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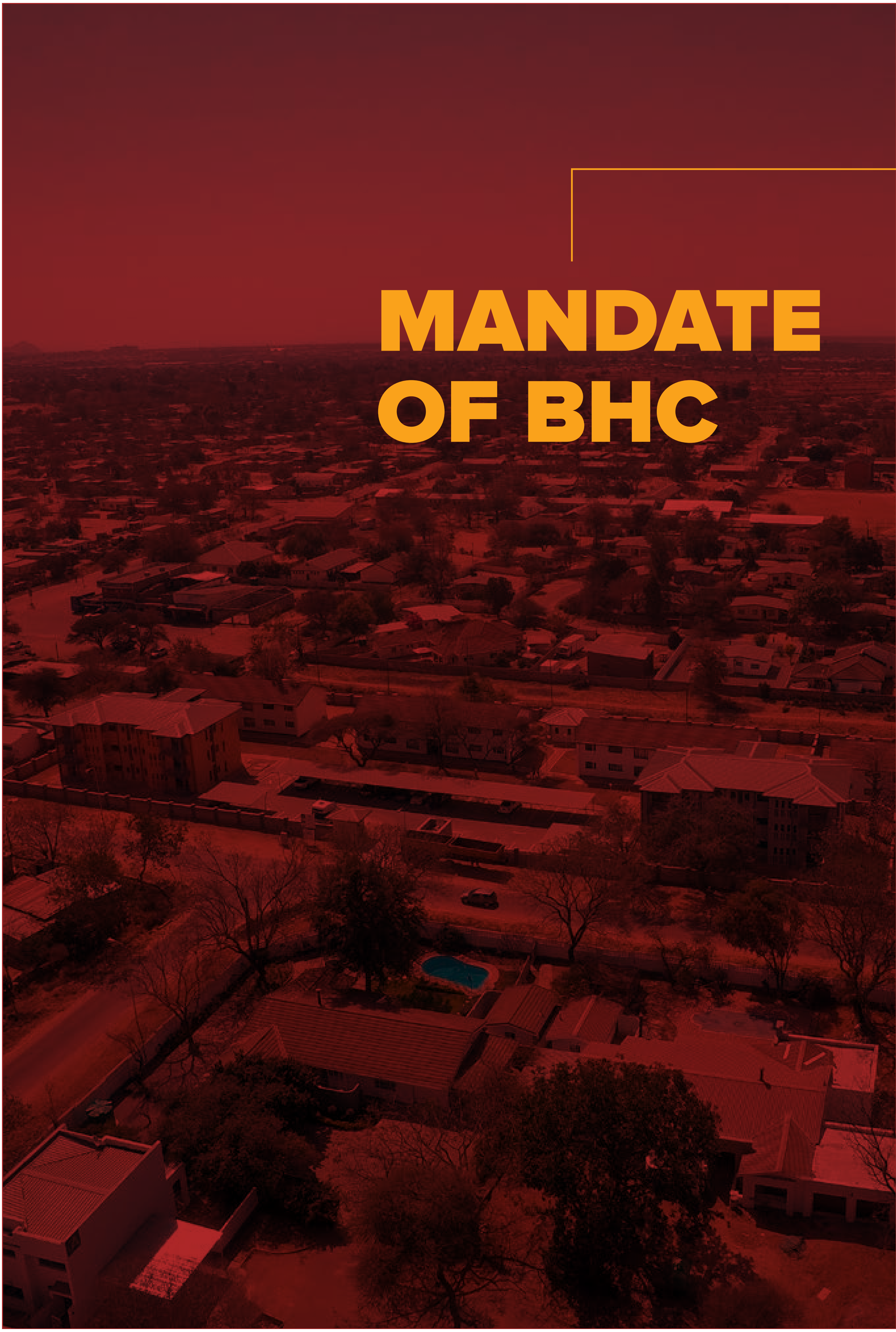
2018

ANNUAL REPORT

MANDATE OF BHC



BACKGROUND

Botswana Housing Corporation is a Parastatal under the Ministry of Lands & Housing. The Corporation was established by an Act of Parliament (CAP 74.03) of 1971. In brief, the Corporation's mandate as outlined under section 14 of the BHC Act is as follows:-

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

On 1st April 2012, the Corporation's mandate was expanded in accordance with Presidential Directive Cab 20 (B)/2010. The directive pronounced that all Government housing implementation programmes be transferred to BHC to operate as Government's Single Housing Authority (SiHA). In compliance with the directive, BHC is as from 1st April 2012 responsible for the construction of turnkey SHHA projects, Public Housing Initiative, Instalment Purchase Scheme and Youth Housing.

The main activities of the Corporation are:
Property Development
Property Sales
Property Management
Facilities Management
Project Quality Assurance
External Project Management Services
Social Housing

Explicit mandate

The Corporation's Explicit mandate is outlined under section 14 of the BHC Act :-
a) To provide for the housing, office and other building needs of the Government and local authorities;
b) To provide for and to assist and to make arrangements for other persons to meet the requirements of paragraph (a).
c) To undertake and carry-out and to make arrangements for other persons to Undertake and carry-out building schemes in Botswana.

Execution of the Explicit Mandate

This covers provision of housing to the general population through a variety of initiatives and structures such as:
- Government housing pool;
- Sales of houses to Government and its agencies;
- Provision of project management services.
- Undertaking housing projects for Government departments such as the BDF, BURS etc.

Implicit mandate

The Corporation's Implicit mandate is expressed through Government Policy pronouncements; Directives; Economic/business imperatives; Public & other social considerations.

Effective from 1st April 2012, the Corporation's mandate has been expanded in accordance with Presidential Directive Cab 20 (B)/2010. The directive pronounced that all Government housing implementation programmes be transferred to BHC to operate as Government's Single Housing Authority (SiHA). In compliance with the directive, BHC is as from 1st April 2012 responsible for the construction of turnkey SHHA projects as well as District Housing and other housing programmes pronounced by Government from time to time such as the Public Housing Initiative, Installment Purchase Scheme and Youth Housing Initiative.

Execution of Implicit Mandate

In executing the Implicit mandate, the Corporation has to raise money through the market to sustain itself. For instance, 1990's, Government announced cessation of PDSF loans to parastatals. This meant that BHC had to do the following:

- Raise money from financial markets;
- Diversification of income stream
- Reduced dependence on Government

Mission

Developing Communities Through Innovative and Sustainable Housing Solutions.

Vision

The Leading Provider of Housing Solutions for Dignified Lives.

Botho

Dignified, humane and respectful service

Innovation

Providing creative housing solutions

Transparency

Honesty and accountability

Excellence

Service with distinction, timeliness

Teamwork

A unified team spirit working for a common purpose

CONTENTS

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Mr. Reginald Ketshabile Board Chairman

QUALIFICATIONS Master of Business Administration; Bachelor of Theology

EXPERIENCE Businessman (Hotelier). Has vast experience in Human resource issues. Has worked in various capacities in Government and Parastatals

Mr. Joseph B Mosimane Deputy Chairman and Chairman of Finance and Audit Committee

QUALIFICATIONS MBA Finance; B.Com. Accounting. Associate Member of Association of Cost & Exec. Accountants (UK)

EXPERIENCE CEO Ecsponent Asset Management Ltd Botswana.

Has vast experience in Finance having worked in and headed Finance Departments in a number of organizations. Has served on other Boards

Mr. Baemedi Mmopi Former Chairman of the Finance and Audit Committee. Member of Finance and Audit Committe

QUALIFICATIONS Member Chartered Institute of Management Accountants(CIMA); ACMA; ACIS

EXPERIENCE Chief Accountant-Strategic Projects at Botswana Power Corporation where he is responsible for overall project Financial Management, Accounting and Project Treasury activities. Has an illustrious career spanning 45 year at B.P.C.

Mr. Thato Kewakae Member of the Finance and Audit Committee and Human Resource Committee

QUALIFICATIONS Master of Business Administration; Bachelor of Engineering (Computer Science)

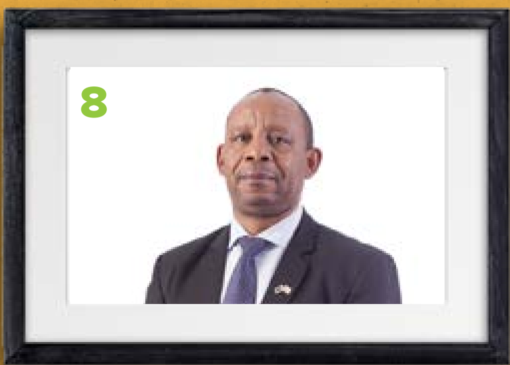
EXPERIENCE Businessman (Hotelier). Has vast experience in Human resource issues. Has worked in various capacities in Government and Parastatals

Ms. Esther Serati Member of the Finance and Audit Committee and the Human Resource Committee

QUALIFICATIONS Master of Arts-Regional Development Planning; Bachelor of Arts -Environmental Science and Political Science

EXPERIENCE Deputy Permanent Secretary (Housing) Ministry of Infrastructure and Housing Development.

The member has held various prominent positions in Government.



Mr. Kennedy Kgabo Member of the Board Tender Committee and the Human Resource Committee

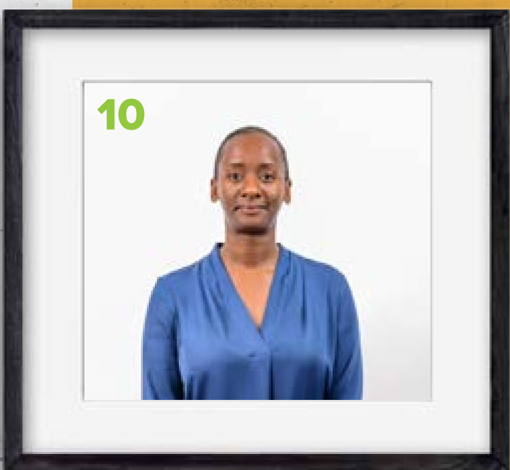
QUALIFICATIONS Bachelor of Laws Degree (LLB); National Diploma Deeds Registration Law. Admitted Attorney.

EXPERIENCE Securities/ Collateral Manager, Barclays Bank Botswana. Worked in Government as Senior Assistant Deeds Registrar and also as legal advisor, Ministry of Lands and Housing.

Mr. Roy Davies Member of the Board Tender Committee

QUALIFICATIONS Bachelor of Accountancy and holds several insurance qualifications.

EXPERIENCE Self-employed at Intimo Creations (Pty) Ltd which offers personal financial advice. Has worked for a number of companies in the private sector such as Peat, Marwick, Mitchell & Co. (now KPMG) PG Industries Botswana(Pty)Ltd.; PG Industries Zimbabwe; AON .Served as Financial Manager and Managing Director in some of those entities.



Mr. Chilisana Marobela Chairman of the Board Tender Committee.

QUALIFICATIONS Master of Science Degree and Post Graduate Diploma in Hydrology; Bachelor of Science-Geology.

EXPERIENCE Entrepreneur and participates in Economic Diversification initiatives. Is a founding member of Geoflux(Pty)Ltd. Has worked in Government as a hydrogeologist and has a number of projects such as the Southern Okavango Integrated Water Development Project; Environmental Risk Assessments

Ms. Ontibile Radira Chairman of the Human Resources Committee and Member of the Board Tender Committee.

QUALIFICATIONS Bachelor of Arts(Hons.) Personnel Management; Certification in Restaurant Management and Operations Management.

EXPERIENCE Director of Organization Development at Botswana Investment Diamond Company and Trade Centre (BITC). The Member started her career in the Human Resource profession at Debswana, later joining Burrow Binnie; National Development Bank; Barloworld and other well-known organizations in Botswana. She has worked in managerial positions for many years and has vast experience in the field.

Ms. Sithabile Mathe Member of the Board Tender Committee

QUALIFICATION Honours Degree in Architecture and Post Graduate Degree in Architecture.

EXPERIENCE Managing Director of Moralo Designs(Pty)Ltd. Worked with HRTB Architects in Oslo and Institute for City Development at IN'BY, Oslo.

She is a registered member of several professional bodies in Botswana and Norway. Also holds prominent positions in a number of international and regional Architectural bodies.

CHAIRPERSON'S REPORT

Progressive organizations are defined by certain core characteristics: expertise, innovation and a passion for serving their stakeholders. These words resonate with Botswana Housing Corporation, a distinguished organisation for which I have the privilege of serving as chairman of the board.

Each day, Botswana Housing Corporation staff anticipates and tackles stakeholders' needs with integrity and purpose. Whether by bringing new products to the different markets, producing cutting-edge building designs for clients, serving as project managers for third parties, interacting with the public through marketing initiatives, the Botswana Housing Corporation today continues its tradition of serving diverse communities to make a positive impact on the economy.

This year's annual report contains many examples of how the Corporation makes a difference. A particular highlight is the leadership that the Corporation has provided in the social housing market.

CHAIRPERSON'S REPORT

The Corporation is now in full swing to deliver on its expanded mandate after concluding its restructuring exercise in the third quarter of the 2018 financial year. The organisation has two distinct wings being; the Social Housing and Commercial wings. As a direct result of the restructuring exercise new offices will be opening across the country to allow the Corporation to get closer to its clientele. New offices will be opening in Kanye, Molepolole and Gantsi during the 2018/19 financial year whilst additional offices will be opening in Tsabong and Letlhakane during the coming 2019/20 financial year. SHHA continues to be the Corporations flagship product in the social housing space. This is followed by POHI and Youth Housing products respectfully. In this financial year BHC delivered 1009 and 217 SHHA and POHI houses respectively. The demographic makeup of our society has ensured that Youth housing becomes a priority to BHC. The Corporation will be able to deliver and sell 372 Youth Housing units at its Tsholofelo East project during the last quarter of the 2018/19 financial year. An additional 264 units will be delivered and sold in the first quarter of the 2019/20 financial year from its Tsholofelo West project. These exciting projects will be the first youth projects delivered by the Corporation for this market segment.

In the commercial space BHC continues to be the choice provider of housing accommodation. During this year the Corporation delivered 311 units to its urban and peri-urban clientele. By close of 2017/18, 550 units which will be brought to market in 2018/19 were still under construction mainly in Gaborone, Palapye, and Francistown. In our effort to bring housing solutions to our commercial clients for the year 2018/19 we shall start 777 units in Gaborone, Palapye, Francistown, Jwaneng, Palapye, Letlhakane, Maun and Tati Siding. Despite the challenging economic conditions demand for accommodation continues to outstrip supply in most of these areas. Our private clients who occupy our old rental properties continue to struggle to raise finance to purchase these properties. The Corporation's re-introduced tenant purchase scheme that is supposed to assist these clients continued its unimpressive run on the back of high household debts.

The Corporation continues to be the provide project management services for Government, Government Departments and Other parastatals. This is line with the Single Housing Authority (SiHA) mandate. During the 2017/18 financial year the Corporation delivered 655 units under third party projects comprising mainly of housing accommodation. Our maintenance and facility management expertise continued to make BHC properties and third-party properties leased to government habitable. The maintenance wing is critical to the Corporation's 9000 plus rental properties portfolio. This portfolio brings sustainability and stability to the BHC business model. Facilities management is in its infancy stage but has good prospects due to government support through the parent ministry.

Investment in our people remains a key component of our business. This integral part of our operations took a serious knock during the restructuring exercise. In the coming 2018/19 financial year the training budget has been increased to ensure corrective action is taken to plug the gaps identified in some of the officers' soft skills. A new management team that blends youth and experience has been put in place to take the Corporation to the next level in delivering on its mandate. An executive development programme has been introduced and 3 members of the senior leadership team will be enrolled on the programme in the 2018/19 financial year. An attractive retention strategy has been put in place in the form of a remuneration policy that is competitive when compared to our peers in the market.

Superior customer service is at the centre of our operations. For the period under review the corporation took each opportunity to engage its customers to create awareness on its mandate and products. The corporation was visible at the Consumer, Agricultural and business fairs held in major villages and towns across the country during 2017/18 financial year.

Governance remains the highlight and focus of our leadership. Director training is a continuous process to ensure our directors are kept abreast with developments in the corporate governance landscape. I am confident our board structures are competent to direct the business of BHC. We continue to endeavour to comply with Regulators who govern our business environment.
We acknowledge and recognize our responsibility as a good corporate citizen and continue to put part of our profits to community related projects. During the 2017/18 financial year we carried a number of corporate social responsibility projects across the country including donations for the flood victims in Gweta.

LOOKING AHEAD

We have entered a new era defined by the nation's vision 2036 that has four pillars being; Sustainable Economic Development, Human and Social Development, Sustainable Environment and Good Governance, Peace and Security. The change of guard at the country's top office can only give us more impetuous to deliver on our mandate. restructuring exercise that was concluded in the last quarter of 2017. the Corporation ended restructuring exercise

Acknowledgement

On behalf of the entire board of directors, I thank the Botswana Housing Corporation's executives for their outstanding leadership and all of the employees for carrying forth the Corporation's outstanding legacy and enduring commitment to serving the public.

....

Mr. Reginald Ketshabile
BHC Chairman

CEO'S REPORT

It is with great pleasure that I present to you, our various stakeholders, the Botswana Housing Corporation's 2017/18 Annual Report and Accounts. Presented below are some of the highlights of the Corporation's performance during the year under review.

FINANCIAL PERFORMANCE

I am delighted to report that the Corporation continues to report favourable financial results.

During the year under review the Corporation recorded a surplus before tax of P108.4 million, up 111% on the previous year's surplus before tax of P51.3 million. Being profitable is important for the Corporation for the following reasons:

- It enables the Corporation to remain sustainable and, therefore, continue to provide housing solutions into the future;
- As the profits are ploughed back into the Corporation's operations, the increased working capital this bring about enables the Corporation to expand its operations and, therefore, reach more people with its products and services going forward;
- The Corporation is able to access funding from the financial markets at reasonable interest rates, as its sustained profitability makes it less risky in the eyes of potential financiers and;
- Retained surpluses which, as mentioned above, are ploughed back into operations, make the Corporation less reliant on borrowed funds. As a result, the Corporation is able to keep its borrowings to a minimum, thereby, minimising its interest expense and, consequently, minimising its cost of doing business.

RESTRUCTURING EXERCISE

The Corporation completed its restructuring exercise in December 2017. As part of the restructuring exercise, the Corporation developed new organisational and business models which are better aligned to its expanded mandate as a Single Housing Authority (SiHA).

Under these new models, the Corporation's offices in Sowa, Mahalapye, Lobatse and Jwaneng are going to be closed. However, in their place new offices are going to be opened in Tsabong, Kanye, Letlhakane, Molepolole and Ghanzi.

I would like to assure the Corporation's tenants and other stakeholders in the areas in which the Corporation will be closing its offices that the closure of offices in these areas will not affect the level of service provision in these areas. Tenants in these areas will continue to receive the same level of service, such as the maintenance service, as they have become accustomed to.

As part of the restructuring exercise, the Corporation will also be separating the delivery of its social housing mandate from its commercial housing mandate. The two wings of the Corporation will have their own human and other resources. The objective of separating the two mandates is to ensure that the true cost of delivering housing products under each of the two mandates is fully recognised and further that the two mandates receive appropriate attention, as the people involved will not have their attention divided between the two mandates.

SOCIAL HOUSING PROJECTS

Since the Corporation took on its SiHA mandate in 2013, and up to 31 March 2018, it had completed and handed over the following housing units under its social housing mandate:

- Three Thousand Three Hundred and Thirty – Nine (3, 339) housing units under the Turnkey Self – Help Housing Agency (SHHA) scheme;
- One Hundred and Sixty (160) Turnkey SHHA housing units for public officers and;
- Three Hundred and Sixty – Nine housing units under the Public Officers Housing Initiative (POHI).

The Corporation is also undertaking housing developments under the Installment Purchase Scheme (IPS)/Youth Housing Scheme. As at the year – end, a number of housing units were under construction under this scheme in Tsholofelo East, of which the first batch of Three Hundred and Seventy – Two (372) were expected to be delivered in November 2018. The second batch, of Two Hundred and Sixty – Four (264) units, were expected to be delivered in May 2019.

Construction was also expected to start on another batch of One Hundred and Fourteen (114) units in Block 7, Gaborone.

COMMERCIAL HOUSING PROJECTS

Due to the critical shortage of land in Gaborone, the Corporation has had to revisit some of its high - density developments in Gaborone with the objective of further densifying such developments. As a result, a number of flats with modern designs have come up in various parts of the city and are becoming welcome homes to a number of families in need of accommodation.

During the year under review, some One Hundred and Thirty – Eight (138) housing units were completed under the Gaborone Densification Project.

Another Seventy – Two (72) freestanding housing units were completed in Jwaneng.

Acknowledgement

The foregoing financial and operating results were delivered during a period of much uncertainty, as the Corporation has been going through a restructuring exercise which commenced in

CEO'S REPORT

June 2015. The resilience and commitment of everybody involved, from the Board right through to senior management other staff members, is clearly evident in these results.

For this reason, I would like to take the opportunity to thank the Board, the Senior Leadership Team and, indeed, all staff members for their commitment to the Corporation's vision and mission, by which the Corporation endeavours to deliver appropriate housing solutions to the nation of Botswana.

Yours faithfully,

R M Motswaiso
CHIEF EXECUTIVE OFFICER

SENIOR LEADERSHIP TEAM

1 **Reginald Motswaiso**
Chief Executive Officer

2 **Nkaelang Matenge**
Deputy CEO - Operations

3 **Pascaline Sefawe**
Deputy CEO - Corporate Services

4 **Yagan Mukonde**
Internal Audit Executive

5 **Elizabeth Galeforolwe**
Chief Legal Officer

6 **Kesebonye Khimbele**
Regional Director - South

7 **Octavian Seitshiro**
Head of Facilities Management

8 **Batanani Nkhumisang**
Director Property Development

9 **Bridget Mtonga**
Regional Director-North

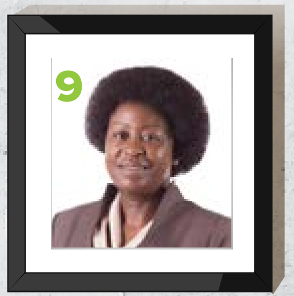
10 **Thupa Thupa**
Head of Strategy Policy & Planning

11 **Sekgele Ramahobo**
Director Human Capital & Administration

12 **Samantha Molefe**
Head of Information Technology

13 **Gomolemo Zimona**
Head of Marketing and Communications

14 **Diratsagae kgamanyane**
Chief Finance Officer (Ag)



15 **Richard Chilisa**
Director Risk & Compliance

16 **Ntshekisang Ofetotse**
Head of Quality Assurance

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Revenue

P294 Million

40%

(2017: P493 Million)

Operating Profit

P94 Million

135%

(2017: P40 Million)

Total Profit and comprehensive Income for the year

P88 Million

80%

(2017: P49 Million)

Total Assets

P3.0 Billion

3%

(2017: P3.1 Billion)

1320

Number of Houses Delivered

(2017: 1591)

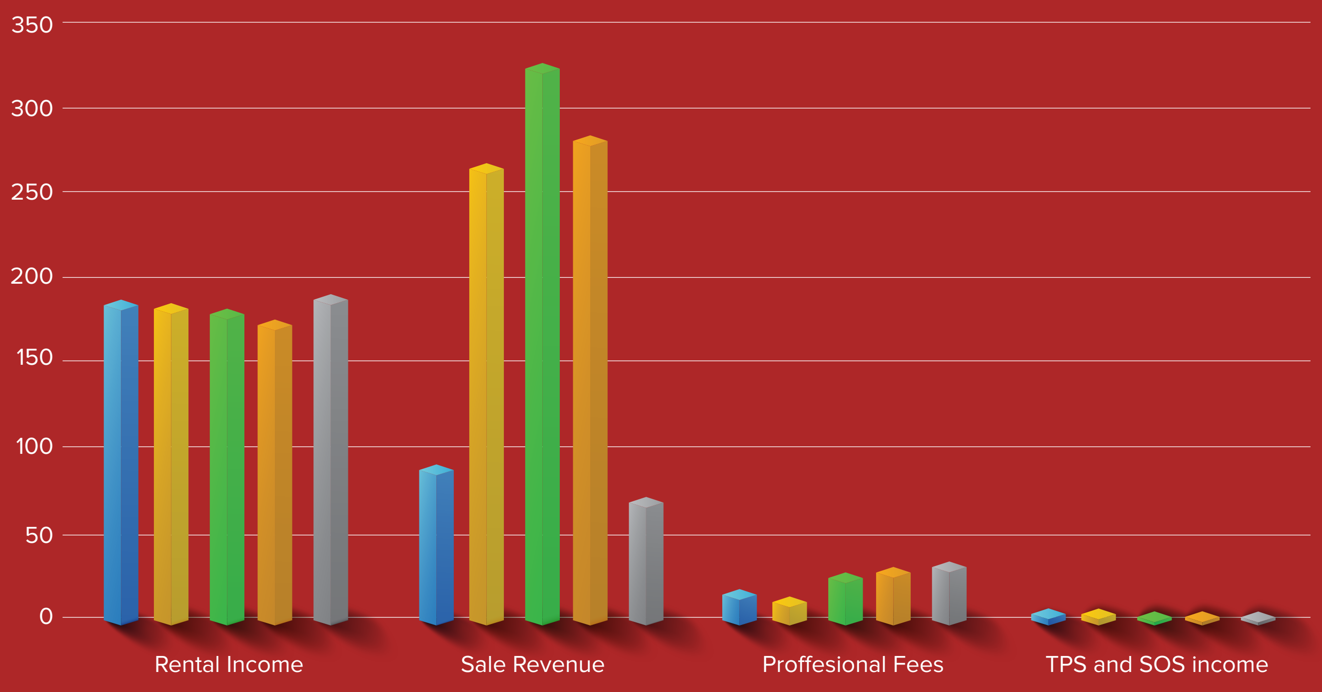
185

Number of Houses Sold

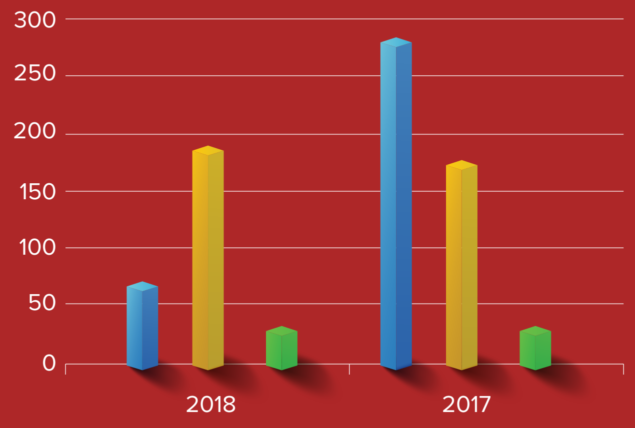
(2017: 395)

FINANCIAL REVIEW

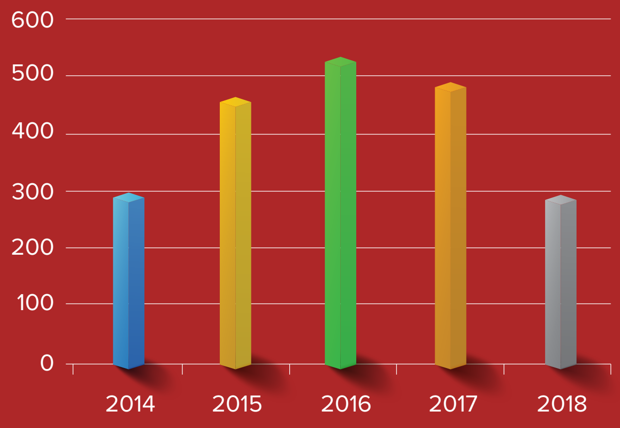
REVENUE (MILLIONS)



Major Revenue Streams

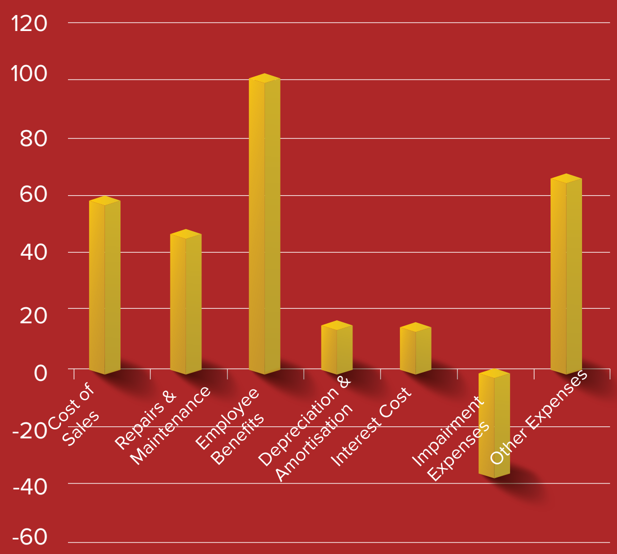


5 Year Revenue Trend

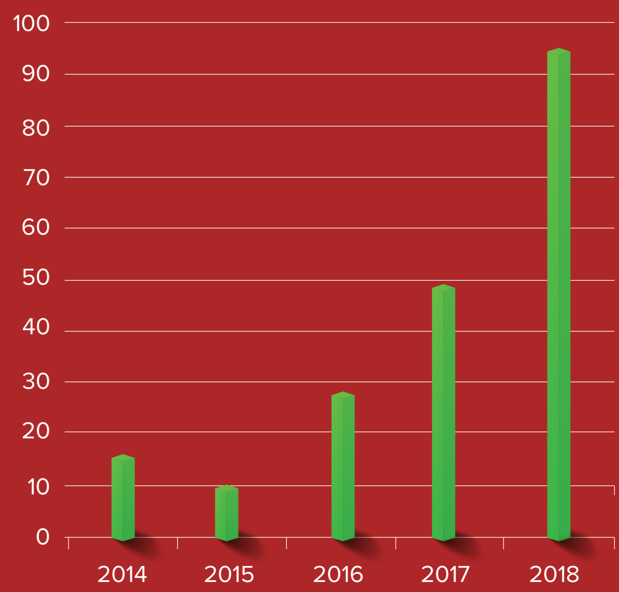


FINANCIAL REVIEW

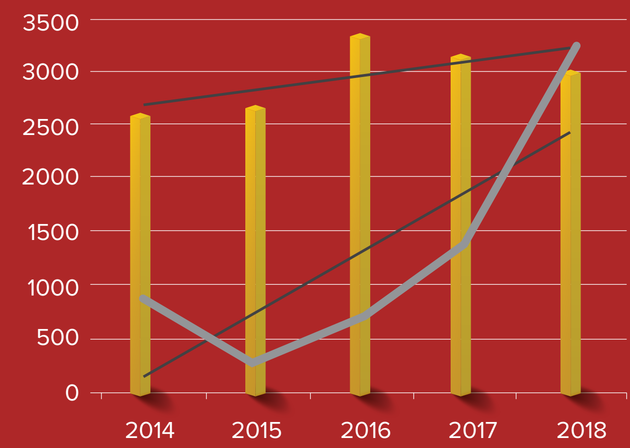
TOTAL EXPENSES (MILLIONS)



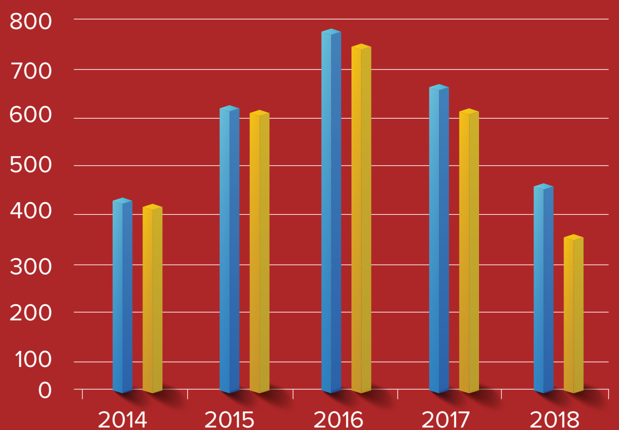
5 Year Surplus



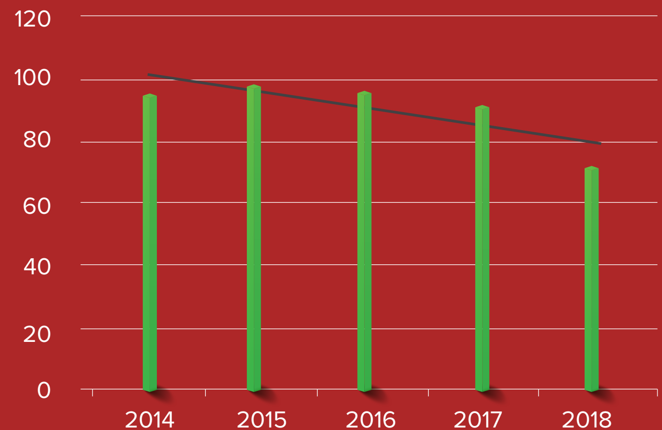
TOTAL EQUITY VS DEBT EQUITY RATIO



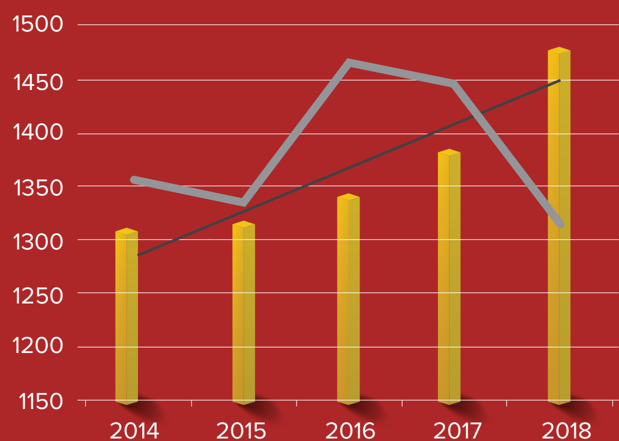
5 Year Total Income vs Expenses



5 Year Total Assets vs return on assets



5 Year Total Assets vs return on assets



FINANCIAL REVIEW

ANALYSIS OF REVENUE

The Corporation recorded total revenue amounting to P294 million for the year ended March 2018. This is 40% decline when compared to P493 million generated in 2017. The decline in total revenue is mainly due to subdued sales revenue during the period. Sales declined by P213 million or 75% against the P284 million recorded in 2017. Sales revenue in the last year was high on the back of sales from the Phakalane project. During the 2018 financial year 135 properties were sold from inventory whilst 50 houses were sold from investment properties.

Rental income increased by 8% year on year from P177 million to P190 million. The increase was a result of lease escalation dating from September 2014 in relation to some of the investment properties where the lease had been under dispute. Such income could not be realised prior to the resolution of the dispute. The total rental stock at the end of the financial year was 9761 and these houses are rented to house Batswana across the country. Rental revenue is the Corporation's second major revenue stream.

Professional fees revenue is the Corporation's third revenue stream and has been showing a growing trend year on year. Professional fees are revenues generated from management of projects done on behalf of third parties. Income from professional fees increased by 3% from the prior year' P31 million.

The Corporation's revenue has shown a steady growth over the years as shown in the bar charts below. The Corporation's revenue having grown significantly from P300 million in 2014, P539 million in 2016, P493 million in 2017 and dipped to P294 million in 2018. This is on the back of a majority of the Phakalane houses having been sold.

ANALYSIS OF TOTAL EXPENSES

The Corporation recorded total expenses amounting to P276 million for the year ended March 2018 this is a 49% decline when compared to the P536 million recorded in 2017. The decrease in total expenses is mainly due to a decline in cost of sale of housing inventories. The cost of sale of inventories dropped by P199 million or 77% from P258 million recorded in 2017 on the back of slow sales.

The cost of sale of housing inventories

The cost of sale of housing inventories is the total costs of houses earmarked for sales. These costs include cost of infrastructure, capitalisation of direct labour costs and interest costs. The major component of cost of sales is the cost of putting up the infrastructure which the Corporation has to do, as part of the project, which averaged about 35%of the total building costs of new houses. During the period under review, cost of sales declined by 77% or P199 million as a result of decline in sales by P213 million or 175% year on year. The high cost of sales resulted in an average profit margins of 17% on sales of new stock during the period under review.

Repairs and maintenance costs

The cost of repairs and maintenance of our housing properties at P49 million is almost flat year on year. Repairs and maintenance costs as a percentage of rental income is 26%, and these are considered to be very high compared to industry rate which ranges between 9% to 12%. The Corporation's rental stock are mainly low cost and medium cost type houses which are old and have proven to be expensive to maintain. BHC rentals for these properties are very low compared to the costs of maintaining them. Management has in place a 5 year cycle planned maintenance program for these houses. Each house is inspected and maintained to ensure its good state and value is maintained at all times. Maintenance work done as a result of the tenant's negligence is fully recoverable from the tenant. During the period under review P15 million was recovered from maintenance of third houses and this cost was fully recovered.

Employee expenses

Employee expenses declined by 11% from P116 million in 2017 to P103 million 2018, mainly as a result of vacant positions following restructuring exercise which was concluded in December 2017. This has led to some operational efficiencies in the reporting period as a result of re-organisation of the Corporation. The Corporation part ways with some employees during the third quarter of the reporting period as a result of restructuring.

Other expenses

Other expenses increased by 17% to P68 million year on year and this is mainly due to increase in utilities costs and computer licences.

Impairment expenses

Impairment reversal of P44 million was done during the year under review resulting in a net impairment reversal of P36 million and this contributed significantly to increase in the Corporation's profitability. This was after the resolution of the long dispute with our major client. Impairment expenses include bad debts from rental defaults and impairment of housing inventories.

OPERATING PROFIT

Operating surplus increased by 132% compared to the prior year mainly as a result of decrease in employee expenses by 11%, net impairment reversal of P36 million and an increase in other income by 13%. The Corporation is still experiencing high costs of construction mainly due to putting up the infrastructure and this results in increased cost of sales of new properties, this result in profit margin on sales of 17% on our new properties. The costs of infrastructure account for 35% of the building costs of our new properties.

PROFIT FOR THE YEAR

Total comprehensive income after tax for the year is P88 million, an increase of 96% when compared to P49 million in prior year mainly due to cost savings, impairment reversal and an increase from rental revenue stream when compared to the prior year.

FINANCIAL REVIEW

The Corporation recorded cost to income ratio of 72% compared to 91% in the prior year. The 19% improvement in cost to income ratio compared to the prior year is mainly as a result of 49% reduction in total costs year on year. Human capital costs declined by 11% as a result of vacant positions following restructuring and Corporation's operational efficiencies brought by re-organisation. The cost to income ratio improved year on year is still considered too high mainly due stagnant rentals of the investment properties and increasing costs of repairs and maintenance of these properties.

STATEMENT OF FINANCIAL POSITION

ASSETS GROWTH

The Corporation's Statement of Financial Position remains strong with total assets at P3.0 billion compared to P3.1 billion, a decline of 3%. Return on assets steadily declined from 1% in 2014 to 0.8% in 2016. During the period under review return on assets stood at 3.6% compared to 1.6% in 2017 as a result of cost reductions resulting in increased profitability.

TOTAL EQUITY

The Corporation total equity has been steadily increasing in the past years and the same trend is expected going forward. In 2018 the Corporation's total equity stood at P1.5 billion an increase from P1.4 billion in prior year. Debt to equity declined from 63% in 2016 to 33% recorded during the period under review. The redemption of the P286 million matured bond and reduction in long term loan balances resulted in the recorded 33% gearing ratio. With this low ratio the Corporation can afford to raise more funding in the market for its development projects.

SUSTAINABILITY REPORT

The rental review for the Corporation was in the last 14 years and the rental escalation is regulated by the Government of Botswana who is the sole shareholder. The Corporation has shown growth in profits in the last 5 years despite stagnant rentals and increasing costs of repairing and maintaining the rental properties. This is mainly as a result of some cost containment initiatives put in place by Management. The rental portfolio is currently maintained at 10,000 houses mainly to cover operating costs and financing costs. As the Corporation dispose of some rented properties, they are being replaced by new houses at market rental to maintain the rental threshold. The Corporation has established a fully fleshed Facilities Management Department to engage in maintenance of third party houses and charges professional fees. The Corporation will continue to grow this income stream to augment stagnant income from rentals.

Development Projects

During the period under review, 1009 houses were delivered under the SHHA scheme and 217 houses under the Public Officers Housing Initiative (POHI). At the end of the financial year, 1020 houses for SHHA, 636 houses for Instalment Purchase Scheme (IPS), Youth Housing and 74 POHI houses were at different stages of construction. These houses are expected to be delivered in the current financial year. In the 2018/19 financial year, 1614 houses, of which 1500 houses will be for SHHA and 114 houses for Youth Housing, will be built under these schemes across different constituencies.

On the commercial side, the Corporation has delivered 94 units in 2017/18 and 550 units under construction at different stages in Gaborone, Jwaneng, Tati Siding, Tutume, Tonota and Palapye, and all expected to be delivered during the 2018/19 financial year. In 2018/19 financial year, 777 units will be started in Gaborone, Palapye, Francistown, Jwaneng, Palapye, Letlhakane, Maun and Tati Siding. These are areas where effective demand has been established and the houses are expected to attract huge interest from the market.

Outlook

The Corporation is still committed to deliver on its 6 year strategy from 2018 - 2023. In the strategy period BHC is expected to deliver an average of 1500 social housing projects and 1800 commercial housing projects per annum. The Corporation is committed to deliver in total 20 000 housing projects in the 6 year strategy period.

In delivering and implementing on the strategy, Management is guided by key priority areas which have been identified in the strategy and these are mainly; developing new partnerships with the private sector in housing delivery; responding to customer needs by building/designing for specific markets; serving the unserved markets, especially low- income groups; explore alternative technologies and optimize the BHC research capabilities.

The Corporation remains financially sustainable with strong balance sheet. The Corporation is committed to provide affordable housing to Batswana country wide through social housing and commercial housing. The Corporation is also emphasizing on the commercial mandate to maintain its financial sustainability and realization of revenue growth for more commercial projects

OPERATIONS

PROPERTY MANAGEMENT

1. REGIONAL OFFICES

1.1. Following roll-out of the Corporation's new functional structure during the last quarter of the 2017/18 financial year, Property Management, Maintenance and Sales Departments' functions merged under the newly created South and North Regional offices. As such, by the close of the financial year the two regional offices oversaw property management, maintenance and property disposal functions in line with the organization's strategic objectives since the last quarter of the 2017/18 financial year. The Region's core duties include amongst others, sales, maintenance and upkeep of the property asset register, leasing and revenue collection.

2. Property Management Performance

2.1. At the beginning of the 2017/18 financial year, the total rental portfolio stood at 9,917 and decreased during the year to close at 9,911 units, at 31st March 2018. The volume of units on rental decreased despite delivery and addition of 60 new densification flats to the portfolio, as the addition was offset by sale and boarding of some rented units.

2.2. The 60 densification units were added to the portfolio at market rentals, which made a significant impact to total portfolio revenue. As a result, rental revenue increased from BW P174.5 million at the end of 2016/17 to BW P186.4 million as at the end of 2017/18. This represent an increase of 6.82%, or BW P11.9m on year-to-year basis.

2.3. Along with the Corporation's strategic objective to maximize revenue, the Corporation has a target to keep rental portfolio at an occupancy level of at least 98.5%, representing vacancy rate of at least 1.5%. As the beginning of the financial year 2016/17, the vacancy rate stood at 1.52%, and averaged to 2.03% during the year. Vacancy during the year has increased due to a significant number of units surrendered in Serowe. This was met with slow demand for rental in the area, which resulted in vacancy challenges in the area.

3. Sales Performance

3.1. Cumulative sales targets by the end year 247 units at BW P141.3 million. However, actual sales (cumulative) realized for the same period is 114 units at BW P74.4 Million. In addition to the

PROPERTY MANAGEMENT

performance actuals above, there are 71 POHI units sold at BW P20.04 million but not yet recognized pending asset registration of the properties. This makes a total actual of 185 housing units.

3.2. The Corporation continues to empower Batswana through home ownership. In 2017/8 the Corporation sold 185 housing units. Majority of these houses were sold outright through the commercial banks financing. The commercial banks continue to play a pivotal role in the assisting BHC customers to purchase the BHC units. In its quest to accommodate Batswana throughout the country, of the 185 units sold, the Corporation sold 71 housing units to Government Ministries through the Public Officers Housing Initiative (POHI). A total of 122 units were sold in bulk to Government Ministries, Departments and Local Authorities which accounts for over 60% of the BHC's housing units. And the same trend is expected to ensue in future as the institutions continue to show interest in procuring the Corporation units.

3.3.BHC Tenant Purchase Scheme(TPS) was re-introduced in the financial year 2016/7. Following the re-introduction of the scheme more than 120 applications were received. However, in the financial 2017/8 only 3 units were purchased through TPS. The main challenge was mainly affordability. Majority of the applicants are of old age, hence translating to shorter terms and increased monthly instalments. Furthermore, most applicants' salaries are overcommitted.

4. MAINTENANCE

4.1. REVENUE

Maintenance administration fees for the financial year 2017/18 have surpassed the target by BW P1.3 million, reaching BW P4 million. Major contributor of maintenance fees is third party maintenance of government units, which totaled BW P3.3 million. However, recoverable maintenance raised for the year stood at BW P1.8 million, against a target of BW P3 million, thereby resulting in an unfavorable variance of BW P1.1 million.

4.2. EXPENDITURE

The Corporation has spent BW P11.4 million in planned maintenance of 843 units, against a target of 1,030 units at BW P21.8 million for the financial year 2017/18. Reactive maintenance was also done at a cost of BW P10.8 million, i.e. BW P3.5million below anticipated expenditure.

PROPERTY DEVELOPMENT

This Department plays a pivotal role in the delivery of development projects for the Corporation.

Some of the responsibilities are as stated below:

- Acquisition and preparation of land to be ready for construction.
- Development of project proposals/appraisals to assist in the assessment of projects' viability.
- Preparation of property development schemes with design briefs and costs.
- Ensuring product quality through supervision and monitoring progress of the projects during construction phase.

To achieve the above-mentioned activities, the Department employs various skills in the areas of Architecture, Engineering, Quantity Surveying and Building Inspectorate.

The department also plays a key role in the provision of housing units and other buildings on commercial basis to Government departments, Parastatals, Private companies and to Individual Batswana.

To achieve the corporation goals, in house project analysis is undertaken to gauge project viability to attain the corporations mandate of affordable housing.

Land Preparation

The Corporation continues to strive for improvements in its land preparation processes to facilitate speedy delivery of houses to Batswana. In this regard the Corporation undertakes land preparation activities such as; land surveying, environmental impact assessment, architectural designs and plot layouts and infrastructure layout a year in advance to reduce delays encountered upon project take off.

Due to inadequate land in strategic areas, the corporation has devised means of optimising land usage by densifying existing developments. This has improved delivery of housing units to Batswana to alleviate shortage of accommodation in urban areas.

Projects Starts and Delivery

The corporation has prioritised facilitation of home ownership to Batswana in-line with National Development Plan 11 (NDP11). The corporation has challenged itself to develop 20 000 housing units throughout the period. The developed units are for the public, citizen owned companies and other governments housing needs.

Social Housing

The corporation has managed to deliver 1,009 units under the SHHA Turnkey programme which caters for the qualifying public as well as public officers on D4 band and below.

Youth/IPS Scheme

The government has taken a decision to introduce Instalment Purchase Scheme (IPS) to promote home ownership amongst Batswana who are renting BHC houses. Youth Housing scheme has also been introduced to curb lack and/or shortage of accommodation amongst the youth, particularly those graduates who cannot afford rentals in the private market. A total of 636 units are under construction with 250 units reserved for youth.

NUMBER OF UNITS

Commercial Projects

The Corporation undertakes projects on behalf of third parties and facilitates private sector participation mainly in Government projects. The major beneficiaries are Government Institutions and Parastatals. The projects are undertaken mainly through citizen owned companies. During the period under review 966 units have been delivered of which 311 units are for BHC and 655 are for different clients as shown below.

NUMBER OF UNITS DELIVERED

Project Quality Assurance

During the financial year the corporation saw it fit to hive off the aspect of quality assurance from the property development department. This was to improve project monitoring and the quality of documentation. This was brought by the fact that there was no role clarity as the functions overlapped under the same department.

The role of the new department is to provide quality control and assurance throughout the implementation of the projects.

Employment creation

The implementation of projects created a total of 8413 jobs. Due to the nature of construction, these jobs cut across the whole spectrum in the industry, from casual labourers through technical experts all the way to the professional at the top end.

PROJECT QUALITY ASSURANCE

The Botswana Government through Presidential Directive Cab 20(B)/20 mandated the Botswana Housing Corporations as Single Housing Authority (SiHA) effective 1st April 2012. The directive pronounced that all Government housing implementation programmes be transferred to the Corporation.

Because of this mandate, various housing schemes amongst them being, SHHA Turnkey, Special SHHA for Public Officers D4 & Below, Public Officers 'Housing Initiative are housed under the Corporation and are driven by Project Quality Assurance function. The function also take responsibility in assuring that other buildings carried out by the corporation are undertaken according to standards and specifications.

This function plays a pivotal role in providing quality assurance and monitoring the building of properties.

Projects Starts and Delivery

The corporation has managed to deliver 1,009 units during the year under review. This is against a target of 1,500. There are several challenges experienced by the corporation in the implementation of the scheme such as;

1. Lack of adherence to beneficiaries to their obligations
2. Inadequate project management by the contractors,
3. Lack of resources like material supply in most of the areas where the projects are undertaken.
4. Slow replacement of beneficiaries by local authorities.

Despite the above challenges, the corporation is working around the clock to overcome them through engagement of all stakeholders involve.

CORPORATE SERVICES

LEGAL SERVICES

The Legal Department provides comprehensive, in-house legal services to the Corporation and also provides the Secretariat to the Board.

The Corporation has made it a corporate priority to continuously strengthen its governance structures to give support to the Board which has oversight responsibility over the affairs of the Corporation.

The Board

The Board has oversight responsibility over the business and affairs of the Corporation and is tasked with:

- General oversight of all aspects of the business.
- Determining the Corporation's purpose, policies and values, and monitoring compliance with them.
- Determining, appraising and approving the Corporation's corporate and business strategy and monitoring their implementation.
- Appraising and approving major management initiatives, resource allocations, capital investments and divestments.
- Ensuring that risk management systems and procedures are in place to protect the Corporation's assets and reputation.
- Approving staff compensation strategy.
- Reviewing social responsibility strategies and policies.
- Awareness, understanding and compliance with the underlying principles of Good Governance.
- Ensuring ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, and the Corporation's own governing documents and codes of conduct.
- Reporting annually to the Minister and Parliament on all aspects of the Corporation's performance.

In short the Board determines strategic direction, approves policy and planning, oversees and monitors the performance of the organization and ensures accountability.

The BHC Board consists of ten members who are, subject to any special or general directions of the Minister, responsible for the overall direction of the affairs of the Corporation, and for such other matters as may be specified in the BHC Act.

Traditionally the BHC Board has had ten members who are appointed for periods not exceeding four years and at the termination of such period are eligible for re-appointment. A member may serve only two terms.

LEGAL SERVICES

Members are appointed by the Minster responsible for Housing and all appointments to the Board and of the Chairman are signified by notice in the Government Gazette.

Of the ten members appointed, the Minister designates one to be the Chairman of the Board, normally for a term of three years. The Chairman is eligible for re-appointment.

Once in every year the members elect from among their number a Deputy Chairman who holds office for one year and is eligible for re-election.

All members of the Board are independent outside members which is intended to establish a clear divide between execution of the strategy by management and the oversight function of the Board.

The Chairman of the Board convenes and presides over meetings of the Board; ensures that the content and order of the Board agenda are appropriate; guides discussions of the Board to ensure that members are informed on the performance and sustainability of the business and are always furnished with relevant and appropriate information.

The Chairman also maintains regular dialogue with the General Manger over the performance of the business.

As the Corporation operates in the areas of property development and estates management, it ensures that the Board has an appropriate skills mix –finance; industry specific technical skills (e.g. Architectural; Engineering; QS's etc.) Business; Human Resource and any other skill which would bring value to the business in terms of diversity of experience, knowledge and skill. There is also an attempt to bring gender balance to the board where possible.

The Board meets quarterly or as and when necessary for the proper operation of the Corporation. Ordinary and Special meetings of the Board are convened by the Chairman at such times and places as he may in his discretion determine.

The Board meets annually to review the Corporation's long -term strategy and monitors implementation of the strategic plan throughout the year. The current reporting period saw the Corporation roll out the first year of its six-year strategic plan.

At any meeting of the Board a quorum is constituted by the presence of not less than half the number of members appointed. Materials for Board meetings are, to the extent practicable, provided well in advance of each meeting to allow prior review by Board members.

This year saw the Corporation employ the Diligent Boards system and moving into a paper-less space. This has been a most welcome development for all concerned as it obviates carrying around bulky Board packs and also has cut down on the time it takes to prepare and dispatch the packs.

All Board members are obliged to sign a declaration of interest form at all sittings of the Board and Board Committees and where a member has a conflict of interest in any matter before the Board, such member is excused from the meeting during consideration of the item giving rise to a conflict.

Proceedings and deliberations of the Board and its Committees are confidential.

To promote ethical conduct, the Board had approved a Business and Ethics Code which was communicated to all employees of the Corporation. Further in a bid to ensure the upholding of ethical conduct throughout the Corporation, the Board has established an external Whistle-blowing facility which gives/ is intended to give protection to employees wishing to report any questionable behaviour by staff on a confidential and anonymous basis.

The facility has not been much used during the year under review and it is intended that the facility should be re-examined to see how it can be improved to make it visible and more attractive to employees to use.

In carrying out their responsibilities, Members are guided by the BHC Act and the Board Charter, which sets out the responsibilities of Board members, collectively and in their individual capacity, and the relationship between the Board and Management.

The Board has also been guided by the principles of the King III Code on Corporate Governance.

The Chairperson of the BHC Board during the reporting period was Dr Bolelang Pheko whose term expired at the end of July 2017 and was replaced by Mr Reginald Ketshabile who had been the Deputy Chairman.

The Deputy Chairmanship was taken up by Mr Joseph Mosimane after being nominated by his peers to become the Deputy Chairman in terms of Section 5(3) of the BHC Act.

The terms of two other members, Messieurs Oteng Mamparanyane and Sebele Molalapata terminated at the end of July,2017.

Three new members joined the board in August,2017. They are:
Mr Roy Davies
Ms Ontibile Radira, and
Ms Sithabile Mathe

There are three Board Committees:
1) The Finance and Audit Committee
2) The Board Tender Committee
3) The Human Resource Committee

The Finance and Audit Committee
This Committee serves as the link between the Board and the Corporations external and internal auditors thereby enabling the Board to supervise the Corporation's financial and reporting system.

LEGAL SERVICES

The Committee meets every quarter while the Chairman of the Committee meets with the Chief Audit Executive once a month or as needed.

The Committee receives reports on annual audit plans, quarterly financial statements and year -end audit reports. It also receives reports on risk and compliance issues and ensures that management attends to issues of concern and reports these to the Board.

The responsibilities of the Committee include:

i) Improving communication and providing a forum of debate between the external and internal auditor, the Board and Management.
ii) Considers the appointment, remuneration and resignation or removal of external auditors.
iii) Considers and approves the projects development budget.
iv) Considers and approves the scope, nature and priorities of audit.
v) Evaluates the performance of Internal Audit.
vi) Reviews and approves the Internal Audit Charter, Internal Audit plans and conclusions with regard to internal control.
vii) Reviews significant matters reported by the Internal Audit function and the adequacy of corrective action taken in response thereto.
viii) Reviews the draft interim and annual financial statements before submission to the Board.

The Committee consists of five members
During the period under consideration the Committee had seven sittings

Board Tender Committee
The Committee ensures that there is fairness and efficiency in the process of procurement of works, services and supplies as well as to ensure transparency in the award of contracts. It reviews the award of tenders by the Management Tender Committee and adjudicates and awards tenders in accordance with its delegated powers.

The Committee also evaluates the performance of the Corporation on development projects and reviews quarterly progress reports and the adequacy of corrective action taken with regard to the various internal and external development projects.

The Committee meets quarterly and whenever there are projects to consider.

The Committee consists of five members.
During the period under consideration the Committee had four sittings.

Human Resource Committee
The Human Resource Committee of the Board is tasked with providing policy guidance on the employment, development, terms and conditions of the Corporations human resources in respect of, but not limited to the development and implementation of staffing policies, procedures and practice in respect of staff appointments and promotions, staff development, staff welfare and industrial relations.

The Committee consists of five members.
During the period under consideration the Committee had six sittings.

Remuneration of the Board
The remuneration of Board Members is determined by the Minister and during this reporting period the Board fees were increased to the following:
Board Chairman: P2 250.00
Members: P1 800.00

On appointment Members are taken through an induction program regarding the Corporations business, corporate governance, fiduciary duties of members and reporting procedures.

Members are also furnished with various reports and other documents (BHC Act; Board Charter; Past Annual reports etc) to familiarize them with the Corporation.

Annually members are sent on training, mainly on Corporate Governance. This financial year seven board members attended training on Corporate Governance.

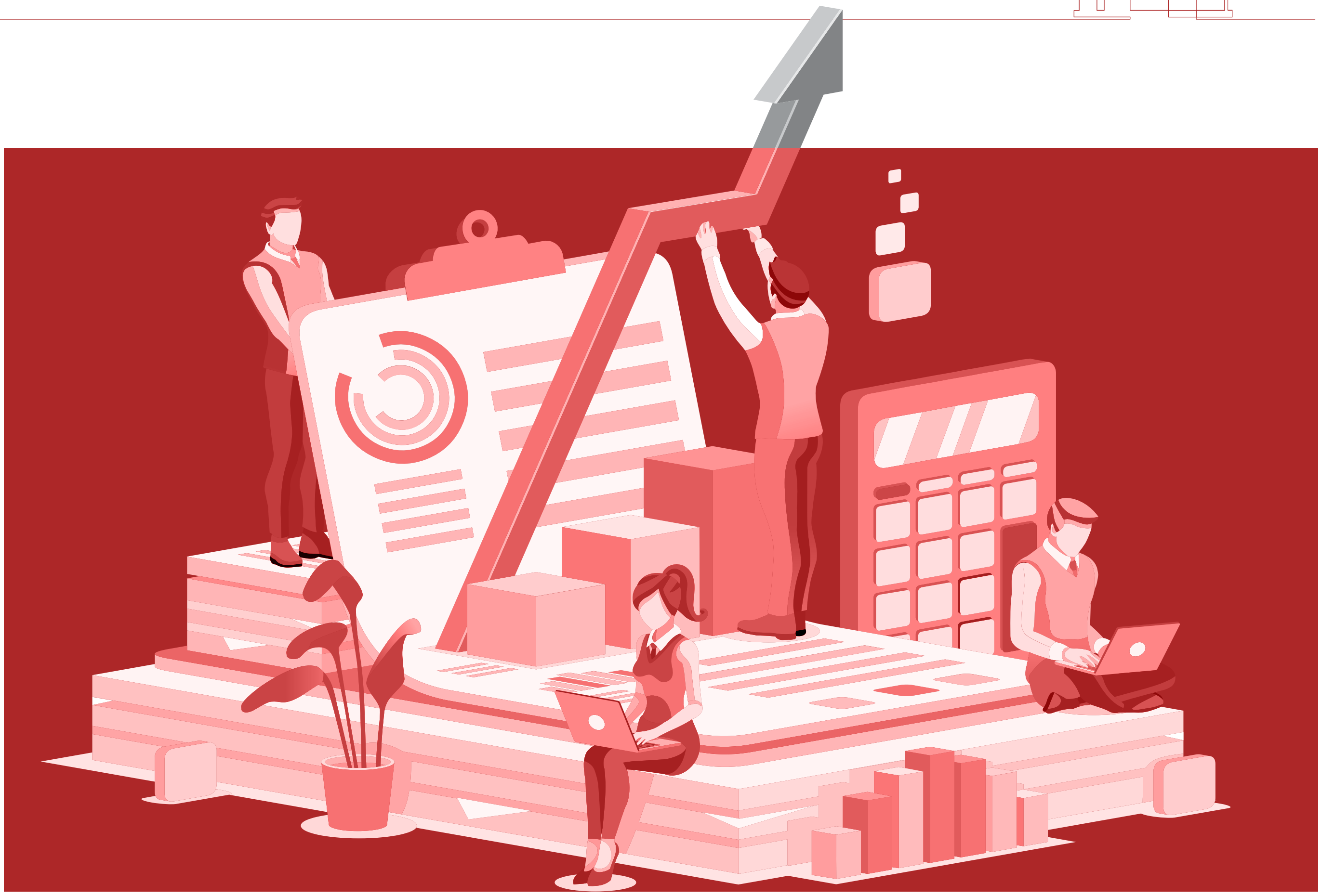
BOARD SECRETARY

The Board Secretary is also head of Legal Services and holds a Bachelor of Laws Degree (LLB).

The Board Secretary provides the Secretariat to the Board; advises members and the Board on their duties and responsibilities; provides legal advice to the Board and where the Board requests the services of external counsel assists in preparing the brief; ensures that all board decisions and instructions are communicated to the relevant persons.

The Board Secretary also ensures that the proper procedure for Board appointments is carried out and ensures that members are taken through an induction and orientation program.

INTERNAL AUDIT



In line with international best practice in corporate governance, the Corporation has an independent internal audit function in place, which provides assurance to both the Board and management on the design and operation of key controls, including controls over the risk and governance processes.

Independence of the audit function
To ensure that its independence is maintained, the internal audit function reports functionally to the Board through the Board's Finance and Audit Committee and, administratively, to the Chief Executive Officer.

During the recently completed restructuring exercise, the Corporation took the decision to separate (i) the internal audit and (ii) the risk and compliance functions into two different functions. Separating the two functions is in line with international best practice, as the risk management process is a management function which should be subject to audit review, just like any other management function.

Furthermore, the Chief Audit Executive meets quarterly with the Chairman of the Finance & Audit Committee in the absence of management.

Internal audit function's responsibility
The internal audit function is responsible for:

a) Providing assurance to both the Board and management on the effective design and operation of internal controls in key areas of the organization's operations;
b) Providing consultancy services to both the Board and management upon request and;
c) Investigating suspected improprieties.

Internal audit's workplan
The internal audit function follows a risk – based audit approach to coming up with an audit plan for its assurance. Assurance work is focused on identifying and testing key controls that are aimed at increasing the likelihood of the Corporation achieving its objectives.

The focus areas are influenced mainly by the Corporation's strategic risk register, as this enables the internal audit function to leverage on what the Board and management consider to be the key risks that could affect the delivery of the Corporation's strategy.

STRATEGY, PLANNING AND POLICY

Strategy management

The Botswana Housing Corporation was declared a Single Housing Authority by the Government of Botswana through Presidential Directive CAB: 20(B)/2010. The declaration meant that the mandate of Government to deliver housing to Batswana was centralized to Botswana Housing Corporation. The mandate of the Corporation has therefore expanded to include social housing programmes alongside the commercial mandate.

To effectively and efficiently deliver on the expanded mandate, the Corporation undertook a compressive restructuring exercise that it concluded in December 2017. The exercise delivered a new business operating model and a regionalised organisational structure. The Corporation has since established itself throughout the country by opening offices in different localities. By this approach, the Corporation has improved its accessibility by members of the public.

The restructuring exercise re-aligned functions and reduced the human capital establishment. However, the Corporation has flexibility in its employment to increase its manpower beyond the establishment in response to the development projects contained in the strategy.

The BHC has developed a six years strategic plan covering the period from April 2017 to March 2023. The Corporation uses the Balanced Scorecard system to develop its strategy, measure and report on performance being achieved. The Corporation's strategic plan is therefore developed and managed along the four perspectives namely; Learning and Growth, Internal Processes, Stakeholder and Financial. The plan is aligned to the Eleventh National Development Plan.

The Corporation has set itself to deliver 20,000 (twenty thousand) housing units under the strategic plan. This target is as per the expectations of the expanded mandate; covering both the social and commercial mandates. The Corporation therefrom develops annual plans that serve to indicate progress being achieved in delivering on the mandate.

The strategic plan for 2017/18 financial year was developed in February 2017. In order to ensure alignment of business activities in the Corporation, the Corporate Strategy was communicated to all employees through the cascading process. The process facilitates employee buy-in and makes the strategy execution every employee's responsibility.

Change management

The Corporation developed a Change Management Programme whose objective was to assist employees to settle in the new business environment. The programme assisted the Corporation to facilitate Change Agents training, Emotional Intelligence training for all employees and Teambuilding at departmental level for all employees.

It is through the Change Management process that the Corporation introduces new initiatives in the organisation on an on-going basis hence continuous improvement.

INFORMATION TECHNOLOGY

The IT Department comprises two sections through which it executes its functions, namely the Applications and Networks Sections. The main objective of the IT Department is to ensure that the Corporations information systems are secure, available and reliable always to improve business turnaround times and increase customer satisfaction. In addition, given the evolving business needs, the IT Department continuously explores and identifies new technologies, and where necessary, adopts solutions to bring value to the business.

Over the years, BHC has invested in IT systems, notably the Oracle E-Business Suite, which is the core system used for meeting information requirements of the organisation. The adoption of the Oracle system has enabled the organisation to automate and integrate its processes, which has resulted in faster turnaround times.

Loans Management Module

To further improve IT services in the Corporation, the IT Department has been involved in the implementation of a number of projects. During the year under review, following the reintroduction of the Tenant Purchase Scheme and Instalment Purchase Schemes by Botswana Housing Corporation, the IT Department implemented the Loans Management System. The Loans module was integrated with other modules within the Oracle system. The purpose of the Loan Management System was to enable efficient processing and management of the sale of properties under the TPS and IPS schemes.

IS/IT Strategy

Another project the department undertook was the review of the IS/IT Strategy. Following the maturity of the IS/IT Strategy and the BHC 7-year Strategic Plan formulated in 2007 and 2009 respectively, coupled with the formulation of a new BHC Business Strategic Plan (2017-2023) which responded to the Presidential Directive Cab 20 (B) 2010 that declared BHC as a Single Housing Authority, the IT Department considered it important to do a strategy review. In addition, considering the developments in the IT industry, the review delivered a new IS/IT Strategy which sought to align with the BHC Strategic Plan (2017-2023).

Electronic Records Management System (ERMS)

During the period under review, in its endeavour to efficiently manage the organising, storing, and disposal of official documents, the IT Department embarked on the implementation of the Electronic Records Management System. The project was implemented in two phases, with Phase 1 delivering the Enterprise Records Management Strategy. The strategy produced policies and procedures that guided the review the current records management processes, implementation of the Records Management Strategy on the manual system, sorting of records, as well as archiving and disposal.

Phase 2 of the project is to be undertaken in Financial Year 2018-2019, the objective being to implement the Electronic Records Management System.

ORACLE PROJECTS IMPROVEMENT

As part of the Oracle system implementation in 2013, the Oracle Projects module was implemented. The module is largely utilised by the Property Development Department for the project management and project costing of BHC Housing Projects. Subsequent to the recently concluded restructuring effort, the IT Department would like to make enhancements to Projects Module to meet the new requirements of the organisation. Plans are at an advanced stage to start implementing the enhancements.

Office 365

Another effort made during the year under review is the implementation of Office 365. The Office 365 solution provides flexibility in collaboration, mobility, secure and unlimited access to Corporation's information technology resources.
Business Intelligence Project

The Corporation has made a deliberate decision to implement a Business Intelligence System. The project was commissioned at the beginning of the year 2018-2019 and is expected to be delivered in the third quarter. The system is investigated to provide actionable, relevant and timely information for decision making.

CORPORATE SOCIAL RESPONSIBILITY REPORT

The Corporation has Corporate Social Responsibility Policy in place through which it identifies various community initiatives that are worthy of donating towards as way of giving back to the less fortunate members of our local communities. This is in line with one of its Corporate Values of Botho, which seeks the Corporation and its employees to be dignified, humane and offer respectful service always in its dealings with people. Corporation sets aside a budget for CSR activities on an annual basis including in the year under review, and it is for this reason that the policy is used to give direction to enable the effective and efficient management of this noble gesture.

The Corporation through this noble initiative administers funds for charitable, educational, health and other social development purposes in order to develop and/or improve the living conditions of communities around Botswana. During the year under review the Corporation identified two significant Corporate Social Responsibility initiatives amongst others. The first call the Corporation responded to was Gweta Village Disaster Management Committee which was responsible for coordination efforts to assist communities in and around Gweta village who were affected by floods which swept through the village destroying homes and property and displacing many. A total of P89,000.00 was donated towards provision of food baskets, mosquito nets, protective clothing and portable water containers in April 2017. The donation was handed over by the Chief Executive Officer, Mr Reginald Motswaiso to the Nata/Gweta Member of Parliament Honourable Polson Majaha.

As part of this noble gesture, the Corporation on an annually basis identifies a hospital with a view to donate to its Pediatrics Ward. During the year under review, the Corporation decided to extend a helping hand to the Athlone Hospital's Pediatrics war in Lobatse and donated hospital equipment and worth a total of P40 000. The donation was presented in December 2017 by the Chief Executive Officer, Mr Reginald Motswaiso to the Hospital Management. It is through these acts of kindness, that the Corporation believes it can make a difference and uplift the lives of those in need as a way to support Government's commitment towards improving the lives of fellow members of our communities in Botswana.

Customer Care

Embedded within the regional operations, the Customer Care function is responsible for handling and addressing customer queries and escalated complaints as well as Customer relationship management issues. It is also charged with the responsibility to oversee the implementation of Customer service standards and the management of the Customer Contact Centre.

For the period under review, the function held a series of tenant engagement activities in the Southern and Northern regions. The purpose of these engagements was to provide Customer Education BHC mandate and create awareness on BHC products and services.

The Call Centre provides up-to-the-minute customer support with regards to all maintenance reports, process in coming customer enquiries and queries as well as to provide a dominant customer interface platform. The facility continues to do well within the agreed service level targets. The average service level achieved for the year under review is 98% while achieving 100% occupancy and no attrition.

RISK & COMPLIANCE

This department is responsible for:
a) Enterprise-wide Risk Management (ERM);
b) Safety, Health, Environment and Quality (SHEQ) and;
c) Managing contracts with security service providers (guarding and cash in transit).

1. Risk management at BHC

1.1 Risk Governance
The department facilitates the implementation of Enterprise Risk Management (ERM). This includes, among other things:
a) The development of a risk management policy and procedures;
b) The development of tools and methodologies for implementing the risk management framework;
c) Facilitating the identification of risks and opportunities, their assessment and the crafting of responses thereto;
d) Reviewing the effectiveness of mitigation strategies and;
e) Compiling an update report to the Board on a quarterly basis.

The Corporation has developed a risk management framework based on the ISO 31000 Enterprise Risk Management standard for management of Strategic, Operational, Financial and Compliance risks within the Corporation. The Corporation has made progress during the year to ensure compliance to the Enterprise Risk Management Policy Framework.

1.2 Approach to risk identification
Risks are identified by the Board and management by means of a brainstorming exercise through which events which, if they were to happen, would affect the achievement of the Corporation's objectives, both positively and negatively, are identified and assessed.

1.3 Top risks
The Corporation identified the following as its top ten (10) strategic risks, as their potential impact on the Corporation's ability to deliver on its mandate could be significant.

1.3.1 Shortage of Serviced Land
Serviced land is a key input into the delivery of a housing project. As such, its unavailability could have a serious impact on the Corporation's ability to deliver on its mandate. Scarcity of serviced land is especially a problem in urban and peri urban areas where there is effective demand for housing.

Among other strategies which the Corporation has adopted to mitigate against the impact of this risk is the densification of existing estates. Pursuant to this strategy, a number of existing high-density developments in Gaborone and Francistown are

RISK & COMPLIANCE

being re-developed through the construction of additional units or the partial or complete demolition of existing units followed by re-development of the land with highly densified units.

1.3.2 Low Sales

An inability to sell its housing products could impact adversely the Corporation's ability to deliver on its mandate as:

- The Corporation relies mostly on internally generated funds to finance further developments;
- The real empowerment of the Corporation's customers lies in them owning properties, as opposed to renting them.

The Low sales are as a result of low rentals charged on its rental portfolio as compared to mortgage installment.

However, the country has been enjoying low rates of interest for quite some time. Low interest rates allow the Corporation's prospective customers easier access to mortgage finance thereby enabling them to conclude their purchase deals.

1.3.3 Delays in Utility Connection

Delayed utility connections result in the delayed delivery of housing products, therefore affecting planned revenues from sales. The utility stakeholders being Botswana Power Corporation (BPC) and Water Utilities Corporation (WUC) are key in the delivery of houses.

To manage the risk the Corporation has continued to engage BPC and WUC on to improve the turnaround times in provision of connections. The Corporation has planned to establish technical committees with both organizations as these will ensure projects information is shared.

1.3.4 Increasing Construction Costs

Managing the construction costs is key to the Corporation, as the construction can affect the products pricing. The Corporation has continued to monitor construction costs at all stages of the projects to ensure projects are delivered on budget. BHC continues to engage the shareholder and stakeholders on land servicing and utility connections costs respectively.

Innovation is one of the values of the Corporation. The Corporation has recognized that importance of innovation by using new building technology in certain areas across the country.

1.3.5 Inadequate Project Management Controls

The delayed completion of a project and defective products could result in that project's costs escalating well beyond initial estimates. Furthermore, economic forces could change the market dynamics such that demand for a product which existed at the commencement of a project may no longer be there when the product is finally delivered.

To ensure that delays in project completion are minimized, contractors are required to submit their construction programmes for scrutiny and approval. Once approved, contractors are obliged to follow the approved programmes. Scrutinizing the programmes, to satisfy itself that the proposed programmes are both comprehensive and realistic and then monitoring contractors' adherence thereto, is an integral part of the Corporation's approach to project management.

The Corporation has taken an initiative by developing the project management teams through various project management trainings to enhance their skills.

1.3.6 Performance by Contractors (Caliber of Contractors)

Contractor performance is monitored to ensure that projects are delivered according to schedule and specification. Where a contractor fails to perform, despite the Corporation's interventions, contract termination is invoked as a last resort.

1.3.7 Water Restrictions and/or shortages

Water is one key resource in construction, therefore shortage of water does affect project delivery on time and costs. The Corporation has encouraged Contractors to explore other sources of alternate water supply. In addition, the Corporation has continued to engage WUC on the planned future developments.

1.3.8 Insufficient Funding Impacting Implementation of projects

Funding or Capital for projects development is critical for Corporation. The Corporation is exposed to the risk of insufficient funding for new development due to non-cost reflective rentals and low sales which have impact on the revenue generation. As mitigation the Corporation has explored alternative funding options through listing of a bond. The Corporation has continued to engage the shareholder on the increase rentals.

1.3.9 Cyber Security

The Corporation is alive to the cyber risks that could affect its operations. The changing information technology environment exposes the Corporation to system hacking or any other security related cyber risk. The Corporation has automated most of its process through an Oracle ERP, therefore it has become of critical importance to put in place layered defense to manage the cyber risk.

2. Security Risk Management

The section managed security service providers that are contracted to physical security, alarm monitoring and cash in transit. The performance has been generally good with a maximum of two incidents in a quarter. The Corporation continues to conduct security risk assessment to establish the risk exposure and mitigation. For losses incurred due to security related incidents the Corporation continues to recover from the service providers through their liability insurance covers. The figure below gives a picture of incidents that occurred during the financial year 2017/18.

HUMAN CAPITAL & ADMINISTRATION

The Human Capital & Administration function provides leadership in the development and execution of human capital management best practices in support of the execution of the Corporation's strategy. The function is responsible for, inter alia, issues pertaining to human capital management and administration, records management, organizational development, industrial relations, talent management, knowledge management, succession planning and employee benefits management, including pension fund administration, employee loan facilities administration and management of employee wellness activities and interventions. The function is also responsible for overseeing the general administration (including fleet management) of the Corporation.

To facilitate speedier provision of services closer to customers, the role of the Human Capital & Administration function has been decentralised to the two Regions at the Southern and Northern operations of the Corporation. Senior Officers from the Head Office had been reassigned to the Regions to improve the delivery of human capital and administration services closer to operations as a way of supporting the core operations of the Corporation, which similarly had been decentralised following the organisational review and restructuring exercise. The Head Office staff mostly provide advisory services to outstations, although some activities such as recruitment, training and development, pension fund management and management of employee assistance schemes are still centralised.

ORGANISATIONAL REVIEW AND RESTUCTURING EXERCISE

The Corporation's organisational review and restructuring, which started on the 15th June 2015, ended in December 2017. The exercise was intended to reposition the Corporation to accommodate its expanded Mandate as a Single Housing Authority for delivery of the Government's housing initiatives.

Under the exercise, a total of eighty-six (86) employees were laid off. The Corporation has started an intensive process of filling in vacant positions in the new organisational with effect from October 2017. This process included the filling in of senior Management positions, which have since been to a large extent resourced.

EXPECTED BENEFITS FROM THE ORGANISATIONAL REVIEW AND RESTRUCTURING EXERCISE

The review and restructuring exercise has enabled the Corporation to among other things, achieve the following:

- Growth in operations and a bigger impact and presence in National development and development of Communities, with more social impact and presence at local level, which is supported by regionalisation of operations.
- Creation of opportunities that may enable the Corporation to participate in activities that may assist the Corporation in generating income, including maintenance of properties under the Government schemes and returns from partnerships.
- Improved information technology, organisational processes and systems, which are aligned to service delivery company-wide.
- Economies of scale resulting from shared services.
- Appropriately, qualified, experienced and motivated Human Capital to drive and nurture a Culture of High Performance.
- Enhanced participation in development of Communities, creation of jobs and poverty alleviation initiatives.

All the above are to be achieved on an improved platform anchored on the following;

Talented People and High Performance

The Corporation strives to retain, and recruit as necessary, highly competent professionals (from the public and private sector) who can deliver effectively and efficiently on the Single Housing Authority Mandate (SiHA). This is supported by effective human and talent management strategies governing recruitment and selection, induction, performance management, employee development, career management, succession planning and remuneration/benefits. The Corporation therefore has adopted a high-performance culture characterised by speed and agility, commercial astuteness, client focus, result orientation and strong leadership. In that regard, the Corporation subscribes to all principles governing a High Performing Organisation. The Corporation has realigned its training

HUMAN CAPITAL & ADMINISTRATION

and development initiatives towards competency-based training and intensified Leadership Development and Management Development Programmes. The Corporation fully supports its employees who embark on acquiring higher qualifications like professional courses, bachelor's degrees and master's degrees through study loans and re-imbursement upon successful completion of the program. Through this initiative many employees have acquired their professional qualifications as well as the higher degrees. Some of these employees have managed to grow up the corporate ladder because of the enhanced qualifications.

Change Management
The organisational transformation should be supported by a cohesive approach that goes beyond the generally accepted principles. The critical success factor of a major change initiative include effective planning, alignment and execution of the change management programme. In that regard the Corporation has adopted some change management initiatives to reinforce the transitional process the Corporation is going through. Employees are engaged throughout the change process to ensure that they buy into the proposed change.

Some change management interventions were carried out during the year under review, covering all employees and members of the BHC Board. These programmes were intended to build new teams under the new organisational structure and some mindset activities under the Emotional Intelligence programme.

As part of the Change Management activities, the Corporation's Chief Executive Officer conducted a tour of offices across the country to facilitate the rolling out of the new organisational structure. The Chief Executive Officer also met various stakeholders to consult them on new developments following the restructuring exercise, which included closing of some offices and opening of new offices. These included the Councils and offices of District Commissioners. Stakeholder engagement is a key component towards the achievement of BHC's long term strategy.

Business Process Improvement
Streamlined business processes that support the BHC value chain, that are centrally stored and continuously improved to drive service delivery and support the SiHA mandate.

Information and Communication Technology (ICT)
The Corporation has developed an ICT Strategy that supports the key functions of a high performing national housing authority and enhance the use of digital media as a medium for interactive communication with current and potential customers as well as key stakeholders. This process has included the adoption of a business intelligence system.

Competency and Talent Management Frameworks
The Corporation has developed and adopted a competency and talent management frameworks as important tools that can be applied intelligently to drive up BHC performance, retain talent and inform the impending organizational transformation.

TRAINING AND DEVELOPMENT INITIATIVES

The Corporation new organisational structure has come up with new departments and new positions. Some officers were reassigned to new functions and assumed new roles and responsibilities, while some new employees joined the Corporation. This necessitated that the Corporation should ensure that these officers are adequately capacitated in terms of competencies requirements for the new roles. In the 2017/178 financial year a budget of P 6,324,233.00 was invested on Training and Development, an increase from P5, 122,691.50 in the previous year. Considering the need for adequate resources on the ground as the new organisational structure is rolled out, the Corporation encouraged employees to enrol on on-line programmes. In-house programmes were

HUMAN CAPITAL & ADMINISTRATION

also preferred as they ensured a large coverage of employees.

INTERNSHIP PROGRAMME AND ATTACHMENTS

The Corporation continued to actively participate in the Government internship programme that facilitates for skills development for graduates. The Corporation enrolled twenty (20) graduates for twenty (24) months across its offices in areas such as Finance, Procurement, Accounting, Internal Audit and Property Development. Whenever possible, the Corporation assisted undergraduate students through attachment to various departments to assist the students to have some job experience relating to their fields of study or to assist the students to carry out projects in part-fulfilment of their study programmes. Some students have been successfully employed by the Corporation during or upon completion of the internship program and this is a pride to the organisation.

EMPLOYEE WELLNESS ACTIVITIES

As part of its Wellness and Wellbeing initiatives, the Corporation periodically sponsored employees to participate in wellness activities in their respective localities. These activities are intended to help employees manage various wellness issues, including stress management, physical fitness, and life style ailments, such as hypertension, diabetes and other chronic ailments. The Corporation also facilitates for employees to have access to fitness facilities as part of their exercise regime by where possible subsidising employees on gym fees or arranging favourable rates for members through group membership to gymnasiums. Employees also participated in several sponsored marathons during the year.

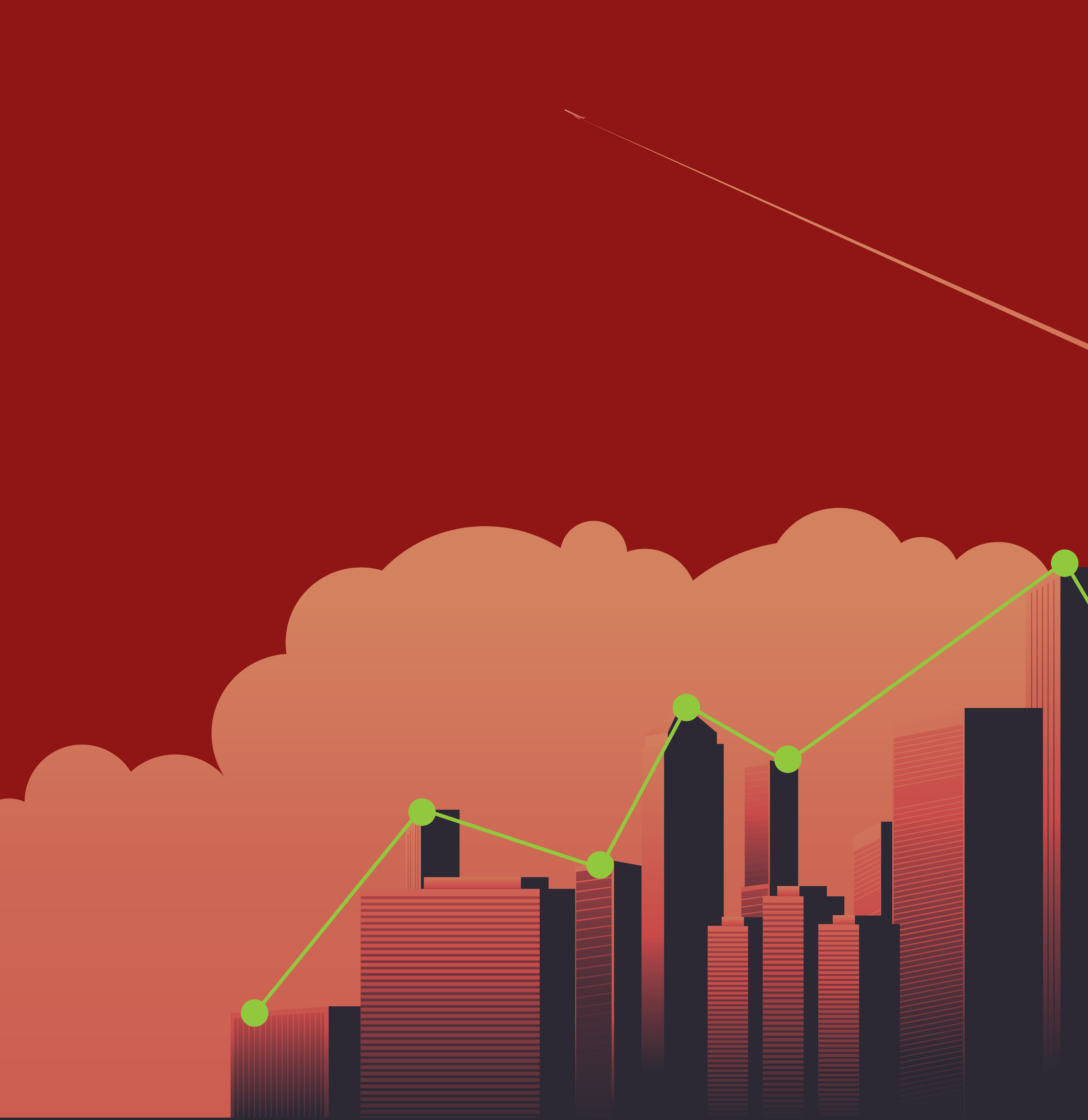
The Corporation continued to offer a Counselling facility to employees to assist employees manage personal issues that may arise from the effects of the restructuring exercise.

FEEDBACK FROM EMPLOYEES/MARKET

The Corporation continues to participate in surveys through its employees as a means of making improvements in its human capital management through the feedback obtained from such surveys. In some instances, officers are sent on benchmarking exercises as part of skills development and capacitating employees to be more effective in carryout of their official assignments. The feedback has also assisted the Corporation in reviewing its human resource management policies. processes and systems and in make improvements on issues relating to remuneration, learning and development, progression, employee relations, employee wellness and welfare and other important employee management matters.

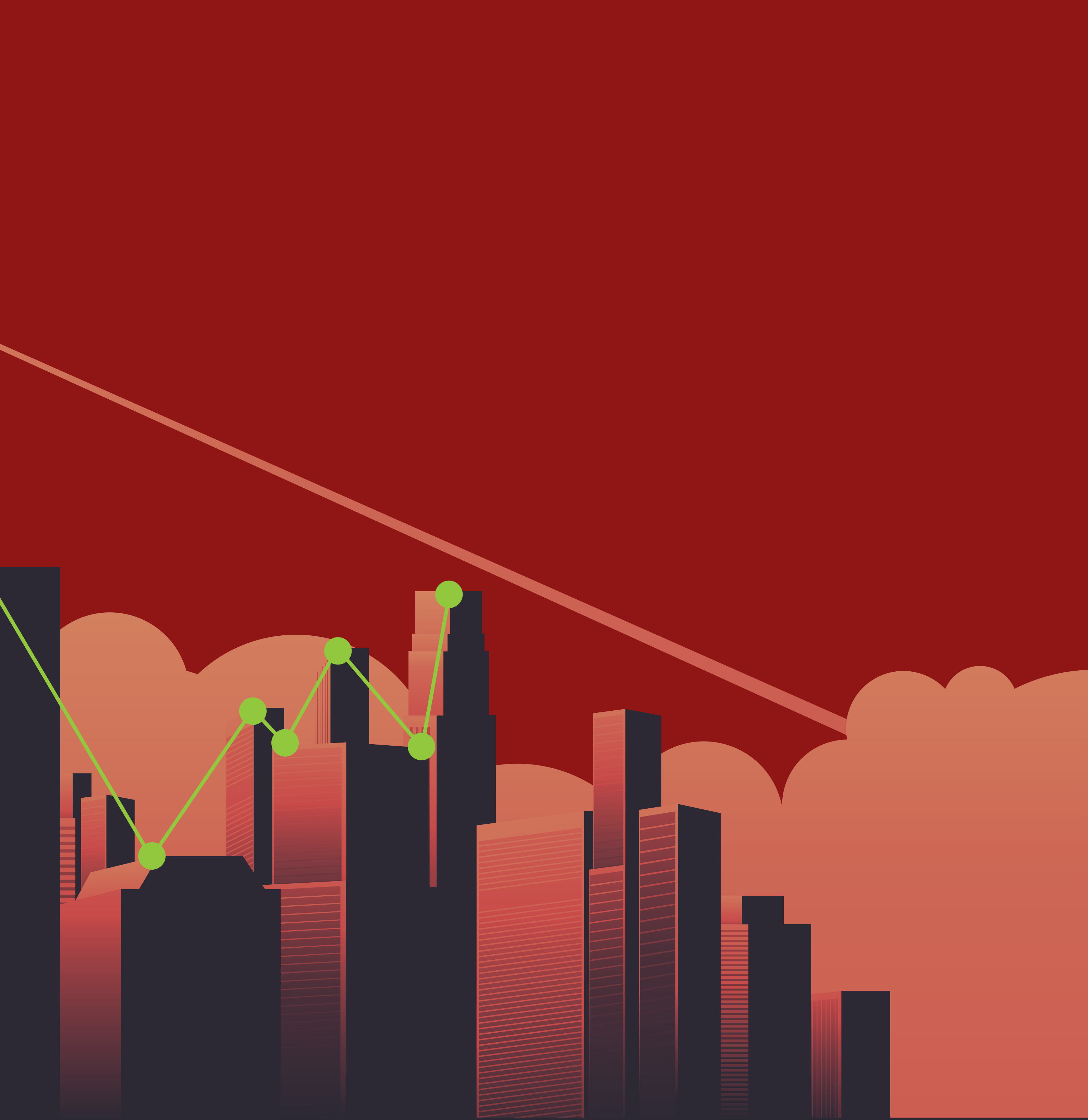
RECORDS MANAGEMENT STRATEGY

The Corporation engaged on a six months records management project during the last quarter of the year as part of its wider Records Management Strategy. The project was intended to prepare the Corporation for implementation of an Electronic Records Management System (EDRMS). The exercise has developed a Records Management Strategy, a revised Records Management Policy and Terms of Reference for consultancy services for implementation of an electronic management system.



ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018



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DIRECTORS' REPORT

for the year ended 31 March 2018

The Directors have pleasure in presenting their report together with the financial statements of Botswana Housing Corporation ("the Corporation") for the year ended 31 March 2018.

General Information

The Corporation was established by an Act of Parliament (CAP 74:03) of 1970.

Business

The Corporation is primarily involved in Property Development and Estate Management Services.

Review of Corporation's financial position and results

The Corporation's financial position and results are reflected in the financial statements set out on pages 49 to 99. The Corporation realised a profit before taxation of P108,350,000 (2017: P51,311,000).

Dividends

No dividend was declared during the year (2017: Gross dividend of P6,990,000 declared).

Members of the Board

Mr. R Ketshabile	Chairperson
Mr. J Mosimane	Deputy Chairperson
Mr. B K Mmopi	
Mr. T Kewakae	
Mr. K Kgabo	
Mr. C Marobela	
Ms. E Serati	
Ms. S Radira	Appointed August 2017
Ms. S Mathe	Appointed August 2017
Mr. R Davies	Appointed August 2017
Dr. B C Pheko	Retired July 2017
Mr. O S Mamparanyane	Retired July 2017
Mr. S Molalapata	Retired July 2017

Senior leadership team

Mr. R Motswaiso	Chief Executive Officer
Mr. N Matenge	Deputy Chief Executive Officer (Operations)
Ms. P Sefawe	Deputy Chief Executive Officer (Corporate Services)
Mr. B Nkhumisang	Director Property Development
Mr. S Ramahobo	Director Human Resources and Administration
Mr. R Chilisa	Director Risk and Compliance
Mr. D Kgamanyane	Acting Chief Finance Officer
Ms. E Galeforolwe	Head Legal and Board Secretariat
Mr. K Khimbele	Director Regional Office - South
Ms. B Mtonga	Director Regional Office - North
Ms. S Chabata	Head Information Technology
Mr. Y Mukonde	Chief Audit Executive
Mr. G Zimona	Head Marketing and Communications
Mr. N Ofetotse	Head Property Quality Assurance
Mr. O Seitshiro	Head Facilities Management
Mr. T Thupa	Head Strategy, Planning and Policy

DIRECTORS' REPORT (cont.)

for the year ended 31 March 2018

Registered office

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

Independent auditors

KPMG
Plot 67997, Off Tlokweng Road
Fairgrounds Office Park
Gaborone, Botswana

Bankers and investment managers

First National Bank Botswana Limited
Stanbic Bank Botswana Limited
Standard Chartered Bank Botswana Limited
Barclays Bank of Botswana Limited
Bank Gaborone Limited
African Banking Corporation of Botswana Limited
African Alliance Botswana
Stanlib Investment Management Services

Events occurring after the reporting date

The Directors are not aware of any matters or circumstances arising since the end of the financial year up until the date these financial statements were authorised for issue, not dealt with in this report or the financial statements that would significantly affect the operations of the Corporation or the results of its operations.

DIRECTORS' RESPONSIBILTY STATEMENT

for the year ended 31 March 2018

"The Directors are responsible for the preparation and fair presentation of the financial statements of Botswana Housing Corporation, comprising the statement of financial position as at 31 March 2018 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and 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)."

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Corporation to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The Auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements:

The financial statements of Botswana Housing Corporation as identified in the first paragraph, were approved by the Board of Directors on 25 July 2018 and are signed on their behalf by:

Mr. R. Ketshabile
Chairperson

Mr. R Motswaiso
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the Members of Botswana Housing Corporation

KPMG, Chartered Accountants
Audit
Plot 67977, Off Tlokweng Road,
Fairgrounds Office Park
PO Box 1519, Gaborone, Botswana
Telephone +267 391 2400
Fax: +267 397 5281
Web: http://www.kpmg.com/

To the Members of Botswana Housing Corporation

Opinion

We have audited the financial statements of Botswana Housing Corporation ("the Corporation") as set out on pages 49 to 97 which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Housing Corporation as at 31 March 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Botswana Housing Corporation Act (CAP 74:03).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Key audit matter	How the matter was addressed
A significant portion of the Corporation's business is to develop property for sale. Housing inventories comprise land for development, housing under construction and completed houses. The Corporation recognises housing inventories at the lower of cost and net realisable values (NRV). The NRV is estimated as the selling price for housing inventories less selling expenses, and less costs to complete development in the case of housing under construction. In valuing housing inventories, the Corporation makes significant judgments about both the cost of the inventories, particularly housing under construction, and the NRV of all housing inventories. The estimation of the cost of housing under construction requires significant judgements regarding the allocation of the approved contract costs to the correct project. The determination of the estimated NRV requires significant judgements about the selling price, and the costs to complete housing under construction. In making these judgements, the Corporation makes use of: • internal valuers to assist in the determination of the selling price based on prevailing market data, and • internal valuers, including engineers, architects and quantity surveyors, to provide assistance in determining the costs to complete development for housing under construction. Due to the significant judgements involved in estimating cost of housing under construction and in estimating the NRV of housing inventories, this matter was considered to be a key audit matter in our audit of the financial statements.	Our procedures included: **Cost of housing under construction** • We assessed the competency and objectivity of internal valuers engaged by the Corporation in estimating the cost of the project and costs to complete development (used in the NRV calculation) of housing under construction, with reference to their professional qualifications and affiliations. • We evaluated the operating effectiveness of internal controls over the authorisation and processing of contract costs, to ensure only approved costs are correctly allocated and capitalised to the respective projects. • We selected a sample of costs capitalised during construction and inspected supporting documents to ensure the expenses have been accurately allocated and capitalised. • We obtained a breakdown of all costs allocated to a project for a sample of housing under construction projects and evaluated whether the costs were correctly allocated between the various construction projects. **NRV of housing inventories** In respect of the selling price: • We challenged the Corporation's future selling prices included in the valuation reports of the internal valuers by comparing the estimated selling prices to selling prices subsequent to year end and prices of comparable properties located in the same vicinity as the housing inventories. In respect of the cost to complete housing under construction: • We obtained a status report at year end for housing under construction maintained by the internal quantity surveyors detailing costs to date and costs to complete housing under construction, and interviewed the quantity surveyors to understand the estimates applied in compiling the status report. • We challenged the costs to complete housing under construction in relation to costs incurred subsequent to year end and project budgets, obtaining explanation for and corroborating variances from budget against supporting documentation. **Comparison of cost to NRV** • We selected a sample of housing under construction projects and completed houses and inspected the NRV in relation to the costs allocated to each project, and ensured that the project was recorded at the lower of cost and NRV. • We selected a sample of completed houses which are expected to sell below cost and assessed whether the computations of the estimated write down to net realisable value of inventory was accurately recognised at the reporting date.

Other Information

The directors are responsible for the other information. The other information comprises Directors' report and the Directors' responsibility statement which we obtained prior to the date of this report, and the Annual Report which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of the financial statements which give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Botswana Housing Corporation Act (Cap 74:03), and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Corporations' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

KPMG

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporations' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

- We have received all the information and explanations which, to the best 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; and
- The Corporation has complied with all the financial provisions of the Act.

KPMG

KPMG
Certified Auditors
Practicing member: Francois Roos (20010078:45)

Gaborone
28 September 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2018

	Note	2018 P'000	2017 P'000
Revenue	6.	294,330	492,969
Cost of sale of housing inventories	7.	(58,898)	(257,517)
Repairs and maintenance		(48,550)	(48,784)
Employee benefit expenses	8.	(103,132)	(115,708)
Depreciation and amortisation	9.	(17,344)	(16,932)
Other expenses	10.	(67,676)	(58,090)
Impairment expenses	10.	35,935	(12,401)
Gains from sale of investment properties	12.	14,786	17,746
Other income	11.	44,417	39,135
Operating profit		**93,868**	**40,418**
Finance income	13.	17,161	24,961
Finance costs	14.	(16,131)	(26,799)
Net finance costs		**1,030**	**(1,838)**
Share of profit or loss of equity accounted investees of joint ventures	19.	13,452	12,731
Profit before taxation		**108,350**	**51,311**
Taxation	20.	(20,605)	(2,809)
Total profit and comprehensive income for the year		**87,745**	**48,502**

STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

	Note	2018 P'000	2017 P'000
Assets			
Non-current assets			
Investment properties	15.	1,208,892	1,130,394
Property, plant and equipment	17.	21,069	19,523
Intangible assets	18.	22,201	22,192
Investments in joint ventures	19.	22,982	20,776
Trade and other receivables	22.	9,693	9,284
Deferred tax asset	21.	-	5,731
Total non-current assets		**1,284,837**	**1,207,900**
Current assets			
Housing inventories	16.	584,765	407,264
Trade and other receivables	22.	92,891	56,850
Cash and cash equivalents	23.	1,012,548	1,476,555
Total current assets		**1,690,204**	**1,940,669**
Total assets		**2,975,041**	**3,148,569**
Equity and liabilities			
Capital and reserves			
Irredeemable capital	24.	250,000	250,000
Retained earnings		1,222,287	1,129,584
Earnings reserve	25.	-	4,958
Total equity		**1,472,287**	**1,384,542**
Non-current liabilities			
Agency funds	28.	554,077	229,963
Long term deferred income		-	1,879
Long term deferred government revenue grant	26.	47,056	54,824
Long term borrowings	26.	391,417	423,071
Deferred tax liability	21.	860	-
Total non-current liabilities		**993,410**	**709,737**
Current liabilities			
Trade and other payables	27.	190,186	191,264
Taxation payable	20.	8,270	8,515
Provision for restructuring costs	34.	-	3,693
Agency funds	28.	240,439	488,672
Deferred income		1,640	3,349
Short term portion of deferred government revenue grant	26.	7,768	8,211
Short term portion of borrowings	26.	48,051	337,484
Customer deposits	29.	12,990	13,102
Total current liabilities		**509,344**	**1,054,290**
Total equity and liabilities		**2,975,041**	**3,148,569**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

	Irredeemable capital P'000	Retained earnings (Note 1) P'000	Earnings reserve P'000	Total P'000
Balance at 01 April 2016	250,000	1,086,604	6,426	1,343,030
Comprehensive income				
Surplus income for the year	-	48,502	-	48,502
Transfer to retained earnings	-	1,468	(1,468)	-
Total comprehensive income	**-**	**49,970**	**(1,468)**	**48,502**
Transaction with owners				
Dividend declared (note 30)	-	(6,990)	-	(6,990)
Total transactions with owners	-	(6,990)	-	(6,990)
Balance at 31 March 2017	**250,000**	**1,129,584**	**4,958**	**1,384,542**
Balance at 01 April 2017	250,000	1,129,584	4,958	1,384,542
Comprehensive income				
Surplus income for the year	-	87,745	-	87,745
Transfer to retained earnings	-	4,958	(4,958)	-
Total comprehensive income	**-**	**92,703**	**(4,958)**	**87,745**
Balance at 31 March 2018	**250,000**	**1,222,287**	**-**	**1,472,287**

Note 1: Earnings reserve

Net gains realised on disposal of investment properties through Tenant Purchase Scheme (TPS) and Step Ownership Scheme (SOS) for which payment have not been received were transferred to earnings reserve (accounting policy 2.2). Transfers were made annually to retained earnings at the rate which the individual TPS and SOS balances were repaid. Management made a decision to reclassify the balance of the earnings reserve to retained earnings at the reporting date.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

	Note	2018 P'000	2017 P'000
Cash flows from operating activities			
Net cash utilised in operating activities	31.	(97,091)	(49,064)
Taxation paid	20.	(14,259)	(25)
Net cash utilised in operating activities		**(111,350)**	**(49,089)**
Cash flows from investing activities			
Acquisition of property, plant and equipment	17.	(4,536)	(2,169)
Acquisition of intangible assets	18.	(3,744)	(800)
Additions to investment properties	15.	(96,783)	(42,546)
Proceeds from sale of investment properties	12.	22,452	25,184
Proceeds from sale of property, plant and equipment		-	6
Dividends from joint ventures	19.	11,200	13,700
Interest received	13.	16,694	21,972
Net cash (utilised in)/generated from investing activities		**(54,717)**	**15,347**
Cash flows from financing activities			
Repayment of long term borrowings	26.	(43,437)	(27,319)
Repayment of bond	26.	(286,000)	-
Dividends paid		(20,205)	(27,196)
Interest paid	14.	(24,179)	(27,823)
Net cash utilised in financing activities		**(373,821)**	**(82,338)**
Net decrease in cash and cash equivalents		(539,888)	(116,080)
Cash and cash equivalents at beginning of year	23.	757,920	874,000
Cash and cash equivalents at end of year	**23.**	**218,032**	**757,920**

OPERATING SEGMENTS

for the year ended 31 March 2018

The Corporation adopted IFRS 8, "Operating Segments". This has resulted in a number of reportable segments presented. In addition, segments are reported in a manner that is 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

No operating segments have been aggregated.

The segment information provided to the Board for the reportable segments for the year ended 31 March 2018 is as follows:

	Sale of Housing Inventories P'000	**Rental P'000**	**Others P'000**	**Total P'000**
Revenue	72,906	190,173	31,251	294,330
Cost of sale of housing inventories	(58,898)	-	-	(58,898)
Repairs and maintenance	-	(48,550)	-	(48,550)
Employee benefit expenses	(9,270)	(16,507)	(77,355)	(103,132)
Depreciation and amortisation	(135)	(11,504)	(5,705)	(17,344)
Other expenses	(18,608)	(40,767)	(8,301)	(67,676)
Impairment expenses	-	35,935	-	35,935
Gains from sale of investment properties	14,786	-		14,786
Other income	108	1,905	42,404	44,417
Operating profit/(loss)	**889**	**110,685**	**(17,706)**	**93,868**
Finance income	-	-	17,161	17,161
Finance costs	(12,905)	(3,226)	-	(16,131)
Net finance costs	**(12,905)**	**(3,226)**	**17,161**	**1,030**
Share of profit or loss of equity accounted investees of joint ventures	-	-	13,452	13,452
Profit before taxation	**(12,016)**	**107,459**	**12,907**	**108,350**
Taxation	-	(20,605)	-	(20,605)
Total comprehensive income for the year	**(12,016)**	**86,854**	**12,907**	**87,745**

OPERATING SEGMENTS

for the year ended 31 March 2018 (cont.)

Total segment results above include:

	Sale of Housing Inventories P'000	Rental P'000	Others P'000	Total P'000
Revenue from Government and Government related entities (note 33.7)	59,804	113,863	31,251	204,918
Segment assets	**504,291**	**1,322,841**	**90,178**	**1,917,310**
Reconciliation to total assets as reported in the statement of financial position				
Investment in joint ventures			22,982	22,982
Intangible assets			22,201	22,201
Cash and cash equivalents			1,012,548	1,012,548
Total assets as reported in the statement of financial position	**504,291**	**1,322,841**	**1,147,909**	**2,975,041**
Total liabilities	**407,047**	**155,597**	**940,110**	**1,502,754**
Additions to non current assets				
Investment properties	-	96,783	-	96,783
Property, plant and equipment	-	33	4,503	4,536
Intangible assets	-	-	3,744	3,744
	-	**96,816**	**8,247**	**105,063**

The segment information provided to the board for the reportable segments for the year ended 31 March 2017 is as follows:

	Sale of Housing Inventories P'000	Rental P'000	Others P'000	Total P'000
Revenue	286,001	176,767	30,201	492,969
Cost of sale of housing inventories	(257,517)	-	-	(257,517)
Repairs and maintenance	-	(48,784)	-	(48,784)
Employee benefit expenses	(9,270)	(21,051)	(85,387)	(115,708)
Depreciation and amortisation	(136)	(885)	(15,911)	(16,932)
Other expenses	(31,945)	(22,647)	(3,498)	(58,090)
Impairment expenses	-	(12,401)	-	(12,401)
Gains from sale of investment properties	17,746	-	-	17,746
Other income	138	2,924	36,073	39,135
Operating profit/(loss)	**5,017**	**73,923**	**(38,522)**	**40,418**
Finance income	-	-	24,961	24,961
Finance costs	(21,439)	(5,360)	-	(26,799)
Net finance costs	**(21,439)**	**(5,360)**	**24,961**	**(1,838)**

The segment information provided to the Board for the reportable segments for the year ended 31 March 2017 is as follows: (continued)

	Sale of Housing Inventories P'000	Rental P'000	Others P'000	Total P'000
Share of profit or loss of equity accounted investees of joint ventures	-	-	12,731	12,731
Profit before taxation	**(16,422)**	**68,563**	**(830)**	**51,311**
Taxation	-	(2,809)	-	(2,809)
Total comprehensive income for the year	**(16,422)**	**65,754**	**(830)**	**48,502**
Total segment results above include: Revenue from Government and Government related entities (note 33.7)	233,031	81,915	30,201	345,147
Segment assets	**367,916**	**1,198,723**	**62,407**	**1,629,046**
Reconciliation to total assets as reported in the statement of financial position:				
Investment in joint ventures	-	-	20,776	20,776
Intangible assets	-	-	22,192	22,192
Cash and cash equivalents	-	-	1,476,555	1,476,555
Total assets as reported in the statement of financial position	**367,916**	**1,198,723**	**1,581,930**	**3,148,569**
Total liabilities	**658,708**	**197,697**	**907,622**	**1,764,027**
Additions to non current assets				
Investment properties	-	42,546	-	42,546
Property, plant and equipment	-	178	1,991	2,169
Intangible assets	-	-	800	800
	-	42,724	2,791	45,515

1. Statement of Compliance

Botswana Housing Corporation (BHC) is a parastatal corporation solely owned by Botswana Government and is domiciled in Botswana. It was established by an Act of Parliament being Botswana Housing Corporation Act (CAP 74:03) of 1970 and commenced operations 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, and 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 Infrastructure and Housing Development.

These financial statements represent the Corporation's statutory financial statements. The financial statements for the year ended 31 March 2018 have been approved for issue by the Directors on 25 July 2018. Neither the directors nor anyone has the power to amend financial statements after issue.

2. Basis of preparation

The financial statements are presented, in all material respects, in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Botswana Housing Corporation Act (CAP 74:03). The financial statements have been prepared under the historical cost convention, except where otherwise stated.
The preparation of the Corporation's financial statements 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 requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Corporation's financial statements are disclosed under critical accounting estimates and judgement section.

(a) New standards, amendments and interpretations, which became effective during the year

"The following standards, amendments to standards and interpretations became effective during the year ended 31 March 2018:"

Standard/Interpretaton	Effective date	Impact on these financial statements
Disclosure Initiative (Amendments to IAS 7)	01 January 2017	No impact on the financial statements
Recognition of Deferred TaxAssets for Unrealised Losses (Amendments to IAS 12)	01 January 2017	No impact on the financial statements
Annual improvements to IFRSs 2014-2016 Cycle(Ammendmentsto IFRS 12 Disclosure interests in Other Entities)	01 January 2017	No impact on the financial statements

2.1. Basis of preparation (continued)
(b) New standards, amendments and interpretations not yet effective

The following new standards, amendments to standards and interpretations are in issue and not yet effective for the year ended 31 March 2018, and have not been applied in preparing these financial statements:

Standard/ Interpretation	Effective date	Expected impact
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	01 January 2018	No impact expected
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	01 January 2018	No impact expected
IFRIC 22 Foreign Currency Transactions and Advance Consideration	01 January 2018	No impact expected
Transfers of Investment Property (Amendments to IAS 40)	01 January 2018	No material impact expected
Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures)	01 January 2018	No impact expected
IFRIC 23 Uncertainty over Income Tax Treatments	01 January 2019	No impact expected
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	01 January 2019	No impact expected
IFRS 17 Insurance Contracts	01 January 2021	No impact expected

IFRS 15 Revenue from Contracts with Customers: This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Service.*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. This standard may have an impact on the amount and timing of revenue transactions to be recognised by the Corporation. The Corporation has not yet performed a detailed assessment of the impact of this standard on its financial statements. The Corporation is planning to engage an external expert to determine the impact on its financial statements. The appointment of the external expert and the completion of the impact assessment will be completed for the next reporting date.

Amendment to IFRS 9: Prepayment Features with Negative Compensation: These amendments clarify those financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other requirements of IFRS 9. The standard is effective for annual periods commencing on or after 1 January 2019. This amendment is expected to have a significant impact on the Corporation's financial statements due to the nature of its operations and payment arrangements with contractors. The Corporation is planning to engage an external expert to determine the impact on its financial statements. The appointment of the external expert and the completion of the impact assessment will be completed for the next reporting date.

2.1. Basis of preparation (cont'd.)

(b) New standards, amendments and interpretations not yet effective (cont'd.)

IFRS 9 Financial Instruments: On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments*, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

This standard may have an impact on the Corporation, which will include changes in the measurement bases of the Corporation's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the allowance for impairment recognised by the Corporation.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application. Early adoption is permitted. The Corporation has not yet performed a detailed assessment of the impact of this standard on its financial statements. The Corporation is planning to engage an external expert to determine the impact on its financial statements. The appointment of the external expert and the completion of the impact assessment will be completed for the next reporting date.

IFRS 16 Leases: IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 *Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial Position. No significant changes have been included for lessors.
The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Corporation has not yet performed a detailed assessment of the impact of this standard on its financial statements. The Corporation is planning to engage an external expert to determine the impact on its financial statements. The appointment of the external expert and the completion of the impact assessment will be completed for the next reporting date.

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 Corporation 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 profit or loss on a straight line basis over the term of the lease.

(b) Outright sales of housing units

Revenue is recognised when the risks and rewards have been transferred and the Corporation 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 in profit or loss in the year in which they arise. The risks and rewards are transferred when the full payment is received or when the property title is transferred.

(c) Tenant purchase scheme (TPS)

Tenant Purchase Scheme is where properties are sold on a mortgage basis to the purchasers. The purchasers pay instalments towards the acquisition of the property over the mortgage period.

Net gain or loss arising on the sale of investment properties through the tenant purchase scheme are recognised in profit or loss 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.

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.

(d) Step ownership scheme (SOS)

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 recognised in profit or loss in that financial year.

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 disclosed 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 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 profit or loss based on stages of completion relative to project completion. Professional fees is earned by the Corporation for the technical and financial expertise applied whilst acting as an agent for trust fund projects on behalf of the Government.

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2.3. Other income

(a) Capacitation fees

Capacitation fees received from Government agencies are recognised at fair value where there is a reasonable assurance that the capacitation fee will be received and the Corporation will comply with all attached conditions.

Capacitation fees relating to costs are deferred and recognised in profit or loss over the period necessary to match with the costs that they are intended to compensate.

Capacitation fees relating to property, plant and equipment are included in non-current liabilities as deferred income and recognised in profit or loss on a straight line basis over the expected lives of the related assets.

(b) Recoverable maintenance

The Corporation appoints maintenance contractors and provide project management services for the maintenance of government and third party houses. Fee notes are only raised and the related income recognised in profit or loss based on the payment of the contractor and on the completion of the project. The Corporation charges the maintenance costs plus the administration fees for the technical expertise applied to these projects.

(c) Rental income - Commercial properties

Rental income from the letting of commercial properties is recognised in profit or loss on a straight line basis over the term of the lease.

2.4. Finance income

Interest income and interest expense are recognised in profit or loss for all interest bearing financial instruments on an accruals basis using the effective interest method except for borrowing costs capitalised on qualifying assets.

The effective interest 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.

2.5. 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 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.

Depreciation is calculated on a straight-line basis over the remaining useful lives of investment properties. 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 was already of the age and in the condition expected at the end of its useful life. The useful life of an investment property is determined at the lower of the lease period or 40 years.

If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment. The carrying amount at the date of re-classification is the carrying amount for 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 at carrying amount and cease to depreciate.

2.6. Inventories

Inventories arise with the commencement of development with a view to sale and are initially recognised at cost. Inventories are subsequently measured 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 later 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. Obsolete and damaged inventories are identified on a regular basis and are written down to their estimated net realisable values.

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.

(a) 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.

(b) 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

Borrowing costs (cont'd.)

under construction which are assets that necessarily take a substantial period of time to get ready their intended use or sale. In the statement of cash flows, capitalised borrowing costs relating to housing inventories and investment properties are considered as operating cash flows and investing cash flows respectively.

Other borrowing costs are expensed.

(c) Capitalisation of development costs

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

2.7. 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.

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 costs are recognised in profit or loss during the financial period in which they are incurred. The properties transferred from investment properties are transferred at carrying amount to property, plant and equipment.

Freehold land is not depreciated. Leasehold land is depreciated over the lease period. Depreciation on other assets is calculated on the depreciable amount, which is the cost of an asset or on amount substituted for cost less its residual value. Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment since this mostly reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives are as follows:

Buildings	40 years
Furniture and office equipment	10 years
Computer equipment	5 years
Motor vehicles	4 years
Plant and equipment	4 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, at each reporting 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.8. Intangible assets

Intangible assets comprise of computer software and the ERP system. Acquired computer software licences and ERP system 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 (5 to 10 years). Software and ERP system acquired by the Corporation are stated at cost less accumulated amortisation and accumulated impairment losses.

Computer software acquisition costs recognised as intangible assets are amortised using the straight line method from the date on which it is available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

2.9. Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Corporation has elected to account for investment in joint ventures using the equity method in its separate financial statements.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Corporation's share of post acquisition profits or losses and movements in other comprehensive income. When the Corporation's share of losses in joint venture equals or exceeds its interests in the joint ventures, the Corporation does not recognise further losses unless it has incurred obligations or made payments on behalf of the joint ventures.

2.10. Trade receivables

Trade receivables are recognised initially at fair value including any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance 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 allowance 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 profit or loss. 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 profit or loss.

In case of default, an allowance for impairment 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.

Interest and administration charges relating to the tenant purchase scheme (accounting policy 2.2c) are recognised in profit or loss as they fall due, save that where an account falls into arrears, an allowance for impairment is recognised to the extent that such charges are not considered to be recoverable through the repossession and sale of the subject property.

2.11. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. In the statement of financial position bank overdrafts are disclosed under current liabilities and included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2.12. 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).

2.13. Earnings reserve

Surpluses recognised in profit or loss in respect of the disposal of investment properties through the tenant purchase scheme and step ownership scheme are transferred from retained earnings to the 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.

2.14. 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 profit or loss 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 reporting date.

2.15. Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. These amounts are classified as current liabilities if payment is due within twelve months (or in the normal operating cycle of the business, if longer). If not they are presented as non-current liabilities.

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

2.16. Provisions

Provisions for 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 can be reliably estimated. Restructuring provisions comprise of 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 if it is probable that there will be an outflow of economic benefits.

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.

2.17. Leases

i. Determining whether an arrangement contains a lease

At inception of an arrangement, the Corporation determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Corporation separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values.

ii. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Where the Corporation is the lessee

The total contractual operating lease payments are recognised in profit or loss 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.

Where the Corporation is the lessor

Receipts of operating lease payments from properties are accounted for as rental 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 by the lessee by way of penalty is recognised as income in the period in which the termination takes place.

2.18. 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 professional fees 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 profit or loss of the Corporation.

2.19. 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

(a) Functional and presentation currency (cont'd.)

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 profit or loss.

2.20. 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 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 reporting date are discounted to their present value.

(c) Short term employee benefits

Employee entitlements to annual leave, bonuses, medical aid and housing benefits are recognised when they accrue to employees and an accrual is recognised for the estimated liability as a result of services rendered by the employee up to the reporting date. These accruals are calculated at undiscounted amounts based on the current wage and salary rates.

(d) Gratuity

Employees on contract receive terminal gratuities in accordance with their contracts of employment. An accrual is recognised for the estimated liability towards such employees up to the reporting date.

2.21. Financial instruments

a) Financial assets

Classification

The Corporation classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

Recognition and derecognition

The Corporation recognises loans and receivables on the date that they are originated. All other financial assets are recognised on the trade date, which is the date when the Corporation becomes party to the contractual provisions of the instrument. The Corporation derecognises a financial asset when the contractual rights to the cash flows from the asset

Recognition and derecognition (cont'd.)

expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such transferred financial assets that is created or retained by the Corporation is recognised as a separate asset or liability.

Impairment of financial assets

A financial asset not measured at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of the financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal of the impairment loss is recognised in profit or loss.

b) Financial liabilities

Classification

The Corporation classifies its financial liabilities as measured at amortised cost. Management determines the classification of its financial liabilities at initial recognition.

Recognition and derecognition

The Corporation initially recognises financial liabilities on the trade date, which is the date that the Corporation becomes party to the contractual provisions of the instrument. The Corporation derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Financial liabilities comprise of borrowings, trade and other payables, agency funds and customer deposits.

2.22. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is legally binding enforceable right to offset once an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No financial assets/liabilities were offset in these financial statements.

2.23. Impairment of non-financial assets

The carrying values of the Corporation's non-financial assets, excluding deferred tax assets and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. Impairment losses are recognised in profit or loss. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in the prior periods are assessed at each reporting date for any indication that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment was recognised.

2.24. 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.

2.25. Current and deferred income tax

The Corporation is subject to income tax (IAS 12) effective 1 July 2016. The Corporation was previously an exempt body.
Taxation comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to an item recognised directly in other comprehensive income or equity, in which case the related taxation is also recognised in other comprehensive income or equity.

Current taxation comprises taxation payable on the taxable income for the year, using taxation rates enacted or substantively enacted at the reporting date after taking account of income and expenditure which is not subject to taxation, and any adjustment to taxation payable or refundable in respect of previous years.

Deferred taxation is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred taxation is not recognised for temporary differences on the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss.

Deferred taxation is recognised in profit or loss, except to the extent that it relates to a transaction that is recognised directly in equity or other comprehensive income, or a business combination. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates enacted or substantively enacted at the reporting date.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused taxation losses and credits can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

2.26. 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. The maintenance deposit paid by prospective tenant 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.

2.27. 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 Board of the Corporation that makes strategic decisions.

2.28. Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Corporation will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is measured at amortised cost.

The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan, which is measured at amortised cost, and the actual proceeds received. The benefit is accounted for in accordance with the accounting policy for government grants described above.

3. Financial risk factors

The Corporation is exposed to market, interest rate, liquidity and credit risk. These risks arise in the normal course of the Corporation's business. This note presents information about the Corporation's exposure to each of these risks, the Corporation's objectives, policies and processes for measuring and managing these risks and the Corporation's management of capital. Further quantitative disclosures are included.

The Directors have the overall responsibility for the establishment and oversight of the Corporation's risk management framework.

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities.

The Directors oversee how management monitors compliance with the Corporation's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation.

3.1. Credit risk

Credit risk arises from investments in cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and other financial institutions, the Board makes an assessment of the financial position 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 quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. Credit risk attached to the Corporation's cash and cash equivalents is minimised by only investing cash resources with reputable financial institutions. There are no credit ratings available in Botswana for financial institutions. The banks used by the Corporation are reputed banks and have reported sound financial results and continued compliance with minimum capital adequacy requirement and are regulated by Bank of Botswana.

The Credit Control Section, under the Property Management Department, assesses the credit quality of a 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 allows cash payments. For Tenant Purchase Scheme and Step Ownership Scheme the Corporation retains title to the property until the entire purchase price has been paid.

The Corporation provides for impairment of debtors based on the aging analysis. Rental arrears are aged into amounts owing less than 90 days and amounts 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 amounts. 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

3.1. Credit risk (continued)

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 the amounts are more than 91 days in arrears.

As at 31 March 2018 credit risk exposures relating to recognised financial assets are as follows:

	2018 P'000	2017 P'000
Trade and other receivables	100,762	62,419
Cash and cash equivalents	1,012,548	1,476,555
	1,113,310	**1,538,974**

The above table represents the worst case scenario of credit risk exposure for the Corporation as at 31 March 2018 and 2017 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.

At March 2018	Rental debtors P'000	TPS P'000	SOS P'000	Other P'000	Total P'000
Neither past due nor impaired	-	11,636	79	51,533	63,248
Past due but not impaired	9,117	809	-	-	9,926
Individually impaired	5,500	1,583	-	-	7,083
Gross	**14,617**	**14,028**	**79**	**51,533**	**80,257**
Less: Provision for impairment	(5,500)	(1,583)	-	-	(7,083)
Net	**9,117**	**12,445**	**79**	**51,533**	**73,174**
Value of collateral held against trade receivables that are neither past due nor impaired	**-**	**56,421**	**827**	**-**	**57,248**

Title of property held as collateral is retained by the Corporation until the full outstanding balance is repaid.

3.1. Credit risk (continued)

At March 2017	Rental debtors P'000	TPS P'000	SOS P'000	Other P'000	Total P'000
Neither past due nor impaired	-	11,623	74	33,219	44,916
Past due but not impaired	4,856	385	-	-	5,241
Individually impaired	41,435	25	-	1,558	43,018
Gross	**46,291**	**12,033**	**74**	**34,777**	**93,175**
Less: Provision for impairment	(41,435)	(25)	-	(1,558)	(43,018)
Net	**4,856**	**12,008**	**74**	**33,219**	**50,157**
Value of collateral held against trade receivables that are neither past due nor impaired	**-**	**43,831**	**885**	**-**	**44,716**

Title of property held as collateral is retained by the Corporation until the full outstanding balance is repaid

Trade receivables, past due but not impaired

At March 2018	Rental debtors P'000	TPS P'000	Total P'000
Past due up to 30 days	3,360	151	3,511
Past due 30 - 60 days	2,243	105	2,348
Past due 60 - 90 days	3,514	553	4,067
Total	**9,117**	**809**	**9,926**
Value of collateral	**-**	**111,074**	**111,074**

At March 2017	Rental debtors P'000	TPS P'000	Total P'000
Past due up to 30 days	2,015	106	2,121
Past due 30 - 60 days	1,258	69	1,327
Past due 60 - 90 days	1,583	210	1,793
Total	**4,856**	**385**	**5,241**
Value of collateral	**-**	**131,679**	**131,679**

3.2. 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 2018 (2017:-Nil).

(ii) Cash flow and fair value interest rate risk

The Corporation's interest rate risk primarily arises from 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 Bonds issued at both floating and fixed rates. During financial years ended 31 March 2018 and 2017, the Corporation's borrowings at fixed rate were denominated in the functional currency.

3.2. Interest rate sensitivity

Interest rate applicable during the current cash and cash equivalents are as follows:

Interest rate sensitivity

Interest rate applicable during the current cash and cash equivalents are as follows:

	2018		2017	
	Balance P'000	**Interest rate**	**Balance**	**Interest rate**
Fixed deposits	-	-	166,554	3.80% - 4.00%
African Alliance	73,980	3.56%	281,922	3.53%
Stanlib	85,706	3.81%	262,132	3.67%
Call deposits	18,616	0.25% - 1.00%	26,048	0.25% - 1.00%
	178,302		**736,656**	
Loan and bond balances as at 31 March 2018 are as follows:				
Long term borrowings -Debt securities	-		286,000	91 BoBc +1.70%
	-		**286,000**	
Net Interest Bearing	**178,302**		**450,656**	
Interest rate variation at 50 basis point	**892**		**2,253**	

With average interest rates disclosed above, an increase of 50 basis points in interest rates during the reporting period would have increased the Corporation's profit before tax by P892 000 (2017: P2 253 000).

A 50 basis points decrease in interest rates during the reporting period would have had equal but opposite effect on the reported profit before taxation to the amounts disclosed above, on the basis that all other variables remain constant.

With average interest rates disclosed above, an increase of 50 basis points in interest rates during the reporting period would have increased the Corporation's equity by P696 000 (2017: P1 757 000).

3.3.Liquidity risk

The table below analyses the Corporation's financial 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.

	Less than 1 year years P'000	1 - 2 years P'000	2 - 5 years P'000	Over 5 years P'000	Total P'000
At 31 March 2018					
Borrowings	63,539	56,865	226,833	242,488	589,725
Trade and other payables	162,336	-	-	-	162,336
Agency funds	240,439	554,077	-	-	794,516
Customer deposits	12,990	-	-	-	12,990
Liabilities (contractual maturity)	**479,304**	**610,942**	**226,833**	**242,488**	**1,559,567**

	Less than 1 year years P'000	1 - 2 years P'000	2 - 5 years P'000	Over 5 years P'000	Total P'000
At 31 March 2017					
Borrowings	359,150	63,539	234,753	280,412	937,854
Trade and other payables	164,353	-	-	-	164,353
Agency funds	488,672	229,963	-	-	718,635
Customer deposits	13,102	-	-	-	13,102
Liabilities (contractual maturity)	**1,025,277**	**293,502**	**234,753**	**280,412**	**1,833,944**

3.4. Financial instruments by category

	Loans and receivables	
	2018 P'000	**2017 P'000**
Assets as per statement of financial position:		
Trade and other receivables	100,762	62,419
Cash and cash equivalents	1,012,548	1,476,555
	1,113,310	**1,538,974**

	Financial liabilities at amortised cost	
	2018 P'000	**2017 P'000**
Liabilities as per statement of financial position:		
Borrowings	439,468	760,555
Agency funds	794,516	718,635
Trade and other payables	162,336	164,353
Customer deposits	12,990	13,102
	1,409,310	**1,656,645**

4. 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. Capital consists of irredeemable capital and retained earnings reserve. 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.

	2018 P'000	2017 P'000
Total long term debt	439,468	760,555
Total capital and reserves	1,472,287	1,384,542
Debt : equity ratio	0.30	0.55

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

5. Accounting estimates and judgements

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 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 properties 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 15) 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. Periodically the assessment is outsourced to independent professionally qualified consultants.

The useful lives of plant and equipment (note 17) 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 18). Management exercises judgement to come up with appropriate useful lives.

(c) Impairment of TPS, SOS and rental debtors

The Corporation reviews its debtors (note 22) 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 these 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) Taxation

The Corporation became liable to paying income tax effective 1 July 2016 in accordance with statutory instrument No 41 of 2016. The income tax expense in 2017 was computed for the whole year and the amount relating to the 9 months was apportioned. The first three months of the Corporation's results did not have a significant impact on the final tax expense.

(e) Valuation of housing inventories

Housing inventories consists of the following:

- Land for development;
- Housing under construction; and
- Completed houses.

Housing inventories arise with the commencement of development with a view to sell and are initially recognised at cost. Housing inventories are subsequently measured 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 inventories on the basis of weighted average costs. Judgement is involved in estimating costs per project and allocating costs to each unit. The estimation of the cost per project is performed by internal quantity surveyors ("management experts"). In addition, the allocation of internal development costs to each unit is a manual exercise which involves judgement, including estimation of time and effort spent by internal resources on these developments.

Net realisable value (NRV) is estimated as follows:

- For land for development, NRV is estimated as the selling price for the land in the ordinary course of business less selling expenses.
- For housing under construction, NRV is estimated as the selling price in the ordinary course of business less costs to complete development and selling expenses.
- For completed houses, NRV is estimated as the selling price in the ordinary course of business less selling expenses.

The current market conditions, low demand for properties or extended operating cycle may exert downward pressure on transaction volumes and determination of selling prices.

5. Accounting estimates and judgements

(e) Valuation of housing inventories (cont'd.)

Net realisable value (NRV) is estimated is as follows: (cont'd.)

Net realisable value is estimated by management, based on prevailing market data (including the most recent sale transactions in nearby locations, rate of new property sales and general market conditions), which represents the estimated selling prices less costs to be incurred in selling the properties. In determining the estimated future selling prices used in the NRV calculations, the Corporation makes use of the investment committee, which consists of internal valuers, quantity surveyors and other professionals.

In determining the cost to completion used in the NRV calculation for housing under construction, the Corporation makes use of management experts, including quantity surveyors to assist with the estimation of these costs, based on their knowledge of the projects and stage of construction.

The Corporation revises its estimates on an annual basis based on the most recent information available and current market trends.

	2018 P'000	2017 P'000
6. Revenue		
Rental income	190,173	176,767
Outright sales of housing units	70,799	283,641
Professional fees	31,251	30,201
Tenant purchase scheme income	2,095	2,344
Step ownership scheme income	12	16
	294,330	**492,969**
7. Cost of sale of housing inventories		
At beginning of the year		
Land held for development	39,917	25,753
Housing under construction	240,090	190,188
Completed houses - Inventories (written down to net realisable value)	127,257	227,982
Additions / transfers during the year		
Acquisition of land	1,805	14,164
Payments to contractors	313,039	206,591
Capitalised development costs - employee benefit expenses	4,817	8,567
Capitalised borrowing costs (note 14)	14,949	9,070
Transfer from investment properties	-	2,391
Excess allowance on write down of inventory on final account written off	(15,590)	-
Housing inventory written off	(2,314)	-
Movement in the write down of inventory to net realisable value	3,863	3,040
Accumulated depreciation on retired inventory transferred from IP	(11)	-
Transfer from housing under construction	(84,159)	(22,965)
At end of year (note 16)		
Land held for development	(44,379)	(39,917)
Housing under construction	(442,421)	(240,090)
Completed houses - Inventories (net of impairment provision)	(97,965)	(127,257)
	58,898	**257,517**
8. Employee benefit expenses		
Salaries, wages and other benefits	97,328	111,064
Pension contributions	6,488	8,909
Gratuities	4,133	4,302
Less : capitalised during the year (note 7)	(4,817)	(8,567)
	103,132	**115,708**

Number of persons employed by the Corporation at the reporting date were 255 (2017: 267).

	2018 P'000	2017 P'000
9. Depreciation and amortisation		
Depreciation - investment properties (note 15)	9,472	8,706
Depreciation - property, plant and equipment (note 17)	2,990	3,625
Amortisation - leasehold land (note 15)	1,147	1,178
Amortisation - intangible assets (note 18)	3,735	3,423
	17,344	**16,932**
10. Other expenses		
Audit fees - prior year under/(over) provision	163	(392)
Audit fees - current year	790	915
Board members' remuneration	480	164
Operating lease rentals - motor vehicles	4,305	4,708
Consultancy fees	2,271	2,255
Rates	6,015	5,187
Non capitalisable expenses	3,248	7,576
Security expenses	6,196	6,225
Telephone expenses	5,554	4,493
Training expenses	3,263	934
Insurance	2,812	533
Travelling and accommodation	4,693	4,114
IT expenses	6,996	3,140
Advertising and marketing	4,429	4,750
Call centre expenses	2,147	2,190
Administration expenses	10,865	8,401
Training levy	443	971
Utilities	2,160	1,926
Penalty charges - Tax	846	-
	67,676	**58,090**
Impairment (reversal)/expense		
Rental debtors	(35,935)	12,401
	(35,935)	**12,401**

	2018 P'000	2017 P'000
11. Other income		
Recoverable maintenance	1,815	2,793
Recoverable maintenance - Government houses	14,524	9,307
Sundry income	5,609	4,505
Rental income - Commercial properties	7,663	6,600
Capacitation fee	10,943	12,840
Reversal of written down value of inventory to net realisable value	3,863	3,040
Income from auction sales	-	50
	44,417	**39,135**

Release of impairment is as a result of appreciation of market values of inventory and disposal of previously impaired houses.

	2018 P'000	2017 P'000
12. Gains from sale of investment properties		
Proceeds from sale of investment properties	22,452	25,184
Cost (note 15)	(9,069)	(8,750)
Accumulated depreciation (note 15)	1,403	1,312
	14,786	**17,746**
13. Finance income		
Interest income received on short term bank deposits	16,694	21,972
Interest accrued on short term bank deposits	467	2,989
	17,161	**24,961**
14. Finance costs		
Interest expense paid on loans	10,764	12,852
Interest expense paid on debt securities in issue	13,228	14,836
Other financing costs paid	187	135
	24,179	**27,823**
Interest accrued on loans	3,737	4,436
Interest accrued on debt securities in issue	3,164	3,610
Less: capitalised to housing inventories during the year (note 7)	(14,949)	(9,070)
	16,131	**26,799**

A capitalisation rate of 5.73% (2017: 5.73%) was used for projects whose development was financed out of long term debt (note 26).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018 (cont.)

	2018 P'000	2017 P'000
15. Investment properties		
Opening net book amount	1,130,394	1,107,561
Transfer to inventory	-	(2,391)
Additions to investment properties (including improvements)	96,783	42,546
Disposals	(9,069)	(8,750)
Depreciation on disposals	1,403	1,312
Depreciation - housing properties	(9,472)	(8,706)
Amortisation - leasehold land	(1,147)	(1,178)
Closing net book amount	**1,208,892**	**1,130,394**

	2018 P'000	2017 P'000
Cost	1,520,741	1,433,027
Accumulated depreciation	(311,849)	(302,633)
Net book amount	**1,208,892**	**1,130,394**

The Corporation leases out properties under operating leases. The leases typically run for a period of 3 years. None of the leases include contingent rentals where a portion of the lease payments is not fixed in amount but based on the future amount of a factor that changes other than with the passage of time.

15. Investment properties (continued)

Direct operating expenses incurred in relation to investment properties are shown below.

	2018 P'000	2017 P'000
Direct operating expenses		
Repairs and maintenance	48,550	48,784
Employee benefits	16,507	21,051
	65,057	**69,835**

Investment properties were valued as at 31 March 2018 by estate management professionals based on the latest prevailing market prices. The value of the investment properties was estimated at P4,867 million on 31 March 2018 (2017: P5,404 million). The Corporation uses the cost model to determine the fair values of property. The model uses current replacement cost less the depreciation due to physical deterioration (standard 1%). The current replacement cost is the current cost of constructing a houses type using estimated gains from the in-house Quantity Surveyors. The land component is estimated separately and added to come up with the final fair value of the house.

Certain housing properties are built on leasehold land which are 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.

The value of housing properties which the Corporation has not received title deeds amount to P8.1 million (2017: P10.5 million). The members of the Board believe that title deeds for these properties will be received in due course.

16. Housing inventories

Land for development (note 7)	44,379	39,917
Housing under construction (note 7)	442,421	240,090
Completed houses (note 7)	100,304	133,459
Less: Write down of inventory to net realisable value (note 7)	(2,339)	(6,202)
	584,765	**407,264**

Detailed analysis of the inventories at the end of the year is shown on the next page.

16. Housing inventories (cont'd.)

	2018 P'000	2017 P'000
Land for development	44,379	39,917
Housing under construction	442,421	240,090
Completed houses	97,965	127,257
	584,765	**407,264**

17. Property, plant and equipment

	Land & buildings	Computer equipment	Furniture & office equipment	Motor vehicles	Plant & equipment	Total
	P'000	P'000	P'000	P'000	P'000	P'000
At 31 March 2018						
Opening net book amount	8,457	1,730	4,997	4,070	269	19,523
Additions	1,966	1,584	355	629	2	4,536
Depreciation charge	(14)	(768)	(860)	(1,238)	(110)	(2,990)
Closing net book amount	**10,409**	**2,546**	**4,492**	**3,461**	**161**	**21,069**
Cost	17,022	16,045	11,521	10,709	2,372	57,669
Accumulated depreciation	(6,613)	(13,499)	(7,029)	(7,248)	(2,211)	(36,600)
Net book amount	**10,409**	**2,546**	**4,492**	**3,461**	**161**	**21,069**
At 31 March 2017						
Opening net book amount	8,475	2,526	5,243	4,044	697	20,985
Additions	-	251	591	1,267	60	2,169
Disposals	-	-	(37)	-	-	(37)
Accumulated depreciation on disposal	-	-	31	-	-	31
Depreciation charge	(18)	(1,047)	(831)	(1,241)	(488)	(3,625)
Closing net book amount	**8,457**	**1,730**	**4,997**	**4,070**	**269**	**19,523**
Cost	15,056	14,461	11,166	10,080	2,370	53,133
Accumulated depreciation	(6,599)	(12,731)	(6,169)	(6,010)	(2,101)	(33,610)
Net book amount	**8,457**	**1,730**	**4,997**	**4,070**	**269**	**19,523**

Fully depreciated property, plant and equipment items at original cost are summarised as follows:

At 31 March 2018	11,402	9,837	1,832	3,885	2,040	28,996
At 31 March 2017	-	8,831	1,543	3,885	256	14,515

18. Intangible assets

	ERP System P'000	Computer software P'000	Total P'000
At 31 March 2018			
Opening net book amount	22,192	-	22,192
Additions	3,744	-	3,744
Amortisation charge	(3,735)	-	(3,735)
Closing net book amount	**22,201**	**-**	**22,201**
Cost	38,337	5,367	43,704
Accumulated amortisation	(16,136)	(5,367)	(21,503)
Net book amount	**22,201**	**-**	**22,201**
At 31 March 2017			
Opening net book amount	24,815	-	24,815
Additions	800	-	800
Amortisation charge	(3,423)	-	(3,423)
Closing net book amount	**22,192**	**-**	**22,192**
Cost	34,593	5,367	39,960
Accumulated amortisation	(12,401)	(5,367)	(17,768)
Net book amount	**22,192**	**-**	**22,192**

Remaining amortisation period for ERP system is 5 years (2017: 6 years).
Fully amortised intangible assets at original cost are summarised as follows:

At 31 March 2018	-	5,367	5,367
At 31 March 2017	-	5,367	5,367

NOTES TO THE FINANCIAL STATEMENTS

19. Investments in joint ventures

	2018 P'000	2017 P'000	2018 P'000	2017 P'000	2018 P'000	2017 P'000	2018 P'000	2017 P'000
	Plot 7 (Plaza Centre)		Plot 1471/2 (Galo Complex)		Boiketlo (Phakalane)		Total	
At the beginning of the year	805	1,196	19,925	20,504	46	45	20,776	21,745
Share of equity accounted earnings for the year	750	809	11,637	11,921	-	1	12,387	12,731
Profit for 2017 for 1 month not recognised in prior year	68	-	997	-	-	-	1,065	-
	818	**809**	**12,634**	**11,921**	**-**	**1**	**13,452**	**12,731**
Dividends declared during the year*	(1,050)	(1,200)	(15,250)	(12,500)	-	-	(16,300)	(13,700)
Less: dividends paid after year end*	350	-	4,750	-	-	-	5,100	-
Partnership liquidation	-	-	-	-	(46)	-	(46)	-
At the end of the year	**923**	**805**	**22,059**	**19,925**	**-**	**46**	**22,982**	**20,776**

* Dividends relate to the Corporation portion only.

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

(a) Plot 7 Partnership (Plaza Centre)

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 (Phakalane)

The Corporation had 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 and the partnership was liquidated in the 2017/18 financial year.

(c) Plot 1471/2 Partnership (Galo Complex)

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

These Joint Ventures operate from Botswana.

19.1. Summarised financial statements of joint venture partnership

Set out below are the financial information of above joint ventures, which are accounted for using the equity method.

	Apr-18 P'000	Apr-17 P'000	Apr-18 P'000	Apr-17 P'000	Dec-17 P'000	Dec-16 P'000	2018 P'000	2017 P'000
	Plot 7 (Plaza Centre)		**Plot 1471/2 (Galo Complex)**		**Boiketlo (Phakalane)**		**Total**	
Assets:								
Non-current assets								
Investment property	2,130	2,196	39,983	41,523	-	-	42,113	43,719
Other non- current assets	-	-	4,491	4,957	-	-	4,491	4,957
	2,130	**2,196**	**44,474**	**46,480**	**-**	**-**	**46,604**	**48,676**
Current assets								
Cash and cash equivalents	435	719	6,883	9,328	-	90	7,318	10,137
Other current assets excluding cash	345	456	492	396	-	-	837	852
	780	**1,175**	**7,375**	**9,724**	**-**	**90**	**8,155**	**10,989**
	2,910	**3,371**	**51,849**	**56,204**	**-**	**90**	**54,759**	**59,665**
Liabilities:								
Non-current liabilities								
Other financial liabilities	-	-	-	-	-	-	-	-
Deferred income	-	-	747	817	-	-	747	817
	-	**-**	**747**	**817**	**-**	**-**	**747**	**817**
Current liabilities								
Trade and other payables	355	354	3,649	2,824	-	-	4,004	3,178
	355	**354**	**3,649**	**2,824**	**-**	**-**	**4,004**	**3,178**
	355	**354**	**4,396**	**3,641**	**-**	**-**	**4,751**	**3,995**
Net assets	**2,555**	**3,017**	**47,453**	**52,563**	**-**	**90**	**50,008**	**55,670**
Income								
Revenue	1,922	1,921	37,104	34,529	-	-	39,026	36,450
Sundry income /(expenses)	1	1	63	33	-	-	64	34
Finance income	3	2	117	108	-	-	120	110
	1,926	**1,924**	**37,284**	**34,670**	**-**	**-**	**39,210**	**36,594**
Expense								
Operating expenses	223	221	10,355	9,212	-	-	10,578	9,433
Depreciation	66	66	1,540	1,540			1,606	1,606
	289	**287**	**11,895**	**10,752**	**-**	**-**	**12,184**	**11,039**
Surplus for the year	**1,637**	**1,637**	**25,389**	**23,918**	**-**	**-**	**27,026**	**25,555**

19.1 Summarised financial statements of joint venture partnership (cont'd.)

The financial statements of the joint ventures have the following reporting periods that are different from the Corporation:

Plot 7	May to April 2018
Plot 1471/2	May to April 2018
Boiketlo	January to December 2017

These are the reporting periods as elected by the partnership.

	2018 P'000	2017 P'000
20. Taxation		
The current taxation liability, including the taxation expense is reconciled as follows:		
Taxation payable at the beginning of the year	8,515	-
Normal company taxation	14,014	8,540
Income tax paid during the year	(14,259)	(25)
Taxation payable at end of the year	8,270	8,515
Normal company taxation	14,014	8,540
Prior year deferred tax under provision	5,987	-
Deferred taxation movement	604	(5,731)
	20,605	**2,809**
Taxation charge reconciliation		
Profit before taxation	**108,350**	**51,311**
Taxation at the statutory rate of 22%	**23,837**	**11,288**
Apportionment of 3 months not subjected to taxation	-	(2,822)
Taxation charge	**23,837**	**8,466**
Tax effects of adjustments on taxable income		
Disallowed expenditure	2,648	3,562
Exempt income	(11,867)	(3,488)
Prior year deferred tax under provision	5,987	-
Taxation	**20,605**	**8,540**
Amount recognised in profit or loss		
Current tax expense		
Current year taxation	14,014	8,540
Deferred tax movement		
Prior year deferred tax under provision	5,987	-
Deferred tax movement during the year	604	(5,731)
Taxation per profit or loss	**20,605**	**2,809**

The Corporation became liable to income tax effective 1 July 2016 in accordance with statutory instrument No 41 of 2016.

	2018 P'000	2017 P'000
21. Deferred Tax		
Movement in deferred tax		
Balance at the beginning of the year	5,731	-
Prior year under provision	(5,987)	-
Movement during the year	(604)	5,731
Balance at the end of the year	**(860)**	**5,731**
Analysis of deferred taxation		
Temporary differences relating to accelerated capital allowances on property, plant and equipment	(860)	4,223
Deferred income and customer deposits	-	1,508
	(860)	**5,731**
22. Trade and other receivables		
Trade receivables	80,257	93,175
Less: provision for impairment of trade receivables	(7,083)	(43,018)
Trade receivables - net	**73,174**	**50,157**
Sundry debtors	29,410	15,977
	102,584	**66,134**
Less: non-current portion	(9,693)	(9,284)
Current portion	**92,891**	**56,850**

The fair value of trade and other receivables approximate their carrying values due to the short term nature of these instruments.

Movements in the accumulated impairment losses on trade receivables were as follows:

	2018 P'000	2017 P'000
Accumulated impairment losses at beginning of the year	43,018	30,617
Provision for impairment per profit or loss (note 10)	(35,935)	12,401
Accumulated impairment losses at end of the year	**7,083**	**43,018**

	2018 P'000	2017 P'000
23. Cash and cash equivalents		
Cash at bank and on hand	242,890	623,969
Short term bank deposits	769,658	852,586
	1,012,548	**1,476,555**

Cash and cash equivalents include P794.5 million (2017: P718.6 million) received from government entities to carry out its housing projects. These balances have been excluded from cash and cash equivalents for the purpose of statement of cash flows. These balances relate to the project management services provided to these projects. The corresponding liability has been recognised in note 28.

Cash and cash equivalents include the following for the purpose of the statement of cash flows.

Fixed deposits	-	166,554
Money markets deposits	159,686	544,054
Current and call accounts deposits	58,346	47,312
	218,032	**757,920**
24. Irredeemable capital		
Irredeemable capital contribution	**250,000**	**250,000**
25. Earnings reserve		
At beginning of the year	4,958	6,426
Net transfer to retained earnings	(4,958)	(1,468)
At end of the year	**-**	**4,958**

Earnings reserve is a reserve recognised in terms of accounting policy 2.14.

	2018 P'000	2017 P'000
26. Borrowings		
Irredeemable loan	212	212
Foreign loans on-lent by the Government of Botswana	15,469	24,089
Government of Botswana loans	317,624	340,450
Debt Participation Capital Funding Limited loans	(1)	3,194
	333,304	**367,945**
Debt securities in issue	106,164	392,610
	439,468	**760,555**
Less: current portion	(48,051)	(337,484)
Non-current portion	**391,417**	**423,071**

Debt securities in issue include accrued interest of P3.164 million (2017: P3.610 million).

All borrowings are denominated in Pula.

	2018 P'000	2017 P'000
Government revenue grant		
Balance at the beginning of the year	63,035	70,992
Amortisation during the year	(8,211)	(7,957)
Deferred Government revenue grant	54,824	63,035
Less: current portion	(7,768)	(8,211)
Non-current portion	**47,056**	**54,824**

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 interest at 8% per annum is payable bi-annually. The loan is unsecured.

26.2. Foreign loan on-lent by the Government of Botswana

Foreign loan on-lent by the Government of Botswana is from the Peoples' Republic of China to the Government of Botswana, which the Government of Botswana has on-lent to the Botswana Housing Corporation. This loan is repayable in 8 years and carry interest rate of 8.40% per annum. The Government of Botswana bears the risk of any foreign exchange rate fluctuations. Botswana Housing Corporation does not provide any securities under these loans.

26.3. Government of Botswana loan

The Government of Botswana loan is repayable in 15 years and bears interest at a rate of 3% per annum. This loan is unsecured.

26.4. Deferred Government Revenue Grant

The deferred government revenue grant relates to a Government loan which was granted to the Corporation at a rate of 3% per annum which was below the market interest rate. The loan was granted specifically to fund the Instalment Purchase Scheme and Youth Housing projects. The grant is recognised in the financial statements in terms of accounting policy 2.28 as a deferred revenue grant and will be recognised as income in profit or loss to be matched with interest expenses of this loan on a systematic basis over a 15 year period.

26.5. Debt Participation Capital Funding Limited loan

The Debt Participation Capital Funding Limited loan was repayable over 23 years and did bear interest at a rate of 12.00% per annum. This loan was unsecured and was fully repaid in the current year.

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 matured on 10 December 2017 and was redeemed. These notes carried interest at the 91 days Bank of Botswana Certificates rate plus 1.7% and interest was 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 bi-annually on 10 June and 10 December.

26.6. Debt securities in issue

Lender	Contractual interest rate (%)	Period of repayment	Balance at 01 April 2017 P'000	Interest unwinding during the year P'000	Repayment during the year P'000	Balance at 31 March 2018 P'000
Irredeemable loan						
Government of Botswana	8.00%	Irredeemable	212	-	-	212
Foreign loans on-lent by the Government of Botswana						
Government of the Peoples' Republic of China	8.50%	2007-2015	2	-	-	2
Government of the Peoples' Republic of China	8.50%	2008-2016	(1)	-	-	(1)
Government of the Peoples' Republic of China	8.40%	2011-2019	24,088	940	(9,560)	15,468
			24,089	**940**	**(9,560)**	**15,469**
Government of Botswana loan						
Government of Botswana	3.00%	2015-2029	340,450	7,943	(30,769)	317,624
			340,450	**7,943**	**(30,769)**	**317,624**
Debt Participation Capital Funding Limited loans						
Debt Participation Capital Funding Limited	9.50%	1993-2016	2	-	-	2
Debt Participation Capital Funding Limited	12.00%	1994-2017	3,192	(87)	(3,108)	(3)
			3,194	**(87)**	**(3,108)**	**(1)**
			367,945	**8,796**	**(43,437)**	**333,304**
Irredeemable loan						
Government of Botswana	8%	Irredeemable	212	-	-	212
Foreign loans on-lent by the Government of Botswana						
Government of the Peoples' Republic of China	8.50%	2007-2015	2	-	-	2
Government of the Peoples' Republic of China	8.50%	2008-2016	1,690	3	(1,694)	(1)
Government of the Peoples' Republic of China	8.40%	2011-2019	31,573	1,320	(8,805)	24,088
			33,265	**1,323**	**(10,499)**	**24,089**
Government of Botswana	3.00%	2015-2029	332,526	7,924	-	340,450
			332,526	**7,924**	**-**	**340,450**

26.6. Debt securities in issue

	Contractual interest rate Lender (%)	Period of repayment	Balance at 01 April 2017 P'000	Interest unwinding during the year P'000	Repayment during the year P'000	Balance at 31 March 2018 P'000
Debt Participation Capital Funding Limited loans						
Debt Participation Capital Funding Limited	9.50%	1993-2016	11,268	(144)	(11,122)	2
Debt Participation Capital Funding Limited	12.00%	1994-2017	8,954	(64)	(5,698)	3,192
			20,222	**(208)**	**(16,820)**	**3,194**
			386,225	**9,039**	**(27,319)**	**367,945**

26.7 Reconciliation of borrowings movement to cash flows arising from financing activities

	2018 P'000	2017 P'000
Balance at the beginning of the year	823,590	849,879
Repayment of long term borrowings	(43,437)	(27,319)
Repayment of bond	(286,000)	-
Accrued interest on loans	(1,145)	(960)
Interest unwinding on loans	1,284	1,990
Balance at the end of the year	**494,292**	**823,590**

27. Trade and other payables

	2018 P'000	2017 P'000
Financial liabilities		
Trade payables	101,842	99,857
Dividend payable	20,205	40,410
Sundry creditors	13,467	8,601
Advance payment by customers	26,822	15,485
	162,336	**164,353**
Non financial liabilities		
Contractors withholding tax	331	-
Other provisions and VAT payable	27,519	26,911
	27,850	**26,911**
Total trade and other payables	**190,186**	**191,264**

28. Agency funds

	2018 P'000	2017 P'000
Agency funds liability		
At the beginning of the year	718,635	808,953
Funds received during the year	298,021	235,017
Expenditure on projects during the year	(249,052)	(346,331)
Interest earned on temporary investment of funds	26,912	20,996
At the end of the year	**794,516**	**718,635**
Non-current portion	(554,077)	(229,963)
Current portion	**240,439**	**488,672**
Interest accrued to these funds is paid to the agencies		
Balances relating to related parties are as follows		
Botswana Defence Force	480,359	401,325
Botswana Unified Revenue Services	855	3,392
Department of Housing	56,586	51,678
Self Help Housing Agency	201,065	198,734
Tlokweng Land Board	-	740
Malete Land Board	343	341
Directorate of Corruption and Economic Crime	5,522	5
Independent Electoral Commission	298	296
Kgatleng Land Board	1,703	1,721
Administration of Justice	(341)	(29)
Botswana Prisons Services	36,118	54,167
Ministry of Finance	(13)	1,410
Tawana Land Board	2,322	2,361
Botswana Police Service	2,216	992
28. Agency funds (cont'd.)		
Balance brought foward		
Kweneng Land Board	5,977	-
Letlhakeng Sub Land Board	1,506	1,502
	794,516	**718,635**
The relationship is through common ownership by the Government		
29. Customer deposits		
Rental deposits	11,868	11,474
Sale of properties deposits	1,122	1,628
	12,990	**13,102**
30. Dividend		
Dividend declared	-	6,990

The board approved a dividend payable of P6,990,000 in the previous financial year which is calculated in accordance with the Government of Botswana's directive, as 25% of the surplus reported in the preceding year. Since 1 July 2016, the Corporation is no longer liable to declare dividends as it is subject to income tax (note 20)

	2018 P'000	2017 P'000
31. Net cash utilised in operating activities		
Surplus before taxation	108,350	51,311
Adjustments for:		
Gains from sale of investment property (note 12)	(14,786)	(17,746)
Depreciation - investment property (note 15)	9,472	8,706
Depreciation - property, plant and equipment (note 17)	2,990	3,625
Amortisation - leasehold land (note 15)	1,147	1,178
Amortisation - intangible assets (note 18)	3,735	3,423
Impairment expenses (note 10)	(35,935)	12,401
Transfer of investment property to inventory (note 15)	-	2,391
Release of impairment provision - housing inventory (note 11)	3,863	3,040
Partnership liquidation adjustment (note 19)	46	-
Provision for restructuring expenses (note 34)	(3,693)	(38,605)
Capitalised interest	14,949	9,070
Interest unwinding on loans	1,284	1,990
Movement in bond and loan accrued interest	(1,145)	(960)
Share of profit or loss of equity accounted investees of joint ventures (note 19)	(13,452)	(12,731)
Finance income (note 13)	(17,161)	(24,961)
Finance cost (note 14)	16,131	26,799
	75,795	**28,931**
Changes in working capital:		
Trade and other receivables (note 22)	(47)	(44,448)
Trade and other payables (excluding dividend payable) (note 27)	12,226	(9,829)
Deferred income	(3,589)	(3,065)
Customer deposits (note 29)	(112)	(54,272)
Housing inventories (note 16)	(181,364)	33,619
Cash flow utilised in operating activities	**(97,091)**	**(49,064)**

	2018 P'000	2017 P'000
32. Commitments		
(a) Capital commitments		
The Corporation has the following commitments in respect of capital expenditures contracted for at the reporting date but not yet incurred.		
Investment properties and housing inventories	177,177	183,896
Intangible assets	6,250	1,250
	183,427	**185,146**
The capital commitments are to be financed through internally generated cash resources.		
(b) Operating lease commitments		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	57	2,925
Later than 1 year but not later than 5 years	-	57
	57	**2,982**

33. 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 ministries, departments and related parastatals are related parties. In the course of its day to day operations the Corporation enter into transactions of letting properties, sale of properties and undertakes certain projects on behalf of Government of Botswana on an agency basis.

33. Related party transactions (cont'd.)

	2018 P'000	2017 P'000
33.1 Loans from Government		
Details of these loans are disclosed in note 26 to these financial statements.		
33.2 Transactions with board members		
Board sitting fees	480	164
33.3 Key management personnel compensation		
Salaries and other short-term benefits	4,043	2,506
Post employmet benefits - gratuity provision	796	556
	4,839	**3,062**

Key management personnel for the Corporation have been defined as Executive Management of the Corporation.

Additionally, members of the Executive Management Committee are entitled to rent-free accommodation or housing allowance, personal-to-holder motor vehicles and subsidised water and electricity.

	2018 P'000	2017 P'000
33.4 Advances to key management personnel		
Advance against gratuity	1,613	1,340

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

33.5 Bad and doubtful debts

As at 31 March 2018 doubtful debt provisions in respect of rental debts owed by the Government of Botswana amounted to Nil (2017: P 361,682).

33.6 Joint ventures

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

33.7 Revenue

Significant income the Corporation earned from related parties include professional services carried out, rental income and sale of housing inventories for the year ended 31 March 2018.

33. Related party transactions (cont'd.)

	Sales of housing inventories P'000	Rental income P'000	Professional fees P'000
Botswana Defence Force	-	11,730	10,581
Botswana Prison Services	-	4,211	-
Botswana Unified Revenue Services	-	491	198
Ministry of Land Management, Water and Sanitation	927	51,094	-
Botswana Police Service	8,695	14,475	15,567
Self Help Housing Agency	-	-	4,829
Kgalagadi Land Board	1,530	-	-
Office of the President	33,978	3,229	-
Ministry of Basic Education	3,687	-	-
Ministry of Health and Wellness	1,453	-	-
Ministry of Agricultural Development and Food Security	518	-	-
Department of Buildings and Engineering Services	548	-	-
Water Utilities Corporation	-	238	-
Attorney General	5,900	-	-
Ghanzi District Council	2,568	-	-
Accountant General	-	-	76
Botswana Ash	-	27,685	-
Botswana International University of Science and Technology	-	546	-
Jwaneng Town Council	-	164	-
	59,804	**113,863**	**31,251**

Significant income the Corporation earned from related parties include professional services carried out, rental income and sale of housing inventories for the year ended 31 March 2017.

Botswana Defence Force	135,902	11,189	9,345
Botswana Prison Services	-	4,211	2,026
Botswana Unified Revenue Services	-	-	854
Ministry of Lands and Housing	-	50,254	2,292
Botswana Police Service	34,645	14,442	7,022
Self Help Housing Agency	-	-	6,760
Directorate on Crime and Economic Crime	-	-	30
Kgatleng Land Board	-	-	180
Administration of Justice	-	-	109
Office of the President	4,050	1,581	-
Ministry of Education & Skills Development	29,366	-	-
Water Utilities Corporation	-	238	-
Accountant General	-	-	334
Botswana International University of Science and Technology	25,654	-	-
Tsabong Land Board	-	-	1,249
Jwaneng Town Council	3,414	-	-
	233,031	**81,915**	**30,201**

33. Related party transactions (cont'd.)

33.8 Trade receivables

Included in trade receivables are the following balances due from related parties in respect of the professional services and SHHA capacitation fees.

	2018 P'000	2017 P'000
Botswana Defence Force	1,865	7,199
Administration of Justice	122	122
Directorate on Corruption and Economic Crime	35	35
Accountant General	180	95
Self Help Housing Agency	34,637	19,822
Kgatleng Land Board	201	201
Tsabong Land Board	1,399	1,399
Botswana Unified Revenue Services	2,884	2,662
Botswana Prison Services	9,952	1,217
	51,275	**32,752**

33.9 Agency funds

Details of agency funds are disclosed in note 28 to these financial statements.

34. Provision for restructuring expenses

	2018 P'000	2017 P'000
At beginning of the year	3,693	42,298
Payments during year	(3,693)	(38,605)
Balance at end of year	-	**3,693**

As a part of a strategic restructuring programme, the BHC Board approved a new establishment which resulted in retrenchment of certain employees of the Corporation in the previous year. BHC had signed an agreement with the Workers Union on 30 March 2016 detailing the proposed compensation package for employees who were to be retrenched as a result of the proposed restructuring. The provision account was to cater for non-acceptance to re-deployment of some officers and also to some Senior Leadership Team (SLT) members who were released. The restructuring programme was completed in December 2017.

35. Events after the reporting date

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

36. Fair value hierarchy

Non- financial instruments - fair value hierarchy

This analysis categorises the non-financial instruments carried at fair value into different levels based on the level of subjectivity applied in determining the inputs used in the determination of fair value. This assessment is determined based on the lowest level of input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input into the fair value measurement in its entirety requires judgement, considering the factors specific to the asset or liability. If a fair value uses observable inputs that require significant adjustment based on unobservable inputs or any other significant unobservable inputs, that measurement is a level 3 measurement.

36. Fair value hierarchy (cont'd.)

Financial instruments measured at fair value are categorised in three levels by valuation method. The different levels are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using:
· quoted market prices in active markets for similar instruments;
· quoted prices for identical or similar instruments in markets that are considered less than active; or
· other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between instruments.

The categorisation of applicable assets within the fair value hierarchy is presented below:

	Level 1	Level 2	Level 3
2018			
Investment property (P'000)	-	-	4,867,000
2017			
Investment property (P'000)	-	-	5,404,000

There have been no transfers between any of the hierarchy levels during the year (2017: nil)

Valuation techniques underlying management's estimation of fair value

For all properties with a total carrying amount of P1,209 million (2017: P1,130 million), the valuation was determined using the cost approach (also known as contractor's method) based on significant unobservable inputs. The Corporation determine inputs with regard to the development rates and land rates from property experts such as Quantity Surveyors, Estate Agents, Property Valuers and Developers.

Unobservable inputs:

Development rates the current market cost of reproduction or replacement of an asset specific to the nature of the property, components and structure of the property.

Land rates based on the data on recently transacted properties duly adjusted to reflect the subject asset's uniqueness.