PHAROE PARK HOUSING COMPANY

(REGISTRATION NUMBER 1997/016085/07)
TRADING AS PHAROE PARK HOUSING COMPANY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

DIRECTORS' RESPONSIBILITIES AND APPROVAL

I am responsible for the preparation of these annual financial statements, which are set out on pages s 4 to 32, in terms of Section 126(1) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973 and which I have signed on behalf of the Company.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The disclosure requirements as per GRAP 1, 2 and 3 have also been incorporated in the financial statements

The directors acknowledges that it is ultimately responsible for the system of internal financial control established by the PHAROE PARK HOUSING COMPANY to enable the directors to meet these responsibilities. These controls are monitored throughout the PHAROE PARK HOUSING COMPANY in ensuring the Company's operations is conducted accordingly. The focus of risk management in the PHAROE PARK HOUSING COMPANY is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the PHAROE PARK HOUSING COMPANY endeavours to minimise it.

The directors are required by the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements.

Executive Director

Friday, 29 August, 2008

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Social Housing Institution
DIRECTORS	Daphney Ngoasheng Sipho Mlungisi Twala Kara Nazir Ahmed Peter Clive Ucko Simon Pieter Gerber Michael Mokela Mokgohloa
REGISTERED OFFICE	Shop nr 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
BUSINESS ADDRESS	Shop nr 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
POSTAL ADDRESS	P O Box 1245 Germiston 1400
PARENT	Ekurhuleni Metropolitan Municipality incorporated in South Africa
BANKERS	ABSA
AUDITORS	Auditor General Registered Auditors
SECRETARY	ME von Ronge

CONTENTS

The reports and statements set out below comprise the annual financial statements presented to the shareholder:

DIRECTORS' REPORT

1. INCORPORATION

The company was incorporated on 2 September 1997 and obtained its certificate to commence business on the same day.

2. GOING CONCERN

The Pharoe Park Housing Company PTY (LTD) at the year end at June 30, 2008, showed a surplus of R(56 199) and the company's total asset exceed its liabilities by R1 610 423

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the company has resources in place to continue in operation for the foreseeable future.

The existence of the company is dependant on the continued support of its shareholders and furthermore the company is dependant on achieving sustainable profitability through the rental of properties at a social rate.

3. INTERNAL CONTROLS

3.1. VAT

PHAROE PARK HOUSING COMPANY (PTY) LTD is excempt from VAT registration.

4. POST STATEMENT OF FINANCIAL POSITION EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year.

5. ACCOUNTING POLICIES

The Company has prepared its annual financial statements in terms of Standards of Generally Accepted Accounting Practice, except where these have been superseded by the 3 Standards of Generally Recognised Accounting Practice.

There were no changes in accounting policies during the year.

DIRECTORS' REPORT

6. CONTRIBUTION FROM OWNERS

The company was incorporated with an authorised share capital of 1,000 ordinary shares of R1 each of which 107 were issued at par value.

There were no changes in the authorised or issued share capital of the company during the year under review.

Ekurhuleni Metropolitan Municipality held 93,5 % of the ordinary share capital of the company as at 30 June 2008

Unissued ordinary shares are under the control of Ekurhuleni Metropolitan Municipality.

7. DIRECTORS

The directors of the company during the year and to the date of this report are as follows

Michael Mokgohloa is the only executive director appointed a sth Chief Executive Officer

All other directors are independant non-executive directors appointed by th Mayor of Ekurhuleni Metropolitan Municipalirty according to the Municipal :

Name	Nationality
Daphney Ngoasheng	SA Citizen
Sipho Mlungisi Twala	SA Citizen
Kara Nazir Ahmed	SA Citizen
Peter Clive Ucko	
Simon Pieter Gerber	SA Citizen
Michael Mokela Mokgohloa	SA Citizen

8. PARENT

The company's parent is Ekurhuleni Metropolitan Municipality

9. BANKERS

Amalgamated Bank of South Africa Limited

10. AUDITORS

In accordance with Section 92 of the Municipal Finance Management Act No 56 of 2003, the Auditor General will continue as the Company’s external auditors

Certificate by Company Secretary for the year ended June 30, 2008

In terms Section 268 G(d) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

ME von Ronge
Of: PHAROE PARK HOUSING COMPANY
Company Secretary
Friday, 29 August, 2008

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2008

	Note(s)	2008 R	2007 R
NET ASSETS AND LIABILITIES			
NET ASSETS			
Contribution from owner	2	4,000,100	4,000,100
Accumulated Surplus (Deficit)		(2,663,297)	(2,366,072)
		1,336,803	**1,634,028**
LIABILITIES			
NON-CURRENT LIABILITIES			
Shareholders loan	4	2,011,593	1,796,065
Long-term liabilities	5	10,938,328	12,109,084
Deferred income	7	12,215,493	1,459,380
		25,165,414	**15,364,529**
CURRENT LIABILITIES			
Amount owing to related companies	3	2,493,863	1,058,369
Current portion of long-term liabilities	5	1,495,392	1,887,839
Trade and other payables	6	1,081,683	878,265
Rental Deposits Held		1,015,857	902,518
		6,086,795	**4,726,991**
Total Liabilities		**31,252,209**	**20,091,520**
Total Net Assets and Liabilities		**32,589,012**	**21,725,548**
ASSETS			
NON-CURRENT ASSETS			
Investment property	9	17,517,220	17,908,193
Property, plant and equipment	10	111,591	524,265
Deposit paid on acquisition of Property		12,974,776	-
		30,603,587	**18,432,458**
CURRENT ASSETS			
Trade and other receivables	11	386,515	586,008
Cash and cash equivalents	8	1,598,909	2,707,080
		1,985,424	**3,293,088**
Total Assets		**32,589,011**	**21,725,546**

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2008 R	2007 R
Revenue	12	6,583,700	6,042,628
Other income	13	838,181	437,363
Operating expenses	&15&16&	(6,864,037)	(5,640,287)
Operating surplus		**557,844**	**839,704**
Investment revenue		996,882	256,986
Finance costs	15	(1,498,527)	(1,276,667)
Surplus (deficit) for the year		**56,199**	**(179,977)**

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2008 R	2007 R
Revenue			
Rental facilities and equipment		6,583,700	6,042,628
Other income			
Recoveries		288,083	167,887
Other income		161,754	4,950
Interest received - investment		996,882	256,986
Government grants		388,344	191,030
Gain on interest rate fluctuation on interest free loan		-	73,496
		1,835,063	**694,349**
Expenses (Refer to page 9)		**(6,864,037)**	**(5,640,287)**
Operating surplus		**1,554,726**	**1,096,690**
Finance costs	15	(1,498,527)	(1,276,667)
Surplus (deficit) for the year		**56,199**	**(179,977)**
Operating expenses			
Administration and management fees		2,191,000	1,895,265
Advertising		3,065	-
Assessment rates & municipal charges		-	-
Auditors remuneration	14	349,977	204,429
Bad debts	17	113,858	256,305
Bank charges		76,911	64,317
Cleaning		144,304	138,122
Conferences and seminars		3,465	1,480
Consulting and professional fees		13,260	-
Debt collection		2,683	-
Depreciation, amortisation and impairments		367,230	443,320
Insurance		357,436	63,084
Legal expenses		37,061	14,539
Magazines, books and periodicals		-	1,350
Pest control		34,392	35,348
Printing and stationery		8,436	980
Repairs and maintenance		1,004,446	671,503
Security (Guarding of municipal property)		749,905	680,430
Staff welfare		306,740	-
Telecommunication costs (Telephone and fax)		450	4,706
Utilities		1,099,418	1,165,109
		6,864,037	**5,640,287**

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2008 R	2007 R

STATEMENT OF CHANGES IN NET ASSETS

	Note(s)	Share capital R	Share premium R	Total share capital R	Accumulated Surplus (Deficit) R	Net Assets R
Balance at July 1, 2006		**107**	**3,999,993**	**4,000,100**	**(2,186,095)**	**1,814,005**
Changes in net assets						
Deficit for the year				-	(179,977)	(179,977)
Total changes		-	-	-	(179,977)	(179,977)
Balance at July 1, 2007		**107**	**3,999,993**	**4,000,100**	**(2,366,072)**	**1,634,028**
Changes in net assets						
Prior year adjustments				-	(353,424)	(353,424)
Net income (expenses) recognised directly in equity		-	-	-	(353,424)	(353,424)
Surplus for the year					56,199	56,199
Total recognised income and expenses for the year		-	-	-	(297,225)	(297,225)
Total changes		-	-	-	(297,225)	(297,225)
Balance at June 30, 2008		**107**	**3,999,993**	**4,000,100**	**(2,663,297)**	**1,336,803**

CASH FLOW STATEMENT

	Note(s)	2008 R	2007 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		17,218,532	6,184,148
Cash paid to suppliers and employees		(18,026,217)	(5,313,975)
Cash (used in) generated from operations	18	(807,685)	870,173
Interest income		996,882	158,069
Finance costs		(1,498,527)	(1,276,667)
Net cash from operating activities		**(1,309,330)**	**(248,425)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	-	(9,200)
Loans to group companies repaid		-	738,018
Proceeds from loans from group companies		1,435,494	-
Net cash utilised in investing activities		**1,435,494**	**728,818**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term liabilities		(1,563,203)	(1,626,116)
Movement in rental deposits		113,339	(1,390)
Repayment of shareholders loan		215,528	-
Net cash from financing activities		**(1,234,336)**	**(1,627,506)**
Net decrease in cash and cash equivalents		**(1,108,172)**	**(1,083,018)**
Cash at the beginning of the period		2,707,080	3,790,097
Cash and cash equivalents at end of the period	8	**1,598,908**	**2,707,079**

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice(GAAP) including any intrepretations such Statements issued by the Accounting Practice Board, the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP		Replaced Statement of SA GAAP
GRAP1:	Presentation of financial statements	AC 101: Presentation of financial statements
GRAP2:	Cash flow statements	AC 118: Cash flow statements
GRAP3:	Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of Grap1,2 and 3 has resulted in the following changes in the presentation of the financial statements:

1.1. Terminology differences:

Standard of GRAP	**Replacement Statement of GAAP**
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets	Statements of Changes in Equity
Net Assets	Equity
Surplus / Deficit	Profit / Loss
Accumulated Surplus / Deficit	Retained Earnings
Contributions from Owners	Share Capital
Distributions to Owners	Dividends

1.2. The cash flow statement can only be prepared in accordance with the direct method.

1.3. Specific information has been presented seperately on the Statement of Financial Position, such as:

(a) Receivables from non-exchange transactions, including taxes and transfers

(b) Taxes and transfers payable

(c) Trade and other payables from non-exchange transactions.

1.4. The amount and nature of any restrictions on cash balances is required to be disclosed.

These accounting policies are consistent with the previous year.

1.1 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand.

1.2 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

ACCOUNTING POLICIES

1.3 OWNERS CONTRIBUTIONS AND NET ASSETS

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

1.4 INVESTMENT PROPERTY

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Investment properties, which are properties held to earn rental revenue or for capital appreciation, are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property.

COST MODEL

Investment property is carried at cost less depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

ITEM	USEFUL LIFE
Property - land	indefinite
Property - buildings	50 years

1.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:-

Computer equipment and software	33.33%
Office equipment	10%
Furniture	10%
Motor Vehicles	20%
Renovations	10%
Play grounds	2%

ACCOUNTING POLICIES

1.6 IMPAIRMENT OF ASSETS

The company assesses at each statement of financial position date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs to is determined

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Investment property are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

1.7 FINANCIAL ASSETS AND LIABILITIES

INITIAL RECOGNITION

Recognition
The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Measurement
Financial instruments sre initially measured at cost, which include transaction costs.

Subsequent recognition
Subsequent to initail recognition these instruments are measured as set out below

FAIR VALUE DETERMINATION

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the annual financial statements establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

AMOUNTS OWING BY (TO) RELATED COMPANIES

These include loans to holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment’s recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans to (from) group companies are classified as loans and receivables.

ACCOUNTING POLICIES

1.7 FINANCIAL ASSETS AND LIABILITIES (continued)

TRADE AND OTHER RECEIVABLES

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within annual financial statements. 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 against company in the income statement.

Trade and other receivables are classified as loans and receivables.

Debtors are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

TRADE AND OTHER PAYABLES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.8 REVENUE

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Municipailty's activities. Revenue is shown net of value added tax, estimated returns, rebates and discounts and after eliminated revenue within departments of the Municipality. Revenue is recognised as follow:

1.8.1 REVENUE FROM EXCHANGE TRANSACTIONS

Interest and rentals are recognised on a time proportion basis.

All other revenue is recognised as it accrues.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant

ACCOUNTING POLICIES

1.8 REVENUE (continued)

and equipment, at the fair value of the consideration received or receivable.

ACCOUNTING POLICIES

1.9 CONDITIONAL GRANTS AND RECEIPTS

Government grants are recognised as deffered income when there is reasonable assurance that:
- the company will comply with the conditions attaching to the government grant; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match the grants with the related costs that they are intended to compensate.

In particular, the government grant pertaining to land received from the parent municipality is recognised as income at cost over a straight- line period of fifty years, being the estimated useful life of the residential accomodation of the land.

1.10 TAX

CURRENT TAX ASSETS AND LIABILITIES

The tax currently payable is based on taxable income for the year. Taxable income differs from surplus as reported in the statement of financial performance, because it includes income and expenses that are taxable or tax deductible in other years and it further excludes items that are never taxable or tax deductible.

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

DEFERRED INCOME TAX

Defferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realised or the liability is settled, bassed on tax rates (and tax laws) that have been enacted by the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforcible right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset is recognised for all deductable temporary differences to the extent that it is probable that taxable profit will be available against which the deductable temporary difference can be utilised, unless the deferred tax asset arises from the initial recognision of an asset or liability in a transaction that:
a) is not a business combination; and
b)at the time of th transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
a) the initial recognition of goodwill; or
b) goodwill for which amortisation is not deductible for tax purposes; or
c) the initial recognition of an asset or liability in a transaction which:
   - is not a business combination; and
   - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

ACCOUNTING POLICIES

1.10 TAX (continued)

TAXATION

Income tax expense represents the sum of current tax and deferred tax.

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
a) a transaction or event which is recognised, in the same or a different period, directly in equity, or
b) a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to net assets.

ACCOUNTING POLICIES

1.11 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. Where unauthorised expenditure is not approved, it is recovered from the responsible person and the amount received is accounted for as revenue in the Statement of Financial Performance.

1.12 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority it is treated as a current asset until it is recovered or written off as irrecoverable in the Statement of Financial Performance.

1.13 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. If the expenditure is not condoned by the relevant authority it is accounted for as a current asset in the Statement of Financial Position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

1.14 COMPARATIVES INFORMATION

1.14.1 CURRENT YEAR COMPARATIVES

Budgeted amounts have been included in the annual financial statements for the current financial year only.

1.14.2 PRIOR YEAR COMPARATIVES

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R
2. CONTRIBUTION FROM OWNER		
AUTHORISED		
1000 Ordinary shares of R1 each	1,000	1,000
ISSUED		
Ordinary	107	107
Share premium	3,999,993	3,999,993
	4,000,100	**4,000,100**

107 Ordinary shares at R1 each

3. AMOUNTS OWING BY (TO) RELATED COMPANIES

	2008 R	2007 R
SUBSIDIARIES		
Group co ID 1	(1,574,653)	(478,741)
Terms and conditions		
Group co ID 2	(819,210)	(579,628)
Terms and conditions		
Group co ID 3	(100,000)	-
Terms and conditions		
	(2,493,863)	**(1,058,369)**

4. LOANS TO/FROM SHAREHOLDERS

	2008 R	2007 R
Gauteng Partnership Fund (GPF)	(2,011,593)	(1,796,065)

Th loan from Gauteng Partnership fund is interest free and repayable by equal instalments of R700 000 annually from the 1st of February 2011. The loan was received in February 2005 when GPF acquired 6.5% shareholding of the company.

4.1. GAUTENG PARTNERSHIP FUND (GPF)

	2008 R	2007 R
NOTIONAL LOANS MOVEMENT FOR THE YEAR		
Loan at nominal amount	(1,796,065)	(1,869,561)
(Less) Gain on receipt of interst free loan	(215,528)	73,496
Balance at end of year	**(2,011,593)**	**(1,796,065)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2008 R	2007 R
5. LONG-TERM LIABILITIES			
Loan - woon conmcept @ 5 % interest The initial loan of R500 000 from Stiching Woonconcept will be paid back in 10 equal instalments per annum commencing on 1 December 2001 and ending 1 December 2010. Interest is charged from the date of the instalment at 5 % per annum and will be debited on the last day of the month		150,000	225,202
Unsecured loan - NHFC @ 7.68% The NHFC unsecured (HIDF subordinated)loan of R6 398 745 is payable in 134 equal instalments commencing on the first business day of the 26th month, calculated from the date of the first advance, which was on the 17th June 1998. Interest was charged at 9% per annum, capitalised for 26 months where after it is payable with the loan repayment. The interest was negotiated from 01 March 2002, the new interest rate is 7.68%		3,925,353	5,556,176
Secured loan - NHFC @ prime less 1% The NHFC secured loan is secured with a First Continuous Covering Mortage Bond for R12 300 000 over that consolidated property repayable in 199 equal monthly instalments commencing on the fifth business day of the month calculated from the date of the first advance, interest payable at fixed rate of 14 % per annum. The interst was negotiated and changed effect from 1 February 2005 to prime less 1%.		6,862,975	8,258,849
		10,938,328	**14,040,227**
CURRENT PORTION OF LONG TERM LIABILITIES			
Short term portion of NHFC loan		1,495,392	1,887,839
NON-CURRENT LIABILITIES			
National Housing Funding Corporation		10,938,328	12,109,084
CURRENT LIABILITIES			
National Housing Funding Corporation		1,495,392	1,887,839
		12,433,720	**13,996,923**
6. TRADE AND OTHER PAYABLES			
Trade payables		13,261	68,056
Payments received in advance		156,447	199,194
Other accrued expenses		-	9,120
Sundry Creditors		129,994	-
Unallocated Receipts		6,974	141,379
Consumer creditor		-	23,708
Related party creditor	19	775,007	436,808
Total Creditors		**1,081,683**	**878,265**
7. DEFERRED INCOME			
DEFERRED INCOME COMPRISES:			
Non-monetary Government Grants		1,459,380	1,496,800
Income recognition during the year		(37,420)	(37,420)
Total Conditional Grants and Receipts		**1,421,960**	**1,459,380**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

7. DEFERRED INCOME (continued)

Deferred income resulted from land donated to Pharoe Park by Ekurhuleni Metropolitan Municipality and is recognised as revenue over the useful life of the investment property.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2008 R	2007 R
Bank balances	498,909	57,080
Call investment deposits	1,100,000	2,650,000
	1,598,909	**2,707,080**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008	2007
	R	R

9. INVESTMENT PROPERTY

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	21,419,641	(3,902,421)	17,517,220	21,419,641	(3,511,448)	17,908,193

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

9. INVESTMENT PROPERTY (continued)

RECONCILIATION OF INVESTMENT PROPERTY - 2008

	Opening Balance	Depreciation	Total
Investment property	17,908,193	(390,973)	17,517,220

RECONCILIATION OF INVESTMENT PROPERTY - 2007

	Opening Balance	Depreciation	Total
Investment property	18,727,555	(819,362)	17,908,193

PLEDGED AS SECURITY

The loan from NHFC is secured First Continuous Covering Mortageover the consolidated property of the concolidated property.

DETAILS OF PROPERTY

The property comprises of:
- Erf 122 to 128, 130, 135 to 139, 263, 265,267, 269 to 271, 287 and 305 to 308 in WEST GERMISTON

The properties were devloped in 1998 for the purpose of earning rental income and meeting housing service delivery needs. the property has 440 rental units

Mortage bond: B24620/1999 for R12,300,000 in favour of National Housing Finance Corp Ltd.

Fair value of investment property amounting to R52 164 700(R 50 255 000 June 2007) was determined at year end 30 June 2007 by an independant sworn property appraiser based on most recent prices achieved in arms length transactions of similar properties in the area.

As at 30 June 2008 the fair value adjustment was determined by the House Price Index of ABSA at 3.8% as per fair

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008	2007
	R	R

9. INVESTMENT PROPERTY (continued)

value policy of the company which states that a Independant valuation has to be done every 3 years there after an adjustment can be done in terms of a published house price index from one of the Financial Institutions eg. ABSA

Investment property at cost

Land	R 1 871 000
Buildings	R 19 548 641
Total	**R 21 419 641**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

10. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	-	-	-	472,805	(59,176)	413,629
Furniture and fixtures	126,017	(126,017)	-	126,017	(131,085)	(5,068)
Office equipment	-	-	-	2,405	(2,405)	-
IT equipment	16,441	(16,441)	-	16,441	(16,441)	-
Computer software	20,919	(20,919)	-	20,919	(20,919)	-
Park facilities	133,263	(21,672)	111,591	133,263	(17,559)	115,704
Other property, plant and equipment # 3	11,426	(11,426)	-	11,426	(11,426)	-
Total	**308,066**	**(196,475)**	**111,591**	**783,276**	**(259,011)**	**524,265**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2008

	Opening Balance	Additions	Depreciation	Total
Buildings	413,629	-	(22,900)	-
Furniture and fixtures	(5,068)	5,068	-	-
Park facilities	115,704	-	(4,113)	111,591
	524,265	**5,068**	**(27,013)**	**111,591**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2007

	Opening Balance	Depreciation	Total
Buildings	472,805	(59,176)	413,629
Furniture and fixtures	126,017	(131,085)	(5,068)
Office equipment	2,405	(2,405)	-
IT equipment	16,441	(16,441)	-
Computer software	20,919	(20,919)	-
Other property, plant and equipment	11,426	(11,426)	-
Park facilities	133,263	(17,559)	115,704
	783,276	**(259,011)**	**524,265**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2008 R	2007 R
11. TRADE AND OTHER RECEIVABLES			
Trade debtors	11.1	263,115	431,548
Interest receivable		123,400	850
Urban Renewal Grant		-	153,610
		386,515	**586,008**
11.1. TRADE DEBTORS			
Gross trade receivables		876,496	1,300,432
Less: Provision for bad debts		(614,865)	(892,490)
Less: Discounting of Receivables as a reult of carrying trade and other receivables at amortised cost.		-	-
		261,631	**313,236**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

12. REVENUE

Rental facilities and equipment		6,583,700	6,042,628

13. OTHER INCOME

Recoveries		288,083	167,887
Sundry revenue		161,754	4,950
Government grants		388,344	191,030
Profit and loss on sale of assets and liabilities		-	73,496
		838,181	**437,363**

14. AUDITORS' REMUNERATION

Fees		349,977	204,429

15. FINANCE COSTS

Current borrowings		1,274,043	1,266,637
Amortisation of held to maturity liabilities		215,528	-
Other interest paid		8,956	10,030
		1,498,527	**1,276,667**

16. GENERAL EXPENSES

Administration and management fees		2,191,000	1,895,265
Advertising		3,065	-
Assessment rates & municipal charges		-	-
Auditors remuneration	14	349,977	204,429
Bad debts	17	113,858	256,305
Bank charges		76,911	64,317
Cleaning		144,304	138,122
Conferences and seminars		3,465	1,480
Consulting and professional fees		50,321	14,539
Debt collection		2,683	-
Insurance		357,436	63,084
Magazines, books and periodicals		-	1,350
Pest control		34,392	35,348
Printing and stationery		8,436	980
Repairs and maintenance		1,004,446	671,503
Security (Guarding of municipal property)		749,905	680,430
Staff welfare		306,740	-
Telecommunication costs (Telephone and fax)		450	4,706
Utilities		1,099,418	1,165,109
		6,496,807	**5,196,967**

17. BAD DEBTS

Contributions to bad-debt provision		113,858	256,305

Notes to the Annual Financial Statements

	2008 R	2007 R
18. CASH (USED IN) GENERATED FROM OPERATIONS		
Surplus (deficit) before taxation	56,199	(179,977)
ADJUSTMENTS FOR:		
Depreciation and amortisation	367,230	443,320
Gain on interest free loan form shareholders	-	(73,496)
Deficit on sale of non-current assets and disposal groups	436,417	-
Interest received	(996,882)	(256,986)
Finance costs	1,498,527	1,276,667
Prior year adjustment	(353,424)	-
CHANGES IN WORKING CAPITAL:		
Trade and other receivables	199,493	(272,772)
Deposit paid on Property to acquire	(12,974,776)	-
Trade and other payables	203,418	(66,583)
Deferred income	10,756,113	-
	(807,685)	**870,173**

19. RELATED PARTIES

Relationships	
Parent	Ekurhuleni Metropolitan Municipality
Other members of the group	Ekurhuleni Development Company
	Phase II Housing Company
	Lethabong Housing Institute
Members of key management	Directors remuneration-Annexure A

RELATED PARTY BALANCES

	2008 R	2007 R
LOAN ACCOUNTS - OWING TO RELATED PARTIES		
Ekurhuleni Development Company	1,574,653	478,740
Germiston Phase II	819,210	579,627
Lethabong Housing Institute	100,000	-
	2,493,863	**1,058,367**
LOAN ACCOUNTS - OWING TO RELATED PARTIES		
	-	-
AMOUNTS INCLUDED IN TRADE PAYABLE REGARDING RELATED PARTIES		
Ekurhuleni Metropolitan Municipality	775,007	436,808

RELATED PARTY TRANSACTIONS

	2008 R	2007 R
PURCHASES FROM RELATED PARTIES		
Ekurhuleni development company	2,191,000	1,895,265
Ekurhuleni Metropolitan Municipality	1,134,237	1,165,109
	-	-
	3,325,237	**3,060,374**

20. PRIOR YEAR ERRORS

The correction of the error(s) results in adjustments as follows:

	2008 R	2007 R
STATEMENT OF FINANCIAL POSITION		
Property, plant and equipment	220,186	-
Borrowings	14,877	-
Trade and other receivables	151,188	-

Notes to the Annual Financial Statements

	2008 R	2007 R
20. PRIOR YEAR ERRORS (continued)		
Trade and other payables	(32,827)	-
STATEMENT OF FINANCIAL PERFORMANCE		
Old balances cleared	(118,361)	-
Asset disposal - Asset register	(220,186)	-
Correction of Balances	(14,877)	-
Net effect on surplus/ deficit) for the year	**(353,424)**	**-**

21. COMPARATIVE FIGURES

Comparative figures have been presented of the company.

	2008 R	2007 R

22. RISK MANAGEMENT

LIQUIDITY RISK

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

CREDIT RISK

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

23. GOING CONCERN

We draw attention to the fact that at June 30, 2008, the company had accumulated losses of R(2 663 225)and that the company's total liabilities exceed its assets by R 1336 803 .

Ekurhuleni Metropolitan Municipality together with Gauteng Partnership Fund commissioned a due dillegence report on the viability of the company. The company is experiencing cash flow challenges on a monthly basis. Several factors contribute to the viaiblity and ultimately the going concern of the company. Therefore a long term sustainablility strategy is being prepared for the company. The company is however dependant on continued support form the shareholders in order to remain a going concern.

PHAROE PARK HOUSING COMPANY
APPENDIX E(1) for the ended Monday, 30 June, 2008
June 2008

GOVERNMENT TEMPLATE: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2008

	Current year 2008 Act. Bal. Rand	**Current year 2008 Bud. Amt Rand**	**Variance Rand**	**Var**	**Explanation of Significant Variances greater than 10% versus Budget**
Revenue					
Rental facilities and equipment	6,583,700	7,019,285	(435,585)	-	Over Budgeted
	6,583,700	7,019,285	(435,585)	-	
Other income					
Other income	838,181	605,596	232,585	-	Under budgeted recoveries
Interest received - investment	996,882	1,000,000	(3,118)	-	
	1,835,063	1,605,596	229,467	-	
Total Revenue	8,418,763	8,624,881	(206,118)	-	
Expenses					
Bad debts	(113,858)	(130,000)	16,142	-	
Depreciation - N/A	(367,230)	(380,000)	12,770	-	
Repairs and maintenance	(1,004,446)	(733,806)	(270,640)	-	Repairs budget moved to Operations
Finance costs	(1,498,527)	(1,441,445)	(57,082)	-	
General expenses	(5,378,501)	(5,910,733)	532,232	-	
	(8,362,562)	(8,595,984)	233,422	-	
Operating profit	56,201	28,897	27,304	-	
Other revenue and costs					
Net surplus/ (deficit) for the year	56,201	28,897	27,304	-	