

# AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

## Introduction

The Botswana Housing Corporation's Board is pleased to announce the Corporation's financial results for the financial year ended 31 March 2016.

## Basis of preparation

The accounting policies adopted for the year comply with International Financial Reporting Standards (IFRS) and the Botswana Housing Corporation Act. These accounting policies are consistent with those applied in prior financial years.

## Independent Auditor's Report

The independent auditors, PriceWaterhouseCoopers have issued an unqualified audit opinion on these financial statements.

## Highlights

	Year Ended 31 Mar 2016 P'000	Year Ended 31 Mar 2015 P'000	Change
<b>Revenue</b>	539,297	470,190	15%
<b>Operating surplus</b>	21,753	22,560	(4%)
<b>Comprehensive income</b>	27,959	9,839	184%

Revenue up 15% to P539.3 million

Operating surplus down 4% to P21.8 million

Comprehensive income for the year up 184% to P28 million

## Comments on the results

The Corporation recorded revenues of P539 million, a growth of 15% when compared to the P470 million recorded in the prior year. The increase in revenue was largely driven by sales revenue which increased by P58.6 million denoting a 22% increase. The increase is mainly attributable to the sales from Palapye and Phakalane projects. Sales of housing stock is a major revenue stream for the Corporation and the revenue growth enables rolling over of projects, resulting in delivery of more houses for the nation. The rental income for the year under review declined by 2% compared to the prior year. The rental income has remained stagnant over the last twelve years as the Corporation has not been able to review rentals. The rentals for BHC are regulated by the shareholder. To mitigate this challenge, Management has put strategies in place to sell more of its properties in order to generate more revenue for use in the construction of houses for sale to the nation. The challenge with new housing stock is high costs of construction which lead to squeezed mark ups to accommodate affordability challenges to target market.

Income from joint ventures has recorded an increase of 5% compared to the prior year as a result of the good income received from commercial building investments. This income stream has been growing year on year. This creates an opportunity for the Corporation to explore this avenue as part of its commercial business.

Even though the profit margins on sales revenue on new properties are lower than what would be ordinarily charged by the market, the Corporation prides itself in being able to build more houses for the nation. The sitting tenants' campaign, which is a strategy that Management came up with to dispose of housing units held under lease terms, has yielded very positive results. The campaign led to an increase in revenue from investment properties of 41% through the sales of 239 houses to existing tenants nationwide. The campaign came to an end at the end of the financial year.

On the costs side, employee expenses went up 42% due to retrenchment costs provision of P42 million recorded during the reporting period. The Corporation is undertaking a restructuring exercise in order to align itself to the expanded mandate of undertaking social housing projects throughout the country. The exercise is planned to be completed during the financial year 2016/17 and it is expected to result in efficient execution of the mandate. Other expenses grew by 10% year on year as Management initiatives of containing costs continue to bear fruit. The higher than inflation increase in other expenses was due to, among others, impairment expenses which went up 136% year on year, as a result of impairment provision on rental due to a dispute with one of our clients and impairment of housing inventory. Furthermore maintenance expenses, which form a large cost component for the Corporation, went up by 28% mainly as a result of maintenance of Government houses through ESP program. The costs incurred by the Corporation on maintenance of Government houses are recoverable hence an increase of 30% on other income line. The Corporation continues to assess individual houses to determine maintenance needs and identifying chargeable maintenance and invoicing customers appropriately.

Total comprehensive income for the period under review was P28 million, an increase of 184% when compared to the same period in the prior year. This was on the back of higher profit margins on sale of investment properties, an increase in finance income as a result of high cash balances. The revenue from sale of housing stock is expected to grow even in the coming year as evidenced by some committed sales in the 108 Phakalane flats due to be delivered in the financial year 2016/17.

## Statement of financial position

The Corporation's balance sheet remains very strong with total assets amounting to P3.3 billion from P2.7 billion recorded in the prior year. The statement of financial position is characterized by strong net assets, low debt equity ratios, comfortable liquidity position and sustained shareholder wealth. The continued reduction on borrowings through repayment of long term debt gives the Corporation an opportunity to borrow more in the future in order to deliver houses according to its mandate.

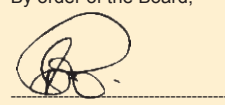
## Outlook

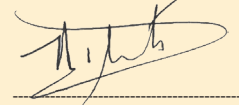
The Corporation's great emphasis is on social and affordable housing to Botswana. The Corporation has been tasked with delivering 1000 SHHA houses every year across the country and the plan is to increase the foot print to the most remote areas of Botswana. During the period under review, 1,074 houses were delivered under the SHHA scheme, 25 houses under the Public Officers Housing Initiative (POHI), for low income group earners who do not have access to commercial bank mortgages. At the end of the financial year 1,995 houses for SHHA, Installment Purchase Scheme (IPS), Youth Housing and POHI schemes were at different stages of construction. In the 2016/17 financial year, more houses will be built under these schemes across different constituencies gearing towards putting a roof over every Motswana.

On the commercial side of the business, the Corporation has 168 units under construction in three different projects in Gaborone, and expected to be delivered during the 2016/17 financial year. The sale of one project, 108 flats in Phakalane, has already been committed by one client. The remaining two projects being densification will be included in rental stock during the financial year.

For financial year 2016/17, 1,074 houses will be built in Gaborone, Mahalapye, Tati town, Tutume, Tonota, Jwaneng and Palapye. These are areas where effective demand has been established and the houses will be within affordable limits of the Corporation's customers.

By order of the Board,

  
Dr. Bolelang C. Phoko  
BOARD CHAIRPERSON  
28 July 2016

  
Mr. Reginald M. Motsiwa  
GENERAL MANAGER

## STATEMENT OF COMPREHENSIVE INCOME

	2016 P'000	2015 P'000
Revenue	539,297	470,190
Cost of sale of housing inventories	(321,375)	(262,324)
Repairs and maintenance	(49,585)	(38,689)
Employee benefit expenses	(165,107)	(116,156)
Depreciation and amortisation	(16,842)	(15,463)
Other expenses	(65,299)	(57,945)
Impairment expenses	(24,083)	(10,190)
Gains on sale of investment properties	106,550	39,172
Other income	18,197	13,965
<b>Operating surplus</b>	<b>21,753</b>	<b>22,560</b>
Finance income	24,133	7,777
Finance costs	(31,845)	(33,750)
<b>Finance costs -net</b>	<b>(7,712)</b>	<b>(25,973)</b>
Share of surplus of joint ventures	13,918	13,252
<b>Total comprehensive income for the year</b>	<b>27,959</b>	<b>9,839</b>

## STATEMENT OF FINANCIAL POSITION

	2016 P'000	2015 P'000
<b>Assets</b>		
<b>Non-current assets</b>		
Investment property	1,107,561	1,110,746
Property, plant and equipment	20,985	19,913
Intangible assets	24,815	26,445
Investments in joint ventures	21,745	26,618
Loans to related parties	-	4,040
Trade and other receivables	11,228	15,078
<b>Total non-current assets</b>	<b>1,186,334</b>	<b>1,202,840</b>
<b>Current assets</b>		
Housing inventories	443,923	630,949
Loans to related parties	-	2,880
Trade and other receivables	19,870	32,059
Cash and cash equivalents	1,682,953	790,688
<b>Total current assets</b>	<b>2,146,746</b>	<b>1,456,576</b>
<b>Total assets</b>	<b>3,333,080</b>	<b>2,659,416</b>
<b>Equity and liabilities</b>		
<b>Capital and reserves</b>		
Irredeemable capital	250,000	250,000
Retained earnings	1,086,604	1,058,874
Earnings reserve	6,426	8,657
<b>Total equity</b>	<b>1,343,030</b>	<b>1,317,531</b>
<b>Non-current liabilities</b>		
Agency funds	258,865	194,103
Deferred income	5,153	6,214
Deferred government revenue grant	63,035	-
Borrowings	743,258	440,873
<b>Total non-current liabilities</b>	<b>1,070,311</b>	<b>641,190</b>
<b>Current liabilities</b>		
Trade and other payables	213,253	198,155
Provision for restructuring cost	42,298	-
Agency funds	550,088	412,468
Deferred income	3,139	167
Deferred government revenue grant	7,957	-
Borrowings	35,630	49,013
Customer deposits	67,374	40,892
<b>Total current liabilities</b>	<b>919,739</b>	<b>700,695</b>
<b>Total equity and liabilities</b>	<b>3,333,080</b>	<b>2,659,416</b>

## STATEMENT OF CHANGES IN EQUITY

	Capital P'000	Retained earnings P'000	Earnings reserve P'000	Total P'000
At April 2014	250,000	1,050,059	11,697	1,311,756
<b>Comprehensive income</b>				
Comprehensive income for the year	-	9,839	-	9,839
Transfer to retained earnings	-	3,040	(3,040)	-
<b>Total comprehensive income</b>	-	<b>12,879</b>	<b>(3,040)</b>	<b>9,839</b>
<b>Transaction with owners</b>				
Dividend	-	(4,064)	-	(4,064)
<b>Total transactions with owners</b>	-	<b>(4,064)</b>	-	<b>(4,064)</b>
<b>Balance at 31 March 2015</b>	<b>250,000</b>	<b>1,058,874</b>	<b>8,657</b>	<b>1,317,531</b>
At April 2015	250,000	1,058,874	8,657	1,317,531
<b>Comprehensive income</b>				
Comprehensive income for the year	-	27,959	-	27,959
Transfer to retained earnings	-	2,231	(2,231)	-
<b>Total comprehensive income</b>	-	<b>30,190</b>	<b>(2,231)</b>	<b>27,959</b>
<b>Transaction with owners</b>				
Dividend	-	(2,460)	-	(2,460)
<b>Total transactions with owners</b>	-	<b>(2,460)</b>	-	<b>(2,460)</b>
<b>Balance at 31 March 2016</b>	<b>250,000</b>	<b>1,086,604</b>	<b>6,426</b>	<b>1,343,030</b>

### 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 are transferred to earnings reserve. Transfers are then made annually to retained earnings at the rate which the individual TPS and SOS balances are repaid.

## STATEMENT OF CASH FLOWS

	2016 P'000	2015 P'000
<b>Cash flows from operating activities</b>		
Net cash generated from operating activities	254,735	79,356
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(4,898)	(3,147)
Additions to intangible assets	(1,656)	(1,745)
Additions to investment properties	(36,092)	-
Proceeds from sale of investment properties	136,009	96,197
Proceeds from sale of property, plant and equipment	50	1
Dividends from joint ventures	14,605	8,905
Loan capital repayments received from related parties	2,198	2,012
Interest received	24,133	7,777
<b>Net cash generated from investing activities</b>	<b>134,349</b>	<b>110,000</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(44,691)	(48,738)
Proceeds from borrowings	400,000	-
Dividends paid	(22,665)	(4,064)
Interest paid (net of capitalised interest)	(31,845)	(33,750)
<b>Net cash generated from / (used in) financing activities</b>	<b>300,799</b>	<b>(86,552)</b>
Net increase in cash and cash equivalents	689,883	102,804
Cash and cash equivalents at beginning of year	184,117	81,313
<b>Cash and cash equivalents at end of year</b>	<b>874,000</b>	<b>184,117</b>

## OPERATING SEGMENTS

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 2016 is as follows:

	Sale of Housing Inventories P'000	Rental P'000	Others P'000	Total P'000
Revenue	329,484	182,317	27,496	539,297
Operating surplus	63,281	58,608	(100,137)	21,753
<b>Included in operating surplus</b>				
Depreciation and amortisation	(358)	(10,490)	(5,994)	(16,842)
<b>Not included in operating surplus</b>				
Finance income	-	-	24,133	24,133
Finance costs	(25,476)	(6,369)	-	(31,845)
Share of surplus of joint ventures	-	13,918	-	13,918
<b>Total comprehensive income</b>	<b>37,805</b>	<b>52,239</b>	<b>(62,086)</b>	<b>27,959</b>
Total segment results above include:				
Revenue from Government and Government related entities	300,104	83,057	27,406	410,567
<b>Segment assets</b>	<b>418,114</b>	<b>1,162,538</b>	<b>22,915</b>	<b>1,603,567</b>
<b>Reconciliation to total assets as reported in the statement of financial position</b>				
Investment in joint ventures	-	-	21,745	21,745
Intangible assets	-	-	24,815	24,815
Cash and cash equivalents	-	-	1,682,953	1,682,953
<b>Total assets as reported in the statement of financial position</b>	<b>418,114</b>	<b>1,162,538</b>	<b>1,752,428</b>	<b>3,333,080</b>
<b>Total liabilities</b>	<b>720,660</b>	<b>209,829</b>	<b>1,010,844</b>	<b>1,941,333</b>

The segment information provided to the Board for the reportable segments for the year ended 31 March 2015 is as follows:

	Sale of Housing Inventories P'000	Rental P'000	Others P'000	Total P'000
Revenue	272,070	185,577	12,543	470,190
Operating surplus	8,956	79,176	(65,572)	22,560
<b>Included in operating surplus</b>				
Depreciation and amortisation	(521)	(9,760)	(5,182)	(15,463)
<b>Not included in the operating surplus</b>				
Finance income	-	-	7,777	7,777
Finance costs	(27,000)	(6,750)	-	(33,750)
Share of surplus of joint ventures	-	-	13,252	13,252
<b>Total comprehensive income</b>	<b>(18,044)</b>	<b>72,426</b>	<b>(44,543)</b>	<b>9,839</b>
Total segment results above include:				
Revenue from Government and Government related entities	109,552	86,512	11,715	207,779
<b>Segment assets</b>	<b>597,519</b>	<b>1,191,669</b>	<b>19,557</b>	<b>1,808,745</b>
<b>Reconciliation to total assets as reported in the statement of financial position:</b>				
Investment in joint ventures	-	-	26,618	26,618
Intangible assets	-	-	26,445	26,445
Loans to related parties	-	-	6,920	6,920
Cash and cash equivalents	-	-	790,688	790,688
<b>Total assets as reported in the statement of financial position</b>	<b>597,519</b>	<b>1,191,669</b>	<b>870,228</b>	<b>2,659,416</b>
<b>Total liabilities</b>	<b>457,594</b>	<b>145,690</b>	<b>738,602</b>	<b>1,341,886</b>