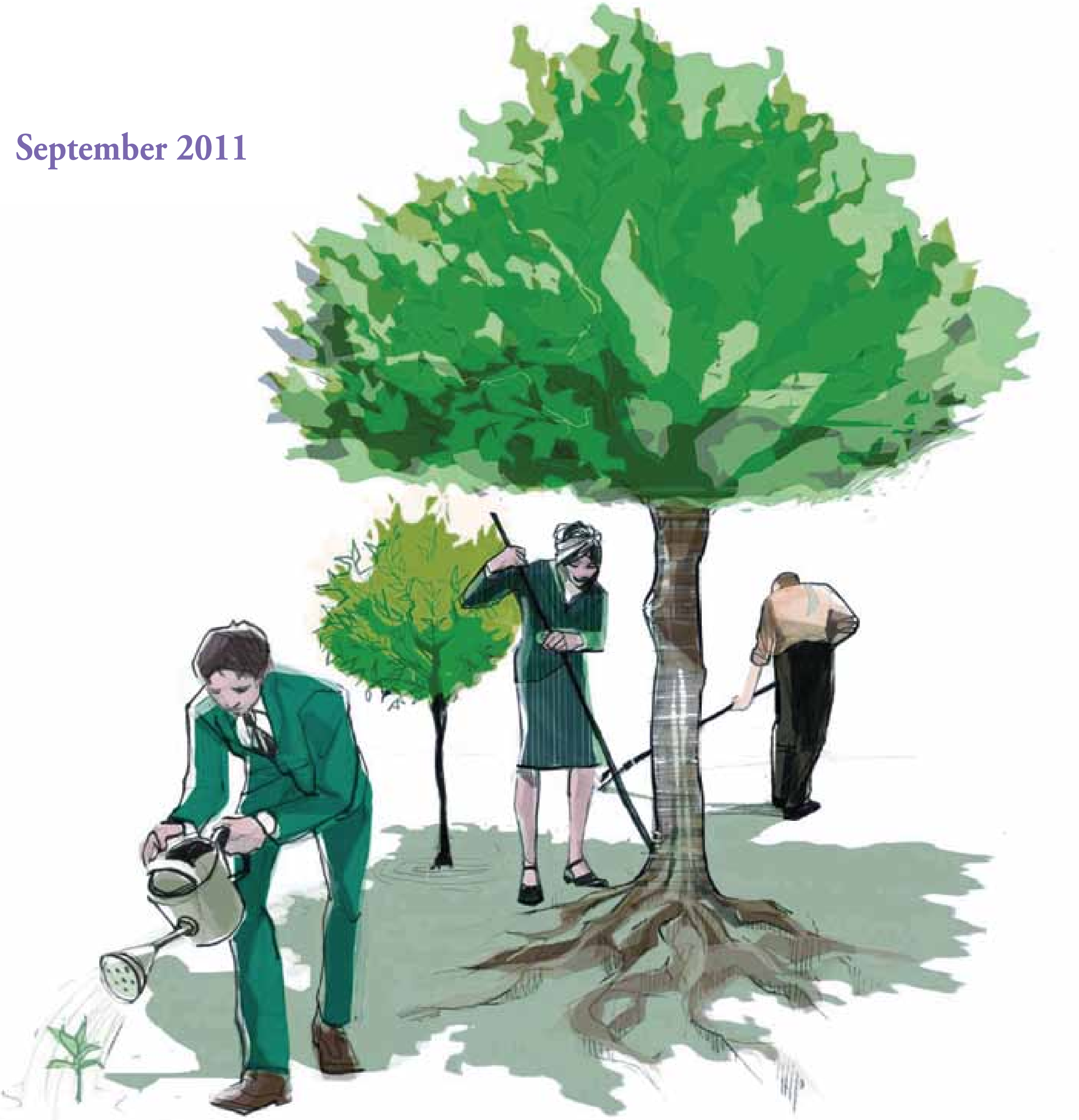
Grant Thornton

Success line

September 2011



International Business Report

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privatelyheld businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

In Botswana 175 businesses were surveyed across all industry sectors between November 2010 and May 2011. These businesses ranged from small to medium in size with total employment of between 25 and 299.

We have a summary of the Grant Thornton IBR 2011 Quarter 2 results comparing Botswana with South Africa and the Global economy.

Optimism/pessimism

- businesses in Botswana are less optimistic about the next 12 months compared with last year: the optimism balance has fallen from +62 per cent in 2010, to +54 per cent this year
- in South Africa, the optimism balance rose from +60 per cent in 2010, to +66 per cent this year
- globally, business sentiment has risen from +24 per cent in 2010 to +28 per cent in 2011.

Employment

- A balance of +40 per cent of businesses in Botswana expect to increase staff levels in 2011, Compared with +30 per cent in South Africa
- Actual employment growth reported by businesses in Botswana for 2010 (+27 per cent) was much lower than expected 12 months previously (+50 per cent).

Revenue expectations

- Revenue expectations declined slightly compared with last year, down to +61 per cent in 2011 From +65 per cent in 2010
- Expectations for revenue increased in South Africa from +62 per cent in 2010, to +68 per cent this year
- globally, +55 per cent of businesses expect revenues to increase in 2011, compared with +40 per cent in 2010.

Profitability expectations

- expectations for profits climbed 3 percentage points this year in Botswana, up from +41 per cent in 2010 to +44 per cent
- in South Africa +58 per cent of businesses expect to increase profits over the next 12 months, compared with +44 per cent in 2010
- globally, +43 per cent of businesses expect to see profits rise over the next 12 months, an increase of 14 percentage points on 2010.

Constraints

- lack of availability of skilled workers emerges as the major constraint on business growth in Botswana this year (53 per cent)
- this is also the primary constraint in South Africa, although it is cited by around a third fewer businesses (37 per cent)
- all constraints are cited by a greater proportion of businesses in Botswana than in South Africa.

Support of lender

- the majority of businesses in Botswana are happy with the level of support provided by lenders; 73 per cent class lenders as supportive or very supportive towards their business
- this compares with 79 per cent of businesses in South Africa
- 11 per cent of businesses in Botswana class lenders as unsupportive, compared to 9 per cent in South Africa.

Botswana specific issues

- a third of businesses believe the proposed changes in tax legislation will have a major impact on the investment climate of the country, with a further 37 per cent expecting a minor impact
- meanwhile, 79 per cent of respondents believe security in Botswana is the best in the SADC region
- businesses are split as to whether appropriate action has been taken to bridge the gap between scarcity of skills and the demand caused by rapid economic development: 48 per cent agree, but 47 per cent disagree.

Watch out for Quarter 3 results in our next issue.

IFRS 13 Fair Value measurement

Compiled by Raphinos M - Audit Assurance

The IASB published IFRS 13 'Fair Value Measurement' on May 12, 2011. The Standard explains how to measure fair value for financial reporting and introduces significantly enhanced disclosures about fair values. IFRS 13 has been issued in order to provide a single source of guidance for all fair value measurements and to clarify the definition of fair value. The global financial crisis highlighted the need to improve the transparency of how fair value is measured and also how fair value should be measured when the market for an asset or liability becomes less active. While the measurement principles will be unchanged in many situations, there will be individual scenarios where the effects of IFRS 13 could be significant.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013.

Principal impacts of the new standard

For real estate entities, the adoption of IFRS 13 could result in significant changes to processes and procedures for determining fair value and providing the required disclosures. While the requirement to determine fair value by reference to market participants is not new, the definition of fair value in IFRS 13 differs from that proposed by International Valuation Standards (IVS), which are the generally accepted standards for professional appraisal practice in valuing real estate internationally. The fair value framework set out in IFRS 13 contains specific requirements relating to 'highest and best use', valuation premise, and principal market. This may require entities and their appraisers to re-evaluate their methods, processes and procedures for determining fair value. The use of external appraisers, as is common for property interests (including investment property interests), does not reduce management's ultimate responsibility for the fair value measurements (and related disclosures) in the entity's financial statements. Management must understand the methodologies and assumptions used in the valuations and determine whether the assumptions are reasonable and consistent with the requirements of IFRS 13.Real estate entities may be affected by the new standard in various aspects of their business when:

- Measuring investment property interests at fair value under IAS 40
- Determining the fair value of identifiable assets and liabilities as part of the purchase price allocation applied in a business combination
- Testing a property interest or a cash-generating unit for impairment under the cost model to the extent recoverable amount is based on fair value less costs to sell
- Disclosing the fair values of property interests

The principal elements of the new standard that are relevant for real estate and construction entities are dealt with in the following sections.

Definition

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The exit price notion embodies expectations about the future cash flows associated with the asset or liability from the perspective of market participants at the measurement date, under current market conditions.

The concept of 'highest and best use'

Management is required to consider all relevant factors in determining whether the highest and best use of a property can be something other than its current use at the measurement date. IFRS 13 presumes that an entity's current use of an asset is generally its highest and best use, unless market or other factors suggest that a different use of that asset by market participants would maximise its value.

Specific application principles

Highest and best use and valuation premises for non-financial assets.

A fair value measurement considers a market participant's ability to generate economic benefits by using the asset or by selling it to another market participant who will use the asset in its highest and best use.

Highest and best use refers to the use of an asset that would maximise the value of the asset, considering uses of the asset that are physically possible, legally permissible and financially feasible.

Highest and best use is determined from the perspective of market participants, even if the reporting entity intends a different use, e.g. an entity may intend to use assets acquired in a business combination differently from other market participants. However, an entity need not perform an exhaustive search for other potential uses if there is no evidence to suggest that the current use of an asset is not its highest and best use.

The highest and best use of an asset establishes the following valuation premises for the fair value of that asset.

- **In combination.** If an asset would provide maximum value to market participants principally through its use in combination with other assets and liabilities as a group, then the fair value of the asset is measured on the basis of the price that would be received in a current transaction to sell the asset assuming that:
  - the asset would be used with other assets and liabilities as a group; and
  - the complementary assets and liabilities would be available to market participants.

To illustrate the above, consider a mixed-use property interest that has residential housing, a hotel and commercial space: if the aggregate fair value of the mixed-use property interest is higher to market participants than the sum of the fair value of the individual property interests because of synergies and complementary cash flows, the fair value of that mixed-use property interest would be maximised as a group. That is, the fair value is determined for the mixed-use property interest as a whole (i.e., the higher amount) even if the asset is disaggregated when applying other parts of IAS 40.

- **Stand-alone.** If an asset would provide maximum value to market participants principally on a stand-alone basis, then its fair value is the price that would be received in a current transaction to sell the asset to market participants who would use it on a stand-alone basis.

Both the in-combination and the stand-alone valuation premises assume that the asset is sold individually, i.e. not as part of a group of assets or a business.

Fair value hierarchy

When measuring fair value, an entity is required to use valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. IFRS 13 establishes a fair value hierarchy for doing this, which is set out below:

- Level 1: Quoted prices (ie unadjusted prices) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for the asset or liability.

Significant differences in disclosure requirements apply to each level within the hierarchy to provide users with insight into the reliability of the fair value measurement. These disclosures could be a challenge for some entities. For example, real estate valuations may end up being classified in Level 3 of the hierarchy where the valuation takes place in an inactive or less transparent real estate market, leading to extensive disclosures as to how the valuation has been produced.

Other issues covered in IFRS 13

At over 100 pages in length, IFRS 13 is a comprehensive Standard containing detailed guidance on many issues. Listed below are some of the important issues covered in the Standard:

- Valuation techniques: market, income or cost approach.
- bid-ask spreads
- the effect of restrictions on fair value measurement
- transport costs where fair value is location-specific
- blockage factors resulting from the size of an entity's holding
- liability valuation
- the relationship between transaction prices and initial fair values.

Registering your trade mark

Compiled by Corporate Services team

What is a trade mark?

A trade mark is a sign which can distinguish your goods and services from those of your competitors. It can be for example: words, logos or a combination of both.
You can use your trade mark as a marketing tool so that customers can recognise your products or services.

A trade mark must be:

- distinctive for the goods and services you provide. In other words it can be recognised as a sign that differentiates your goods or service as different from someone else's.

Trade marks are not registrable if they:

- describe your goods or services or any characteristics of them, for example, marks which show the quality, quantity, purpose, value or geographical origin of your goods or services
- have become customary in your line of trade
- are not distinctive
- are three dimensional shapes, if the shape is typical of the goods you are interested in (or part of them), has a function or adds value to the goods
- are specially protected emblems
- are offensive
- are against the law, for example, promoting illegal drugs or are deceptive.
- There should be nothing in the mark which would lead the public to think that your goods and services have a quality which they do not.

Standard trade marks make up the vast majority of marks accepted but there are other marks which indicate particular standards for goods, or that the owner of the mark is a member of an organisation.

A registered trade mark:

- allows you to take legal action against anyone who uses your trade mark without your permission
- is your property, which means you can sell it, or let other people have a licence that allows them to use it.
- may put people off using your trade mark without your permission

Requirements for trade mark registration

To be accepted, your trade mark must be a distinctive word, logo, picture or other sign that will clearly identify your goods or service from those of other traders. Made up words, logos or pictures are normally distinctive, unless they have become customary in your line of trade.

Is your trade mark already registered?

If there are other trade marks on the Trade Marks registry that:

- Look the same as (or similar to) yours, for the same (or similar) goods or services, or
- Sounds the same as (or similar to) yours for the same (or similar) goods or services

Your application could be opposed at a later date.

With this in mind, it's important that you check to see whether your trade mark isn't already being used by someone else.

A name registered with the Registrar of Companies does not ensure that the name would be registered with Registrar of Trademarks and vice versa.

With the economic growth Botswana is currently facing, it is advisable for indigenous companies to register their businesses with an indigenous trade name which can appeal to international markets. A company can have any number of trade names or trademarks. We wish to encourage growing businesses to identify and attach an appropriate trade mark to their businesses.

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