flows for the year ended in accordance with International Financial Reporting Standards and in the manner required by the Botswana Companies Act (CAP: 42:01).



Certified Public Accountants

7 July 2005

Gaborone

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 P	2004 P
Government subvention		4 373 873	4 514 467
Other income		1 128 875	166 710
Operating expenses		<u>(8 621 842)</u>	<u>(4 307 901)</u>
Operating (deficit)/surplus before finance income	1	(3 119 094)	373 276
Finance income	3	<u>405 538</u>	<u>653 929</u>
(Deficit)/ surplus for the year		<u>(2 713 556)</u>	<u>1 027 205</u>

BALANCE SHEET

AT 31 MARCH 2005

	Notes	2005 P	2004 P
ASSETS			
Non-current assets			
Property, plant and equipment	5	<u>274 027</u>	<u>393 161</u>
Current assets			
Receivables and prepayments	6	217 782	666 965
Cash and cash equivalents	7	<u>3 887 168</u>	<u>6 529 795</u>
		4 104 950	7 196 760
Total assets		<u>4 378 977</u>	<u>7 589 921</u>
EQUITY AND LIABILITIES			
Grants and reserves		274 027	393 161
Retained surplus		<u>1 593 961</u>	<u>4 307 517</u>
		1 867 988	4 700 678
Current liabilities			
Trade and other payables	8	<u>2 510 989</u>	<u>2 889 243</u>
Total equity and liabilities		<u>4 378 977</u>	<u>7 589 921</u>

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2005

	Note	Capital Grant P	Retained Surplus P
As at 31 March 2004			
Balance beginning of the year		358 679	3 280 312
Capital grant for assets acquired		185 532	-
Amortisation of capital grant	1	(151 050)	-
Surplus for the year		-	1 027 205
		<u>393 161</u>	<u>4 307 517</u>
As at 31 March 2005			
Balance at 1 April 2004		393 161	4 307 517
Capital grant for assets acquired		79 581	-
Amortisation of capital grant	1	(198 715)	-
Deficit for the year		-	(2 713 556)
		<u>274 027</u>	<u>1 593 961</u>

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 P	2004 P
Cash flow from operating activities:			
(Deficit)/ surplus before finance income		(3 119 094)	373 276
Adjust for item not involving the movement of funds:			
- Depreciation	5	198 715	149 945
- Profit on disposal of property, plant and equipment		-	(15 660)
		(2 920 379)	507 561
Movement in working capital items:			
Receivables and prepayments		449 183	(666 965)
Trade and other payables		(378 254)	2 889 243
Cash (utilised)/generated from operating activities		(2 849 450)	2 729 839
Cash flow from investing activities:			
Additions to property, plant and equipment	5	(79 581)	(544 211)
Proceeds from the disposal of property, plant and equipment		-	16 765
		(79 581)	(527 446)
Cash flow from financing activities:			
Net finance income	3	405 538	653 929
Movement in Capital grants		(119 134)	393 161
Net balance taken over from Botswana Development Corporation		-	3 280 312
		286 404	4 327 402
Change in cash and cash equivalent		(2 642 627)	6 529 795
Cash and cash equivalents at beginning of year		6 529 795	-
Cash and cash equivalent at end of year		3 887 168	6 529 795

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2005

The principal accounting policies adopted in the preparation of these financial statements which are consistent with the prior years are set out below:

BASIS OF PREPARATION

These financial statements are prepared on the historical cost convention. These financial statements are prepared in accordance with the requirements of International Financial Reporting Standards and the Botswana Companies Act.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 event and actions, actual results ultimately may differ from those estimates.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight line basis at rates designed to amortise the cost of the assets over their estimated useful lives as follows:

Furniture and equipment	25% per annum
Computer equipment	33.33% per annum

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 amount and are included in operating profit.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company.

LEASES

Leases of property, plant and equipment, where the Company has substantially all the risks of ownership, are classified as finance leases. Finance leases are capitalised at the inception of

the lease at the lower of the fair value of the leased property or the present value of the minimum lease payment. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

GOVERNMENT GRANTS

Grants from the Government are recognised at their fair value where there is reasonable assurance that the grant will be received.

Government subvention received is recognised in the income statement when it is committed by Government.

Government grants utilised towards capital expenditure is credited to capital grant and amortised and credited to the income statement on a straight line basis over the estimated useful lives of the related assets.

REVENUE

Subvention from Government is recognised as explained above under accounting policy for Government grants.

Interest income is recognised in a time proportion basis using the effective yield method.

FINANCIAL INSTRUMENTS

Financial instruments carried on the balance sheet include cash and bank balances, receivables, trade creditors and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

RECEIVABLES

Receivables are carried at original amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. 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 market rate of interest for similar borrowers.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities at the balance sheet.

PROVISIONS

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

FOREIGN CURRENCIES

Foreign currency transactions are translated to measurement currency using the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transaction and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

SHARE CAPITAL

The Company is limited by guarantee. Its members comprises of persons nominated to hold an interest in the Company on behalf of the Government of Botswana and Botswana Development Corporation.

In accordance with the memorandum of agreement every member of the Company undertakes to contribute such amount as may be required not exceeding P200 to the Company's assets if it should be wound up while he is a Member or within one year after he ceases to be a Member.

RISK MANAGEMENT

CREDIT RISK

The financial assets of the Company, which are subject to credit risk consists mainly of cash resources and debtors. The cash resources are placed with reputable financial institutions, and receivables are assessed for impairment.

FOREIGN CURRENCY RISK

In the normal course of business, the Company enters into

transactions denominated in foreign currencies. In addition, the Company has receivables and liabilities in foreign currencies which exposes it to fluctuation in foreign currency exchange rates.

INTEREST RATE RISK

Fluctuations in interest rate impacts on the value of short term cash investment and financing activities, giving rise to interest rate risk. The cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks.

	2005	2004
	P	P
1. OPERATING (DEFICIT)/SURPLUS BEFORE FINANCE INCOME		
The following items have been charged/(credited) in arriving at operating (deficit)/surplus before finance income:		
Audit fee - current	48 040	34 500
- prior year	1 955	-
Government subvention	(4 373 873)	(4 514 467)
Profit on disposal of property, plant and equipment	-	(15 660)
Depreciation (owned assets – note 5)		
- Computer equipment	68 697	50 940
- Furniture & equipment	130 018	99 005
Directors' remuneration		
- sitting fees	28 000	9 570
- for Management	399 360	345 292
Repairs and maintenance – property, plant & equipment	35 073	15 393
Amortisation of capital grant	(198 715)	(151 050)
	<u>48 040</u>	<u>34 500</u>
2. STAFF COSTS		
Salaries and wages	1 965 432	1 157 561
Termination benefits	332 208	373 799
	<u>2 297 640</u>	<u>1 531 360</u>
The average number of employees employed by the Company during the year	<u>10</u>	<u>7</u>
3. FINANCE INCOME		
<i>Interest income:</i>		
Bank deposits	141 669	143 188
Bank of Botswana certificates	263 869	510 741
	<u>405 538</u>	<u>653 929</u>
4. TAXATION		

In terms of the Second Schedule Part 1(x) of the Income Tax Act (chapter 52:01) the Company is exempt from tax.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

5. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment P	Furniture and equipment P	Total P
Year ended 31 March 2004			
Opening net book value	55 864	302 815	358 679
Additions	103 132	82 400	185 532
Disposals	-	(1 105)	(1 105)
Depreciation (note 1)	(50 940)	(99 005)	(149 945)
Closing net book value	108 056	285 105	393 161
Cost	218 805	384 110	602 915
Accumulated depreciation	(110 749)	(99 005)	(209 754)
	108 056	285 105	393 161
Year ended 31 March 2005			
Opening net book value	108 056	285 105	393 161
Additions	51 439	28 142	79 581
Depreciation (note 1)	(68 697)	(130 018)	(198 715)
Closing net book value	90 798	183 229	274 027
Cost	270 244	412 252	682 496
Accumulated depreciation	(179 446)	(229 023)	(408 469)
	90 798	183 229	274 027
	2005	2004	
	P	P	

6. RECEIVABLES AND PREPAYMENTS

Receivables	-	589 843
Prepayments	217 782	77 122
	217 782	666 965

7. CASH AND CASH EQUIVALENTS

Cash at bank	3 887 168	857 795
Bank of Botswana certificates	-	5 672 000
	3 887 168	6 529 795

The effective interest rate on short-term bank deposit was 9.25% (2004: 9.25%).

Bank of Botswana certificates earn an effective interest rate of 12.30% and have a 90-day maturity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

	2005	2004
	P	P
8. TRADE AND OTHER PAYABLES		
Botswana Development Corporation current account	361 195	334 476
Withholding tax liabilities	1 075 185	2 004 409
Sundry creditors	229 935	300 000
Employee benefits	533 914	169 610
Other accruals	310 760	80 748
	<u>2 510 989</u>	<u>2 889 243</u>

9. COMMITMENTS

(a) Capital commitments		
(i) Capital expenditure contracted for at the balance sheet date but not yet incurred	400 000	-
(ii) Capital expenditure approved by the Board but not yet contracted	500 000	-
(b) Operating lease commitments		
The future aggregate minimum lease payments under operating leases are as follows:		
(i) in case of vehicles		
Not later than 1 year	144 029	116 784
Later than 1 year and not later than 5 years	-	272 496
(ii) in case of rental for office premises with Botswana Insurance Fund Management		
Not later than 1 year	410 460	-
Later than 1 year and not later than 5 years	<u>2 514 527</u>	<u>-</u>

10. RELATED PARTY TRANSACTIONS

Directors' remuneration - Refer note 1

Transactions with Botswana Development Corporation		
- Office rent	205 613	300 000
- Accounting fees	14 355	72 610
- IT Services	139 720	110 880
Dues to Botswana Development Corporation	361 195	334 476

11. POST BALANCE SHEET EVENTS

The Directors confirm that there are no post balance sheet events affecting the Company requiring disclosure.

DETAILED UN-AUDITED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	2005	2004
	P	P
Government subvention	4 373 873	4 514 467
Other income (page 28)	1 128 875	166 710
Operating expenses (page 28)	(8 621 842)	(4 307 901)
(Deficit)/surplus before finance income	(3 119 094)	373 276
Finance income	405 538	653 929
(Deficit)/surplus for the year	(2 713 556)	1 027 205

The detailed income statement does not form part of the statutory financial statements covered by the audit opinion on page 17.

DETAILED UN-AUDITED INCOME STATEMENT (CONT:)

FOR THE YEAR ENDED 31 MARCH 2005

	2005	2004
	P	P
OPERATING EXPENSES		
Accounting	93 825	93 658
Advertising	927 177	478 505
Audit fees	48 040	34 500
Bank charges	16 675	10 277
Computer expenses	829	8 965
Consultancy – foreign	2 209 392	83 656
Consultancy – local	140 169	36 575
Depreciation	198 715	149 945
Directors’ fees	28 000	9 570
Entertainment	39 346	18 324
Garden maintenance	6 198	5 821
Insurance	58 533	42 913
IT support services	173 912	140 072
Legal fees	33 149	9 911
Office expenses	12 740	8 340
Printing & stationery	268 380	80 201
Public relations	845 117	466 449
Recruitment	121 619	51 960
Rent	205 613	300 000
Repairs & maintenance	35 073	15 393
Salaries and wages	2 297 640	1 531 360
Secretarial fees	12 112	3 322
Social responsibilities	9 125	2 500
Subscriptions	26 561	11 425
Telephone & postage	111 377	57 313
Training	132 270	97 724
Travel and accommodation	398 387	469 955
Vehicle expenses	171 868	89 267
	<hr/>	<hr/>
Total expenditure	8 621 842	4 307 901
	<hr/> <hr/>	<hr/> <hr/>
OTHER INCOME		
Profit on sale of fixed assets	-	15 660
Amortisation of capital grant (note 1)	198 715	151 050
Writeback of provision for interest and penalty on withholding tax liability	929 224	-
Other income	936	-
	<hr/>	<hr/>
	1 128 875	166 710
	<hr/> <hr/>	<hr/> <hr/>

The detailed income statement does not form part of the statutory financial statements covered by the audit opinion on page 17.