accommodating your future

# 2012 ANNUAL REPORT

## STAYING AFLOAT OF THE ECONOMIC TIDE

# VISION, MISSION & VALUES

## OUR MANDATE

Botswana Housing Corporation was established by an act of Parliament in 1970 to provide housing, office and other building needs of the Botswana Government, Local Authorities and the general public. The Corporation's affairs are controlled by a Board of Directors, the members of which are appointed by the Minister of Lands and Housing, to whom the Corporation is directly responsible.

The operations of the Corporation commenced in 1972 with the acquisition of 1,571 houses from Government to the amount of P6.5 million. The Corporation has developed a large estate in the country, with the majority in the cities of Gaborone and Francistown. The estate includes flats, town houses and a balanced mix of high, medium and low income houses.

## VISION

To be the best in Property Development and Estate Management Services.

## MISSION

To innovatively develop property and provide efficient, related services for guaranteed stakeholders' satisfaction.

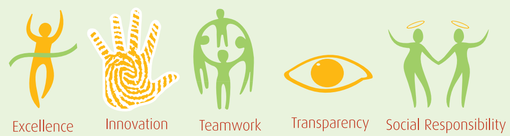
## OUR CORPORATE VALUES

* Excellence;
* Innovation;
* Teamwork;
* Transparency;
* Social Responsibility.

# CONTENTS

Staying afloat of the economic tide





# BOARD MEMBERS

**Dr. Bolelang C. Pheko**

*Board Chairperson*

**Ogomoditse B. Maruapula**

*Deputy Board Chairperson*

**Oteng S. Mamparanyane**

*Member*

**Duduzile B. Khupe**

*Member*

**Baemedi K. Mmopi**

*Member*

## BOARD MEMBERS

**Anthony Siwawa**

*Member*

**Batlhatswi S. Tsayang**

*Member*

**Stephen B. Tiroyakgosi**

*Member*

**Marina Bathuleng - Mookodi**

*Member*

**Benjamin T. Mokgolodi**

*Member*

# SENIOR LEADERSHIP TEAM

**Reginald Motswaiso**

*Chief Executive Officer*

**Milidzani Majingo**

*Deputy Chief Executive Officer - Operations*

**Sekgele Ramahobo**

*Human Resource Manager/Deputy Chief Executive Officer - Support Services (Ag)*

**Pascaline Sefawe**

*Finance Manager*

**Elizabeth Galeforolwe**

*Legal Services Manager*

**Yagan Mukonde**

*Risk Manager*

**Mookodi Seisa**

*Public & Corporate Affairs Manager*

# SENIOR LEADERSHIP TEAM

**Kesebonye Khimbele**

*Property Manager*

**Octavian Seitshiro**

*Maintenance Manager*

**Samantha Molefe**

*IT Manager*

**Botho Modisawakgomo**

*Corporate Planning Manager*

**Gaotlhobogwe Baleseng**

*Property Sales Manager*

**Paul More**

*Property Development Manager*

**Olefile Segokgo**

*Senior Estate Manager - Northern Region*

# CHAIRPERSON'S REPORT

It gives me pleasure to reflect on the Corporation's achievements over the past twelve months and also take a look into what the future could bring for the Corporation.

The past twelve months posed a lot of challenges for the Corporation, and the nation at large. Despite these challenging conditions the Corporation perfomed relatively well. Most of the challenges faced by the Corporation emanated from the ongoing global economic crisis. Other challenges include the shortage of land in strategic areas, high infrastructure costs and stagnant lease rentals. All these impacted negatively on the Corporation's performance.

## Housing units delivered

The Corporation delivered a total of one thousand and ninety six (1,096) housing units. Some of these units are not ready for occupation as they have not yet been connected to utilities.

Delays in the connection of either water or electricity to the Corporation's projects adversely affects the delivery of the housing units to the market and, consequently, the timing of cash flows from such projects. For this reason, we are trying to see how best we could enhance engagement of our fellow utility providers and all other relevant service providers, so as to ensure that there is an improvement in the timeliness of connecting water, power and all other related services to our houses beyond service level agreements.

## Slow uptake of houses

The biggest challenge we faced during the 2011/12 financial year was the slow uptake of properties by the market, as a result of the challenging economic environment which prevailed during the year under review.

## Scaling down of housing starts

The adverse cash flow situation facing the Corporation led to the re-examination of our planned construction projects. The result of this re-examination was a scaling down on the number of housing units to be started, from a target of 329 housing units to an actual of 48 housing units started.

# CHAIRPERSON'S REPORT (CONTINUED)

### Housing starts for 2012/13

For the 2012/13 financial year, we had planned to commence on the construction of five hundred and ninety-one (591) housing units. Being conscious of the fact that the economic challenges are not yet over, we have decided to develop housing units only in those areas in which we have confidence that the housing units developed would be quickly taken up. The strategy going foward is to sell houses off plan and development will only commence once reasonable commitment has been shown by customers.

### Shortage of land in strategic areas

The Corporation's efforts to develop housing units in areas where there are ready markets for residential accommodation, such as the cities of Gaborone and Francistown, are hampered by the shortage of state land in such areas. To address this problem, we are trying to acquire land from private landlords and also from villages that are within commuting distance of the two cities. Additionally, where we are successful, focus will be on developing high density units.

### Market's acceptance of high density developments

In view of the Corporation's strategy of optimising land usage through densification, I was quite pleased to note that out of the five hundred and twenty-one (521) housing units which the Corporation sold during the 2011/12 financial year, some two hundred and ten (210) units were from the high density developments. This is testament to the fact that Batswana have accepted the idea of owning a high density property as their main residence. This is very encouraging. Furthermore, it gives the Corporation the confidence to proceed with high density projects, knowing that the market will be ready to take them up.

### Conflict between Sectional Titles Act and Government Policy

The conflict between the Sectional Titles Act and the Government's policy on the sale of housing properties has not yet been resolved. The Sectional Titles Act obliges the Corporation, upon the declaration of a scheme, to offer housing units to sitting tenants, regardless of their nationality. Government Policy on BHC house sales, on the other hand, forbids the Corporation from selling housing units to non-citizens. Quite a number of units at the Corporation's existing high density developments are occupied by tenants of foreign nationalities.

As a result of this continuing conflict, the Corporation is unable to unlock the capital that is tied up in existing high density developments and, at the same time, is unable to empower Batswana tenants who wish to occupy these high density units as homeowners. The Corporation will continue to engage Government on the matter. Until the conflict is resolved, the Corporation will only be able to offer sales of property through the Sectional Titles Act on new developments.

### Single Housing Authority

Through a Presidential Directive, the Botswana Government directed that all government's housing implementation programmes be transferred to the Botswana Housing Corporation, which will become the Single Housing Authority. This means that the development of residential properties under the District Housing Programme and the Self Help Housing Agency Programme (SHHA) would be undertaken by the Corporation nationwide. The Corporation will start operating as the Single Housing Authority from 1st April 2012.

The Corporation has been assisting Government to deliver houses under the District Housing Programme for some time now. In reality, therefore, the only additional scheme that is being brought under the BHC wing is the SHHA programme. Beneficiaries under the SHHA programme will now be able to benefit from the skills and knowledge which the Corporation has accumulated over the years, since it was established close to forty (40) years ago.

The Board, management, staff and, indeed, myself are all eager to embrace this development. We are all determined to ensure that the Corporation, as the Single Housing Authority, impacts on both the quality of the houses delivered under the SHHA Programme and the timeliness of such deliveries.

### Citizen empowerment

I am also delighted that following the Corporation's implementation of a policy aimed at empowering citizen contractors, more and more contracts are being awarded to citizen contractors. In the 2011/12 financial year, citizen contractors were awarded eight contracts worth P143.5 million while non-citizen contractors were awarded five (5) contracts worth P126.3 million. This is a demonstration of the Corporation's real commitment to empowering Batswana contractors.

### Conclusion

I would like to thank my fellow Board members and the Corporation's management and staff for the courageous manner in which they responded to the various challenges. The entire team demonstrated a lot of tenacity and resilience. Had it not been for such strong characters the effects of the challenges we faced could have been more pronounced.

# CHIEF EXECUTIVE OFFICER'S REPORT

## Economic environment

During the 2011 calendar year the Botswana economy grew by 5.1%, which was less than the 7% by which the Botswana economy grew in 2010. The slowdown in the growth of the Botswana economy was mainly affected by a reduction in mining output. This slowdown in economic growth affected Government revenues and, consequently, its expenditure. During the 2011/12 budget presentation to Parliament, the Honourable Minister of Finance and Development Planning had emphasised the need for belt-tightening on the part of Government. The budget's focus was, therefore, on the completion of ongoing projects as well as the maintenance of an efficient operation of existing infrastructure as opposed to investing in new projects.

The Botswana Government is the Corporation's biggest customer in terms of house sales and lease rentals of newly developed properties. We also provide project management and other professional services to Government. Government's prioritisation on the completion of ongoing projects, inevitably, affected the Corporation's ability to grow its three main income streams, these being sales revenue, rental income and professional fees.

## Facing up to the economic challenges

The Corporation's financial performance continued to be impinged on by the ongoing economic challenges, which continue to distress the global economy. The challenges have continued to affect the purchasing power of our potential customers.

## Revenue growth

Despite the economic challenges BHC faced during the 2011/12 financial year, the Corporation still managed to grow its total revenue by 10%. The growth in revenue resulted, mainly, from the Corporation's strategy of replacing housing units disposed off from the rental stock with newly completed houses, which are introduced into the rental stock at market rentals. This way the Corporation was able to achieve some level of growth in its rental stream despite the fact that the Corporation has not been able to increase rentals since 2004.

# CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

### House sales

The reduced Government expenditure, coupled with the reduced affordability at the individual customer level, resulted in the Corporation managing to sell only five hundred and twenty-one (521) housing units, out of a target of six hundred and sixty-four (684) housing units. Another contributing factor to the Corporation's inability to reach its sales target was the fact that a number of the newly completed housing units that were available for sale were located in peri-urban areas. The demand for houses in such markets is not as strong as in a city, such as Gaborone.

Compounding the generally lower demand for residential properties in peri-urban areas is the fact that when financing the purchasing of properties located in such areas, financial institutions, generally, tend to impose much stricter lending criteria, in terms of the amount of loans these institutions are prepared to advance to potential buyers as a percentage of the property's value. The acceptable loan to value ratio for peri-urban units is much lower than that of urban housing units. In other words, financial institutions require customers purchasing properties located in peri-urban areas to provide relatively higher top-up amounts, as compared to the top-ups they would demand if the properties were located in cities.

The gap between the actual number of houses sold and the target could have been even higher had we not taken the initiative of stepping up our campaign of encouraging our sitting tenants to come forward and buy the houses they are renting from the Corporation. Quite a number of individual tenants responded positively to this campaign, resulting in the Corporation selling some two hundred and eighty-three (283) housing units to individual customers. The number of houses sold to individuals represents about 54% of all the houses sold in the 2011/12 financial year.

### Development of marketing strategy

Following the onset of the global crisis, and the challenges articulated above, we have come to the realisation that we need a robust marketing strategy, whose implementation would assist us in proactively marketing our products. This marketing strategy will be fully implemented in 2012/13. The Corporation has now developed the marketing strategy which commenced in the 2011/12 financial year and it is expected to promote products and improve our sales and revenues.

### Profit margins on house sale

Historically, the Corporation has applied lower profit margins to houses developed for sale in peri-urban areas, as compared to those developed in cities. But, being faced with the much slower moving housing inventories, as a result of the economic challenges already alluded to, we found ouselves with little option but to re-look at our profit margins. Consequently, although house sales' revenue grew by 34% in the 2011/12 financial year, the cost of houses sold grew by a much higher percentage of 59%, reflecting a significant drop in the profit margin applied to the sale of properties in the 2011/12 financial year.

### Cost cutting measures

Being mindful of the impact the prevailing economic situation was having on the Corporation's revenue streams and its profitability, the Management considered ways in which the Corporation's profitability could be enhanced and one of those was through cost reduction. In trying to identify areas in which cost reduction measures could be effected, management was conscious of the need to ensure that the Corporation's capability to emerge from the current economic challenges strong was not compromised.

### Surplus for the year

The net result of all this is that the Corporation missed its net surplus target for the 2011/12 financial year by 3%. The Corporation had budgeted for a surplus of P51.8 million but ended up realising a net surplus of P50.4 million.

# CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

## Our people

Our employees are a critical pillar and asset to the business. We therefore continue to invest in them by putting in place value adding programmes through our training and development plan which is reviewed every year based on the requirements from the strategy review and the gaps identified through our performance management system. This ensures that our staff members are up-skilled to keep them ready for challenging and changing business conditions. Our Performance Management System is in the third year running and we have seen a positive change in accountability to performance.

## Enterprise Resource Planning System (ERP)

We are in the process of implementing an ERP system. This is a great investment on the integrated solution that we will hugely benefit positively from. The system implementation processs is expected to start in May 2012 and go live in April 2013.

## Corporate social responsibility

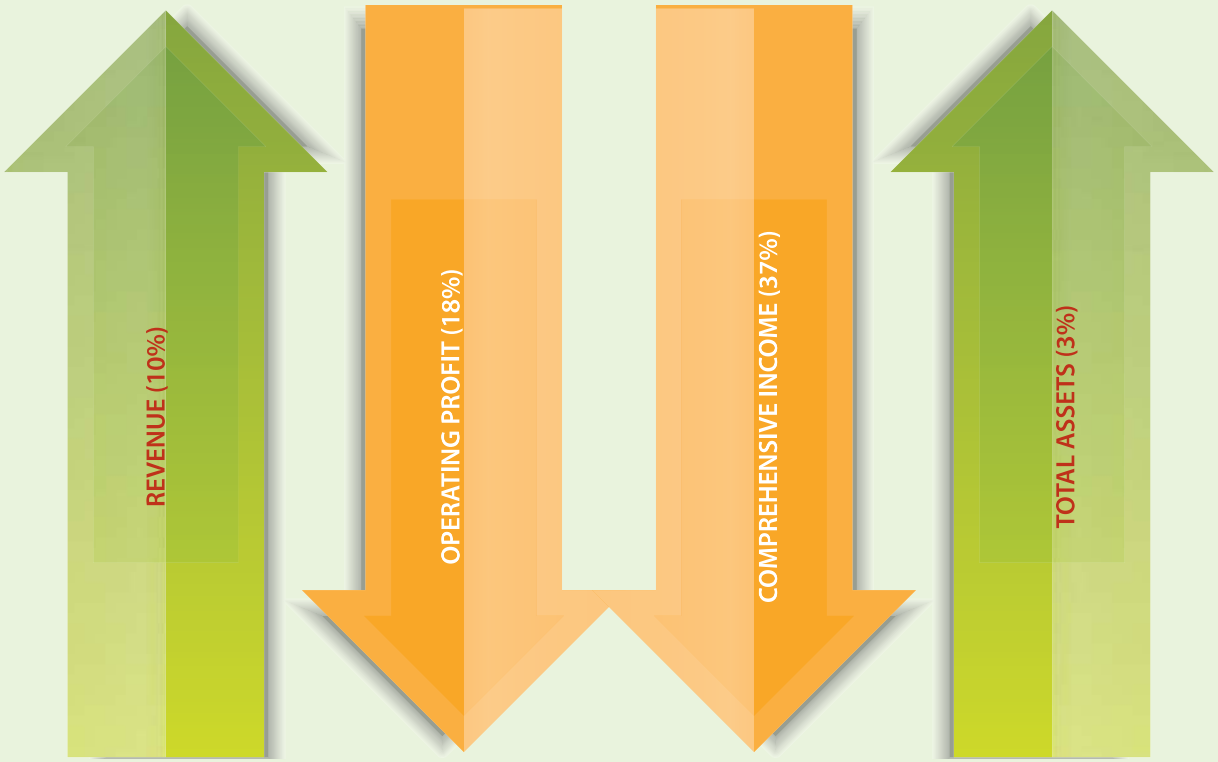
Despite the challenges faced in the 2011/12 financial year, we continued to undertake projects that were aimed at taking care of the environment in which we operate and, additionally, took steps aimed at uplifting the lives of the disadvantaged in our communities. In this regard, we undertook the following projects, among others:

- Donated clothes and food hampers in various areas across the country;
- Facilitated the planting of indigenous trees in Ga Phatshwa and Kasane;
- Donated funds to a children's charity, so as to assist the charity with the purchasing of supplies;
- Participated in the starting up of a vegetable garden for the children's charity;
- Donated funds to a society for the deaf; the funds went towards the facilitation of training in sign-language;
- Donated Christmas hampers to the paediatric wing of Sekgoma Memorial Hospital.

## Gratitude

I would like to take this opportunity to express my gratitude to members of the Corporation's Board, whose support, guidance and counsel were very crucial during the tough trading conditions of the 2011/12 financial year. I would also like to thank my management team and the entire BHC workforce, for their tireless efforts of trying to ensure that the Corporation succeeds in the face of adversity. Last but not least, I pay homage to our most valued customers and other stakeholders who supported us during 2011/12.

# FINANCIAL HIGHLIGHTS




- Revenue increased by 10%, from P312 million to P343 million.
- Operating profit decreased by 18%, from P86 million to P71 million.
- Comprehensive income decreased by 37%, from P79 million to P50 million.
- Total assets increased by 3%, from P2.5 billion to P2.6 billion.

# FINANCIAL HIGHLIGHTS (CONTINUED)

## FINANCIAL REVIEW

The financial review analyses the annual financial performance of Botswana Housing Corporation for the year ended 31 March 2012.

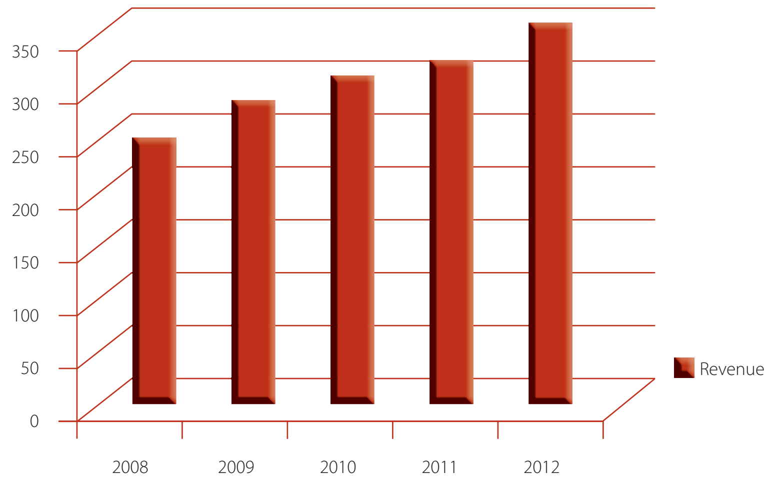
### Basis of preparation

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Botswana Housing Corporation Act.

### Revenue

The Corporation's revenue grew by 10%, from P312.5 million to P342.5 million despite difficult trading conditions brought about by the cut in government expenditure and the reduced affordability levels of our customers. Rental income grew by 8% despite the stagnant rentals charged by the Corporation in relation to the costs of the inputs. Despite the slow uptake of BHC's properties in Francistown, Serowe and Mahalapye, sales revenue grew by 34% on the back of target marketing towards sitting tenants. Professional fees earned by the Corporation for management of third party projects, especially Government and other Government related entities declined by 56%, negating the growth in other revenue lines. This decline was mainly due to budget cuts on the part of government which led to fewer projects undertaken in this financial year.

GRAPHICAL PRESENTATION OF REVENUE




### Operating Profit

Operating profit declined by 18% mainly on the back of the increases in costs, especially the costs of maintenance of housing properties which grew by 23% while the rentals charged to customers have remained stagnant over many years as regulated by the shareholder. In an effort to reduce maintenance costs in the medium to long term, the Corporation has put in place cycle maintenance of all properties in order to reduce the costs of re-active maintenance. The cycle maintenance is being carried out over a period of three years.

Increasing construction costs have also contributed to the reduction in operating profit, with cost of sales having grown by 59%, a rate which is higher than the growth in sales revenue. Management is exploring alternative methods of construction in an effort to find cheaper and quicker ways of building and this is expected to go a long way into reducing the construction costs.

Due to the restricted growth in the Corporation's revenue, the focus during the year was on cost cutting; hence employee expenses and other expenses recorded a small growth of 5% and 3% respectively. The cost reduction strategies adopted by the Corporation in this reporting period will continue into the next financial years.

# FINANCIAL HIGHLIGHTS (CONTINUED)

### Surplus for the year

Total comprehensive income went down by 37% due to an increase in financing costs which grew by 82% on the back of increased borrowings and increase in joint venture income by 2%. Though the results for this financial year are lower when compared with the previous year, the Corporation has achieved the expected results per the plan for 2011/12.

### Statement of financial position

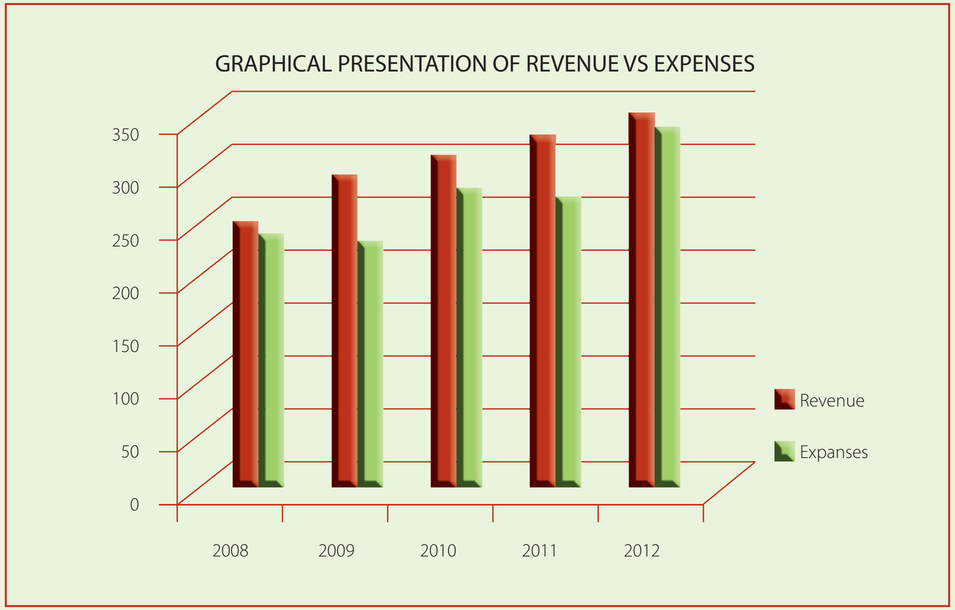
### Asset Growth

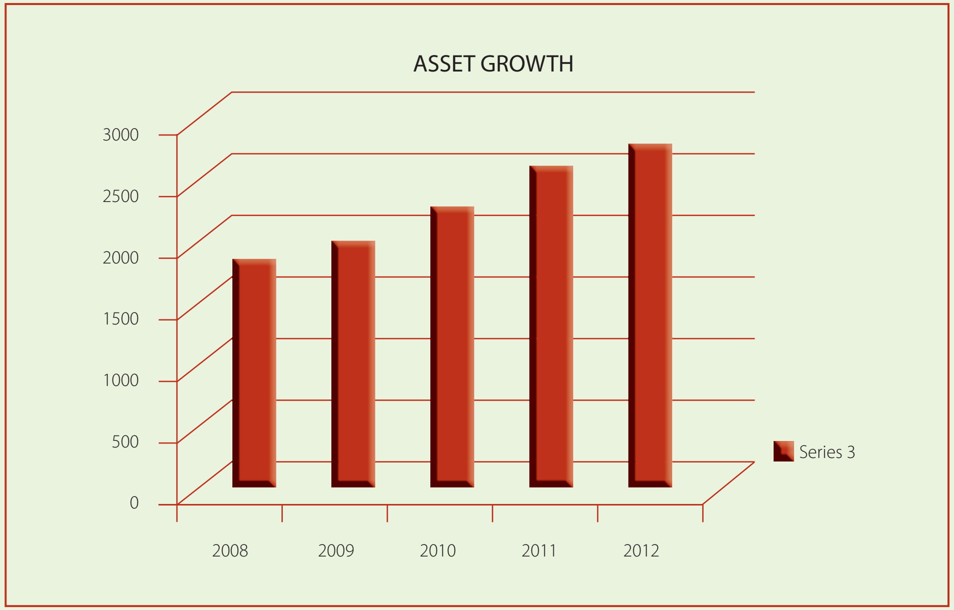
The Corporation's statement of financial position remained strong with total assets growing by 3%, from P2.5 billion to P2.6 billion. The growth in the financial position was sustained despite the decision by Management to scale down on construction of new projects owing to the slow moving inventory. This should change as there are indications of positive movement on the properties in 2012/13 financial year.

### Cost to Income Ratio

### Cost to Income

The Corporation recorded lower cost to income ratio of 81% compared to 75% in the previous year. This was mainly on the back of an increase in repairs and maintenance costs.



# CORPORATE GOVERNANCE

## THE BOARD

The Board is the governing body of the Corporation and is appointed by the Minister of Lands and Housing.

In terms of the Botswana Housing Corporation Act, the Board shall consist of not less than seven or more than ten members. All Board members are non-executive members and are drawn from diverse backgrounds in the private and public sectors.

# CORPORATE GOVERNANCE (CONTINUED)

Board members are appointed for a period not exceeding four years but eligible for re-appointment.

In order to ensure continuity, the appointments of members are staggered such that not more than one third of the appointments expire in any one year.

The Board normally meets every quarter and further meetings can be scheduled at short notice should the need arise.

Their collective experience enables them to provide sound, independent and objective judgment in decision making. Members are jointly accountable for decisions of the Board.

The Board meets to review performance, give direction and ensure that management pursue the best interests of all stakeholders.

Members contribute to strategy formulation as well as monitoring and measuring the Corporation's performance and its executive management against key performance indicators.

## MEMBERS OF THE BOARD

The Board Chairperson is Dr. Bolelang C. Pheko and the Deputy Chairperson is Mr. Ogomoditse B. Maruapula.

The other members are:
Mr. Oteng S. Mamparanyane; Mr. Batlhatswi S. Tsayang; Mrs. Duduzile B. Khupe; Mr. Anthony Siwawa; Mr. Baemedi K. Mmopi; Ms. Marina Bathuleng-Mookodi; Mr. Benjamin T. Mokgolodi and Mr. Stephen B. Tiroyakgosi.

## BOARD COMMITTEES

In terms of Section 12 of the Act, the Board may appoint Board Committees and may delegate to such committees its powers or functions as it may specify in each from time to time.

For the year under review, there were three Board committees: The Finance and Audit Committee; the Human Resource Committee and the Tender committee.

The committees are directly responsible to the Board.

## FINANCE AND AUDIT COMMITTEE

The Committee consists of not less than four or more than five members of the Board and it comprised of the following members:
Mr. Baemedi K. Mmopi (Chairperson); Mr. Oteng S. Mamparanyane; Mrs. Duduzile B. Khupe; Mr. Anthony Siwawa and Mr. Stephen B. Tiroyakgosi.

The Committee met every quarter. It considers the viability of projects to be undertaken by the Corporation, reviews the Corporation's internal and external audit reports and agrees on the scope of the audits. The Committee also reviews and considers Financial, Accounting and Audit reporting issues and ensures that there are effective internal control measures in place.

The Committee reports at every Board meeting.

The committee met eleven (11) times during the year.

## THE HUMAN RESOURCES COMMITTEE

The Committee consists of not less than four or more than five members of the Board and it comprises of the following members:
Mr. Batlhatswi S. Tsayang (Chairperson); Mr. Ogomoditse B. Maruapula; Mrs. Duduzile B. Khupe; Mr. Stephen B. Tiroyakgosi and Mr. Benjamin T. Mokgolodi.

The committee ensures that the Human Resource in the corporation is both adequate and capable to deliver on the strategic objectives of BHC therefore it considers the appointment of senior staff, reviews the Human Resource needs of the Corporation and determines that there is efficient and effective management of such resources.

The Committee met seven (7) times during the year.

# CORPORATE GOVERNANCE (CONTINUED)

## THE TENDER COMMITTEE

The Committee consists of not less than four or more than five members of the Board and it comprised of the following members:
Mr. Oteng S. Mamparanyane (Chairperson); Mr. Ogomoditse B. Maruapula, Mr. Baemedi K. Mmopi; and Mr. Benjamin T. Mokgolodi.

The Committee ensures that there is fairness and efficiency in the process of procurement of Works and Services as well as to ensure transparency in the award of contracts.

The committee met six (6) times during the year to discharge its responsibility.

## BOARD FEES

The remuneration of members of the Board is fixed per sitting determined by the Minister of Finance and Development Planning from time to time.

The current fees are:

| | | |
|---|---|---|
| Board Chairperson | - | P1050.00 |
| Deputy Chairperson | - | P840.00 |
| Member | - | P840.00 |

Travel and accommodation costs incurred by members of the Board in the course of carrying out their duties are reimbursed or paid for by the Corporation.

## CORPORATE GOVERNANCE FRAMEWORK

The Corporation currently has put in place Corporate Governance Instruments and practices as prescribed in the Corporate Governance Framework by PEEPA.

- Board Charter - which articulates Board roles and responsibilities, compliance and delegation of authority;
- Shareholder compact;
- Merit Board Nomination process;
- Board Evaluation;
- Board Members Interest Register - The Corporation maintains a register with details of each Board member's interest. It is expected that whenever it is felt that there is a conflict of interest the member will, in accordance with the BHC Act, recuse him/herself from the discussion at both Board and Committee meetings when the issue giving rise to the conflict of interest is considered.

## INTERNAL AUDIT

The Internal Audit function falls under the Risk Department. The function keeps the Board and Management fully appraised of the activities of the Corporation as regards to protection of assets, the efficiency and effectiveness of the operations and alerts them of potential risks and how Management is responding to those risks. Internal Audit performs periodic independent evaluation of the adequacy and effectiveness of internal controls, information systems and records. Internal Audit has a three-year audit plan, which sets out priority areas but also carries out random audits on operations.

Internal Audit reports to the Board on a quarterly basis.

# OPERATIONS DIVISION

1.1 Financial year 2011/12 was a challenging one for the Division and indeed the Corporation at large. Whilst the Division discharged its mandate of building new estates, rental and/or sale of its estates, it faced challenges as a result of the difficult economic conditions that it was operating under. The Operations Division is made up of Property Development, Property Management, Property Sales, Property Maintenance, Public and Corporate Affairs and Regional Office North.

1.2 The Division's achievements for the financial year 2011/12 are outlined as follows:

# OPERATIONS DIVISION (CONTINUED)

## 2.0 PROPERTY DEVELOPMENT

2.1 Owing to the challenging trading conditions, the Corporation largely focused on delivering on-going projects and delayed starting most of the planned projects. This was a sound business decision, as it enabled the Corporation to focus on ongoing projects and avoid acumulation of stock in the view of slow moving inventory.

### 2.2 Housing Starts

2.2.1 The following projects were started:

a) Lobatse - 9 high cost houses
b) Gaborone - 24 executive town houses in the Village
c) Palapye - 15 flats

2.2.2 Land allocation and planning challenges resulted in the delay to start 190 housing units in Palapye and another 100 units in Francistown.

### 2.3 Housing Delivery for the Public

2.3.1 For the year under review, 888 residential units were delivered in the following locations:

a) Mahalapye - 235 units
b) Serowe - 266 units
c) Gaborone - 1 detached unit and 325 Flats
d) Selibe-Phikwe - 42 detached units
e) Lobatse - 20 detached units

2.3.2 At the end of the financial year, construction of 258 detached units had been completed in Phakalane. The remaining units are at an advanced stage, and construction will be completed at the beginning of the second quarter of the next financial year. However, these could not be recorded as deliveries for the year owing to the challenge that the Corporation experienced with regard to water connection. Water Utilities Corporation (WUC) advised BHC that water could not be connected as the sewer infrastructure in the area did not have the capacity to handle additional waste generated from the houses. The two Corporations, BHC and WUC are now jointly exploring an interim solution with a view to getting the houses occupied.

2.3.3 Another 126 detached houses in Jwaneng, for which construction was completed before the financial year were not delivered as their delivery hinged on power reticulation for the entire area and this fell under the ambit of Ministry of Lands & Housing's Technical Division. The reticulation process only started towards the end of the financial year, hence the houses will be delivered in the first quarter of the 2012/13. A total of 124 houses that were supposed to be delivered in Ghanzi this financial year will only be delivered in the first quarter of 2012/13 owing to delays in connecting the sewer infrastructure, and the remaining 82 units will be delivered in the second quarter of the next financial year owing to contractor performance issues.

2.3.4 The Corporation also started and delivered the following projects for third parties:

a) Ministry of Lands & Housing - 26 houses were completed in various locations in the country for District Housing
b) Botswana Defence Force - 178 units were delivered in different locations
c) Independent Electoral Commission - One office block was completed in Maun.
d) Malete Land Board - 4 units

2.3.5 The process of generating value out of existing high density developments in Gaborone has started. For some of these developments, there is some space that could be utilised for construction of additional units, while there will be a need to demolish some existing units in order to build more, thus optimizing on land usage. This project is at design stage and it is envisaged to start at the end of the second quarter of the next financial year.

# OPERATIONS DIVISION (CONTINUED)

2.3.6 Self Help Housing Agency (SHHA) Houses

In July 2010, the government through Presidential Directive CAB 20(B)/2010 directed that all government's housing implementation programmes should be transferred to Botswana Housing Corporation (BHC). This meant that the Corporation would serve as the government's single housing authority. Hitherto this appointment, all SHHA developments were controlled by district councils. However, under the new arrangement, all residential developments for government will be centralised at BHC. This includes all new district and SHHA housing schemes to be undertaken countrywide. Over 600 units are planned for construction during the 2012/13 financial year.

2.4 Alternative Methods of Construction

2.4.1 The issue of alternative methods of construction as a mode of exerting downward pressure on costs has been debated in a number of housing fora. Through research, it has become increasingly evident that non-conventional approaches to construction do not necessarily yield a substantial reduction in construction costs. In fact, the only saving that is likely to be achieved would be in construction of walls, but walls do not necessarily form a major cost component in construction as they only account for at most a fifth of construction costs on average.

2.4.2 In the absence of a significant cost reduction, efficiencies may be derived through accelerated speed of construction. While speed of construction would be important to the Corporation as it might facilitate early unlocking of capital in development projects, for potential customers, the most important thing is not necessarily speed, but rather the cost and acceptability of the product. Hence, for alternative methods of construction to be embraced, they should be supported by a significant reduction in price relative to conventional construction.

2.4.3 For this year, the Corporation engaged a number of purveyors of alternative methods of construction with a view to assessing viability of such methods of construction vis-à-vis the conventional brick and mortar method. For those alternative methods assessed, all of them failed to create a minimum value of 10%. Hence, the Corporation did not have sufficient motivation to go for any of these methods of construction. The Corporation will continue exploring other alternative methods of construction for the next financial year.

## 3.0 PROPERTY MANAGEMENT DEPARTMENT

3.1 The Property Management department is charged with the management of the Corporation's real estate. Its duties include amongst others, the maintenance of the property asset register, leasing and collection of revenue.

3.2 At the beginning of the 2011/12 financial year, the total rental portfolio stood at 10,408 units and increased through the year to close at 10,794 as at 31st March, 2012. The portfolio had a net increase of 3.6% during the financial year. Increase in stock was due to delivery of new developments in Gaborone Block 7, Serowe and Mahalapye. The increase in the portfolio was matched by a corresponding increase in rental income from P163.5 million for 2010/2011 financial year to P176.4 million in 2011/2012 financial year. This represents a 9% year on year increase. In addition, the department surpassed the 2011/2012 rent receivable budget of P174.4 million by P2 million to reach P176.4 million by the end of the financial year.

3.3 To optimize cost, the Department has a target to keep occupancy of BHC properties to at least 99% representing a vacancy rate target of at least 1%. As at April 2011, the vacancy rate stood at 1.15% and averaged to 1.93% for the financial year. The increase was due to a large number of properties delivered in the third and fourth quarters of the year. With a fair letting period of 3 months, this vacancy is expected to dissipate in the 1st quarter of 2012/2013 financial year and normalise to 1% as desired.

3.4 The arrears level stood at P4.3 million as at 31st March 2012. This constitutes of debt rendered uncollectable at 70% of the arrears. A proposal for write off of this debt is under consideration.

# OPERATIONS DIVISION (CONTINUED)

## 4.0 PROPERTY SALES DEPARTMENT

4.1 This organ of the BHC is mandated with the Corporation's property sales management. The principal objectives of the Department are to empower Batswana through homeownership, as well as raise revenue for the Corporation through property sales.

4.2 Four Hundred and Eighty (480) housing units were sold against a target of 684 housing units. Revenue raised from the sales was P200 million against a target of P309 million. Of the 480 housing units sold, 258 were purchased by individual Batswana at P69 million. The other 222 housing units were sold to citizen controlled companies, Parastatals and Government Institutions or Departments at P131 million.

4.3 The Department continued with implementation of the new Sectional Titles method of selling high density property. Out of 480 housing units sold, 210 flats were sold to individual Batswana, citizen controlled companies and Government Departments. P125.2 million was raised from the Sectional Titles sales. However, all these sales were from new developments. Effective roll out to existing (old) high density properties is yet to be realized owing to pending issues pertaining to the Sectional Titles Act and Government/BHC policies.

4.4 Albeit the Corporation's in-house schemes of Tenant Purchase Scheme (TPS) and Step Ownership Scheme (TPS) having been suspended, the Department still manages the existing accounts and portfolio through a fully fledged Credit Control Section. The main objective is to curb, control and maintain arrears at optimum levels. The financial year's target was to reduce arrears from P1.1 million as at 1st April 2011 to P0.5 million by 31st March 2012. The arrears were reduced to P499,000.00. Meanwhile, 203 accounts were settled or cleared. As at 31st March 2012, the TPS/SOS portfolio stood at 1,100 houses countrywide, with book value of P55 million.

### 4.5 Challenges faced by the Corporation

4.5.1 Low rentals enjoyed by sitting tenants, especially of properties built prior to 2004, continue to be detrimental to sales. Tenants prefer to prolong renting than paying mortgages since the rentals are substantially lower than mortgage installments, even at maximum terms of 20 to 30 years.

4.5.2 Slow take up of new houses in peri-urban areas like Serowe, Ghanzi and Mahalapye continue to be experienced. This is mostly due to prices pushed up by high costs of building there, and hence in the margins not anticipated and affordable by potential buyers. Financiers too exercise stricter terms when financing properties in these areas, including reduced loan to customers as a percentage of value. Although the costs of building become higher in these areas, market values are lower due to location.

4.5.3 As long as the contradiction between Sectional Titles Act and Government/BHC policies is not resolved, roll out of Sectional Titles to existing (old) properties would not be implemented. The conversion of the high density properties, as well as preparatory works including specific education of tenants, are dependent on the resolution.

## 5.0 MAINTENANCE DEPARTMENT

### 5.1. Maintenance of BHC Properties

#### 5.1.1 Cycle Maintenance

The target for the 2011/12 for Cycle (planned) Maintenance was set at 2,064 housing units, and we achieved 2,107, compared to 1,860 units against a target of 1,796 for the (2010/11) financial year. The target was surpassed by 43 units. This slight over performance can be attributed to the mix of units picked and the relatively good state of repairs of the rental stock.

#### 5.1.2 Reactive Maintenance

The cost of reactive maintenance was much lower compared to the budget for the period. Against a budget of P9,671,834.00 we had an actual of P5,078,094.75. The favorable variance is attributed to an adjustment of old transactions from accrual account amounting to P3,222,974.95 as per recommendations of the external auditors.

# OPERATIONS DIVISION (CONTINUED)

### 5.1.3 Chargeable Maintenance

The Department had put more effort in making sure that those who willfully and negligently caused damage to our properties paid for such damage. Against a target of P3,627,201.88, an amount of P1,243,753.69 was realized. The difference was to have been achieved through the third party maintenance fees with a government department that did not go through. Prior year collections were at P1 million.

### 5.1.4 Closure of Work Orders

The Department has continued to do well in the cleaning of work orders that had not been signed off (closed) in the Computerised Maintenance Management System (CMMS). Despite the limitations of the current CMMS, a record 99% of work orders had been closed against a target of 98%. With the advent of the ERP, the Department is looking forward to a new Maintenance module that will ease off most of the challenges the Department had faced with the current one.

## 6.0 PUBLIC AND CORPORATE AFFAIRS DEPARTMENT

### 6.1 Stakeholder Engagement

6.1.1 The Corporation held a number of activities as part of its stakeholder engagement initiatives in the year under review. The objectives of these initiatives were to educate the public about the Corporation's mandate, create awareness about the various products and service offerings. Furthermore, the interaction with various stakeholders worked towards cementing the mutually beneficial relationships and ensuring improved quality service in the Corporation's operations.

### 6.2 Stakeholder Interactions

6.2.1 The year under review saw the Corporation engaging in various internal and external stakeholder forums which included meetings, fairs, exhibitions and educational campaigns.

The Chief Executive Officer visited all offices to appraise staff on the Corporation's performance and challenges as well as to solicit feedback on matters of common interest. The Corporation, through the Public and Corporate Affairs Department, also participated in the BOLESWANA Relationship Building Exercise, which was held in Mbabane, Swaziland. The objective of this exercise was to forge relations between the like-minded participating organisations through sport and cultural exchange programmes.

6.2.2 Several meetings with stakeholders including land boards, councils, Tati Nickel Mining Company and First National Bank Botswana were also held during the year under review. The objective of these meetings included marketing the Corporation's products and discussing issues around mortgage and lending facilities. Furthermore, the Corporation welcomed the new Minister of Land and Housing, Hon. Lebonaamang Mokalake who was briefed on the adopted five year strategic review.

### 6.3 Marketing Communications

6.3.1 In the year under review, the Corporation continued its quest to market and promote its products and services through various forums such as fairs and exhibitions. The BOCCIM Northern Trade Fair, Property Investment and Construction Exposition and the Consumer Fair were some of the activities that the Corporation took part in to create awareness about its products and services as well educate Batswana about its mandate. As part of its marketing and promotions efforts, the Corporation sponsored the Gantsi District Show Football Tournament to the amount of P60,000.00 for two years and also took part in the Agricultural Show to showcase its products and services as well as market its newly developed houses in Gantsi. Furthermore, 235 newly developed houses in Mahalapye's Moko and Kanamo locations were launched as part of efforts to promote homeownership among Batswana.

# OPERATIONS DIVISION (continued)

## 6.4 Corporate Social Responsibility

6.4.1 The Corporation continued to make significant contributions towards the less fortunate by lending a helping hand. During the year under review, the Corporation in conjuction with its staff donated clothing and food hampers to several needy families in Loologane in the Kweneng District. The Corporation also donated clothing items to the Red Cross Society in Kasane and 100 indigenous trees to residents of Plateau still in Kasane. A newly built day care and counselling centre were handed over in Dutlwe as part of the Corporation's efforts to support local communities. An environmental rehabilitation exercise which saw indigenous trees being donated to residents of Ga-Phatshwa in the Kweneng District was also carried out during the year under review. Other notable beneficiaries were the Community Capacity Enhancement and Empowerment Society in Middlepits, Botswana Society for the Deaf and Sekgoma Memorial Hospital's Paediatric Ward, which received a total of P150,000.00.

## 6.5 Customer Consultative Forums

6.5.1 In our drive to enhance excellent customer relations, the Corporation through its Customer Care Unit hosted tenant meetings in both Gaborone and Francistown; other forums included meetings with our big Corporate Customers. The meetings form part of our outreach program which helps us to reach out and connect with our customers. It is a forum through which we relay important information as well as solicit feedback from our customers and other interested stakeholders. The feedback from our customers and other stakeholders is an important input in future projects as well as to help us understand our customers and the local property market.

## 6.6 Densification Project

6.6.1 Tenant meetings were held from the 12th to the 21st March 2012. The objective of the tenant consultation meetings was to inform tenants occupying target high density properties about the proposed densification project, its implications on their lease contracts as well as the actual developments proposed for each identified site. The Densification Project is a project initiated by the Corporation which aims at the optimal use of land in existing high density estates by either developing additional units or demolition of existing structures to develop more properties with target sites. A total nine (9) sites were visited in Gaborone and tenants received the proposed project with mixed feelings, some fear that they are going to lose their rented units while others praised the idea indicating that it is going to give them the opportunity to buy the rented properties.

## 6.9 Customer Satisfaction Index (CSI) Survey

6.9.1 The study is used to measure both internal and external Customer Satisfaction and its objectives include but not limited to the following; to identify critical customer issues, gain valuable customer feedback, track changes in customer satisfaction and monitor and measure employee satisfaction. The primary target is current BHC tenants and BHC employees. The tables below summarise the Corporation's CSI for the period between 2004 and 2010.

# OPERATIONS DIVISION (CONTINUED)

## EXTERNAL CUSTOMER SATISFACTION INDEX

Table 1: Summary of the external Customer Satisfaction Index for the period 2004 to 2010

6.9.2 The table above shows that the BHC's CSI indices have been increasing over time except in 2006 where there was a decline mainly due to the introduction of the new maintenance setup, outsourced maintenance services. It took time for tenants to receive all the necessary customer education and understand the benefits of the new setup. There has been a percentage increase of 65% in the customer satisfaction index between 2004 and 2010. This shows a great improvement in the way the Corporation relates to its customers.

# SUPPORT SERVICES

## HUMAN RESOURCES

In an effort to create an environment that enables high performance by employees, the Corporation continuously reviews its Human Capital Management systems, policies and other interventions which have a bearing on employee motivation to deliver value. A number of systems and employee assistance schemes were reviewed during the year under review, as a means of addressing employees' needs as well as meeting operational requirements in the administration of some of the facilities by the Corporation and third parties. The Corporation strives to ensure that it is adequately resourced and its employees are up-skilled and inspired to positively contribute towards the attainment of the Corporation's Mandate.

# SUPPORT SERVICES (CONTINUED)

## Employee Competencies Development

The Corporation recognises that in the process of strategy execution, an effective human resource management is a critical success factor. It further recognises that in the current business environment, competitive advantage lies with the individual employees and teams as they differentiate their products and services through service delivery. The critical driver for performance is therefore the Corporation's ability to timely place the right people with the requisite competencies in the right positions.

As a result, the Corporation is continuously investing on initiatives that are aimed at building the required behaviours. Employees are also encouraged and supported to enroll with reputable training institutions. For the year 2011/12, a total of 138 employees attended skills development short courses. Three (3) employees completed their post-graduate programmes through the Corporation's education assistance scheme.

## BHC Staff Pension Fund

As at 31st March 2012 the BHC Staff Pension Fund had a total membership of 285 active members and 138 deferred members, a growth in membership of 19 and 4, respectively, from the 2011/12 financial year.

The Fund is administered by Alexander Forbes Financial Services (Botswana) (Propriety) Limited and the Fund's Investment Manager is African Alliance Asset Management.

## Wellness Programme Implementation

To facilitate access to the Corporation's Wellness Programme for employees, we have 25 "Relationship Management" trained Wellness Champions. The champions help employees with various wellness issues at their respective offices. Other activities included health screenings and tests for employees and commemoration of National health days.

## Review of Human Resources Policies and Procedures

The Corporation reviewed its human resource management policies and procedures. The review process has resulted in new policies and procedures being introduced including a policy on sexual harassment and another on paternity leave. Other existing policies and procedures were also reviewed, including staff housing policy and guidelines. The reviews were intended, amongst other things, to address legislative changes and approved changes in the Corporation's human resource management policies and practices. The review process also resulted in an introduction of a self service facility within the Corporation's HR Focus IT system. The facility was introduced to enable employees to interact with the system for purposes of updating personal records and for leave applications and processing. Through this facility, leave applications and processing is done on-line and thus eliminating the use of paper for leave applications.

# SUPPORT SERVICES (CONTINUED)

## INFORMATION TECHNOLOGY

The Corporation anchors Information and Communications Technology as an enabler to do business efficiently and effectively to deliver our mandate. A three year strategy is in place to ensure that the Corporation's business requirements are met. IT falls under the Support Services Division, and provides Information Systems and Technology support to all the Corporation's departments. The department has 3 major areas of responsibility being Networks, Projects and Development. It is adequately resourced to be able to meet and service the Corporation's requirements.

The Corporation is in the second phase of implementing its IT Strategy, which involves the implementation of an Integrated Property Development and Management Enterprise Resource Planning system using Oracle products. The project, which is expected to complete in 2013, will provide the Corporation with efficient and effective information to enable timely decision making.

## LEGAL SERVICES AND PROCUREMENT

The focus of the Department over the past year was to improve its customer service excellence drive for both its internal and external customers and other stakeholders. Reports were shared with sister departments on debt collection, transfers, Sectional Titles implementation and contracts management and there was a face to face interaction with a view to improving and enhancing understanding and managing expectations between the various departments. Although there were challenges, there has been steady improvement in the service delivery. We intend to continue to build on this closer cooperation in the coming year.

With the continuing recession, the Corporation continues to keep a close eye on the purse and in addition to its traditional role of procuring goods and services, procurement continues to review its role to that of a control function with the business and how it can contribute to the creation of long term ways of working that can be adopted for the Corporation's competitiveness and performance. The achievement of this goal will definitely be acknowledged as the Corporation implements its new ERP System during the 2012/2013 financial year.



258
301
12
382
344
356
5%
23%
7%
13%
17%
35%
Feb
Mar
Apr
May
Jun
Jul
Aug


# CONTENTS

Staying afloat of the economic tide

## ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012



Excellence Innovation Teamwork Transparency Social Responsibility

# BOTSWANA HOUSING CORPORATION

(INCORPORATED IN BOTSWANA IN TERMS OF THE BOTSWANA HOUSING CORPORATION ACT OF 1970 - LAWS OF BOTSWANA CAP 74:03 (AS AMENDED)).

## BUSINESS

Property Development and Estate Management Services.

## MEMBERS OF THE BOARD

| | |
|---|---|
| B C Pheko | Chairperson |
| O Maruapula | Deputy Chairperson |
| D Khupe | |
| B K Mmopi | |
| A W Siwawa | |
| O S Mamparanyane | |
| B S Tsayang | |
| S Tiroyakgosi | |
| B Mokgolodi | |
| M Bathuleng-Mookodi | |

## SENIOR LEADERSHIP TEAM

| | |
|---|---|
| R Motswaiso | Chief Executive Officer |
| M Majingo | Deputy Chief Executive Officer (Operations) |
| L Galekhutle | Deputy Chief Executive Officer (Support Services) |
| P Sefawe | Finance Manager |
| P More | Property Development Manager |
| E Galeforolwe | Legal Services Manager |
| S Molefe | Information Technology Manager |
| Y Mukonde | Risk Manager |
| S Ramahobo | Human Resource Manager |
| M Seisa | Public and Corporate Affairs Manager |
| K Khimbele | Property Manager |
| S Segokgo | Senior Estates Manager - North |
| O Seitshiro | Maintenance Manager |
| G Baleseng | Sales Manager |
| B Modisawakgomo | Corporate Planning Manager |

## REGISTERED OFFICE

Botswana Housing Corporation Head Office
Corner, Mmaraka & Station Roads
P. O. Box 412
Gaborone

## INDEPENDENT AUDITORS

PricewaterhouseCoopers

# STATEMENT OF RESPONSIBILITY BY THE MEMBERS OF THE BOARD

FOR THE YEAR ENDED 31 MARCH 2012

## MEMBERS OF THE BOARD'S APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Corporation's members of the Board are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 March 2012, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and accounting policies and the notes to the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Botswana Housing Corporation Act (Chapter 74:03) (as amended).

The Board's responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Board's responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as supplementary schedules included in these financial statements.

The going concern basis has been adopted in preparing the annual financial statements. The members of the Board have no reason to believe that the Corporation will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

Our external auditors conduct an examination of the financial statements in conformity with International Standards on Auditing, which include tests of transactions and selective testing of internal accounting controls. Regular meetings are held between management and our external auditors to review matters relating to internal controls and financial reporting. The external auditors have unrestricted access to the members of the Board.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements set out on pages 34 to 99 were approved by the members of the Board on 28 June 2012 and are signed on their behalf by:

B C Pheko
Chairperson

R Motswaiso
Chief Executive Officer

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2012

PricewaterhouseCoopers
Plot 50371, Fairgrounds Office Park, Gaborone, P. O. Box 294, Gaborone, Botswana
Tel: +267 395 2011, Fax: +267 397 3901, www.pwc.com/bw

Senior Partner: B D Phirie
Partners: R Binedell, R P De Silva, A S Edirisinghe, N B Soni
Associates: M Lalithkumar, M Ramdas, S Sinha, S K K Wijesena.

We have audited the annual financial statements of Botswana Housing Corporation (the "Corporation"), which comprise the statement of financial position as at 31 March 2012, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 34 to 99.

## MEMBERS OF THE BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The members of the Board are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the members of the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Housing Corporation as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## OTHER MATTERS

In accordance with Section 24(4) of the Botswana Housing Corporation Act (Chapter 74:03) (the "Act") as amended, we confirm that:

- We have received all the information and explanations which, to the best of our knowledge and belief; were necessary for the performance of our duties as auditors;
- The accounts and related records of the Corporation have been properly kept;
- The Corporation has complied with all the financial provisions of the Act with which it is duty of the Corporation to comply and;
- The financial statements prepared by the Corporation were prepared on a basis consistent with that of the preceding year unless otherwise stated.

PricewaterhouseCoopers

________________________________

PricewaterhouseCoopers
Certified Auditors
Practicing member: Butler Phirie
Membership number: 19900312

Gaborone
30 June 2012

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2012

| | Note | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|---|
| Revenue | 6. | 342,488 | 312,486 |
| Cost of sale of housing inventories | 7. | (137,874) | (86,832) |
| Repairs and maintenance | | (39,656) | (32,001) |
| Employee benefit expenses | 8. | (74,547) | (71,248) |
| Depreciation and amortisation | 9. | (16,792) | (14,834) |
| Other expenses | 10. | (54,158) | (52,477) |
| Gains on sale of investment properties | 11. | 38,646 | 25,627 |
| Other income | 10. | 12,872 | 5,548 |
| **Operating profit** | | **70,979** | **86,269** |
| | | | |
| Finance income | 12. | 2,625 | 2,857 |
| Finance costs | 13. | (30,331) | (16,700) |
| **Finance costs-net** | | **(27,706)** | **(13,843)** |
| | | | |
| Share of surplus of joint ventures | 18. | 7,134 | 7,006 |
| | | | |
| **Total comprehensive income for the year** | | **50,407** | **79,432** |

# STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2012

| | Note | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment property | 14. | 1,249,343 | 978,782 |
| Property, plant and equipment | 16. | 21,410 | 20,960 |
| Intangible assets | 17. | 10,945 | 2,806 |
| Investments in joint ventures | 18. | 15,097 | 14,643 |
| Loans to related parties | 19. | 10,943 | 12,710 |
| Operating lease asset | 20. | 59,598 | 62,239 |
| Trade and other receivables | 21. | 41,368 | 50,089 |
| **Total non-current assets** | | **1,408,704** | **1,142,229** |
| **Current assets** | | | |
| Housing inventories | 15. | 872,208 | 1,050,276 |
| Loans to related parties | 19. | 1,767 | 1,553 |
| Operating lease asset | 20 | 2,641 | 1,622 |
| Trade and other receivables | 21. | 29,460 | 51,224 |
| Cash and cash equivalents | 22. | 300,531 | 289,049 |
| **Total current assets** | | **1,206,607** | **1,393,724** |
| **Total assets** | | **2,615,311** | **2,535,953** |

# STATEMENT OF FINANCIAL POSITION (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Note | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Irredeemable capital | 23. | 250,000 | 250,000 |
| Retained earnings | | 1,065,755 | 1,028,169 |
| Earnings reserve | 24. | 23,161 | 30,198 |
| Investment properties insurance reserve | 25. | 2,590 | 2,590 |
| **Total equity** | | **1,341,506** | **1,310,957** |
| **Non-current liabilities** | | | |
| Agency funds | 28. | 55,937 | 66,273 |
| Borrowings | 26. | 579,698 | 648,545 |
| **Total non-current liabilities** | | **635,635** | **714,818** |
| **Current liabilities** | | | |
| Trade and other payables | 27. | 194,330 | 205,891 |
| Agency funds | 28. | 174,806 | 207,106 |
| Borrowings | 26. | 200,153 | 69,883 |
| Customer deposits | 29. | 68,881 | 27,298 |
| **Total current liabilities** | | **638,170** | **510,178** |
| **Total equity and liabilities** | | **2,615,311** | **2,535,953** |

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2012

| Capital | Retained<br><br>P'000 | Earnings<br>earnings<br>P'000 | Investment<br>reserve<br>P'000 | Total properties<br>insurance reserve<br>P'000 | <br><br>P'000 |
|---|---|---|---|---|---|
| Balance at 1 April 2010 | 250,000 | 954,185 | 39,965 | 2,590 | 1,246,740 |
| **Comprehensive income** | 250,000 | 954,185 | 39,965 | 2,590 | 1,246,740 |
| Comprehensive income for the year | - | 79,432 | - | - | 79,432 |
| Transfer to retained earnings | - | 9,767 | (9,767) | - | - |
| **Total comprehensive income** | **-** | **89,199** | **(9,767)** | **-** | **79,432** |
| **Transaction with owners** | | | | | |
| Dividend (note 30) | - | (15,215) | - | - | (15,215) |
| **Total transactions with owners** | **-** | **(15,215)** | **-** | **-** | **(15,215)** |
| **Balance at 31 March 2011** | **250,000** | **1,028,169** | **30,198** | **2,590** | **1,310,957** |
| Balance at 1 April 2011 | 250,000 | 1,028,169 | 30,198 | 2,590 | 1,310,957 |
| **Comprehensive income** | | | | | |
| Comprehensive income for the year | - | 50,407 | - | - | 50,407 |
| Transfer to retained earnings | - | 7,037 | (7,037) | - | - |
| **Total comprehensive income** | **-** | **57,444** | **(7,037)** | **-** | **50,407** |

# STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| Capital | Retained | Earnings earnings | Investment reserve | Total properties insurance reserve | |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Transaction with owners** | | | | | |
| Dividend (note 30) | - | (19,858) | - | - | (19,858) |
| **Total transactions with owners** | **-** | **(19,858)** | **-** | **-** | **(19,858)** |
| **Balance at 31 March 2012** | **250,000** | **1,065,755** | **23,161** | **2,590** | **1,341,506** |

**Note 1: Earnings reserve**

Net gains realised on disposal of investment properties through Tenant Purchase Scheme and Step Ownership Scheme for which payment have not been received are transferred to earnings reserve. Transfers are then made annually to retained earnings at the rate which the individual TPS and SOS balances are repaid.

**Note 2: Investment property insurance reserve**

The Corporation maintains this reserve to meet claims in respect of maintaining investment properties in excess of P100,000.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

| | Note | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from/(used in) operating activities | 31. | 152,786 | (331,461) |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | 16. | (3,063) | (6,645) |
| Additions to intangible assets | 17. | (8,308) | (1,331) |
| Proceeds from sale of investment properties | 11. | 58,838 | 54,139 |
| Additions to investment properties | 14. | (230,722) | (121,007) |
| Proceeds from sale of property, plant and equipment | | - | 166 |
| Capital repaid by joint ventures | 18. | - | 464 |
| Drawings from joint ventures | 18. | 6,680 | 1,926 |
| Loan capital repayments received from related parties | 19. | 1,553 | 1,364 |
| Interest received | 12. | 2,625 | 2,857 |
| **Net cash used in investing activities** | | **(172,397)** | **(68,067)** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | 26. | (41,744) | (40,217) |
| Bond funds | 26. | - | 389,000 |
| Interest paid (net capitalised interest) | 13. | (29,862) | (12,218) |
| **Net cash (used in)/generated from financing activities** | | **(71,606)** | **336,565** |
| Net increase in cash and cash equivalents | | (91,217) | (62,963) |
| Cash and cash equivalents at beginning of year | | 240,759 | 303,722 |
| **Cash and cash equivalents at end of year** | **22.** | **149,542** | **240,759** |

# ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2012

## 1. GENERAL INFORMATION

Botswana Housing Corporation (BHC) is a parastatal corporation solely owned by Botswana Government. It was established by an Act of Parliament being Botswana Housing Corporation Act (CAP 74:03) of 1970 and started operation in February 1971. The mandate of BHC as stipulated by the Act and its subsequent amendments is as follows:

(a) to provide for the housing, office and other building needs of the Government and local authorities;
(b) to provide for, to assist and to make arrangements for other persons to meet the requirements of paragraph (a) above and;
(c) to undertake and carry out, and to make arrangements for other persons to undertake and carry out building schemes in Botswana.

The affairs of the Corporation are controlled by a ten member Board whose Chairman and members are appointed by the Minister of Lands and Housing.

The financial statements for the year ended 31 March 2012 have been approved for issue by the members of the Board on 28 June 2012. Neither the members of the Board nor others have the power to amend financial statements after issue.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The financial statements of Botswana Housing Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Corporation's financial statements are disclosed on page 32.

(a) Standards, amendments and interpretations not yet effective, but early adopted by the Corporation

In 2012, the Corporation did not early adopt any new or revised standard or interpretation.

(b) Standards, amendments and interpretations effective first time in the current year and relevant for the Corporation's operations

IFRS 7 Financial Instruments: Disclosures - (effective 1 January 2011)
Clarification of disclosures
IAS 1 Presentation of Financial Statements - (effective 1 January 2011)
Clarification of statement of changes in equity
IAS 34 Interim Financial Reporting - (effective 1 January 2011)
Significant events and transactions

(c) Standards, amendments and interpretations effective first time in the current year but not relevant for the Corporation's operations

IFRS 1 First-time Adoption of International Financial Reporting Standard - (effective 1 January 2011)

Accounting policy changes in the year of adoption
Revaluation basis as deemed cost
Use of deemed cost for operations subject to rate regulation
Measurement of non-controlling interests
Un-replaced and voluntarily replaced share-based payment awards

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

(c) **Standards, amendments and interpretations effective first time in the current year but not relevant for the Corporation's operations** (continued)

Amendments to IFRIC 14: Pre-payments of a Minimum Funding Requirement (effective 1 January 2011).

This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

(d) **New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 April 2011 and not yet adopted by the Corporation.**

Amendment to IFRS 7 Financial Instruments: Disclosure - (effective 1 January 2013).

The IASB has published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

Amendments to IAS 1, 'Presentation of Financial Statements', on presentation of items of OCI - (effective 1 July 2012)

The IASB has issued an amendment to IAS 1, 'Presentation of financial statements'. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements. The amendment does not address which items should be presented in OCI and the option to present items of OCI either before tax or net of tax has been retained.

IFRS 9 - Financial Instruments (2009) - ( effective 1 January 2013)

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

IFRS 9 - Financial Instruments (2010) - ( effective 1 January 2013)

The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.

Amendments to IFRS 9 - Financial Instruments (2011) - ( effective 1 January 2015)

The IASB has published an amendment to IFRS 9, 'Financial instruments', that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

(d) **New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 April 2011 and not yet adopted by the Corporation (continued)**

IFRS 11 - Joint arrangements - (effective 1 January 2013)

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

IFRS 12 - Disclosures of interests in other entities - (effecitve 1 January 2013)

This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IFRS 13 - Fair value measurement - (effective 1 January 2013)

This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

IAS 27 (revised 2011) - Separate financial statements (effective 1 January 2013)

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised 2011) - Associates and joint ventures (effective 1 January 2013)

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

## 2.2 Revenue recognition

"The Corporation recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Corporation's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Corporation bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### (a) Rental income

Rental income from the letting of investment properties is recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

### (b) Outright sales

Revenue is recognised when the risks and rewards have been transferred and the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the units sold. Surpluses or deficits arising on sale are recognised as income or loss in the year in which they arise.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

(c) Tenant Purchase Scheme (TPS)

Net gain or loss arising on the sale of investment properties through the Tenant Purchase Scheme are recognised as income in the year in which they arise. Interest and administration charges are levied monthly on the effective yield method, on Tenant Purchase Scheme accounts at the rates specified in the original sale agreements. These amounts are taken to income as they fall due, save that where an account falls into arrears, an impairment provision is made to the extent that such charges are not considered to be recoverable through the repossession and sale of the subject property.

Title of property sold under the Tenant Purchase Scheme and responsibility for major defects, excluding routine maintenance, is retained by the Corporation until the full outstanding balance is repaid. In case of default, an impairment provision is made against the principal amount only to the extent that the principal amount would not be recovered through the repossession and sale of the subject property.

(d) Step Ownership Scheme (SOS)

Net gain or loss arising on the sale of investment properties through the Step Ownership Scheme are recognised as income in the year in which they arise.

Step Ownership Scheme purchasers initially acquire a one-third or one-fourth ownership of a property (referred to as a "step") and pay rent on the balance retained by the Corporation. Purchasers are required to acquire the remaining two or three steps over successive intervals of not more than five years.

In line with the generally accepted accounting principle of 'substance over form', which seeks to reflect in the financial statements the substance of a transaction rather than its legal form, the disposal of a property through the Step Ownership Scheme is recognised as a whole in the year in which the first step is sold. When the first step is sold, the carrying value of the property is eliminated from investment properties and the whole of the gain or loss arising on the disposal is taken to the statement of comprehensive income in that financial year.

Interest and administration charges are levied monthly on Step Ownership Scheme accounts at the rates specified in the original sale agreements. These amounts are taken to income as they fall due, save that where an account falls into arrears, an impairment provision is made to the extent that such charges are not considered recoverable through the repossession and sale of the subject property.

In terms of the sale agreement, a purchaser pays rent on the share of the property still held by the Corporation. For financial reporting purposes, this rent is shown as part of the interest receivable on Step Ownership Scheme sales.

Title of property sold under the Step Ownership Scheme and responsibility for major defects and routine maintenance are retained by the Corporation until the purchaser has acquired each of the steps and the full outstanding balance is repaid. In case of default, an impairment provision is made against the principal amount only to the extent that the Corporation would not be able to recover the principal amount through repossession and sale of the subject property.

(e) Professional fees

The Corporation provides project management services to third parties. These services are provided on a time and material basis or as a fixed-price contract, with contract terms ranging from less than one year to two years. Fee notes are only raised and the related income recognised in the Corporation's books of account when services have been rendered and the project concerned has reached a certain stage of completion, in accordance with generally accepted practice in the property development profession.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

(f) Interest income

Interest income and interest expense are recognised in the statement of comprehensive income for all interest bearing financial instruments on an accruals basis using the effective yield method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Corporation estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

## 2.4 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Corporation, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs are incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

Investment property is subsequently stated at historical cost less accumulated depreciation and impairment losses.

The actual depreciation charge is determined by spreading the depreciable amount of individual properties' over their remaining useful lives. The depreciable amount is calculated as the cost of a property less its residual value. The residual value is the estimated amount that the Corporation could currently obtain from the disposal of the property if the property were already of the age and in the condition expected at the end of its useful life. Useful life is determined as lower of lease period or 40 years.

If an investment property becomes owner - occupied, it is reclassified as property, plant and equipment.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories.

## 2.5 Inventories

Inventories arise with the commencement of development with a view to sale and on completion the properties are classified as inventories at cost. They are subsequently carried at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete redevelopment and selling expenses.

The operating cycle of the Corporation is the time between the acquisition of land for development and their realisation in cash or cash equivalents. This is determined as two years.

## 2.6 Land held for development

Land held for development is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, development cost and borrowing cost during development.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

### 2.7 Borrowing costs

Borrowings costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Qualifying assets to which the Corporation currently capitalises borrowing costs include investment properties and inventories that are under construction. In the statement of cash flows, capitalised borrowing costs relating to housing inventories and investment properties are considered as operating cash flows and investing cashflows respectively.

Other borrowing costs are expensed.

### 2.8 Capitalisation of development costs

The Corporation capitalises direct expenses of the Property Development Department in respect of its own housing projects until the project is substantially complete.

### 2.9 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items concerned.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Freehold land is not depreciated. Leasehold land is depreciated over the lease period. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold offices, staff houses and depots | Lower of lease period and 40 years |
| Furniture and office equipment | 10 years |
| Computer equipment | 5 years |
| Motor vehicles | 5 years |
| Depot plant and equipment | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

"An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Increases in the carrying amount arising on re-evaluation of land and buildings are credited to other comprehensive income and shown as other reserves in Capital and reserves. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset is charged to the statement of comprehensive income, and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income or administrative expenses' in the statement of comprehensive income.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## 2.10 Intangible assets

Intangible assets comprise of computer software. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Corporation, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

## 2.11 Loans to related parties

The loans to related parties are initially recognised at fair value plus transaction costs. Subsequent to the initial recognition, the loan is measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest method.

## 2.12 Investments in joint ventures

Investments in joint ventures are accounted for by the equity method of accounting. Joint ventures are those entities over whose activities the Corporation has joint control, established by contractual agreement.

Equity accounting involves recognising in the statement of comprehensive income the Corporation's share of the joint ventures' surplus or deficit for the year. The Corporation's interest in the joint venture is carried in the statement of financial position at an amount that reflects the Corporation's share of the net assets of the joint ventures.

## 2.13 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment for trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial re-organisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

"The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'administrative expenses'. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written-off are credited to 'other income' in the statement of comprehensive income.

## 2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. In the statement of financial position bank overdrafts are shown within borrowings in current liabilities.

## 2.15 Irredeemable capital

Irredeemable capital represents irredeemable capital contributions made by the Government of Botswana into the Corporation since its establishment by the Botswana Housing Corporation Act (Chapter 74:03) (as amended).

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

### 2.16 Earnings reserve

Surpluses recognised in the statement of comprehensive income in respect of the disposal of investment properties through the tenant purchase scheme and step ownership scheme are transferred from retained earnings to earnings reserve; deficits are not transferred to the earnings reserve. Transfers are then made annually from the earnings reserve to retained earnings at the rate at which the individual tenant purchase scheme and step ownership scheme balances are repaid.

### 2.17 Investment properties insurance reserve

"The Corporation provides for insurance on investment properties (excluding flats and staff houses, which are insured through third parties) by maintaining an investment properties insurance reserve, the adequacy of which is reviewed annually. Claims in excess of P100,000 are met from this reserve, claims for amounts below P100,000 are charged directly to the statement of comprehensive income.

### 2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

### 2.19 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.20 Provisions

Provisions for incentive bonus, restructuring costs and legal claims are recognised when: the Corporation has a present legal or constructive obligation; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease terminal penalties and employee termination payments.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are made at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the obligation due to the passage of time is recognised as an interest expense.

### 2.21 Leases

Leases of property, plant and equipment where the Corporation assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest bearing borrowings. The interest element of the leasing charges is charged to the statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful lives of the assets. Leasing of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## 2.22 Related party transactions

Related parties comprise the Government of Botswana, joint ventures, members of the Executive Management Committee and members of the Board. A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether or not a price is charged.

## 2.23 Agency funds

The Corporation constructs infrastructure and housing for the Government of Botswana and other institutions on an agency basis. The accounting for these projects is on a trust fund basis, whereby money is received and spent on the projects involved. The Corporation charges a fee for the technical and financial expertise applied to these projects. Any interest earned on the temporary investment of trust funds accrues to the benefit of the client, thus such interest is not recognised in the statement of comprehensive income statement of the Corporation.

## 2.24 Foreign currency translation

### (a) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Corporation operates ('the functional currency'). These financial statements are presented in Botswana Pula (P), which is the Corporation's functional and presentation currency.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

## 2.25 Employee benefits

### (a) Pension obligations

The Corporation operates a defined contribution pension scheme for all its employees, excluding contract employees.

The scheme is funded through payments to a fund manager, who administers the fund. A defined contribution plan is a pension plan under which the Corporation pays fixed contributions into a separate entity. The Corporation has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Corporation pays contributions to a privately administered pension fund on a contractual basis. The Corporation has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### (b) Terminal benefits

Terminal benefits are payable when employment is terminated by the Corporation before the normal retirement date, or whenever an employee accepts voluntary redundancy or is declared redundant in exchange of these benefits. The Corporation recognises termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing terminal benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the statement of financial position date are discounted to their present value.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

(c) Incentive bonus scheme

The Corporation has an incentive pay policy in place, which was approved by the Board under which the Corporation makes payments to employees in the form of an annual incentive pay. Computation of the pool of funds available for distribution to employees as incentive pay is based on a formula that takes into account the Corporation's actual performance during a given financial year as compared to targets set at the beginning of that financial year. As the Corporation has been paying the incentive bonus ever since the policy was approved by the Board, a constructive obligation has been created, which makes it necessary for the Corporation to make annual provisions for incentive pay.

The actual incentive pool available for distribution is approved on an annual basis by both the Board and the Minister of Lands & Housing.

2.26 Financial assets

Classification

The Corporation classifies its financial assets in the following categories; at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets. For purposes of these financial statements, short term is defined as twelve months from the statement of financial position date.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the comprehensive statement of comprehensive income within 'net income from financial instruments designated at fair value' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the comprehensive statement of comprehensive income as part of other income when the Corporation's right to receive payment is established.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the statement of financial position date. These are classified as non-current assets. The Corporation's loans and receivables comprise 'trade and other receivables', 'loan to joint ventures' and cash and cash equivalents in the statement of financial position.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

(b) Loans and receivables (continued)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the statement of financial position date.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, - the date on which the Corporation commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as 'gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as other income when the Corporation's right to receive payment is established.

Impairment of financial assets

The Corporation assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss-is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. Impairment testing of trade receivables is described in note 2.13 and on page 26 under 'credit risk.'

2.27 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally binding enforceable right to offset the recognised, and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.28 Impairment of non-financial assets

Assets that are subject to amortisation and assets under construction or development (including intangible assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

# ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## 2.29 Dividend distribution

Dividend distribution to the Government of Botswana is recognised as a liability in the Corporation's financial statements in the period in which the dividends are approved by the Board.

## 2.30 Current and deferred income tax

In terms of Part 1 (ii) of the Second Schedule to the Income Tax, Act 12 of 1995, (Chapter 50:01), the Corporation is exempt from income tax.

## 2.31 Customer deposits

When prospective tenants, other than Government and parastatals, are approved for allocation of a property from the Corporation they are required to pay a maintenance deposit equivalent to one month's rental. On vacation, this deposit is applied towards restoring the property to a tenantable condition and clearing any rental arrears. Any remaining balance is paid back to the customer. This deposit is termed 'refundable deposit.'

Prospective purchasers wishing to purchase property from the Corporation often opt to make a down payment, to show commitment, while they source finance for the balance of the purchase price. This down-payment is sale of properties, as the intention at the point of payment is for the amount to be applied towards the purchase. Sale of property is effected only when all the contingencies relating to the sale have been resolved. Both types of deposit are recognised as liabilities in the Corporation's statement of financial position.

## 2.32 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

# FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 31 MARCH 2012

## 1. FINANCIAL RISK FACTORS

The Corporation's activities expose it to a variety of risks: market risk (including fair value interest rate risk and cash flow interest rate risk), credit and liquidity risk. The Corporation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance.

Risk management is carried out under policies approved by the Board. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of non derivative financial instruments, and investment of excess liquidity.

### (a) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and loans to related parties, as well as credit exposures to customers, including outstanding receivables. For banks and other financial institutions, the Board makes assessment of the balance sheet of the institution before a decision to do business is made. These assessments are done annually through the review of audited financial statements of banks.

The Credit Control Section, under the Estates Management Department, assesses the credit quality of the customer, taking into account the customer's financial position, past experience and other factors. Individual risk limits are set based on internal or external information and in accordance with the Credit Control Policy, which was approved by the Board.

Rental customers are required to pay deposits before they are allowed to occupy the Corporation's property. The Corporation also minimises the risk of payment from defaults by ensuring that deductions for Rental, Tenant Purchase Scheme and Step Ownership Scheme are done directly from the customers salary and remitted to the Corporation. Where there is no arrangement for salary deduction, the Corporation receives the money through direct debits and only on exceptional cases does the Corporation allow cash payments. For Tenant Purchase Scheme and Step Ownership Scheme the Corporation retains title to the property until the whole of the purchase price has been paid.

The Corporation manages the credit risk of loans to related parties through security which has been put in place in the form of the land on which the property has been constructed. The title to this land is registered in the name of BHC.

The Corporation provides for impairment of debtors based on the aging analyses. Rental arrears are aged in to amount owing less than 90 days and amount owing more than 90 days. Arrears less than 90 days are classified as past due but not impaired, and are not provided for, while arrears which are more than 91 days are classified as fully impaired and provided for. The Corporation provides 100% for arrears which are more than 91 days for all customer classes after deducting rental security deposits. The basis for full provision is because private customers are required to pay 1 month rental in advance while Government and Parastatals pay 3 months rental in advance which means that any outstanding balance from the Government or Parastatal will normally be disputed amount. The Tenant Purchase Scheme and Step Ownership Scheme debtors are also aged as described above, but only those debtors whose arrears exceed the amount which cannot be recovered from the sale of the property are provided for. If the market value of the property exceeds the amount owing, the Corporation does not provide even if they are more than 3 months.

# FINANCIAL RISK MANAGEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## (a) Credit risk

Maximum exposure to credit risk before collateral held or other credit enhancement

Credit risk exposures relating to on-balance sheet assets are as follows:

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| Loans to related parties | 12,710 | 14,263 |
| Trade and other receivables | 70,828 | 101,313 |
| Cash and cash equivalents | 300,531 | 289,049 |
| | **384,069** | **404,625** |
| Credit risk exposures relating to off-balance sheet assets are as follows: | | |
| Financial guarantee (note 33) | 1,013 | 2,500 |

The above table represents the worst case scenario of credit risk exposure for the Corporation as at 31st March 2011 and 2012 without taking account of any collateral held or other credit enhancements attached. For on statement of financial position assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

# FINANCIAL RISK MANAGEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## Trade Receivables

Credit risk exposure in relation to trade receivables is analysed below:

| At March 2012 | Rental debtors P'000 | TPS P'000 | SOS P'000 | Other P'000 | Total P'000 |
|---|---|---|---|---|---|
| Neither past due nor impaired | - | 48,098 | 4,192 | 12,563 | 64,853 |
| Past due but not impaired | 1,963 | 424 | 36 | - | 2,423 |
| Individually impaired | 4,145 | 2,958 | 996 | 2,119 | 10,218 |
| **Gross** | **6,108** | **51,480** | **5,224** | **14,682** | **77,494** |
| Less: Provision for impairment | (4,145) | (2,958) | (996) | (2,119) | (10,218) |
| **Net** | **1,963** | **48,522** | **4,228** | **12,563** | **67,276** |
| Value of collateral -trade receivables that are neither past due nor impaired | - | 341,696 | 27,455 | - | 369,151 |

| At March 2011 | Rental debtors P'000 | TPS P'000 | SOS P'000 | Other P'000 | Total P'000 |
|---|---|---|---|---|---|
| Neither past due nor impaired | - | 65,289 | 5,956 | 18,949 | 90,194 |
| Past due but not impaired | 1,283 | 1,050 | 56 | - | 2,389 |
| Individually impaired | 4,129 | 6,992 | 192 | 6,951 | 18,264 |
| **Gross** | **5,412** | **73,331** | **6,204** | **25,900** | **110,847** |
| Less: Provision for impairment | (4,129) | (6,992) | (192) | (6,951) | (18,264) |
| **Net** | **1,283** | **66,339** | **6,012** | **18,949** | **92,583** |
| Value of collateral -trade receivables that are neither past due nor impaired | - | 331,726 | 25,479 | - | 357,205 |

# FINANCIAL RISK MANAGEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

Trade receivables, past due but not impaired

| At March 2012 | Rental debtors P'000 | TPS P'000 | SOS P'000 | Total P'000 |
|---|---|---|---|---|
| Past due up to 30 days | 1,024 | 91 | 13 | 1,128 |
| Past due 30 - 60 days | 352 | 52 | 7 | 411 |
| Past due 60 - 90 days | 689 | 282 | 16 | 987 |
| **Total** | **2,065** | **425** | **36** | **2,526** |
| Value of collateral | 1,728 | 53,464 | 10,681 | 65,873 |

| At March 2011 | Rental debtors P'000 | TPS P'000 | SOS P'000 | Total P'000 |
|---|---|---|---|---|
| Past due up to 30 days | 825 | 189 | 22 | 1,036 |
| Past due 30 - 60 days | 64 | 118 | 10 | 192 |
| Past due 60 - 90 days | 394 | 743 | 24 | 1,161 |
| **Total** | **1,283** | **1,050** | **56** | **2,389** |
| Value of collateral | 2,099 | 94,547 | 13,299 | 109,945 |

(b) Market risk

(i) Foreign exchange risk

The Corporation's exposure to foreign exchange risk is minimal as the Corporation conducts most of its transactions using its functional currency. Nevertheless, management has set up a policy to require the Corporation to manage its foreign exchange risk against functional currency. To manage foreign exchange risk arising from those transactions and recognised assets and liabilities, the Corporation ensures that it enters into appropriate arrangements with service providers, including banks, such that its exposure to foreign exchange risk is minimised. Foreign exchange risk arises when commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. There were no assets or liabilities denominated in foreign currencies as at 31 March 2012 (nil - 2011).

# FINANCIAL RISK MANAGEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## (ii) Cash flow and fair value interest rate risk

The Corporation's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Corporation to cash flow interest rate risk. Borrowings issued at fixed rates expose the Corporation to fair value interest rate risk. The Corporation maintains its borrowings at fixed interest rates agreed with the lenders save for Bond issued at both floating and fixed rates. During financial years ended 31 March 2011 and 2012, the Corporation's borrowings at fixed rate were denominated in the functional currency.

The table below summarise the Corporation's exposure to interest rate risk. Included therein are the Corporation's assets and liabilities at carrying amounts categorised by earlier of contractual re-pricing or maturity dates. Assets and liabilities carrying variable interest rates are classified under the less than 1 year bracket.

| At March 2012 | Less than 2 years | 2 - 5 years | Over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Financial assets** | | | | | |
| Loans to related parties | - | - | 12,710 | - | 12,710 |
| Trade and other receivables | 1,255 | 6,482 | 45,014 | 18,077 | 70,828 |
| Cash and cash equivalents | 300,531 | - | - | - | 300,531 |
| | **301,786** | **6,482** | **57,724** | **18,077** | **384,069** |
| **Financial liabilities** | | | | | |
| Bank overdraft | 150,989 | - | - | - | 150,989 |
| Debt securities in issue | 286,000 | - | 103,000 | - | 389,000 |
| Loans | 17,710 | 145,231 | 76,171 | - | 239,112 |
| | **454,699** | **145,231** | **179,171** | **-** | **779,101** |

# FINANCIAL RISK MANAGEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

(ii) Cash flow and fair value interest rate risk (continued)

| At March 2011 | Less than 2 years | 2 - 5 years | Over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Financial assets** | | | | | |
| Loans to related parties | - | 14,263 | - | - | 14,263 |
| Trade and other receivables | 37,133 | 33,453 | 9,055 | 31,206 | 110,847 |
| Cash and cash equivalents | 286,176 | - | - | - | 286,176 |
| | **323,309** | **47,716** | **9,055** | **31,206** | **411,286** |
| **Financial liabilities** | | | | | |
| Bank overdraft | 48,290 | - | - | - | 48,290 |
| Debt securities in issue | 286,000 | - | 103,000 | - | 389,000 |
| Loans | 12,062 | 191,221 | 77,855 | - | 281,138 |
| | **346,352** | **191,221** | **180,855** | **-** | **718,428** |

### Interest rate sensitivity

At 31 March 2012, if interest rates had been 50 basis points higher/lower with all other variables held constant, total comprehensive income for the year would have been P1,430,000 (2011: P467,655) lower /higher as a result of higher/lower interest expense/income on floating rate borrowings and short term investments.

### (c) Liquidity risk

The table below analyses the Corporation's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

# FINANCIAL RISK MANAGEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Less than 1 year P'000 | 1 - 2 years P'000 | 2 - 5 years P'000 | Over 5 years P'000 | Total P'000 |
|---|---|---|---|---|---|
| At 31 March 2012 | | | | | |
| Borrowings | 259,360 | 106,290 | 236,643 | 480,485 | 1,082,778 |
| Trade and other payables | 194,330 | - | - | - | 194,330 |
| Agency funds | 174,806 | 55,937 | - | - | 230,743 |
| Customer deposits | 68,881 | - | - | - | 68,881 |
| **Liabilities (contractual maturity)** | **697,377** | **162,227** | **236,643** | **480,485** | **1,576,732** |
| | | | | | |
| Cash and cash equivalents | 244,594 | 55,937 | - | - | 300,531 |
| Loan repayments from related parties | 3,316 | 3,316 | 9,949 | 1,105 | 17,686 |
| Cash inflows from sale of inventories | 279,533 | 472,478 | - | - | 752,011 |
| Trade and other receivables | 30,599 | 12,241 | 27,145 | 4,798 | 74,783 |
| **Assets (managing liquidity risk)** | **558,042** | **543,972** | **37,094** | **5,903** | **1,145,011** |

# FINANCIAL RISK MANAGEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Less than 1 year P'000 | 1 - 2 years P'000 | 2 - 5 years P'000 | Over 5 years P'000 | Total P'000 |
|---|---|---|---|---|---|
| **At 31 March 2011** | | | | | |
| Borrowings | 217,622 | 262,290 | 312,578 | 490,796 | 1,283,286 |
| Trade and other payables | 205,891 | - | - | - | 205,891 |
| Agency funds | 207,106 | 66,273 | - | - | 273,379 |
| Customer deposits | 27,298 | - | - | - | 27,298 |
| **Liabilities (contractual maturity)** | **657,917** | **328,563** | **312,578** | **490,796** | **1,789,854** |
| | | | | | |
| Cash and cash equivalents | 219,903 | 66,273 | - | - | 286,176 |
| Loan repayments from related parties | 3,317 | 3,316 | 14,371 | - | 21,004 |
| Trade and other receivables | 54,184 | 15,983 | 40,428 | 7,448 | 118,043 |
| **Assets (managing liquidity risk)** | **277,404** | **85,572** | **54,799** | **7,448** | **425,223** |

# FINANCIAL RISK MANAGEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## 3.2 Capital risk management

The Corporation is a parastatal established by an Act of Parliament. The Corporation is supported by its owner, the Government of Botswana. The Corporation's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns and benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Corporation monitors capital on the basis of the debt to equity ratio. This ratio is calculated as long term debt divided by total equity.

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| Total long term debt (including Bond Fund) | 628,862 | 670,138 |
| Total capital and reserves | 1,341,506 | 1,310,957 |
| Debt: equity ratio | 0.47 | 0.51 |

The Corporation considers a debt equity ratio of less than 1 to be acceptable. This is reviewed annually after considering market conditions and the growth goals of the Corporation.

# CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

The Corporation makes assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

(a) **Useful lives and residual values of investment property and property, plant and equipment**

The Corporation tests annually whether, the useful life and residual value estimates were appropriate and in accordance with its accounting policy. Useful lives and residual values of investment properties (note 14) and administrative buildings are assessed annually by professionally qualified staff from the Estates Management Department of the Corporation and the assessments are approved by the Board. Every two years the assessment is outsourced to independent professionally qualified consultants.

The useful lives of plant and equipment (note 16) are assessed annually by staff in the Procurement Office, who are the custodians of the plant and equipment.

(b) **Useful lives and amortisation of intangible assets**

The Corporation carries out annual assessments regarding the appropriateness of the useful lives of intangible assets (note 17). Management exercises judgement to come up with appropriate useful lives.

(c) **Impairment of TPS, SOS and rental debtors**

The Corporation reviews its debtors (note 21) to assess impairment on a monthly basis. In determining whether an impairment loss should be recognised, the Corporation makes judgments as to whether there is any observable data indicating that there is a measurable decrease in estimated cash flows from a portfolio of accounts receivables. Management uses estimates based on historical loss experience of assets. The assumptions used for estimating the amount and timing of cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(d) **Fair value of borrowings**

The Corporation has a number of borrowings on its balance sheet that carry off-market interest rates (note 26). The Corporation uses discounted cash flow analysis to determine the fair value of these borrowings. Management uses its best judgement to estimate an appropriate discount factor, as the Corporation has not had a need to raise funds from the open market in a long time.

# OPERATING SEGMENTS

FOR THE YEAR ENDED 31 MARCH 2012

The Corporation adopted IFRS 8, "Operating Segments." This has resulted in an increase in the number of reportable segments presented. In addition, segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Corporation has determined that its chief decision maker is the board of the Corporation.

Management has determined the operating segments based on the reports reviewed by the Board in making strategic decisions and the Board considers the business on the following operating decisions.

- "Sales of housing inventories" - Outright sale of properties
- "Rental " - Letting of properties
- "Others" - Includes provision of consultancy and other activities not included in other segments

# OPERATING SEGMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

The segment information provided to the Board for the reportable segments for the year ended 31 March 2012 is as follows:

| | Sale of Housing Inventories | Rental | Others | Total |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| Revenue | 150,744 | 178,811 | 12,933 | 342,488 |
| Operating profit | 22,467 | 79,272 | (30,760) | 70,978 |
| **Included in operating profit** | | | | |
| Depreciation and amortisation | (200) | (14,550) | (2,042) | (16,792) |
| **Not included in operating profit** | | | | |
| Finance income | - | - | 2,625 | 2,625 |
| Finance costs | (24,265) | (6,066) | - | (30,331) |
| Share of surplus of joint ventures | | | 7,134 | 7,134 |
| **Total comprehensive income** | **(1,797)** | **73,206** | **(21,002)** | **50,407** |
| Total segment results above include: | | | | |
| Revenue from Government and Government related entities | 115,845 | 81,805 | 10,775 | 208,425 |

# OPERATING SEGMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Sale of Housing Inventories<br>P'000 | Rental<br>P'000 | Others<br>P'000 | Total<br>P'000 |
|---|---|---|---|---|
| Segment assets | 809,266 | 1,436,201 | 30,560 | 2,276,027 |
| **Reconciliation to total assets as reported in the statement of financial position** | | | | |
| Investment in joint ventures | | | 15,097 | 15,097 |
| Intangible assets | | | 10,946 | 10,946 |
| Loans to related parties | | | 12,710 | 12,710 |
| Cash and cash equivalents | | | 300,531 | 300,531 |
| **Total assets as reported in the statement of financial position** | **809,266** | **1,436,201** | **369,844** | **2,615,311** |
| **Total liabilities** | **747,948** | **209,309** | **316,550** | **1,273,806** |

# OPERATING SEGMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

The segment information provided to the Board for the reportable segments for the year ended 31 March 2011 is as follows:

| | Sale of Housing Inventories<br>P'000 | Rental<br>P'000 | Others<br>P'000 | Total<br>P'000 |
|---|---|---|---|---|
| Revenue | 117,459 | 165,539 | 29,488 | 312,486 |
| Operating profit | 37,269 | 77,817 | (28,817) | 86,269 |
| **Included in operating profit** | - | - | - | - |
| Depreciation and amortisation | (192) | (13,192) | (1,451) | (14,835) |
| **Not included in the operating profit** | | | | |
| Finance income | - | - | 2,857 | 2,857 |
| Finance costs | (13,360) | (3,340) | - | (16,700) |
| Share of surplus of joint ventures | - | - | 7,006 | 7,006 |
| **Total comprehensive income** | **23,909** | **74,477** | **(18,954)** | **79,432** |
| Total segment results above include: | | | | |
| Revenue from Government and Government related entities | 84,414 | 71,456 | 28,254 | 184,124 |

# OPERATING SEGMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Sale of Housing Inventories P'000 | Rental P'000 | Others P'000 | Total P'000 |
|---|---|---|---|---|
| **Segment assets** | 1,126,394 | 1,052,612 | 36,184 | 2,215,190 |
| **Reconciliation to total assets as reported in the statement of financial position:** | | | | |
| Investment in joint ventures | | | 14,643 | 14,643 |
| Intangible assets | | | 2,807 | 2,807 |
| Loans to related parties | | | 14,263 | 14,263 |
| Cash and cash equivalents | | | 289,049 | 289,049 |
| **Total assets as reported in the statement of financial position** | **1,126,394** | **1,052,612** | **356,946** | **2,535,952** |
| Total liabilities | 692,487 | 191,497 | 341,012 | 1,224,996 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **6. Revenue** | | |
| Rental income | 178,811 | 165,539 |
| Sale of housing inventories | 140,786 | 105,007 |
| Professional fees | 12,933 | 29,488 |
| Tenant Purchase Scheme income | 9,100 | 11,427 |
| Step Ownership Scheme income | 858 | 1,025 |
| | 342,488 | 312,486 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **7. Cost of sale of housing inventories** | | |
| **At beginning of the year** | | |
| Land held for development | 10,234 | 10,014 |
| Housing under construction | 780,212 | 603,357 |
| Completed houses - Inventories | 259,830 | 27,994 |
| **Additions/transfers during the year** | | |
| Acquisition of land | 154 | 220 |
| Payments to contractors | 199,483 | 560,310 |
| Capitalised development costs | 16,238 | 14,129 |
| Capitalised borrowing costs | 46,772 | 42,091 |
| Transfer to investment properties | (230,722) | (121,007) |
| Transfer to investment properties from opening housing inventories | (72,119) | - |
| **At end of year (note 15)** | | |
| Land for development | (10,386) | (10,234) |
| Housing under construction | (582,289) | (780,212) |
| Completed houses - Inventories | (279,533) | (259,830) |
| | **137,874** | **86,832** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **8. Employee benefit expenses** | | |
| Salaries, wages and other benefits | 81,131 | 75,884 |
| Pension contributions | 6,960 | 6,400 |
| Gratuities | 2,694 | 3,093 |
| Less: capitalised during the year (note 7) | (16,238) | (14,129) |
| | 74,547 | 71,248 |
| Average number of employees | 323 | 310 |
| **9. Depreciation and amortisation** | | |
| Depreciation - investment properties (note 14) | 12,817 | 8,240 |
| Depreciation - property, plant and equipment (note 16) | 2,569 | 1,918 |
| Amortisation - leasehold land (note 14) | 1,237 | 4,506 |
| Amortisation - intangible assets (note 17) | 169 | 170 |
| | 16,792 | 14,834 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **10. Other expenses** | | |
| Audit fees - Prior year under provision | 972 | - |
| - Current year | 1,008 | 903 |
| Directors' fees - board attendance fees | 157 | 131 |
| Operating lease rentals - motor vehicles | 3,502 | 3,230 |
| Loss on sale of property, plant and equipment | - | 29 |
| Consultancy fees | 3,803 | 3,786 |
| Rates | 5,398 | 7,058 |
| Non capitalisable expenses | 692 | 1,472 |
| Bad debts provision | - | 5,059 |
| Security expenses | 4,361 | 3,554 |
| Telephone expenses | 5,371 | 5,113 |
| Training expenses | 3,104 | 2,810 |
| Insurance | 1,934 | 1,843 |
| Travelling and Accommodation | 1,986 | 1,407 |
| IT expenses | 2,056 | 2,182 |
| Advertising and marketing | 6,608 | 3,656 |
| Call centre expenses | 1,886 | 1,079 |
| Administration expenses | 10,115 | 7,252 |
| Utilities | 1,205 | 1,913 |
| | 54,158 | 52,477 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## Other income

| | | |
|---|---|---|
| Recoverable maintenance | 1,272 | 2,075 |
| Bad debts provision reversal | 1,747 | - |
| Sundry income | 1,320 | 2,094 |
| Liquidated ascertained damages | 7,085 | - |
| Valuation, Lease and Admin fees house sales tender | 688 | 781 |
| Income from repossessed properties | 678 | 467 |
| Profit on sale of property, plant and equipment | 82 | 131 |
| | **12,872** | **5,548** |

## 11. Gains from sale of investment properties

| | | |
|---|---|---|
| Proceeds from sale of investment properties | 58,838 | 54,139 |
| Cost | (23,481) | (31,839) |
| Accumulated depreciation | 3,289 | 3,327 |
| | **38,646** | **25,627** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **12. Finance income** | | |
| Interest income on loans to related parties (note 19) | 1,764 | 1,952 |
| Interest income on short term bank deposits | 861 | 905 |
| | **2,625** | **2,857** |
| **13. Finance costs** | | |
| Interest expense on loans | 34,337 | 36,515 |
| Interest expense on debt securities in issue | 31,510 | 12,063 |
| Interest expense on bank overdraft | 11,255 | 10,212 |
| Less: capitalised during the year | (46,772) | (42,091) |
| | 30,331 | 16,700 |

A capitalisation rate of 9.02% (2011: 9.02%) was used for properties whose construction was financed out of a general pool of loans (note 26).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **14. Investment properties** | | |
| Opening net book amount | 978,782 | 898,844 |
| Transfer from housing inventories (note 15 ) | 230,722 | 121,007 |
| Transfer from opening housing inventories (note 7) | 72,119 | - |
| Disposals | (23,481) | (31,839) |
| Depreciation on disposals | 3,289 | 3,327 |
| Depreciation - housing properties | (12,817) | (8,240) |
| Amortisation - leasehold land | (1,237) | (4,506) |
| Amortisation - leasehold land in work in progress | 35 | 164 |
| Others (adjustments to property register) | 1,930 | 25 |
| **Closing net book amount** | **1,249,343** | **978,782** |
| Cost | 1,516,303 | 1,235,012 |
| Accumulated depreciation | (266,960) | (256,230) |
| **Net book amount** | **1,249,343** | **978,782** |

The Corporation leases out properties under operating leases. The leases typically run for an initial period of 3 - 25 years. None of the leases include contingent rentals.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 P'000 | 2011 P'000 |
|---|---|---|
| **14. Investment properties (continued)** | | |
| Rental income earned and direct operating expenses incurred in relation to investment properties are shown below: | | |
| Rental income | | |
| Rental income | 178,811 | 165,539 |
| | **178,811** | **165,539** |
| Direct operating expenses | | |
| Repairs and maintenance | 39,656 | 32,001 |
| Employee benefits | 19,230 | 17,858 |
| | **58,886** | **49,859** |

Investment properties were valued as at March 31, 2012 by estate management professionals. The fair value of the investments properties were valued based on the latest prevailing market prices derived from recently sold properties by the Corporation. The value of the investment properties was estimated at P4,322 million on 31 March 2012 (2011: P4,218 million).

Certain housing properties are built on leasehold land which is held for 99 years under Deeds of Fixed Period State Grant. In the opinion of the members of the Board, providing detailed information on leasehold and freehold properties will not add significant value to the users of the financial statements. Full details of these properties are available at the Head Office of the Corporation.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **15. Housing inventories** | | |
| Land for development (note 7) | 10,386 | 10,234 |
| Housing under construction (note 7) | 582,289 | 780,212 |
| Completed houses (note 7) | 512,497 | 380,837 |
| Less: Transferred to investment properties (note 14) | (230,722) | (121,007) |
| Less: Provision for impairment | (2,242) | - |
| | 872,208 | 1,050,276 |

Detailed analysis of the inventories at the end of the year is shown below:

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| Land for development | 10,386 | 10,234 |
| Housing under construction | 582,289 | 780,212 |
| Completed houses | 279,533 | 259,830 |
| | 872,208 | 1,050,276 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Land & buildings P'000 | Computer equipment P'000 | Furniture & office equipment P'000 | Motor vehicles P'000 | Plant & equipment P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| **16. Property, plant and equipment** | | | | | | |
| **At 31 March 2012** | | | | | | |
| Opening net book amount | 9,380 | 4,949 | 4,575 | 2,037 | 19 | 20,960 |
| Additions | - | 625 | 1,023 | 1,399 | 16 | 3,063 |
| Disposals | - | (382) | (67) | - | - | (449) |
| Depreciation on disposal | - | 354 | 51 | - | - | 405 |
| Depreciation charge | (3) | (1,375) | (618) | (568) | (5) | (2,569) |
| **Closing net book amount** | **9,377** | **4,171** | **4,964** | **2,868** | **30** | **21,410** |
| **At 31 March 2012** | | | | | | |
| Cost | 16,251 | 10,553 | 8,142 | 4,639 | 258 | 39,843 |
| Accumulated depreciation | (6,874) | (6,381) | (3,179) | (1,771) | (228) | (18,433) |
| **Net book amount** | **9,377** | **4,172** | **4,963** | **2,868** | **30** | **21,410** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Land & buildings P'000 | Computer equipment P'000 | Furniture & office equipment P'000 | Motor vehicles P'000 | Plant & equipment P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| 16. Property, plant and equipment (continued) | | | | | | |
| At 31 March 2011 | | | | | | |
| Opening net book amount | 8,440 | 3,354 | 2,700 | 1,752 | 15 | 16,261 |
| Additions | 955 | 2,631 | 2,356 | 694 | 9 | 6,645 |
| Disposals | - | - | (60) | (135) | - | (195) |
| Depreciation on disposal | - | - | 52 | 115 | - | 167 |
| Depreciation charge | (15) | (1,036) | (473) | (389) | (5) | (1,918) |
| **Closing net book amount** | **9,380** | **4,949** | **4,575** | **2,037** | **19** | **20,960** |
| At 31 March 2011 | | | | | | |
| Cost | 16,251 | 10,310 | 7,053 | 3,240 | 242 | 37,096 |
| Accumulated depreciation | (6,871) | (5,361) | (2,478) | (1,203) | (223) | (16,136) |
| **Net book amount** | **9,380** | **4,949** | **4,575** | **2,037** | **19** | **20,960** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Work in progress P'000 | Computer software P'000 | Total P'000 |
|---|---|---|---|
| **17. Intangible assets** | | | |
| **At 31 March 2012** | | | |
| Opening net book amount | 2,600 | 206 | 2,806 |
| Additions | 8,308 | - | 8,308 |
| Amortisation charge | - | (169) | (169) |
| **Closing net book amount** | **10,908** | **37** | **10,945** |
| **At 31 March 2012** | | | |
| Cost | 10,908 | 5,367 | 16,275 |
| Accumulated amortisation | - | (5,330) | (5,330) |
| **Net book amount** | **10,908** | **37** | **10,945** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | Work in progress P'000 | Computer software P'000 | Total P'000 |
|---|---|---|---|
| **17. Intangible assets (continued)** | | | |
| **At 31 March 2011** | | | |
| Opening net book amount | 1,269 | 376 | 1,645 |
| Additions | 1,331 | - | 1,331 |
| Disposals | - | - | - |
| Amortisation charge | - | (170) | (170) |
| **Closing net book amount** | **2,600** | **206** | **2,806** |
| Cost | 2,600 | 5,367 | 7,967 |
| Accumulated amortisation | - | (5,161) | (5,161) |
| **Net book amount** | **2,600** | **206** | **2,806** |

Above work in progress balance relates to costs incurred on the Enterprise Resource Planning (ERP) system, which the Corporation is in the process of implementing.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **18. Investments in joint ventures** | | |
| At the beginning of the year | 14,643 | 10,027 |
| Share of surplus for the year | 7,134 | 7,006 |
| Drawings during the year | (6,680) | (1,926) |
| Capital repaid | - | (464) |
| **At the end of the year** | **15,097** | **14,643** |

The Corporation's interest in the joint ventures are as follows:

(a) Plot 7 Partnership

The Corporation has a 50% interest in a partnership, Plot 7 Partnership, which owns and operates a shopping complex in Station, Gaborone.

(b) Boiketlo Estates Partnership

The Corporation has a 50% interest in a partnership, Boiketlo Estates Partnership established in December 2002 for the specific purpose of constructing, marketing and selling 147 residential housing units on Plots 42785 and 42787, Gaborone. The construction of these residential units was completed in August 2009.

(c) Plot 1471/2 Partnership

The Corporation has a 50% interest in a partnership, Plot 1471/2 Partnership, which owns and operates a shopping complex in Francistown.

(d) Plot 5129 Partnership

The Corporation has a 50% interest in a partnership, Plot 5129 Partnership, which owns and operates an office complex in Main Mall, Gaborone.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **18. Investments in joint ventures (continued)** | | |
| Proportionate share in joint ventures' assets and liabilities and income and expenses are shown below: | | |
| **Assets:** | | |
| Non-current assets | 37,708 | 40,114 |
| Current assets | 3,503 | 4,872 |
| | 41,211 | 44,986 |
| **Liabilities:** | | |
| Non-current liabilities | (11,320) | (25,752) |
| Current liabilities | (5,763) | (4,592) |
| | **(17,083)** | **(30,343)** |
| **Net assets** | **24,129** | **14,643** |
| Income | 14,379 | 13,536 |
| Expense | (7,245) | (6,530) |
| **Surplus for the year** | **7,134** | **7,006** |

There are no contingent liabilities relating to the Corporation's interest in the joint venture and no contingent liability of the joint venture itself.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 P'000 | 2011 P'000 |
|---|---|---|
| **19. Loans to related parties** | | |
| At the beginning of the year | 14,263 | 15,627 |
| Interest charged (note 12) | 1,764 | 1,952 |
| Loans repayments received | (3,317) | (3,316) |
| **At the end of the year** | **12,710** | **14,263** |
| Less: current portion | (1,767) | (1,553) |
| **Non-current portion** | **10,943** | **12,710** |

The Corporation entered into a loan agreement with Plot 5129 Partnership, in which the Corporation has a 50% interest, to provide the partnership with a loan amounting to P18.5 million. The loan funds were used for the construction of an office complex on Plot 5129.

The loan carries an interest rate of 13% per annum and is repayable over a period of ten years, commencing 1 August 2007.

As security for the loan, the land on which the office complex has been constructed is registered in the name of the Corporation.

No impairment provision has been made in respect of the loans to related parties as the debtor has no history of defaults and the security held is considered to be adequate; fair value of the loans to related parties approximate its carrying value.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **20. Operating lease asset** | | |
| At the beginning of the year | 63,861 | 64,537 |
| Recognised in the statement of comprehensive income for the year | (1,622) | (676) |
| **At the end of the year** | **62,239** | **63,861** |
| Less: current portion | (2,641) | (1,623) |
| **Non-current portion** | **59,598** | **62,238** |
| **21. Trade and other receivables** | | |
| Trade receivables | 77,495 | 110,847 |
| Less: provision for impairment of trade receivables | (10,218) | (18,264) |
| **Trade receivables - net** | **67,277** | **92,583** |
| Sundry debtors | 3,551 | 8,730 |
| | **70,828** | **101,313** |
| Less: non-current portion | (41,368) | (50,089) |
| **Current portion** | **29,460** | **51,224** |

The fair value of trade and other receivables approximate their carrying values.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 P'000 | 2011 P'000 |
|---|---|---|
| **21. Trade and other receivables (continued)** | | |
| Movements in the accumulated impairment losses on trade receivables were as follows: | | |
| Accumulated impairment losses at beginning of the year | 18,264 | 13,205 |
| Provision for impairment | 3,357 | 5,059 |
| Unused amount reversed | (5,104) | - |
| Amounts written off | (6,299) | - |
| **Accumulated impairment losses at end of the year** | **10,218** | **18,264** |
| **22. Cash and cash equivalents** | | |
| Cash at bank and on hand | 81,617 | 26,526 |
| Short term bank deposits | 218,914 | 262,524 |
| | **300,531** | **289,050** |
| Cash, cash equivalents and bank overdraft include the following for the purpose of the statement of cash flows. | | |
| Cash and cash equivalents | 300,531 | 289,050 |
| Bank overdrafts (note 26) | (150,989) | (48,290) |
| | **149,542** | **240,760** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **23. Irredeemable capital** | | |
| Irredeemable capital contribution | 250,000 | 250,000 |
| **24. Earnings reserve** | | |
| At beginning of the year | 30,198 | 39,965 |
| Net transfer to retained earnings | (7,037) | (9,767) |
| **At end of the year** | **23,161** | **30,198** |

Earnings reserve is a reserve accounted in terms of accounting policy note number 2.17.

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **25. Investment properties insurance reserve** | | |
| At beginning and end of the year | 2,590 | 2,590 |

Investment properties insurance reserve is a reserve accounted in terms of accounting policy note number 2.18.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 P'000 | 2011 P'000 |
|---|---|---|
| **26. Borrowings** | | |
| Irredeemable loan | 204 | 204 |
| Foreign loans on-lent by the Government of Botswana | 77,257 | 82,655 |
| Government of Botswana loans | 10,040 | 13,800 |
| Debt Participation Capital Funding Limited loans | 152,361 | 184,479 |
| | **239,862** | **281,138** |
| Debt securities in issue | 389,000 | 389,000 |
| Bank overdraft | 150,989 | 48,290 |
| | **779,851** | **718,428** |
| Less: current portion | (200,153) | (69,883) |
| **Non-current portion** | **579,698** | **648,545** |

All borrowings are denominated in Pula.

### 26.1 Irredeemable loan

In accordance with the agreement with the Government of Botswana, the principal amount of the irredeemable loan is not repayable and only interest is payable bi-annually.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

### 26.2 Foreign loans on-lent by the Government of Botswana

Foreign loans on-lent by the Government of Botswana are from the Peoples' Republic of China to the Government of Botswana, which the Government of Botswana has on-lent to the Botswana Housing Corporation. These loans have a grace period for repayment of 4 years after which are repayable between 7 and 8 years and carry interest rates ranging from 8.40% to 8.50%. The Government of Botswana bears the risk of any foreign exchange rate fluctuations.

### 26.3 Government of Botswana loans

The Government of Botswana loans are repayable between 21 and 22 years and bear interest at rates varying between 7.50% and 10.00% per annum.

### 26.4 Debt Participation Capital Funding Limited loans

The Debt Participation Capital Funding Limited loans are repayable between 22 and 23 years and bear interest rates varying between 7.50% and 12.00% per annum.

### 26.5 Bank overdraft

The bank overdraft has been obtained from the Stanbic Bank Botswana Limited and Banc ABC. The limits of the facility are P100,000,000 and P150,000,000 respectively. The facilities are reviewed within 12 months of the initial draw down. The two facilities are due for review in September 2012. Interest is charged at 3% below the Bank's prime lending rate. The overdraft facility obtained from Stanbic Bank of Botswana was fully settled in February 2012.

All borrowings are unsecured.

The carrying amounts of borrowings approximate their fair value.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## 26.6 Debt securities in issue

### Floating rate notes

The Corporation privately placed floating rate notes (unsecured) amounting to P286 million in December 2010, which are maturing on 10 December 2017. These notes carry interest at the 91 days Bank of Botswana Certificates rate plus 1.7% and interest is paid quarterly on 10 March, 10 June, 10 September and 10 December.

### Fixed rate notes

The Corporation also privately placed fixed rate notes (unsecured) amounting to P103 million in December 2010, which are maturing on 10 December 2020. These notes carry interest of 10.1% and interest is paid on half yearly on 10 June and 10 December.

| Lender | Contractual interest rate (%) | Period of repayment | Balance at 01/04/11 P'000 | Added during the year P'000 | Repayment and unwinding during the year P'000 | Balance at 31/03/12 P'000 |
|---|---|---|---|---|---|---|
| **Irredeemable loan** | | | | | | |
| Government of Botswana | 8.00% | Irredeemable | 204 | - | - | 204 |
| **Foreign loans on-lent by the Government of Botswana** | | | | | | |
| Government of the Peoples' Republic of China | 8.50% | 2004-2011 | 1,249 | - | (1,249) | 0 |
| Government of the Peoples' Republic of China | 8.50% | 2006-2014 | 11,298 | - | (3,212) | 8,087 |
| Government of the Peoples' Republic of China | 8.50% | 2007-2014 | 6,916 | - | (1,157) | 5,759 |
| Government of the Peoples' Republic of China | 8.50% | 2008-2016 | 12,686 | - | (1,595) | 11,091 |
| Government of the Peoples' Republic of China | 8.40% | 2011-2019 | 50,506 | 469 | 1,346 | 52,320 |
| | | | 82,655 | 469 | (5,866) | 77,257 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| Lender | Contractual interest rate (%) | Period of repayment | Balance at 01/04/11 P'000 | Added during the year P'000 | Repayment and unwinding during the year P'000 | Balance at 31/03/12 P'000 |
|---|---|---|---|---|---|---|
| 26. Borrowings (continued) | | | | | | |
| **Government of Botswana loans** | | | | | | |
| Government of Botswana | 7.50% | 1992-2013 | 2,819 | - | (867) | 1,952 |
| Government of Botswana | 10.00% | 1992-2014 | 7,599 | - | (1,853) | 5,746 |
| Government of Botswana | 7.50% | 1992-2013 | 3,382 | - | (1,040) | 2,342 |
| | | | 13,800 | - | (3,760) | 10,040 |
| **Debt Participation Capital Funding Limited loans** | | | | | | |
| Debt Participation Capital Funding Limited | 8.50% | 1989-2012 | 2,863 | - | (2,863) | 0 |
| Debt Participation Capital Funding Limited | 7.50% | 1991-2013 | 2,364 | - | (894) | 1,470 |
| Debt Participation Capital Funding Limited | 7.50% | 1991-2013 | 5,587 | - | (1,727) | 3,860 |
| Debt Participation Capital Funding Limited | 7.50% | 1991-2014 | 14,326 | - | (3,700) | 10,626 |
| Debt Participation Capital Funding Limited | 8.00% | 1992-2015 | 5,586 | - | (1,057) | 4,528 |
| Debt Participation Capital Funding Limited | 8.00% | 1993-2015 | 35,886 | - | (6,794) | 29,092 |
| Debt Participation Capital Funding Limited | 9.50% | 1993-2016 | 90,723 | - | (12,335) | 78,389 |
| Debt Participation Capital Funding Limited | 12.00% | 1994-2017 | 27,145 | - | (2,748) | 24,397 |
| | | | 184,479 | - | (32,118) | 152,361 |
| | | | | | | |
| | | | 281,138 | 469 | (41,744) | 239,862 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **27. Trade and other payables** | | |
| Trade payables | 85,912 | 126,400 |
| Accrued expenses | 41,303 | 33,251 |
| Dividend payable | 59,488 | 39,630 |
| Sundry creditors | 7,627 | 6,610 |
| | 194,330 | 205,891 |
| **28. Agency funds** | | |
| At the beginning of the year | 273,379 | 341,169 |
| Funds received during the year | 6,903 | 78,434 |
| Expenditure on projects during the year | (62,822) | (162,541) |
| Interest earned on temporary investment of funds | 13,283 | 16,317 |
| At the end of the year | 230,743 | 273,379 |
| Non-current portion | (55,937) | (66,273) |
| Current portion | 174,806 | 207,106 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **29. Customer deposits** | | |
| Rental deposits | 11,265 | 10,241 |
| Sale of properties deposits | 57,616 | 17,057 |
| | **68,881** | **27,298** |
| **30. Dividend** | | |
| Dividend | 19,858 | 15,215 |

The board proposed a dividend payable of P19,858,000 for the financial year 2010/2011 which is calculated in accordance with the Government of Botswana's directive, as 25% of the surplus reported in that financial year.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **31. Net cash used in operating activities** | | |
| Total comprehensive income for the year | 50,407 | 79,432 |
| Adjustments for: | | |
| Adjustments to investment properties register (note 14) | (1,833) | - |
| Profit on sale of property, plant and equipment | (82) | 29 |
| Gains from sale of investment property (note 11) | (38,646) | (25,627) |
| Depreciation - investment property (note 14) | 12,817 | 8,240 |
| Depreciation - property, plant and equipment (note 16) | 2,569 | 1,918 |
| Amortisation - leasehold land (note 7) | 1,237 | 4,506 |
| Operating lease asset (note 20) | 1,622 | 676 |
| Amortisation - intangible assets (note 17) | 169 | 170 |
| Share of retained earnings of joint ventures (note 18) | (7,134) | (7,006) |
| Interest received (note 12) | (2,625) | (2,857) |
| Interest paid (note 13) | 30,331 | 16,700 |
| | **48,831** | **76,180** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **31. Net cash used in operating activities (continued)** | | |
| Changes in working capital: | | |
| Trade and other receivables (note 21) | 30,485 | 8,013 |
| Agency funds (note 28) | (42,636) | (67,790) |
| Trade and other payables (note 27) | (11,568) | 98,747 |
| Dividend payables | (19,858) | (39,630) |
| Customer deposits (note 29) | 41,583 | 1,930 |
| Housing inventories (note 15) | 178,068 | (408,911) |
| Properties transferred to investment properties from opening inventories (note 7) | (72,119) | - |
| **Net cash used in operating activities** | **152,786** | **(331,461)** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **32. Commitments** | | |
| **(a) Capital commitments** | | |
| The Corporation has following commitments in respect of capital expenditures contracted for at the statement of financial position date but not yet incurred. | | |
| Investment properties and housing inventories | 105,340 | 268,232 |
| Intangible assets | 24,006 | 37,181 |
| | **129,346** | **305,413** |
| **(b) Operating lease commitments** | | |
| The future aggregate minimum lease payments under non-cancellable operating leases are as follows: | | |
| Not later than 1 year | 3,102 | 2,457 |
| Later than 1 year but not later than 5 years | 2,699 | 3,397 |
| | **5,801** | **5,854** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

## 33. Contingencies

### Guarantee of staff loans

The Corporation has guaranteed the repayment of certain loans granted by financial institutions to its employees to develop houses and acquire motor vehicles which at March 31, 2012 amounted to P1.0 million (2011: P2.5 million).

Based on historical experience and credit worthiness of counter parties, the Corporation considers the fair value of the financial guarantee liability to be not material.

## 34. Operating leases - Corporation as lessor

In 1995 the Corporation entered into a non-cancellable lease agreement with a mining company for the lease of some 500 housing properties, in Sowa, for a minimum period of 25 years. The lease agreement provides for a 7.5% annual rental escalation (note 20). All other rental lease agreements entered into by the Corporation are cancellable and do not provide for a fixed annual escalation rate.

Minimum future rentals receivable under the lease agreement signed with the mining company are as follows:

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| Not later than 1 year | 14,593 | 13,575 |
| Later than 1 year but not more than 5 years | 70,170 | 65,274 |
| Later than 5 years | 78,073 | 97,562 |
| | **162,836** | **176,411** |

## 35. Related party transactions

The Botswana Housing Corporation is a parastatal, wholly owned by the Government of the Republic of Botswana. Accordingly, Government of Botswana line ministeries, departments and related parastatals are related parties. In the course of its day to day operation, the Corporation enters in to transactions of letting properties, sale of properties and undertakes certain projects on behalf of Government of Botswana on an agency basis.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

### 35.1 Loans from government

Details of these loans are disclosed in note 26 to these financial statements.

### 35.2 Dividend

During the year the Corporation declared a dividend of P19.9 million (2011: P15.2 million). The basis for the payment of this dividend is disclosed in note 30 to these financial statements.

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **35.3 Transactions with board members** | | |
| Board members' remuneration (sitting allowances) | 157 | 131 |
| **35.4 Key management compensation** | | |
| Salaries and other short-term benefits | 2,974 | 2,777 |

Additionally, members of the Executive Management Committee are entitled to rent-free accommodation or housing allowance (during the current financial year all the executive committee members have opted for housing allowance), personal-to-holder motor vehicles and subsidised water and electricity.

| | | |
|---|---|---|
| **35.5 Advances to key management personnel** | | |
| Advance against gratuity | 350 | 150 |

Like any other employee of the Corporation, key management personnel become eligible for an advance against gratuity when they have served a minimum of two years on their current employment contract. The advance against gratuities is recovered from the officer's gratuities at the end of his/her contract of employment.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

### 35.6 Purchases and sales of goods and services

Houses that are rented to related parties are let out at rentals applicable to Corporate tenants. The amounts owed by the Government of Botswana and other related parties are unsecured and will be settled in cash.

### 35.7 Bad and doubtful debts

As at 31 March 2012 doubtful debt provisions in respect of rental debts owed by the Government of Botswana amounted to P421,577 (2011: P163,744).

### 35.8 Joint ventures

Refer to notes 18 and 19 on the Corporation's interest and transactions with various joint ventures.

### 35.9 Professional fees

The following are the significant fee income amounts the Corporation earned from related parties in respect of professional services carried out during the year.

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| Botswana Defence Force | 10,012 | 10,360 |
| Department of Housing | 760 | 17,894 |
| | **10,772** | **28,254** |

### 35.10 Trade receivables - professional fees

Included in trade receivables are the balances due from related parties in respect of the professional services carried out during the year

| | | |
|---|---|---|
| Botswana Defence Force | 11,214 | 11,603 |
| Botswana Unified Revenue Service | - | 5,104 |
| Department of Housing | 272 | 6,247 |
| | **11,486** | **22,954** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

### 35.11 Agency funds

Significant amounts received in advance, in respect of the agency contracts to be carried out by the Corporation to related parties are as follows (note 28):

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| Botswana Defence Force | 191,226 | 224,067 |
| Botswana Unified Revenue Services | 10,367 | 7,570 |
| Department of Housing | 28,411 | 39,071 |
| | **230,004** | **270,708** |

### 35.12 Rental income

Rental income earned by the Corporation from related parties are as follows:

| | | |
|---|---|---|
| Botswana Police Service | 13,255 | 12,300 |
| Botswana Prison Service | 3,482 | 2,453 |
| Office of the President | 1,310 | 2,587 |
| Botswana Defence Force | 9,483 | 9,169 |
| Department of Housing | 61,783 | 52,467 |
| | **89,313** | **78,975** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>P'000 | 2011<br>P'000 |
|---|---|---|
| **35.13 Sale of housing inventories** | | |
| Properties sales to related parties during the year include the following: | | |
| Office of the President | 40,083 | 75,626 |
| Ministry of Education | 64,000 | - |
| Botswana Police Service | - | 8,788 |
| Department of Housing | 6,140 | - |
| | 110,223 | 84,414 |

## 36. Events after the reporting period

There were no material events between the reporting date and the date of approval of the financial statements.

# NOTES

# NOTES

# BHC OFFICES CONTACTS

**PROPERTY SALES OFFICE**
Molosiwa Road
P. O. Box 1197
Gaborone
Tel: +267 395 2431/364 6800
Fax: +267 395 6649

**PROPERTY MANAGEMENT & MAINTENANCE OFFICE**
Lejara Road
P. O. Box 168
Gaborone
Tel: +267 391 2335/364 6800
Fax: +267 397 5931

**LOBATSE OFFICE**
Pitikwe
Ponatshego Mokane Street
P. O. Box 284
Lobatse
Tel: +267 533 0460
Fax: +267 533 3652

**JWANENG OFFICE**
Pick n' Pay Shopping Complex
Unit 1
P. O. Box 25
Jwaneng
Tel: +267 588 0214
Fax: +267 588 1755

**MAHALAPYE OFFICE**
Flowertown
Plot 617
P. O. Box 1231
Mahalapye
Tel: +267 471 1747
Fax: +267 471 3925

**PALAPYE OFFICE**
P. O. Box 894
Palapye
Tel: +267 492 1075
Fax: +267 492 1076

**SELEBI PHIKWE OFFICE**
Industrial
Ramotswa Drive
P. O. Box 133
Selebi Phikwe
Tel: +267 261 0569
Fax: +267 261 0814

**FRANCISTOWN OFFICE**
P. O. Box 603
Private Bag F120
Francistown
Tel: +267 241 5080
Fax: +267 261 0814

**KASANE OFFICE**
Plateau
Plot 1148
P. O. Box 337
Kasane
Tel: +267 625 0146
Fax: +267 625 0146

**MAUN OFFICE**
Chobe
Lekukara Road
Plot 3064
Private Bag 00124
Maun
Tel: +267 686 0637
Fax: +267 686 2251

**BHC CALL CENTRE**
Tel: 1167 (BTC Landline only)
Tel: +267 315 9902

**Head Office**

Corner Mmaraka & Station Roads, P O Box 412, Gaborone, Tel: (+267) 360 5100, Fax: (+267) 395 2070