EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 30 June 2006

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
12. EMBEDDED DERIVATIVE				
Embedded Derivative Asset.	-	791	-	-

The embedded derivative asset arose as a result of a contract for the provision of engineering services between Ertec (Pty) Ltd and AHC Mining Municipal services. The total contract value is US$ 2 676 673 , with the project to commence in the 2005 financial period. Due to the contract being denominated in a currency which is not the functional currency of either transacting party, an embedded derivative component was identified , and measured at year end to fair value using forward exchange rates based on projected billings structures included in the contract. The contract has been completed during the current financial year. The net taxation effect of derecognising this asset is a decrease of R 229 390 in the unprovided deferred tax asset and an increase in the unprovided deferred asset of R232 870 in 2005.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Cash on hand and deposits held with Banks.	980	34,909	2,373	35,172

14. ACCUMULATED SURPLUS

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
This non-distributable reserve will mainly be used to finance the future capital projects of the company and the group in order to meet their strategic objects.	144,930	138,760	148,531	140,019

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 30 June 2006

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000

15. AVAILABLE FOR SALE REVALUATION RESERVE

FAIR VALUE ADJUSTMENT

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Investment in Old Mutual Unit Trust	1,534	1,048	1,534	1,048

16. CAPITALISATION RESERVE

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Land and Buildings	214,110	214,110	214,110	214,110

The capital reserve has been created as a result of the transfer of various water care works and regional outfall servers from the Ekurhuleni Metropolitan Council to ERWAT at no cost or at a reduced value. These land and buildings are brought to account at existing market value at the date of transfer by crediting this reserve.

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000

17. LONG TERM BORROWINGS

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Unsecured loans				
ABSA	53,256	30,474	53,256	30,474
DBSA	47,030	50,837	47,030	50,837
Ekurhuleni Metropolitan Council	4,000	4,000	4,000	4,000
	104,285	85,311	104,285	85,311
Secured loans				
Leased Asset	1,480	580	1,480	580
Lethabong Local Council	-	853	-	853
	1,480	1,433	1,480	1,433
	105,766	86,744	105,765	86,744
Less: current portion transferred to current liabilities	(14,870)	(13,450)	(14,870)	(13,450)
	90,896	73,294	90,895	73,294

Additional information:	Annual instalments	Repayment date	Interest rate
Unsecured loans			
ABSA	6,966	31/05/2015	Prime less 2%
DBSA	7,904	2,021	Floating approx. Prime less 2%
Ekurhuleni Metropolitan Council	-	28/02/2023	-
Secured loans			
Finance Leased Assets		06/10/2008	-

The company has finance leases of office equipment

	2006 Minimum Payments	2006 Present value of payments	2005 Minimum payments	2005 Present value of payments
Within one year	379	275	175	127
After one year but not more than five years	1,032	770	548	451
Total minimum lease payments	1,411	1,045	723	578
Less amounts representing finance charges	(366)	-	(145)	-
Present value of minimum lease payments	1,045	1,045	578	578

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000

18. DEFERRED TAXATION

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 29% (2004: 30%)
The amounts shown in the company and group balance sheets are attributable to the following items:

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Retention debtors	260	429	-	-
Embedded Derivative Asset	-	230	-	-
Provision for Doubtful Debts	(57)	(71)	-	-
Project Losses	(73)	(251)	-	-
Taxation loss	-	(250)	-	-
Leave pay provision	(58)	(87)	-	-
Provision for incentive	(72)	-	-	-
	-	-	-	-

No provision for deferred taxation has been made in respect of tax losses amounting to R5 239 000 as is it is doubtful whether there will be sufficient future taxable income to utilise the loss.

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Reconciliation between deferred taxation opening and closing balance:				
Deferred tax liability/(asset) at beginning of year	-	470	-	-
Taxation Rate Adjustment	-	(16)	-	-
Originating/(Reversing) temporary difference on retentions and Embedded derivatives	-	(42)	-	-
(Originating)/Reversing temporary difference on leave pay provision, provision for losses and doubtful debts	-	(162)	-	-
Provision For Tax Losses	-	(250)	-	-
Deferred tax liability at end of year	-	-	-	-

19. TRADE AND OTHER PAYABLES

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Trade creditors	22,188	15,664	21,692	9,022
Sundry creditors	436	1,077	-	674
Accruals	10,467	7,830	10,304	7,787
Provisions	8,831	8,730	8,501	8,358
	41,922	33,301	40,498	25,841

Provisions

	Group 2006 R ' 000			Company 2006 R ' 000		
	Opening Balance	Increase/ (Decrease)	Closing Balance	Opening Balance	Increase/ (Decrease)	Closing Balance
Annual bonus	1,561	159	1,720	1,488	152	1,640
Leave pay	3,169	542	3,711	2,870	591	3,461
Merit bonus	4,000	(600)	3,400	4,000	(600)	3,400
	8,730	101	8,831	8,358	143	8,501

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 30 June 2006

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000

Provisions (continued)

	Group 2005 R ' 000			Company 2005 R ' 000		
	Opening Balance	Increase/ (Decrease)	Closing Balance	Opening Balance	Increase/ (Decrease)	Closing Balance
Annual bonus	1,722	(15)	1,707	1,501	133	1,634
Leave pay	3,057	112	3,169	2,546	324	2,870
Merit bonus	3,800	200	4,000	3,549	451	4,000
	8,579	297	8,876	7,596	908	8,504

Annual bonus , leave pay and merit bonus.

Annual bonus and leave pay are calculated on a total cost to company basis. Merit bonus is calculated according to the rules of an approved incentive performance scheme.

20. NOTES TO THE CASH FLOW STATEMENT

20.1. CASH GENERATED FROM OPERATIONS

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Reconciliation of profit before taxation to cash generated by operations				
Profit before taxation after attributable loss of joint ventures	6,170	3,973	8,511	10,647
Adjustment for:				
- Provision for bad debts	-	212	-	-
-Fair value Embedded Derivative Adjustment	791	803	-	-
-Impairment on Investment in Joint Venture	-	510	-	-
- Interest received	(836)	(1,618)	(804)	(1,402)
- Interest paid	9,447	8,359	9,270	8,359
- Dividends received	(45)	(51)	(45)	(51)
Net (profit)/loss on disposal of property, plant and equipment	69	(161)	69	(126)
Operating surplus before working capital changes	28,479	23,345	29,682	28,498
Working capital changes:	(6,074)	(1,009)	(6,915)	(936)
Decrease/(increase) in receivables and prepayments	(16,018)	(3,504)	(21,571)	446
(Decrease)/increase in accounts payable	9,944	2,495	14,656	(1,382)
Cash generated by operations	22,405	22,336	22,767	27,562

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 30 June 2006

21. RELATED PARTY TRANSACTIONS

The group and company had the following related party transactions:

	Group 2006 R ' 000	Group 2005 R ' 000	Company 2006 R ' 000	Company 2005 R ' 000
Sales of services/goods:				
Ertec (Pty) Ltd	-	-	-	696
Khulumanizi (Pty) Ltd	-	-	-	-
Landustrie South Africa (Pty) Ltd	-	315	-	-
Cosme South Africa (Pty) Ltd	-	-	-	-
Ekurhuleni Metropolitan Municipality	-	-	215,214	157,655
Purchase of services/goods:				
Ertec (Pty) Ltd	-	-	9,087	9,972
Khulumanizi (Pty) Ltd	-	-	-	-
Landustrie South Africa (Pty) Ltd	-	11	-	-
Cosme South Africa (Pty) Ltd	-	-	-	-
Ekurhuleni Metropolitan Municipality	-	-	15,435	12,853
Outstanding balances arising from sales of services/goods				
Ertec (Pty) Ltd	-	-	624	624
Cosme South Africa (Pty) Ltd	-	-	-	-
Landustrie South Africa (Pty) Ltd	-	-	-	-
Khulumanzi Control Systems (Pty) Ltd	-	-	-	-
Ekurhuleni Metropolitan Municipality	-	-	17,669	2,998
Outstanding balances arising from Purchases of goods/services				
Ertec (Pty) Ltd	-	-	1,197	557
Cosme South Africa (Pty) Ltd	-	-	-	-
Landustrie South Africa (Pty) Ltd	131	131	-	-
Ekurhuleni Metropolitan Municipality	-	-	-	-
Loans to related parties:				
Khulumanzi Control Systems (Pty) Ltd	-	-	-	-
Cosme South Africa (Pty) Ltd	49	49	-	-
Landustrie South Africa (Pty) Ltd	1,807	1,807	-	-
Ertec (Pty) Ltd	-	-	5,104	5,061
Aquafrica (Pty) Ltd	-	-	429	429
Ekurhuleni Metropolitan Municipality	-	-	4,000	4,853

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS(Continued)
for the year ended 30 June 2006

22. RETIREMENT BENEFIT INFORMATION

The ERWAT group has made provision for retirement benefits schemes covering substantially all employees. All eligible employees are members of defined contribution schemes administered by the group. The assets of these schemes are held in administered trust funds separated from the group's assets. Scheme assets primarily consistent of guaranteed policies.These funds are governed by the Pension Funds Act of 1956
The ERWAT Pension Fund (Registration No. 12/8/30204/1) and ERWAT Provident Fund (Registration No. 12/8/30204/1) are money purchase funds and no actuarial valuation is required in terms of the Pension Fund Act of 1956. Contributions are fully expensed during the year in which they are funded.

23. FINANCIAL INSTRUMENTS

Credit risk
Financial assets which potentially subject the group to concentrations of credit risk consist principally of cash, short term deposits and trade receivables. The group's cash equivalents and short term deposits are placed with high credit quality financial institutions.Trade receivables are presented net of the allowance for doubtful receivables. The carrying amounts of financial assets included in the balance sheet represent the group's exposure to credit risk in relation to these assets.

Interest rate risk
The group's exposure to interest rate risk and the effective interest rates on financial instruments at balance sheet date are disclosed in note 16

Fair Value
At 30 June 2006 and 2005, the carrying amounts of cash, accounts receivable, accounts payable and accrued expenses approximated their fair values due to the short term maturities of these assets and liabilities.
The fair value of other long term investments and of long term borrowings is not materially different from the carrying amounts.

Forward foreign exchange contract
Forward foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific transactions.
No outstanding forward exchange contracts existed at year end.
Trade accounts receivable at 30 June 2006 include aggregate net receivables of R nil (2005 R 4 504 189) which is receivable in US$ nil.The group is exposed to foreign exchange losses if the Rand strengthens against the US-Dollar

24. CONTINGENT LIABILITIES

At 30 June 2006 the group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business, the company has given guarantees amounting to R 2 057 260 (2005: R 6 056 047) to third parties

25. DEFERRED INCOME

The grant received is related to assets and must be used to finance the erection of Municipal infrastructure.The deferred income will be recognised in profit on the straight-line basis over the estimated useful life of the assets that will be erected in the future. Recognition of the amortise portion in the income statement to commence when the plant to be erected is ready for its intended use

	Group 2006 R ' 000	**Group 2005 R ' 000**	**Company 2006 R ' 000**	**Company 2004 R ' 000**
Opening balance	-	-	-	-
Receipts	58,820	13,907	58,820	13,907
Amounts recognised/amortised	-	-	-	-
Closing balance	58,820	13,907	58,820	13,907

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS(Continued)
for the year ended 30 June 2006

26. SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE

2005 Actual Income R ' 000	2005 Actual Expenditure R ' 000	2005 Surplus/ (Deficit) R ' 000		2006 Actual Income R ' 000	2006 Actual Expenditure R ' 000	2006 Surplus/ (Deficit) R ' 000
164,838	113,233	51,605	Operations	172,989	120,227	52,762
8	4,673	(4,665)	Development	194	4,721	(4,527)
12,875	11,646	1,229	Laboratory	15,477	13,341	2,136
-	7,430	(7,430)	Directorate	-	7,598	(7,598)
-	3,602	(3,602)	Marketing	2	3,467	(3,465)
327	4,333	(4,006)	Human Recources	48	4,309	(4,261)
1,744	24,227	(22,483)	Finance and Administration	836	27,372	(26,536)
179,792	169,144	10,648	**TOTAL**	189,546	181,035	8,511

EAST RAND WATER CARE COMPANY (ERWAT)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS(Continued)
for the year ended 30 June 2006

27. ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)
for the year ended 30 June 2006

	Actual Company 2006 R'000	Budget Company 2006 R'000	Variance Company 2006 R'000	Variance % Company 2006 R'000	Explanation of Significant Variances greater than 10% versus budget
REVENUE					
Dividend received	(45)	(20)	25	125	
Interest received - investments	(1)	-	1	-	
Interest received - other	(802)	(900)	(98)	(11)	
User charges	(164,599)	(164,483)	116	0	
Other income	(24,099)	(25,067)	(968)	(4)	
Gains on disposal of property , plant and equipment	-	-	-	-	
Total Revenue	(189,546)	(190,470)	(924)	(0)	
EXPENDITURE					
Employee related costs	63,912	63,625	(287)	(0)	Provided for bonus based on profits.
Remuneration of Directors	244	393	149	38	
Depreciation	13,621	14,162	541	4	
Repairs and maintenance	19,084	23,725	4,641	20	Portion scheduled maintenance postponed
Interest paid	9,270	10,500	1,230	12	Portion payment transferred to 2007
Bulk purchases	47,404	50,855	3,451	7	
General expenses	27,431	27,210	(221)	(1)	Various minor itemised expenses
Loss on disposal of property , plant and equipment	69	-	(69)	-	
Total Expenditure	181,035	190,470	9,435	5	
SURPLUS/(DEFICIT)	(8,511)	-	8,511	-	
Taxation	-	-	-	-	
Surplus/(deficit) from ordinary activities	(8,511)	-	8,511	-	
Attributable surplus/(deficit) of joint ventures	-	-	-	-	
NET SURPLUS/(DEFICIT)	(8,511)	-	8,511	-	

EKURHULENI DEVELOPMENT COMPANY

THE EKURHULENI DEVELOPMENT COMPANY (EDC)

The Ekurhuleni Development Company is committed to the provision of quality accommodation and service for all Ekurhuleni residents and endeavours to create sustainable housing projects.

CELEBRATING THE EKURHULENI DEVELOPMENT COMPANY

The EDC has encountered many challenges and learnt many lessons in a short space of time, through challenges it has recorded a number of successes. The achievements for the past 10 years accounts to the successes of its efforts to champion inner city regeneration.

THE CHAIRMAN'S REPORT

Though acknowledging challenges faced by Ekurhuleni Development Company in respect of providing quality accommodation to the Ekurhuleni residents and ensuring the positioning of the EDC as an agent of social housing change, a brief tour of completed and future projects and the vision that EDC has would paint a refreshing , different picture.

The EDC's buildings are characterised by a sense of security and comfort, in that by inspecting the projects the following are evidence of our improved situation:- access controls , provision of playground, facility for the children, tenants working within, job opportunities and having being empowered economically in terms of saving costs.

Today more than 5 000 people living in the Germiston Inner City call an EDC building their home. The EDC was conceptualised to create a variety of homes in various service delivery centres within the Ekurhuleni Metropolitan Municipality jurisdiction.

The EDC has laid a foundation for community building through the effort of the community development subdivision within the company. Trust and neighbourliness is the centre of this unwritten contract. Our vision is to ensure that all our tenants live in a safe and secured environment.

The merging of the then Greater Germiston Inner City Housing Corporation and Lethabong Housing Institute has been a challenging and tedious process, however it is refreshing that the EDC now manages the affairs of respective companies under one umbrella, that is the EDC.

I can only stand in appreciation of the efforts of the Ekurhulei Metropolitan Municipality Housing Department, Finance Department, Board members and EDC Management who helped bring about this sea of change and ensuring that various housing entities of the EMM are successfully merged. We must however acknowledge that any consolidation of an entity poses its own challenges and learning experiences, it therefore needs parties that are prepared to embark on a marathon and not a sprinting race. It needs the engagement and support of all relevant stakeholders, including the major shareholder in this case, the EMM.

We are working closely with the EMM to conclude sustainability model for the EDC and already had conceptualised a seven year housing delivery model, which amongst others, include the engagement of a Programme Management agent to assist the EDC in delivering on it’s mandate

EDC continues to face challenges, however we have unequivocally assumed a responsibility which obliges us not only to continue building on the foundation we have laid, but also stand true to the contract we hold with all our tenants to share the lessons we have learnt and to continue learning from others

We will endeavour to create a sustainable housing company consequently sustainable communities, through our commitment we resolve to engage with many stakeholders, businesses, civil society and the EMM and in this regard, continue to positively contributes towards the EMM being a smart creative and developmental city

I want to thank my fellow Directors, management and staff and all our other stakeholders for assisting us in this task.

DAPHNEY NGOASHENG

CHAIRPERSON

CEO'S REPORT

It is now time to reflect on the road less travelled and passionately capture lessons learnt and the vision ahead.

The property portfolio of the EDC captures residential estates of fully developed complexes which provide 988 rental units. Over and above the EDC has one project to develop in the inner city of Germiston and 2 projects in Bedfordview.

The EDC has brought in new communities in the city. The occupancy rate of our complexes have reached 99%. Total rental income for the group reached R 13.7 million.

The EDC hosted international visitors from Holland and various government departments. An impression gathered from the respective delegations is that the EDC is faced with significant challenges though impressive.

The EDC has gathered a plan to perform a maintenance audit on all our properties. This signals an opportunity to reinvest in our projects over the next five years. It has to however be mentioned that R 1.075 million was invested. It has to be mentioned that in the general refurbishment of all our buildings an evaluation of all our properties was initiated and the resultant value was R 110 million. EDC currently solely relies on rental income from the tenants and for the financial year 2005 / 2006 R 13.7 million was raised. The EDC as a whole has realised R 396.696.00 profit when all companies are consolidated.

Consequently it has to be acknowledged that the EDC would need to diversify its income stream as a matter of urgency

Finally in view of the mixed use housing approach and the need to deliver more social housing stock, it is imperative that the council and other stakeholders should support the EDC in terms of land and financial resources. The release of land in favour of the company is critical to ensure that the housing delivery targets are achieved.

In conclusion let me express my thanks to my fellow colleagues as well as the Ekurhuleni Metropolitan Municipality respective departments of Housing, Finance and City Development.

And finally, many thanks to our Chairperson, Daphney Ngoasheng, who provided guidance and insight amongst difficult issues and decisions, and to the Board as a whole, whose wisdom and support ensures that we grow from year to year.

MICHAEL MOKGOHLOA

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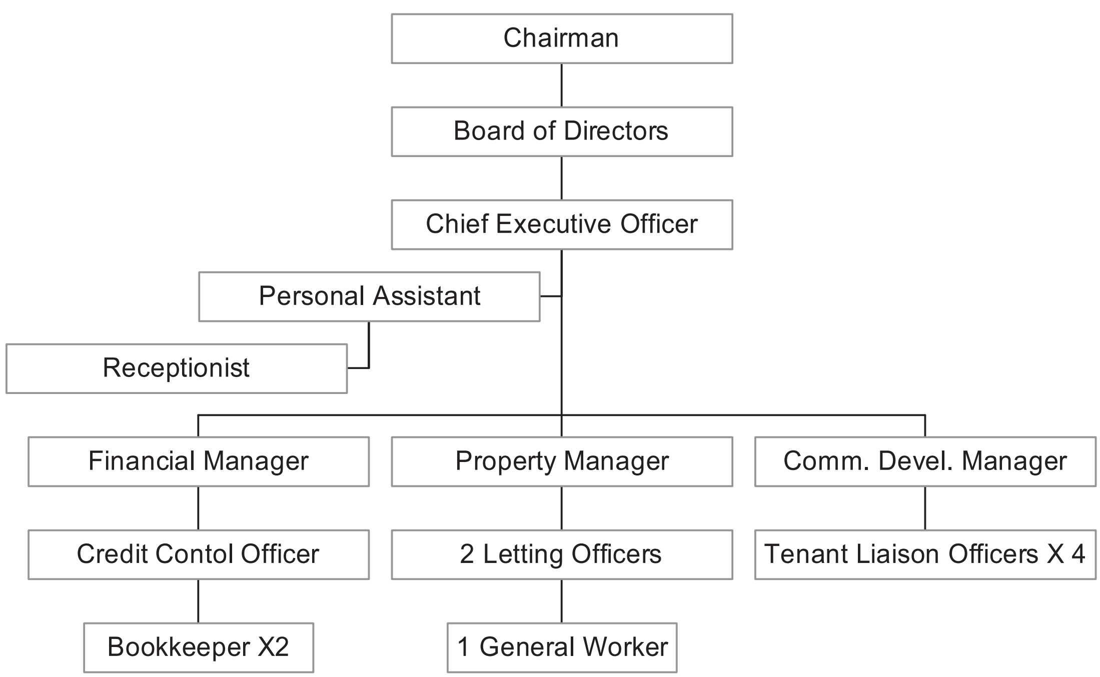
CHIEF EXECUTIVE OFFICER

OPERATIONS REVIEW

The refurbishment of the Pharoe Park complex in terms of repainting of the blocks of residential units has gone a long way in fostering Inner City regeneration.

ORGANISATIONAL ARRANGEMENTS AND HUMAN RESOURCES

During the year under review the EDC appointed a fulltime Chief Executive Officer in April 2006 and a newly created position of the Property manager was filled.



PROPERTY MANAGEMENT

EDC's Property Management Department is responsible for maintaining and preserving the group's assets and for maintaining the smooth operation of systems and procedures that deal with the leasing of units and the ongoing management of building services and administration to ensure that we provide an optimum service to the tenants.

The department consists of the letting division and maintenance division. The other challenges is that we have taken over Lethabong Housing Institute current property challenges of the stakeholder.

Over the past year the vacancy rate of our properties stood at an average of 1%, which depicts an average low rate.

BUILDING MANAGEMENT SERVICES

The Property Management Department is also responsible for managing outsourced services such as cleaning and security. The customer's have indicated a high level of satisfaction in respect of security provision. The aforementioned statement indicates the EDC's passion about tenants security in the inner city.

Community safety is an area of concern hence the vibrant tenants committees that work in conjunction with the EDC management. We are however looking at measures of improving our security arrangements.

PROPERTY MAINTENANCE AND IMPROVEMENTS

The EDC has initiated reinvestment in our buildings with the following thrusts:-

- All our buildings are well maintained
- Safety is the key
- Compliance of supporting the metro's inner city renewal and paying rates and utilities to the metro
- Ensure that buildings deliver continuing returns

CORPORATE GOVERNANCE STATEMENTS

The EDC aligns itself to the values of good corporate governance. The EDC is committed to:-

- Highest standard of integrity
- Conducting business through fair competitive practice
- Being environmental and social issues savvy

BOARD OF DIRECTORS

The Board comprises of Non Executive Directors, and one Executive Director.
Each Director brings a range of different skills and experience to EDC. One Director has resigned; Mr E Sigasa his valuable contribution is appreciated.

The Board is presided over by a Non executive Chairperson, Ms D Ngoasheng. The Non Executive Directors take responsibility for ensuring the chairperson encourages proper deliberation of all matters requiring the Board attention

The Board retains full effective control of the EDC and monitors executive management through a structures approach to reporting and accountability

The Board of Directors holds responsibility for the following, inter alia,

- Compliance issues
- Establish policies and plans
- Approve annual business plans, budgets and accounts
- Oversee a structure of delegation and systems of control and risk management
- Make decisions on all matters that might create significant financial or other risk to EDC
- Monitor EDC performance
- Ensures that the EDC business is conducted can fully and in accordance with generally accepted standards of performance.

BOARD COMMITTEES

The Board has the following Board Committees chaired by a Non Executive Director and has defined terms of reference.

FINANCE AUDIT AND RISK BOARD SUB COMMITTEE

Members

Mr. S Twala : Chairperson

Mr. E Rangongo: EMM : Internal Audit Executive

Mr. L Rautenbach: EMM Manager Municipal Entity

Mr. M Mokgohloa: CEO EDC

FINANCIAL MANAGEMENT

The Audit Committee has specific responsibility for ensuring that all activities of EDC are subject to independent review and audit and for monitoring – on behalf of the Board – the group's relationship with its auditors.

The Audit Committee has the following responsibilities, inter alia

- Ensuring that the group trades responsibly that risks are properly identified, evaluated and managed and that it can meet its present and future needs and obligations
- Reviewing EDC's internal controls and published financial reports for statutory compliance an against standards of best practice and recommending appropriate disclosure to the Board.
- Reviewing reports from management and external auditors, to provide reasonable assurance that control procedures are in place and being followed.
- Reviewing the annual financial statements before submission to the board, focusing particularly on any changes in accounting policies and procedures.

REMUNERATION COMMITTEE

Members:

Ms D Ngoasheng : Chairperson

Mr. P Ucko: Non Executive Director

Mr. M Mokgohloa Executive Director

The Remuneration committee is responsible for directing human resources policy and approving all remuneration arrangements and conditions of service for the Chief Executive

Officer, management and staff. The Executive Director is excluded from the committee when matters relating to his remuneration are discussed. All remuneration in the group is based on performance reviews within the balance score card framework.

PROJECTS COMMITTEE

Members:

Mr. s Gerber : Chairperson

Ms D Ngoasheng: Non Executive Director

Ms Y Ngubo: Property Manager : Executive Director

The Projects Committee is mandated to evaluate all EDC projects and ensure that all new projects conceived are viable.

CONDUCT AND PROBITY

EDC seeks to build and maintain a reputation for high standards of conduct and probity.

ETHICAL CODE OF CONDUCT

It is required by the EDC that employees of the group may not use their authority or office for personal gain and must seek to uphold the good name of EDC by:

- Maintaining unimpeachable standards of honesty and integrity inside and outside the employment relationships
- Fostering the highest standard of professional competence among people for whom they are responsible
- Optimising the use of resources at their disposal maximum benefit to EDC and a customer- directed quality service
- Complying with:
- The requirements of the laws of the country
- Group procurement policy detailed procedures and EDC's values
- The guidance that EDC provides with regard to professional conduct
- Contractual obligations
- Repudiating al business practices that are improper and that are at variance with accepted moral and ethical principles.

EDC BOARD OF DIRECTORS

Ms Daphney Ngoasheng (Chairperson)

Mr. Mokela Michael Mokgohloa
Chief Executive officer
Ekurhuleni Development Company

Mr. Sipho Twala : Board member

Mr. Nazir Kara : Board member

Mr Peter Ucko ; Board member

Mr. Simon Gerber : Board member

EDC AT A GLANCE

REINVESTMENT AND RENEWAL

The EDC has 988 units including two projects from Lethabong Housing Institute, that is the Bedfordview tennis courts project and Standford Gardens Phase III project.
The current total portfolio comprises 988 units

- Capital value of EDC stock at year end June 2006 R 110 Million
- Total rental income year end June 2006 R 13.7 million, 2005 R 12.4 million
- Vacancy levels year end June 2006 1 % average over the year (2005 1%)
- Payments to the Ekurhuleni Metropolitan Municipality, for rates and utility services, year end June 2006 R 1.4 million
- Building maintenance expenditure year end June 2006 R 1.075 million
- (2005 R 902.000)

EDC Development and Sales through Lethabong Housing Institute

Sales of units developed
2006 : R 3365 375
2005: R 21755 790

AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE MEMBER ON THE FINANCIAL STATEMENTS OF THE EKURHULENI DEVELOPMENT COMPANY (PROPRIETARY) LIMITED FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages [ ] to [ ], for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and sections 92 and 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 1512 of 2006, issued in Government Gazette no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ekurhuleni Development Company (Proprietary) Limited at 30 June 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1 to the annual financial statements, and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

5. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Going concern

The company recovered its operating costs from Pharoe Park Housing Company (Pty) Ltd and Germiston Phase II Housing Company (Pty) Ltd. The ability of the company to continue as a going concern was dependant on ongoing funding received from Pharoe Park Housing Company (Pty) Ltd and Germiston Phase II Housing Company (Pty) Ltd.

5.2 Non-compliance with laws and regulations

The previous audit committee consisted of councillors, which contravened the requirements of the MFMA. A new audit committee was subsequently established to comply with the requirements of the MFMA. However, the new audit committee did not function for the year under review since the delays were experienced with the appointment of audit committee members.

In terms of section 165(1) of the MFMA, each municipal entity must have an internal audit unit, subject to section 165(3). Section 165(3) stipulates that such internal audit function may be outsourced. Although the Ekurhuleni Development Company (Proprietary) Limited entered into an agreement with EMM to share the internal audit services for the year under review, the internal audit of EMM did not prepare a risk based audit plan and internal audit program for the Ekurhuleni Development Company (Proprietary) Limited as required by section 165(2) of the MFMA.

5.3 Performance information

In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality. The required performance information was not prepared. The company's internal financial reporting and management processes did not accommodate the compilation of mentioned information.

5.4 Financial management

A number of shortcomings in internal control policies were identified. Financial management capacity constraints contributed to the weaknesses. Furthermore, the following policies did not exist for the year under review:

- Back-up policy
- Recruitment policy
- Performance review policy
- Skills retention plan

6. LATE FINALISATION OF THE AUDIT REPORT

In terms of section 126(3) (b) of the MFMA the Auditor General is required to submit my report to the accounting officer within three months of the receipt of the financial statements. The audit was completed on 31 March 2007 as the Ekurhuleni Development Company (Proprietary) Limited experienced capacity constraints within its financial section and source documents were not timely supplied for audit purposes.

7. APPRECIATION

The assistance rendered by the staff of the Ekurhuleni Development Company (Proprietary) Limited during the audit is sincerely appreciated.

Ms MA Masemola *for* Auditor-General

Johannesburg

31 March 2007

EKURHULENI DEVELOPMENT COMPANY (PTY) LTD
(Registration Number: 2000/007936/07)
ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2006

EKURHULENI DEVELOPMENT COMPANY
ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2006

CONTENTS

APPROVAL

I am responsible for the preparation of these annual financial statements, which are set out on pages 2 to 18, in terms of Section 126(2) of the Municipal Finance Management Act and which I have signed on behalf of the company.

I certify that the salaries, allowances and benefits of the directors and senior management as disclosed in note 13 of these annual financial statements are within the remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this act.

MM Mokgohloa
Chief Executive Officer

Date

EKURHULENI DEVELOPMENT COMPANY
DIRECTORS REPORT
For the year ended 30 June 2006

DIRECTOR'S RESPONSIBILITY

The financial statements set out on page 2 to 18 are the responsibility of the directors.

The directors are responsible for selecting and adopting sound accounting practices to maintain adequate and effective system of accounting for the safequarding of assets. The directors are also responsible for developing and maintaining a system of internal control that, among other things will ensure that the preparation of financial statements achieve fair presentation.

The financial statements have been prepared on a going concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the fore-seeable future. The financial statements have been prepared in accordance with the Statements of Generally Accepted Accounting Practice as it was previous years. The disclosure requirements as per GRAP1, 2 and 3 have also been incorporated in this set of financial statements.

CHANGE OF NAME

The name of the company has changed from Greater Germiston Inner City Housing Corporation Management Services to Ekurhuleni Development Company.

SHAREHOLDING

Ekurhuleni Metropolitan Municipality holds 100% share in the company.

BOARD AND CHIEF EXECUTIVE OFFICER

Non-executive directors:
DM Ngoasheng
SM Twala

Chief Executive Officer:
MM Mokgohloa

PRINCIPAL ACTIVITIES OF EKURHULENI DEVELOPMENT COMPANY

The principal business of the company is to manage the administration of property development companies being Pharoe Park Housing Company, Germiston Phase 2 Housing Company and Lethabong Housing Company.

OPERATING RESULTS

The net loss for the company during the year ending 30 June 2006 is 0 (2005: R99 302).

COMPARATIVE AMOUNTS

Comparative amounts will not be comparable because the current period is 12 month and the prior one is 16 months. The comparative amounts were adjusted to comply with the presentation format. The adjustment has not affected the net results except where indicated and disclosed.

EKURHULENI DEVELOPMENT COMPANY
DIRECTORS REPORT
For the year ended 30 June 2006

REVIEW OF OPERATIONS

Revenue

Ekurhuleni Development Company charge management fee to the two property development companies for services rendered.

REVIEW OF FINANCIAL POSITION

The financial position of Ekurhuleni Development Company is adequately disclosed in the attached financial statements.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

The directors are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which significantly affect the financial position of the organization and the

ADDRESSES

Ekurhuleni Development Company's business, postal and registered addresses are as follows:

Business address/domicile	Postal address	Registered address
No.9 Pharoe Park Germiston 1400	P O Box 1245 Germiston 1400	No.9 Pharoe Park Germiston 1400

CERTIFICATE BY COMPANY SECRETARY

In my capacity as company secretary, I hereby confirm in terms of section 268G(d) of the Companies Act of South Africa 1973 that for the period ended 30 June 2006, the company has lodged with the registrar of companies all such returns as are required of the company in terms of this Act and that all such returns are true and correct.

NM Mphiwe (Company Secretary) ***Date***

EKURHULENI DEVELOPMENT COMPANY
STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2006

	Notes	30/06/2006 R	30/06/2005 R
Operating income		3,168,672	2,719,281
Revenue	2	3,168,650	1,489,780
Other income	3	22	1,229,501
Operating Expenses	4	3,168,672	2,818,583
Staff costs	4.1	2,016,081	2,014,794
General and administration expenses	4.2	1,022,723	778,137
Depreciation	4.3	129,869	25,652
Net loss before tax		-	(99,302)
Taxation	6	-	
Net loss for the year		-	(99,302)

EKURHULENI DEVELOPMENT COMPANY
STATEMENT OF FINANCIAL POSITION
As at 30 June 2006

	Notes	30/06/2006 R	30/06/2005 R
ASSETS			
Non- current assets			
Property, Plant and Equipment	**5**	340,811	419,413
Current assets		19,128	19,472
Trade and other receivables	**7**	18,378	18,050
Cash and cash equivalents	**13**	750	1,422
Total assets		359,939	438,885
EQUITY AND LIABILITIES			
Capital and reserves		(102,441)	(102,441)
Share capital	**8**	100	100
Accumulated loss		(102,541)	(102,541)
Non-current liabilities			
Leave provision	9	86,220	-
Current liabilities		376,159	541,325
Trade and other payables	**10**	82,572	122,823
Amount owing to related companies	**11**	280,283	408,389
Bank overdraft	**13**	13,304	10,113
Total equity and liabilities		359,939	438,885

EKURHULENI DEVELOPMENT COMPANY
STATEMENT OF CHANGE IN NET ASSETS
For the year ended 30 June 2006

	Share capital	Accumulated loss	Total
	R	R	R
Balance at 1 March 2004	100	(3,239)	(3,139)
Net loss for the period	-	(99,302)	(99,302)
Balance at 1 July 2005	100	(102,541)	(102,441)
Net loss for the year	-	-	-
Balance at 30 June 2006	100	(102,541)	(102,441)

EKURHULENI DEVELOPMENT COMPANY
CASH FLOW STATEMENT
For the year ended 30 June 2006

	Notes	30/06/2006 R	30/06/2005 R
Cash flows from operating activities			
Cash receipts from customers		3,296,756	2,994,998
Cash paid to suppliers and employees		(3,121,268)	(2,559,345)
Cash generated from operating activities	12	175,488	435,653
Interest received		22	167
Net cash flows from operating activities		175,510	435,820
Cash flows utilised in investing activities			
Additions to property, plant and equipment	5	(51,267)	(445,065)
Cash flows from financing activities			
Decrease in amounts owing to related companies		(128,106)	-
Net decrease in cash and cash equivalents		(3,863)	(9,245)
Cash and cash equivalents at beginning of period		(8,691)	554
Cash and cash equivalents at end of period	13	(12,555)	(8,691)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

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

Standard of GRAP	Replace Statement of GAAP
GRAP1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP2: Cashflow statements	AC118: Cashflow statements
GRAP3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or resulted in material difference in items presented and disclosed in the financial statements.

The annual financial statements are presented in South African Rand.

1.2 Comparative figures

Where necessary, comparative figures have been adjusted to conform with the changes in the presentation of the current financial statement.

1.3 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 an asset over its estimated useful life, using the straight line method on the following basis:

Computer Equipment and Software	33.33%
Office Equipment	33.33%
Furniture and Fittings	20%
Motor Vehicles	20%

1.4 Impairment of assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another statement, in which case the impairment loss is treated as a revaluation decrease under the statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediatetly, unless asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under the other Standard.

1.5 Provisions

Provisions are recognized when the company has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated.

1.6 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

1.7 Financial instruments

<u>Recognition</u>

Financial assets and financial liabilities are recognized on the balance sheet when the company has become a party to contractual provisions of the instrument.

<u>Measurement</u>

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

<u>Financial Assets</u>

The company's principal financial assets are investments and loans, accounts receivable and cash and cash equivalents.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Investments:

The following categories of investments are measured at subsequent reporting dates at amortized cost by using the effective interest rate method if they have a fixed maturity, or at cost if there is no fixed maturity:
- Loans and receivables originated by Greater Germiston Inner City Housing Corporation (Pty) Ltd;
- Held-to-maturity investments;

Cost and amortized cost are inclusive of any impairment loss recognized to reflect irrecoverable amounts. The financial assets are subject to review for impairment at each balance sheet date.

Trade and other receivables

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which thev arise.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Financial liabilities

Greater Germiston Inner City Housing Corporation (Pty) Ltd's principal financial liabilities are accounts payable and bank overdraft.

1.8 Revenue Recognition

Revenue is recognized when it is probable that future economic benefits will flow to the company and these benefits can be measured reliably.

Revenue comprises grants and management fees.

Grants are recognised at fair value when there is reasonable assurance that the conditions attached to them will be complied with and the grant will be received. Grants are recognised as income over the periods necessary to match them to the related costs on a systematic basis.

Investment income

Interest income is accrued on a time proportionate basis taking into account the principal investment and the effective interest rate.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.9 Taxation

The charge for current tax is the amount of income taxes payable in respect of the taxable profit (tax loss) for the current period. It is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the taxable temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary differences arise from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are set-off 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.

1.10 Retirement benefits costs - Provident Fund

The provident fund is a defined contribution fund. The entity contributes to the provident fund on the basis of a fixed contribution. This fund does not require an actuarial valuation.
Current contributions to the provident fund operated for the benefit of employees are charged against income as incurred.

1.11 Events after balance sheet date

All adjustments events, both favourable and unfavourable, that occur between balance sheet date and the date when the financial statements are issued have been reported and adjusted in the financial statements.

		30/06/2006	30/06/2005
		R	R
2.	Operating income	3,168,650	1,489,780
	Management fee received - Pharoe Park	1,411,140	671,192
	Management fee received - Phase II	1,757,510	818,588
3.	Other Income	22	1,229,501
	Council Support Received	-	626,334
	Capacity Grant from GPF	-	603,000
	Interest on current account	22	167
4.	Operating expenses	3,168,672	2,818,583
4.1	Staff costs	2,016,081	2,014,794
	Provident fund	106,470	113,713
	Other staff costs	1,885,611	1,878,777
	Director's remuneration	24,000	22,304
4.2	General and administration expenses	1,022,723	778,137
	Auditors' fees	33,098	87,995
	Communication costs	199,501	231,500
	Consulting fees	45,082	43,523
	Equipment rental - operating lease	104,920	93,680
	Equipment rental consumable - operating lease	18,347	19,671
	IT expenses	40,178	39,619
	Travel and accommodation	47,322	21,797
	Other expenses	534,274	240,353
4.3	Depreciation	129,869	25,652

5. Property, plant and equipment

	Motor vehicles	Furniture and Fittings	Computer equipment	Computer software	Office equipment	Total
Cost						
At beginning of the period 1/07/2005	117,957	99,495	83,842	133,284	10,487	445,065
Additions		12,997	36,970		1,300	51,267
At the end of the year 30/06/2006	117,957	112,492	120,812	133,284	11,787	496,332
Accumulated depreciation						
At beginning of the year 1/07/2005	5,626	4,086	14,754	271	915	25,652
Depreciation for current year	23,592	21,882	36,438	44,424	3,535	129,869
At the end of the period 30/06/2006	29,218	25,967	51,191	44,695	4,450	155,521
Net book value	88,739	86,525	69,621	88,589	7,337	340,811
Cost						
At beginning of period 1/03/2004	-	-	-	-	-	-
Additions	117,957	99,495	83,842	133,284	10,487	445,065
At end of period 30/06/2005	117,957	99,495	83,842	133,284	10,487	445,065
Accumulated depreciation						
At beginning of period 1/03/04						
Depreciation for the period	5,626	4,086	14,754	271	915	25,652
At end of period 30/06/2005	5,626	4,086	14,754	271	915	25,652
Net book value	112,331	95,409	69,088	133,013	9,572	419,413

		30/06/2006	30/06/2005
6.	Taxation	R	R
	Taxation is not provided for because the company has been experiencing losses.		
7.	TRADE AND OTHER RECEIVABLES		
	Other receivables	18,378	18,050
	The directors consider that the carrying amount of trade and other receivables approximate to their fair value.		
8.	Share Capital		
	100 authorised and issued share capital of at R1.00 each	100	100
9.	Leave provision		
	Balance at beginning of year	0	0
	Contributions to leave provision	86,220	0
	Leave provision utilised during year	0	0
	Balance at end of year	86,220	0
10.	Trade and other payables	82,572	122,823
	Sundry creditors	19,394	13,948
	Audit fee	-	65,000
	Other accruals	37,936	41,072
	Payroll accruals	25,242	2,803
	The directors consider that the carrying amount of trade and other payables approximates to their fair value.		
11.	Amount owing to related companies	280,283	408,389
	GGICHC - Pharoe Park	128,534	242,062
	GGICHC - Phase II	151,749	166,327

12. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO DEFICIT	30/06/2006 R	30/06/2005 R
Operating loss	-	(99,302)
Non-cash movements:		
- Provision for audit fees	-	65,000
- Creation of leave provision	86,220	-
- Interest received	(22)	(167)
- Depreciation	129,869	25,652
Operating cash flows before movements in working capital	216,067	(8,817)
(Increase) / Decrease in receivables	(328)	291,952
(Decrease) / Increase in payables	(40,251)	152,518
Net cash flows from operating activities	175,488	435,653

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks, investments in money market instruments and bank overdrafts. Cash and cash equivalents included in the cash flow statement comprises the following balance sheet amounts:

Bank overdraft	(13,304)	(10,113)
Petty cash	750	1,422
	(12,554)	(8,691)

	30/06/2006	30/06/2005
14. DIRECTORS AND SENIOR MANAGERS REMUNERATION	R	R
Directors remuneration	24,000	22,304
A Kruger	-	8,683
S Twala	12,000	9,121
D Ngoasheng	12,000	4,500

Senior Managers remuneration

	Salary	Benefits	Total 2006	Total 2005
Acting CEO's (July'05 - March'06)	180,000		180,000	267,350
CEO (April'06 - June'06)	116,250	8,750	125,000	176,486
Financial Manager	263,327	29,305	292,632	348,538
Property Manager (Feb'06 - June'06)	91,667	6,417	98,083	
	651,244	44,472	695,715	792,374

15. OPERATING LEASE CHARGES

At the balance sheet date the company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	30/06/2006	30/06/2005
Operating lease charges - Nashua	63,457	140,488
- Laptops	38,219	84,620
- Photocopy machine	25,238	55,868

The lease agreement for Laptops and photocopy is for three years beginning 1 May 2004 to 30 April 2007.

	30/06/2006	30/06/2005
	R	R

16. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities are disclosed when a possible obligation arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events.

17. FINANCIAL INSTRUMENTS

The company's financial instruments consists mainly of accounts receivable and accounts payable.

18. RELATED COMPANIES TRANSACTIONS

	30/06/2006 R	30/06/2005 R
Erkurhuleni Metropolitan Municipality - RSC levy	12,707	18,908
- Water and lights	8,750	-
GGICHC Pharoe Park - Management fees	1,411,140	671,192
GGICHC Phase II - Management fees	1,757,510	818,588

19. FINANCIAL INSTRUMENTS

Treasury risk management

Exposure to interest rate and credit risk arises in the normal course of the company's business.

Interest rate risk - The company adopts a policy of ensuring that its borrowings are at market related rates to address its interest rate risk.

Credit risk - Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Reputable financial institutions are used for investing and cash handling purposes. At balance sheet date there were no significant concentrations of credit risk.

Foreign currency management

In terms of the company policy, all material foreign loans are covered by foreign exchange contracts.

Fair values

The fair value of all financial instruments are substantially identical to the carrying values reflected in the balance sheet.

APPENDIX A

EKURHULENI DEVELOPMENT COMPANY

ACTUAL VS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2006

	Actual	Budgeted	Variance	Variance (%)
	2006	2006	2006	2006
REVENUE	R	R	R	R
Management fees	3,168,650	2,404,369	(764,281)	-32
Interest received	22	97,500	97,478	100
Total revenue	3,168,672	2,501,869	(666,803)	-27
EXPENDITURE				
Employees related costs - Salaries and Wages	1,885,611	2,803,046	917,435	33
Employees related costs - Contributions	106,470	295,894	189,424	64
Employees related costs - Training and recruitment	74,860	191,326	116,466	61
Audit Fee	33,098	52,500	19,402	37
Cleaning expenses	2,670	291,552	288,882	99
Computer expenses	40,177	32,400	(7,777)	(24)
Consulting fees	45,082	80,092	35,010	44
Depreciation	129,869	864,000	734,131	85
Directors emoluments	24,000	168,000	144,000	86
General expenses	94,977	95,856	879	1
Equipment Maintenance	18,347	14,256	(4,091)	(29)
Electricity and Water	12,707	642,996	630,289	98
Insurance	41,537	105,552	64,015	61
Lease rentals	104,920	72,000	(32,920)	(46)
Legal expenses	32,302	248,880	216,578	87
Levies	8,750	39,777	31,027	78
Motor vehicle expenses	23,493	41,146	17,653	43
Office Rental	180,000	450,120	270,120	60
Printing and stationery	35,262	25,232	(10,030)	(40)
Repairs and maintenance	41,039	765,360	724,321	95
Security	18,112	660,000	641,888	97
Seminars and Workshops	15,888	55,200	39,312	71
Telephone and internet costs	199,502	188,400	(11,102)	(6)
Total expenditure	3,168,672	8,183,585	5,014,913	61
NET DEFICIT FOR THE YEAR	-	(5,681,716)	(5,681,716)	100

AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS ON THE FINANCIAL STATEMENTS OF THE PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages [ ] to [ ], for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and sections 92 and 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 1512 of 2006, issued in Government Gazette no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1 to the financial statements.

4. AUDIT OPINION

In my opinion the financial statements present fairly, in all material respects, the financial position of the Pharoe Park Housing Company (Proprietary) Limited at 30 June 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1 to the annual financial statements, and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

5. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Going concern

The ability of the company to continue as a going concern was dependant on ongoing funding from the Ekurhuleni Metropolitan Municipality (EMM) and the Gauteng Partnership Fund. The company's main business is to supply residential accomodation at low rental rates to qualifying tenants. These tenants did not honour financial commitments towards the company. As a result, the company incurred operating losses.

5.2 Non-compliance with Municipal Finance Management Act (MFMA)

The company's previous audit committee consisted of councillors, which contravened the requirements of the MFMA. A new audit committee was subsequently established to comply with the requirements of the MFMA. However, the audit committee did not consider the affairs of the company during the period under review. Only ad-hoc projects were conducted during the year under review.

In terms of section 165(1) of the MFMA, each municipal entity must have an internal audit unit, subject to section 165(3). Section 165(3) stipulates that such internal audit function may be outsourced. Although the Pharoe Park Housing Company (Proprietary) Limited entered into an agreement with EMM to share the internal audit services for the year under review, the internal audit of EMM did not prepare a risk based audit plan and internal audit program for the Pharoe Park Housing Company (Proprietary) Limited as required by section 165(2) of the MFMA.

5.3 Enforcement of rental and letting criteria

Documents to support that residential units were allocated to qualifying tenants in terms of the rental and letting criteria could not be submitted for audit in certain instances. This caused uncertainty whether tenants qualified to occupy units as stipulated in the rental and letting criteria. Document management controls were not always adhered to.

5.4 Performance information

In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality. The required performance information was not prepared. The company's internal financial reporting and management processes did not accommodate the compilation of mentioned information.

5.5 Late finalisation of the audit report

In terms of section 126(3)(b) of the MFMA I am required to submit my report to the accounting officer within three months of the receipt of the financial statements. The audit was delayed due to the fact that the Pharoe Park Housing Company (Proprietary) Limited experienced capacity constraints within their financial section and source documents were not timely supplied for audit purposes.

6. APPRECIATION

The assistance rendered by the staff of the Pharoe Park Housing Company (Proprietary) Limited during the audit is sincerely appreciated.

Ms MA Masemola *for* Auditor-General

Johannesburg

26 April 2007

PHAROE PARK HOUSING COMPANY (PROPRIATORY) LIMITED

(Registration Number :1997/016085/07)

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

CONTENTS

APPROVAL

I am responsible for the preparation of these annual financial statements, which are set out on pages 2 to 20, in terms of Section 126(2) of the Municipal Finance Management Act and which I have signed on behalf of the company.

MM Mokgohloa
Chief Executive Officer

Date

PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED
DIRECTORS REPORT
FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORS' RESPONSIBILITY

The financial statements set out on pages 2 to 20 are the responsibility of the directors.

The directors are responsible for selecting and adopting sound accounting practices to maintain adequate and effective system of accounting records for the safequarding of assets. The directors are also responsible for developing and maintaining a system of internal control that, among other things will ensure that the preparation of financial statement achieve fair presentation.

The financial statements have been prepared on a going concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the fore-seeable future. The financial statements have been prepared in accordance with the Statements of Generally Accepted Accounting Practice as it was previous years. The disclosure requirements as per GRAP1, 2 and 3 have also been incorporated in this set of financial statements.

The directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosure in the annual financial statements.

SHAREHOLDING

Ekurhuleni Metropolitan Municipality	93%
Gauteng Partnership Fund	7%

BOARD AND CHIEF EXECUTIVE OFFICER

Non-Executive directors:
DM Ngoasheng
S M Twala

Chief Executive Officer
MM Mokgohloa

Acting Chief Executive Officer
SH Mare' - Resigned 31 March 2006

MAIN BUSINESS AND OPERATIONS

The company owns and manage properties to provide affordable residential accommodation in the inner city of Germiston and around Ekurhuleni Metropolitan Municipality.

OPERATING RESULTS

The net profit for the company during the year ending 30 June 2006 is R130 769 (2005: R1 581 772 (16 months)).

COMPARATIVE AMOUNTS

Comparative amounts will not be comparable because the current period is 12 month and the prior one is 16 months. Where necessary comparative amounts were adjusted to comform with the changes in the presentation of the current financial period. The adjustment has not affected the net results except were indicated and disclosed.

REVIEW OF OPERATIONS

Revenue

Revenue is generated by the rental charged to the tenants occupying units in Pharoe Park properties.

REVIEW OF FINANCIAL POSITION

The financial position of Pharoe Park Housing Company is adequately disclosed in the attached financial statements.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

The directors and management are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which significantly affect the financial position of the organization and the results of its operations.

ADDRESSES

The company's business, postal and registered addresses are as follows:

Business address/domicile	Postal address
Shop no.9 Pharoe Park	P O Box 1245
Germiston	Germiston
1400	1400

CERTIFICATE BY COMPANY SECRETARY

In my capacity as company secretary, I hereby confirm in terms of section 268G(d) of the Companies Act of South Africa 1973 that for the period ended 30 June 2006, the company has lodged with the registrar of companies all such returns as are required of the company in terms of this Act and that all such returns are true and correct.

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MM Mokgohloa (Acting Company Secretary)

PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 R 12 months	2005 R 16 months
Operating Income	2	6,368,234	9,220,146
Rental income from investment property	2.1	5,906,327	7,182,227
Deferred income on asset-based government grants recognised during the year		37,420	37,420
Other operating income	2.2	424,487	2,000,499
Operating Expenses	3	(4,557,491)	(5,199,820)
Depreciation	3.1	(444,298)	(549,330)
Operating expenses	3.2	(4,113,193)	(4,650,490)
Profit from Operations		1,810,743	4,020,326
Finance cost	4	(1,679,974)	(2,438,555)
(Loss) / Profit before tax		130,769	1,581,772
Taxation	5	-	-
Net Profit for the period		130,769	1,581,772

PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2006

	Notes	2006 R	2005 R
ASSETS			
Non-current assets		18,866,578	19,310,876
Property plant and equipment	6	529,993	583,321
Investment property	7	18,336,585	18,727,555
Current assets		4,231,868	5,108,999
Trade and other receivables	8	313,236	210,909
Amount owing by group companies	9	128,534	242,062
Cash and cash equivalents	10	3,790,097	4,656,028
Total assets		23,098,445	24,419,875
EQUITY AND LIABILITIES			
Capital and reserves		1,814,005	1,683,237
Share capital	11	107	107
Share premium	12	3,999,993	3,999,993
Accumulated loss		(2,186,095)	(2,316,863)
Non-current liabilities		18,310,496	19,281,727
Shareholders loan	13	1,869,561	1,707,362
Interest bearing borrowings	14	14,040,227	15,143,702
Rental deposits	15	903,908	896,443
Deferred income	16	1,496,800	1,534,220
Current liabilities		2,973,942	3,454,911
Trade and other payables	17	944,843	1,669,590
Amount owing to group companies	18	446,287	202,509
Current portion of interest bearing borrowings	19	1,545,392	1,545,392
Deferred income	16	37,420	37,420
Total equity and liabilities		23,098,445	24,419,875

PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Share Capital	Share Premium	Accumulated Profit / (Loss)	Total
		R	R	R	R
Balance 01 March 2004		100	0	(4,160,575)	(4,160,475)
Adjustment of errors in prior periods	20			261,940	261,940
Restated balance		100	0	(3,898,635)	(3,898,535)
Shares issued during period		7			7
Share premium on shares issued during period			3,999,993		3,999,993
Net profit for the period (restated) (16 months)				1,581,772	1,581,772
Balance at 1 July 2005		107	3,999,993	(2,316,863)	1,683,237
Net profit for the year		-	-	130,769	130,769
Balance at 30 June 2006		107	3,999,993	(2,186,095)	1,814,005

PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 R 12 months	2005 R 16 months
Cash flows from operating activities			
Cash receipts from customers		5,697,752	9,912,967
Cash paid to suppliers and employees		(4,334,051)	(6,136,863)
Cash generated from operating activities	21	1,363,701	3,776,104
Interest received		205,438	170,051
Finance cost		(1,593,124)	(2,438,555)
Net cash flows from operating activities		(23,985)	1,507,601
Cash flows from investing activities			
Additions to property,plant and equipment		0	(434,805)
Decrease / (Increase) in amounts owing by group companies		113,529	(319,186)
Net cash flows from / (utilised in) investing activities		113,529	(753,991)
Cash flows from financing activities			
Increase in share capital		-	7
Increase in share premium		-	3,999,993
Increase in shareholders loan		-	3,500,000
Decrease in long-term liabilities		(1,103,475)	(4,111,613)
Increase in rental deposits		7,465	
Increase / (Decrease) in amounts owing to group companies		140,535	(284,248)
Net cash flows (used in) / from financing activities		(955,475)	3,104,139
Net (decrease) / increase in cash and cash equivalents		(865,931)	3,857,749
Cash and cash equivalents at beginning of period		4,656,028	798,279
Cash and cash equivalents at end of the period	10	3,790,097	4,656,028

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Presentation of annual financial statements

interpretations such Statements issued by the Accounting Practices Board, the prescribed Standards of Generally Recognised Accounting Practice (GRAP) and the South African Companies Act, 1973 (Act No. 61 of 1973), with the prescribed GRAP issued by the Accounting Standard Board replacing the equivalent SA

Standard of GRAP	**Replaced Statement of SA GAAP**
GRAP1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP2: Cash flow statements	AC118: Cash flow statements
GRAP3: Accouting policies, changes in accounting	AC103: Accounting policies, changes in accounting
estimates and errors	estimates and errors

The annual financial statements are based upon appropriate policies consitently applied with the previous financial year and supported by reasonable and prudent judgements and estimates.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments, revenue and expenses at fair value and incorporate the principal accounting policies set out below.

Since the company changed its financial year to agree with the year end of the parent municipality of 30 June, the comparative figures represent a period of 16 months.

The annual financial statements are presented in the currency of the South African Rand.

1.2 Significant judgements

financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment testing

Management used the fair value less cost to sell to determine the recoverable amount of investment property that may have been impaired.

Allowance for doubtful debts

difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial instruments

Refer to accounting policy note 1.8 for details.

1.3 Revenue

1.3.1 Recognition and measurement

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 reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

a) the amount of revenue can be measured reliably;
b) it is probable that the economic benefits associated with the transaction will flow to the company;
c) the stage of completion of the transaction at the reporting date can be measured reliably; and
d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business.

1.3.2 Rental income

Rental income comprises rental charged on investment properties. Rentals are charged at lower rates than the market because the institution receive subsidies for the development of the properties to accommodate lower income group.

1.3.3 Government grants

Government grants are recognised as deferred income when there is reasonable assurance that:

a) the company will comply with the conditions attached to the government grant, and
b) the government grant will be received.

Government grants are recognised as income on a systematic basis over periods necessary to match the grants with the related costs which 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 on the land. Since this government grant was not previously recognised at date of transfer of the land to Phase 2, this transaction represents the correction of a prior-year error as fully disclosed in note 20.

1.3.4 Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

1.4 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.5 Tax

1.5.1 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 deductable in other years and it further excludes items that are never taxable or tax deductable.

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 reporting date.

1.5.2 Deferred tax assets and liabilities

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

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

Deferred tax assets and liabilites are offset when there is a legally enforceable 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 deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

a) is not a business combination; and
b) at the time of the 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 profit 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.

1.5.2 Deferred tax assets and liabilities (Continued)

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:
   i) is not a business combination; and
   ii) at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

1.5.3 Tax expenses

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 net assets, or
b) a business combination.

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

1.6 Property

1.6.1 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%

1.6.2 Investment Property

All fixed property held to earn rentals is classified as investment property.

Investment property is recognised as an asset when:

a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity, and
b) the cost of the investment property can be measured reliably.

Investment property is accounted for by means of the cost model (cost less government subsidy received on developments, accumulated depreciation and impairment losses). The buildings are depreciated over the estimated useful life at 2% per annum using the straight-line method. Land is not depreciated.

1.7 Impairment of assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting statement, in which case the impairment loss is treated as a revaluation decrease under mentioned accounting statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediatetly, unless asset is carried at a revalued amount under another accounting statement, in which case the reversal of the impairment loss is treated as a revaluation increase under the other mentioned accounting statement.

1.8 Financial instruments

1.8.1 Initial 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.

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

1.8.2 Trade and other receivables

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset 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.

1.8.3 Amount owing by group companies, shareholders loan and interest-bearing borrowings

These 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 surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the 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 loans 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 loan at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

1.8.4 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.

1.8.5 Trade and other payables

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

1.9 Deferred income

Refer to accounting policy note 1.3.3 for details in this regard.

1.10 Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice on a basis consistent with the prior year.

		2006 R 12 months	2005 R 16 months
2.	OPERATING INCOME		
2.1	Rental income from investment property:		
	Gross levies against tenant accounts	6,064,151	7,274,009
	Attributable to carrying of revenue at fair value	(30,243)	(17,560)
	Attributable to discounting of trade and other receivables	(127,581)	(74,222)
		5,906,327	7,182,227
2.2	Other Income:		
	Admin fees	3,700	18,800
	Interest received	309,903	187,611
	Gross interest received	205,438	170,051
	Attributable to carrying of revenue at fair value	30,243	17,560
	Attributable to discounting of trade and other receivables	74,222	
	Recoveries	7,641	1,450
	Gain on receipt of shareholders loan carried at amortised cost		1,792,638
	Gain on discounting of inter-company payables carried at amortised cost	103,243	
		424,487	2,000,499
3.	OPERATING EXPENSES		
3.1.	Depreciation:		
	Furniture and Fittings	53,328	28,033
	Investment property buildings	390,970	521,297
		444,298	549,330
3.2.	Other operating expenses		
	Audit fees	104,789	137,215
	- Provision for current fee	-	91,000
	- Expense	104,789	46,215
	Direct operating expenses - investment property that generated rental income	3,886,756	3,504,456
	Contract services	724,376	889,429
	- Cleaning and gardening	129,924	88,000
	- Security services	594,452	801,429
	Rates, Electricity & Water	1,041,655	1,453,242
	Management Fee	1,411,140	671,192
	Other directly attributable expenses	210,712	-
	Repairs and maintenance	498,872	490,593
	Other expenses	121,648	1,008,819
		4,113,193	4,650,490
4.	FINANCE COSTS		
	Finance costs	1,593,124	2,438,555
	Attributable to carrying of shareholder's loan as amortised cost	162,199	-
	Attributable to discounting of trade and other payables	(75,349)	-
		1,679,974	2,438,555

5. TAXATION

No provision has been made for taxation because the company previously operated at a loss, which SARS recognised for income tax purposes.

A deferred tax asset has not been recognised since it is uncertain whether future taxable profits will be available against which the assessed loss can be utilised.

6. PROPERTY, PLANT AND EQUIPMENT

	Renovations/ Refurbishment	Recreational Grounds	Furniture and Fittings	Computer Equipment	Office Equipment	Other Fixed Assets	Total
	R	R	R	R	R	R	R
AT 30 JUNE 2006							
Cost							
At beginning of period	472,805	124,063	126,017	37,360	2,405	11,426	774,076
Additions	-	-	-	-	-	-	-
At end of the period	472,805	124,063	126,017	37,360	2,405	11,426	774,076
Accumulated depreciation							
At beginning of period	5,094	11,193	123,277	37,360	2,405	11,426	190,755
Depreciation for current period	47,280	3,308	2,740	-	-	-	53,328
At end of period	52,374	14,501	126,017	37,360	2,405	11,426	244,083
Net book value	420,431	109,562	-	-	-	-	529,993
AT 30 JUNE 2005							
Cost							
At beginning of year	38,000	124,063	126,017	37,360	2,405	11,426	339,271
Additions	434,805	-	-	-	-	-	434,805
At end of the year	472,805	124,063	126,017	37,360	2,405	11,426	774,076
Accumulated depreciation							
At beginning of year	0	7,885	106,475	34,531	2,405	11,426	162,722
Depreciation for current period	5,094	3,308	16,802	2,829	-	-	28,033
At end of period	5,094	11,193	123,277	37,360	2,405	11,426	190,755
Net book value	467,711	112,870	2,740	-	-	-	583,321

7. INVESTMENT PROPERTY

	Land value	Development Cost	Accumulated Depreciation	Net Value
	R	R	R	R
Balance at 1 March 2004	1,871,000	19,548,641	(2,170,789)	19,248,852
Depreciation for the period (16 months)			(521,297)	(521,297)
Balance at 1 July 2005	1,871,000	19,548,641	(2,692,086)	18,727,555
Depreciation for the year			(390,970)	(390,970)
Balance at 30 June 2006	1,871,000	19,548,641	(3,083,056)	18,336,585

Land value and development cost are assets acquired for the purpose of generating rental income and meeting housing delivery needs. The property was developed in 1998 with 440 units.

Development cost is reduced by R11 243 000, being government subsidies received on developments in 1999.

The net carrying amount of investment property previously excluded the value of land. The land value has now been recognised to comply with the accounting treatment requirements of IAS 40 on investment property. The land is brought to book at the cost price as reflected by the parent municipality's records; this represents a transgression of IAS40 which states that asset-based government grants should initially be recognised at fair value. This deviation from IAS40 is due to the fact that a valuation was not performed on the land at date of transfer. This therefore represent a prior period error which has now been rectified. Refer to note 20 for additional details.

No additions or disposals, other than the disclosed development costs, occurred on the investment property. Impairment losses have also not been recognised against the investment property.

Fair value of investment property amounting to R48 450 000 was determined on 22 June 2006 by an independent sworn property appraiser based on most recent prices achieved in arms length transactions of similar properties in the area.

	2006	2005
	R	R
8. TRADE AND OTHER RECEIVABLES		
Trade and other receivables at amortised cost	949,422	636,382
Gross receivables	1,077,003	710,604
Attributable to discounting of trade and other receivables	(127,581)	(74,222)
Less:Provision for bad debts	(636,186)	(425,473)
	313,236	210,909
9. AMOUNT OWING BY GROUP COMPANIES		
Management Services	128,534	242,062
10. CASH AND CASH EQUIVALENTS		
Current account	296,925	2,752
Deposit account	3,493,172	4,653,276
	3,790,097	4,656,028

Cash and cash equivalents consist of cash on hand and balances with banks, investments in money market instruments and overdrafts.

	2006 R	2005 R
11. SHARE CAPITAL		
Authorized:		
5 000 Ordinary shares @ R1 each	5,000	5,000
Issued:		
107 Ordinary shares @ R1 each	107	107
12. SHARE PREMIUM		
Share premium	3,999,993	3,999,993

Gauteng Partnership Fund invested R4,000,000.00 to acquire 7.5% shareholding in the company in February 2005. Seven (7) new shares to a nominal amount of R1.00 per share and share premium of R3,999,993.00 was issued.

13. SHAREHOLDERS LOAN

	2006 R	2005 R
Loan received from the Gauteng Partnership Fund at nominal amount	1,707,362	3,500,000
Less: Gain on receipt of loan		(1,792,638)
Add: Interest expense recognised	162,199	
Loan balance stated at amortised cost	1,869,561	1,707,362

The loan from Gauteng Partnership Fund is interest free and repayable by equal instalments of R700 000.00 annually from the 1st of February 2011. The loan was received in February 2005 when GPF acquired 7.5% shareholding.

14. INTEREST BEARING BORROWINGS

	Opening Balance	Capital Payment	Interest Adjustment	Closing Balance	2005
Loan -Woonconcept @ 5% interest	218,490		6,712	225,202	218,490
Unsecured loan-NHFC @ 7.68% interest	6,398,745	(800,760)	(41,809)	5,556,176	6,398,745
Secured loan-NHFC @ 10.5% interest	8,526,467	(694,632)	427,013	8,258,849	8,526,467
	15,143,702	(1,495,392)	391,917	14,040,227	15,143,702

The initial loan of R500 000.00 from Stiching Woonconcept will be paid back in 10 equal instalments per annum commencing on 01 December 2001 and ending 01 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.

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%

The NHFC secured loan is secured with a First Continuous Covering Mortgage Bond for R12 300 000 over the 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 interest was negotiated and changed effect from 1 February 2005 to 10.5% being prime less 1%.

15. RENTAL DEPOSITS

	2006 R	2005 R
Debtors deposit control account carried at cost	903,908	896,443

	2006	2005
	R	R

16. DEFERRED INCOME

Asset-based government grants pertaining to land received:

	2006	2005
Deferred grant income	1,534,220	1,571,640
Less: Deferred grant income to be recognised in the following financial year	(37,420)	(37,420)
Deferred grant income to be recognised in future accounting periods	1,496,800	1,534,220

17. TRADE AND OTHER PAYABLES

	2006	2005
Suppliers	269,446	168,707
Electricity and rates	436,809	943,342
Gross payables	512,158	943,342
Attributable to discounting of electricity and rates	(75,349)	-
Debtors with credit balances	215,566	201,791
Provision for audit fee	-	91,000
Other accruals	23,022	264,750
	944,843	1,669,590

18. AMOUNT OWING TO GROUP COMPANIES

	2006	2005
Phase 2		
Gross amount outstanding	549,530	202,509
Attributable to discounting	(103,243)	-
	446,287	202,509

19. CURRENT PORTION OF INTEREST BEARING BORROWINGS

	2006	2005
NHFC loan annual expected capital payments (R124 616 x 12)	1,495,392	1,495,392
Woonconcept annual expected payment	50,000	50,000
	1,545,392	1,545,392

20. PRIOR PERIOD ERRORS

Impact on financial year ended 30 June:	2005	Before 2005
Accumulated loss as previously disclosed as at 1 March 2004		(4,160,575)
Net loss for the year ended 30 June 2005 as previously disclosed (16 months)	(174,061)	
Prior period errors consist of the following:		
Attributable to the discounting of trade receivables	(74,222)	
Government grants not previously recognised	37,420	261,940
Attributable to carrying the shareholder's loan at amortised cost	1,792,638	
Restated accumulated loss as at 1 March 2004		(3,898,635)
Net profit for the year ended 30 June 2005 (16 months)	1,581,772	

	2006 R 12 months	2005 R 16 months
21. CASH GENERATED FROM OPERATIONS		
Net (Loss) / Profit	130,769	1,581,772
Adjustments for:		
Deferred income on asset-based government grants recognised during the year	(37,420)	(37,420)
Attributable to discounting of trade and other receivables	53,359	74,222
Gain on receipt of shareholders loan carried at amortised cost		(1,792,638)
Gain on discounting of inter-company payables carried at amortised cost	103,243	
Depreciation	444,298	549,330
Bad debts provision	210,712	(422,624)
Bad debts write-off	-	965,709
Provision for audit fee	-	91,000
Interest received	(309,903)	(187,611)
Journal adjustment	30,242	17,560
Finance Costs		
Finance costs	1,593,124	2,438,555
Attributable to carrying of shareholder's loan as amortised cost	162,199	-
Attributable to discounting of trade and other payables	(75,349)	-
Operating cash flows before movements in working capital	2,305,275	3,277,854
Increase in accounts receivable	(292,175)	(47,521)
(Decrease) / Increase in accounts payable	(649,398)	545,771
	1,363,701	3,776,104

22. RELATED PARTY AND RELATED PARTY TRANSACTIONS

Relationships

Parent Municipality	Ekurhuleni Metropolitan Municipality	
Fellow companies	Ekurhuleni Development Company (Proprietary) Limited	Providing administrative services to Pharoe Park
	Germiston Phase 2 Housing Company (Proprietary) Limited	Nature of business similar to that of Pharoe Park

Purchases from related parties

	2006	2005
Ekurhuleni Development Company (Proprietary) Limited:		
- Management fees paid	1,411,140	671,192
Ekurhuleni Metropolitan Municipality:		
- RSC levy paid	10,878	47,756
- Rates, electricity and water paid	1,041,655	1,453,242
	1,052,533	1,500,998

APPENDIX A
PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED
ACTUAL VS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2006

	Actual 2006	Budgeted 2006	Variance (R) 2006	Variance (%) 2006
REVENUE				
Rental income from investment property	5,906,327	9,655,953	(3,749,626)	(39)
Gross levies against tenant accounts	6,064,151			
Attributable to carrying of revenue at fair value	(30,243)			
Attributable to discounting of trade and other receivables	(127,581)			
Deferred income on asset-based government grants recognised	37,420			
Administration fees	3,700	15,600	(11,900)	(76)
Interest received	309,903	307,720	2,183	1
Gross interest received	205,438			
Attributable to carrying of revenue at fair value	30,243			
Attributable to discounting of trade and other receivables	74,222			
Recoveries	7,641	72,000	(64,359)	(89)
Gain on discounting of inter-company payables carried at amortised cost	103,243			
Total Revenue	6,368,234	10,051,273	(3,683,039)	(37)
EXPENDITURE				
Bad Debts Provision	210,712	793,114	(582,402)	(73)
General expenses	53,072	93,434	(40,362)	(43)
Management fees	1,411,140	1,169,340	241,800	21
Audit fees	32,854	71,831	(38,977)	(54)
Cleaning	139,613	485,000	(345,387)	(71)
Depreciation	444,298	884,304	(440,006)	(50)
Electricity	1,041,655	1,034,175	7,480	1
Insurance	45,834	71,400	(25,566)	(36)
Finance costs	1,679,974	3,266,829	(1,586,855)	(49)
Interest on loans	1,593,124		1,593,124	
Attributable to carrying of shareholder's loan as amortised cost	162,199		162,199	
Attributable to discounting of trade and other payables	(75,349)		(75,349)	
Interest on deposits	3,936	14,400	(10,464)	(73)
Legal fees	58,116	423,000	(364,884)	(86)
Security	594,453	870,000	(275,547)	(32)
Seminars and workshops		13,200	(13,200)	(100)
Consulting Fee	10,961	18,000	(7,039)	(39)
Repairs and mainteance	499,967	425,000	74,967	18
RSC Levy	10,878	12,010	(1,132)	(9)
Total expenditure	6,237,465	9,645,037	(3,407,572)	(35)
NET PROFIT FOR THE YEAR	130,769	406,236	(275,467)	(68)

APPENDIX B
PHAROE PARK HOUSING COMPANY (PROPRIETARY) LIMITED
SCHEDULE OF EXTERNAL LOANS FOR THE YEAR ENDED 30 JUNE 2006

	Opening Balance	Capital Payment	Interest Adjustment	Closing Balance	2005
Loan -Woonconcept @5% interest	218,490		6,712	225,202	218,490
Unsecured loan-NHFC @7.88% interest	6,398,745	(800,760)	(41,809)	5,556,176	6,398,745
Secured loan-NHFC @9.5% interest	8,526,467	(694,632)	427,013	8,258,849	8,526,467
	15,143,702	(1,495,392)	391,917	14,040,227	15,143,702

AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS ON THE FINANCIAL STATEMENTS OF THE GERMISTON PHASE 2 HOUSING COMPANY (PROPRIETARY) LIMITED FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages [ ] to [ ], for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and sections 92 and 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 1512 of 2006, issued in Government Gazette no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1 to the financial statements.

4. AUDIT OPINION

In my opinion the financial statements present fairly, in all material respects, the financial position of the Germiston Phase 2 Housing Company (Proprietary) Limited at 30 June 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1 to the annual financial statements, and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

5. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Going concern

The ability of the company to continue as a going concern was dependant on ongoing funding from the Ekurhuleni Metropolitan Municipality (EMM) and the Gauteng Partnership Fund. The company's main business is to supply residential accomodation at low rental rates to qualifying tenants. These tenants did not honour financial commitments towards the company. As a result, the company incurred operating losses.

5.2 Non-compliance with Municipal Finance Management Act (MFMA)

The company's previous audit committee consisted of councillors, which contravened the requirements of the MFMA. A new audit committee was subsequently established to comply with the requirements of the MFMA. However, the audit committee did not consider the affairs of the company during the period under review. Only ad-hoc projects were conducted during the year under review.

In terms of section 165(1) of the MFMA, each municipal entity must have an internal audit unit, subject to section 165(3). Section 165(3) stipulates that such internal audit function may be outsourced. Although the Germiston Phase 2 Housing Company (Pty) Limited entered into an agreement with EMM to share the internal audit services for the year under review, the internal audit of EMM did not prepare a risk based audit plan and internal audit program for the Germiston Phase 2 Housing Company (Pty) Limited as required by section 165(2) of the MFMA.

5.3 Enforcement of rental and letting criteria

Documents to support that residential units were allocated to qualifying tenants in terms of the rental and letting criteria could not be submitted for audit in certain instances. This caused uncertainty whether tenants qualified to occupy residential units as stipulated in the rental and letting criteria. Document management controls were not always adhered to.

5.4 Performance information

In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality. The required performance information was not prepared. The company's internal financial reporting and management processes did not accommodate the compilation of mentioned information.

5.5 Late finalisation of the audit report

In terms of section 126(3)(b) of the MFMA I am required to submit my report to the accounting officer within three months of the receipt of the financial statements. The audit was delayed due to the fact that the Germiston Phase 2 Housing Company (Proprietary) Limited experienced capacity constraints within their financial section and source documents were not timely supplied for audit purposes.

6. APPRECIATION

The assistance rendered by the staff of the Germiston Phase 2 Housing Company (Proprietary) Limited during the audit is sincerely appreciated.

Ms MA Masemola *for* Auditor-General

Johannesburg

26 April 2007

GERMISTON PHASE II HOUSING COMPANY
(PROPRIETARY)LIMITED
(Registration Number :1997/016085/07)
ANNUAL FINANCIAL STATEMENTS
PERIOD ENDED 30 JUNE 2006

GERMISTON PHASE 2 HOUSING COMPANY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

INDEX

APPROVAL

I am responsible for the preparation of these annual financial statements, which are set out on pages 2 to 20, in terms of section 126(2) of the Municipal Finance Management Act and which I have signed on behalf of the company.

____

MM Mokgohloa
Chief Executive Officer

____

Date

GERMISTON PHASE 2 HOUSING COMPANY
DIRECTORS REPORT
FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORS' RESPONSIBILITY

The financial statements set out on page 2 to 20 are the responsibility of the directors.

The directors are responsible for selecting and adopting sound accounting practices to maintain adequate and effective system of accounting records for the safequarding of assets. The directors are also responsible for developing and maintaining a system of internal control that, among other things will ensure that the preparation of financial statements achieve fair presentation.

The financial statements have been prepared on a going concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the fore-seeable future. The financial statements have been prepared in accordance with the Statements of Generally Accepted Accounting Practice as it was in the previous years. The disclosure requirements as per GRAP1, 2 and 3 have also been incorporated in this set of financial statements.

The directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosure in the annual financial statements.

CHANGE OF NAME

The name of the company has changed from Greater Germiston Inner City Housing Corporation - Phase 2 to Germiston Phase 2 Housing Company.

SHAREHOLDING

Ekurhuleni Metropolitan Municipality	92%
Gauteng Partnership Fund	8%

BOARD AND CHIEF EXECUTIVE OFFICER

Non-Executive directors:
DM Ngoasheng
S M Twala

Chief Executive Officer
MM Mokgohloa

Acting Chief Executive Officers
SH Mare' Resigned from 1 April 2006

GERMISTON PHASE 2 HOUSING COMPANY
DIRECTORS REPORT
FOR THE YEAR ENDED 30 JUNE 2006

MAIN BUSINESS AND OPERATIONS

The company owns and manages properties to provide affordable residential accommodation in the inner city of Germiston and around Ekurhuleni Metropolitan Municipality.

OPERATING RESULTS

The net loss for the company during the year ending 30 June 2006 is R39 462 (2005: Profit of R2 349 382 (16 months)).

COMPARATIVE AMOUNTS

Comparative amounts will not be comparable because the current period covers a period of 12 months and the prior period 16 months. The comparative amounts were adjusted to comply with the presentation format. The adjustment has not affected the net results except where indicated and disclosed.

REVIEW OF OPERATIONS

Revenue

Revenue is generated by rental charged to the tenants occupying units in Phase II properties.

REVIEW OF FINANCIAL POSITION

The financial position of Germiston Phase 2 Housing Company is adequately disclosed in the attached financial statements.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

The directors and management are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which significantly affect the financial position of the organization and the results of its operations.

ADDRESSES

The company's business, postal and registered addresses are as follows:

Business address/domicile

Shop no.9 Pharoe Park	P O Box 1245
Germiston	Germiston
1400	1400

CERTIFICATE BY COMPANY SECRETARY

In my capacity as company secretary, I hereby confirm in terms of section 268G(d) of the Companies Act of South Africa 1973 that for the period ended 30 June 2006, the company has lodged with the registrar of companies all such returns as are required of the company in terms of this Act and that all such returns are true and correct.

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GERMISTON PHASE 2 HOUSING COMPANY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 R 12 months	2005 R 16 months
Operating income	2	7,805,835	11,372,975
Rental income from investment property	2.1	7,548,420	9,408,336
Deferred income on asset-based government grants recognised during the year		33,720	33,720
Other operating income	2.2	223,695	1,930,919
Operating expenses	3	(4,701,184)	(4,674,693)
Depreciation	3.1	(581,413)	(775,217)
Operating expenses	3.2	(4,119,771)	(3,899,476)
Profit from operations		3,104,652	6,698,282
Finance cost	4	(3,144,113)	(4,348,900)
(Loss) / profit before tax		(39,462)	2,349,382
Taxation	5	-	-
Net (loss) / profit for the period		(39,462)	2,349,382

GERMISTON PHASE 2 HOUSING COMPANY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2006

	Notes	2006	2005
		R	R
ASSETS			
Non-current assets		27,558,868	28,140,281
Investment property	6	27,558,868	28,140,281
Current assets		5,595,192	5,319,042
Trade and other receivables	7	686,949	428,991
Amount owing by group companies	8	701,277	368,836
Cash and cash equivalents	9	4,206,965	4,521,215
Total assets		33,154,060	33,459,323
EQUITY AND LIABILITIES			
Capital and reserves		3,899,872	3,939,333
Share capital	10	108	108
Share premium	11	3,999,992	3,999,992
Accumulated loss		(100,228)	(60,767)
Non-current liabilities		27,439,756	27,751,331
Shareholders loan	12	1,869,561	1,707,362
Interest bearing borrowings	13	22,854,165	23,410,587
Rental deposits	14	1,266,070	1,149,702
Deferred income	15	1,449,960	1,483,680
Current liabilities		1,814,433	1,768,659
Trade and other payables	16	283,595	237,821
Current portion of interest bearing borrowings	17	1,497,118	1,497,118
Deferred income	15	33,720	33,720
Total equity and liabilities		33,154,060	33,459,323

GERMISTON PHASE 2 HOUSING COMPANY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Share Capital	Share Premium	Accumulated Profit / (Loss)	Total
		R	R	R	R
Balance 01 March 2004		100	0	(2,545,029)	(2,544,929)
Adjustment of errors in prior periods	18			134,880	134,880
Restated balance		100	0	(2,410,149)	(2,410,049)
Shares issued during period		8			8
Share premium on shares issued during period			3,999,992		3,999,992
Net profit for the period (restated) (16 months)				2,349,382	2,349,382
Balance at 1 July 2005		108	3,999,992	(60,767)	3,939,333
Net loss for the year				(39,462)	(39,462)
Balance at 30 June 2006		108	3,999,992	(100,228)	3,899,872

GERMISTON PHASE 2 HOUSING COMPANY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 R 12 months	2005 R 16 months
Cash flows from operating activities			
Cash receipts from customers		7,081,163	9,691,689
Cash paid to suppliers		(3,854,723)	(4,178,609)
Cash generated from operating activities	19	3,226,440	5,513,079
Finance cost		(2,981,914)	(4,348,900)
Interest received		213,720	108,561
Net cash flows from operating activities		458,246	1,272,739
Cash flows from investing activities			
Decrease in sundry investing activities		-	100
Amounts owing by group companies		(332,442)	(319,186)
Net cash flows utilised in investing activities		(332,442)	(319,086)
Cash flows from financing activities			
Increase in share capital		-	8
Increase in share premium		-	3,999,992
Increase in shareholders loan		-	3,500,000
Decrease in long-term liabilities		(556,422)	(4,639,406)
Increase in rental deposits		116,368	
Amounts owing to group companies			(284,248)
Net cash (used in) / from financing activities		(440,054)	2,576,346
Net (decrease) / increase in cash and cash equivalents		(314,250)	3,529,999
Cash and cash equivalents at beginning of year		4,521,214	991,215
Cash and cash equivalents at end of the period	9	4,206,965	4,521,214

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Presentation of annual financial statements

The financial statements have been prepared in accordance with South African statements of Generally Accepted Accounting Practice (SA GAAP) including any interpretations such Statements issued by the Accounting Practices Board, the prescribed Standards of Generally Recognised Accounting Practice (GRAP) and the South African Companies Act, 1973 (Act No. 61 of 1973), with the prescribed GRAP issued by the Accounting Standard Board replacing the equivalent SA GAAP Statements as follows:

Standard of GRAP	Replaced Statement of SA GAAP
GRAP1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP2: Cash flow statements	AC118: Cash flow statements
GRAP3: Accouting policies, changes in accounting	AC103: Accounting policies, changes in accounting
estimates and errors	estimates and errors

The annual financial statements are based upon appropriate policies consitently applied with the previous financial year and supported by reasonable and prudent judgements and estimates.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments, revenue and expenses at fair value and incorporate the principal accounting policies set out below.

Since the company changed its financial year to agree with the year end of the parent municipality of 30 June, the comparative figures represent a period of 16 months.

The annual financial statements are presented in the currency of the South African Rand.

1.2 Significant judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment testing

Management used the fair value less cost to sell to determine the recoverable amount of investment property that may have been impaired.

Allowance for doubtful debts

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial instruments
Refer to accounting policy note 1.8 for details.

1.3 Revenue

1.3.1 Recognition and measurement

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 reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

a) the amount of revenue can be measured reliably;
b) it is probable that the economic benefits associated with the transaction will flow to the company;
c) the stage of completion of the transaction at the reporting date can be measured reliably; and
d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business.

SUMMARY OF ACCOUNTING POLICIES (Continued)

1.3.2 Rental income

Rental income comprises rental charged on investment properties. Rentals are charged at lower rates than the market *be ause t e institution re ei e subsi ies or t e e e o ment o t e ro erties to a ommo ate o er in ome grou*

1.3.3 Government grants

Government grants are recognised as deferred income when there is reasonable assurance that:

a) the company will comply with the conditions attached to the government grant, and
b) the government grant will be received.

Government grants are recognised as income on a systematic basis over periods necessary to match the grants with the related costs which 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 on the land. Since this government grant was not previously recognised at date of transfer of the land to Phase 2, this transaction represents the correction of a prior-year error as fully disclosed in note 18.

1.3.4 Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

1.4 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.5 Tax

1.5.1 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 deductable in other years and it further excludes items that are never taxable or tax deductable.

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 reporting date.

1.5.2 Deferred tax assets and liabilities

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

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

Deferred tax assets and liabilites are offset when there is a legally enforceable 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.

SUMMARY OF ACCOUNTING POLICIES (Continued)

1.5 Tax (Continued)

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

a) is not a business combination; and
b) at the time of the 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 profit 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:
   i) is not a business combination; and
   ii) at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

1.5.3 Tax expenses

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 net assets, or
b) a business combination.

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

1.6 Investment Property

All fixed property held to earn rentals is classified as investment property.

Investment property is recognised as an asset when:

a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity, and
b) the cost of the investment property can be measured reliably.

Investment property is accounted for by means of the cost model (cost less accumulated depreciation and impairment losses). The buildings are depreciated over the estimated useful life at 2% per annum using the straight-line method. Land is not depreciated.

1.7 Impairment of assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting statement, in which case the impairment loss is treated as a revaluation decrease under mentioned accounting statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediatetly, unless asset is carried at a revalued amount under another accounting statement, in which case the reversal of the impairment loss is treated as a revaluation increase under the other mentioned accounting statement.

SUMMARY OF ACCOUNTING POLICIES (Continued)

1.8 Financial instruments

1.8.1 Initial 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.

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

1.8.2 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 surplus or deficit when there is objective evidence that the asset 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.

1.8.3 Amount owing by group companies, shareholders loan and interest-bearing borrowings

These 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 surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the 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 loans 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 loan at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

1.8.4 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.

1.8.5 Trade and other payables

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

1.9 Deferred income

Refer to accounting policy note 1.3.3 for details in this regard.

1.10 Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice on a basis consistent with the prior year.

		2006 R 12 months	2005 R 16 months
2.	OPERATING INCOME		
2.1	Rental income from investment property	7,548,420	9,408,336
	Gross levies against tenant accounts	7,725,079	9,493,265
	Attributable to carrying of revenue at fair value	(36,449)	(17,156)
	Attributable to discounting of trade and other receivables	(140,210)	(67,773)
2.2	Other Income:	223,695	1,930,919
	Admin fees	7,700	19,676
	Interest received	213,720	108,561
	Gross interest received	109,498	91,405
	Attributable to carrying of revenue at fair value	36,449	17,156
	Attributable to discounting of trade and other receivables	67,773	
	Recoveries	2,275	10,045
	Gain on receipt of shareholders loan carried at amortised cost		1,792,638
3.	OPERATING EXPENSES		
3.1	Depreciation		
	- Investment property buildings	581,413	775,217
3.2	Other operating expenses	4,119,771	3,899,476
	Audit fees	117,588	140,515
	- Provision for current period	-	78,000
	- Expense	117,588	62,515
	Direct operating expenses - investment property that generated rental income	3,828,856	3,179,216
	Contract services	793,910	1,168,739
	- Cleaning and gardening	166,190	367,310
	- Security services	627,720	801,429
	Electricity	428,527	358,110
	Management Fee	1,757,510	818,588
	Other directly attributable expenses	313,521	451,634
	Repairs and maintenance	535,388	382,145
	Other expenses	173,327	579,745
4.	FINANCE COSTS		
	Finance costs	2,981,914	4,348,900
	Attributable to carrying of shareholder's loan as amortised cost	162,199	
		3,144,113	4,348,900

5. TAXATION

No provision has been made for taxation because the company previously operated at a loss, which SARS recognised for income tax purposes.

A deferred tax asset has not been recognised since it is uncertain whether future taxable profits will be available against which the assessed loss can be utilised.

6. INVESTMENT PROPERTY

	Land value	Development cost	Accumulated depreciation	Net Value
		R	R	R
Balance at 1 March 2004	1,686,000	29,070,639	(1,841,141)	28,915,498
Depreciation for the period			(775,217)	(775,217)
Balance at 1 July 2005	1,686,000	29,070,639	(2,616,358)	28,140,281
Depreciation for the year			(581,413)	(581,413)
Balance at 30 June 2006	1,686,000	29,070,639	(3,197,771)	27,558,868

The property comprises of ERF 59, 62 Airport Park Extension 2, Township registration division I.R measuring 1.33394, 1.5477 hectares respectively, and ERF 905, 906, 907 and 908 Dellville Extension 3 Township measuring 4.708, 4.212, 4.400 and 2.007 hectares respectively.

The property was developed in 2002 for the purpose of earning rental income and meeting housing service delivery needs. The property has 548 rental units.

The net carrying amount of investment property previously excluded the value of land. The land value has now been recognised to comply with the accounting treatment requirements of IAS 40 on investment property. The land is brought to book at the cost price as reflected by the parent municipality's records; this represents a transgression of IAS40 which states that asset-based government grants should initially be recognised at fair value. This deviation from IAS40 is due to the fact that a valuation was not performed on the land at date of transfer. This therefore represent a prior period error which has now been rectified. Refer to note 18 for additional details.

No additions or disposals, other than the disclosed development costs, occurred on the investment property. Impairment losses have also not been recognised against the investment property.

Fair value of investment property amounting to R61 557 000 was determined on 22 June 2006 by an independent sworn property appraiser based on most recent prices achieved in arms length transactions of similar properties in the area.

	2006 R	2005 R
7. TRADE AND OTHER RECEIVABLES		
Trade and other receivables at amortised cost	1,351,365	779,886
Gross receivables	1,491,575	847,659
Attributable to discounting of trade and other receivables	(140,210)	(67,773)
Less:Provision for bad debts	(664,416)	(350,896)
	686,949	428,991
8. AMOUNT OWING BY GROUP COMPANIES		
Pharoe Park	549,530	202,509
Management Services	151,748	166,327
	701,277	368,836
9. CASH AND CASH EQUIVALENTS		
Current account	218,600	(35,779)
Deposit account	3,988,365	4,556,995
	4,206,965	4,521,215

Cash and cash equivalent consist of cash on hand and balances with banks, investments in money market instruments and overdrafts.

	2006 R	2005 R
10. SHARE CAPITAL		
Authorized		
1000 Ordinary shares @ R1 each	1,000	1,000
Issued:		
108 Ordinary shares @ R1 each	108	108
11. SHARE PREMIUM		
Share premium	3,999,992	3,999,992

Gauteng Partnership Fund invested R4,000,000.00 to acquire 7.5% shareholding in the company in February 2005. Eight (8) new shares to a nominal amount of R1.00 per share and share premium of R3,999,992.00 was issued.

	2006 R	2005 R
12. SHAREHOLDERS LOAN		
Loan received from the Gauteng Partnership Fund at nominal amount	1,707,362	3,500,000
Less: Gain on receipt of loan		(1,792,638)
Add: Interest expense recognised	162,199	
Loan balance stated at amortised cost	1,869,561	1,707,362

The loan from Gauteng Partnership Fund is interest free and repayable by equal instalments of R700 000.00 annually from the 1st of February 2011. The loan was received in February 2005 when GPF acquired 7.5% shareholding.

13. INTEREST BEARING BORROWINGS

	Opening Balance	Capital repayment	Interest Adjustment	Closing Balance	2005
Secured loan-NHFC @9.5% interest	23,410,587	(1,372,358)	815,936	22,854,165	23,410,587
	-			-	-
	23,410,587	(1,372,358)	815,936	22,854,165	23,410,587

The loan from National Housing Finance Corporation Limited is secured by a first continuous covering mortgage bond over the consolidated property and is repayable in 186 equal monthly instalments. Interest on the loan was charged at 14% until January 2005 and then negotiated to prime (10.50%) less 1% from February 2005.

	2006	2005
	R	R
14. RENTAL DEPOSITS		
Debtors deposit control account carried at cost	1,266,070	1,149,702
15. DEFERRED INCOME		
Asset-based government grants pertaining to land received:		
Deferred grant income	1,483,680	1,517,400
Less: Deferred grant income to be recognised in the following financial year	(33,720)	(33,720)
Deferred grant income to be recognised in future accounting periods	1,449,960	1,483,680
16. TRADE AND OTHER PAYABLES	283,595	237,820
Debtors with credit balances	201,070	145,855
Creditors	82,525	-
Provision for audit fee	-	78,000
Other accruals	-	13,965
17. CURRENT PORTION OF INTEREST BEARING BORROWINGS		
NHFC loan expected annual capital payment	1,497,118	1,497,118

18. PRIOR PERIOD ERRORS

Impact on financial year ended 30 June:	2005	Before 2005
Accumulated loss as previously disclosed as at 1 March 2004		(2,545,029)
Net profit for the year ended 30 June 2005 as previously disclosed (16 months)	590,797	
Prior period errors consist of the following:		
Attributable to the discounting of trade receivables	(67,773)	
Government grants not previously recognised	33,720	134,880
Attributable to carrying the shareholder's loan at amortised cost	1,792,638	
Restated accumulated loss as at 1 March 2004		(2,410,149)
Net profit for the year ended 30 June 2005 (16 months)	2,349,382	

19. CASH GENERATED FROM OPERATIONS

	2006 R	2005 R
Net (loss) / profit	(39,462)	2,349,382
Adjustments for:		
Deferred income on asset-based government grants recognised during the year	(33,720)	(33,720)
Attributable to discounting of trade and other receivables	72,437	67,773
Gain on receipt of shareholders loan carried at amortised cost		(1,792,638)
Interest received	(213,720)	(108,561)
Provision for audit fees	-	78,000
Provision for bad debts	313,521	(448,592)
Bad debts write-off	-	759,711
Depreciation	581,413	775,217
Journal adjustment	-	67,053
Finance costs		
Finance costs	2,981,914	4,348,900
Attributable to carrying of shareholder's loan as amortised cost	162,199	
Operating cash flows before movements in working capital	3,824,582	6,062,526
(Increase) / Decrease in accounts receivable	(643,916)	(436,251)
Increase / (Decrease) in accounts payable	45,774	(113,196)
	3,226,440	5,513,079

20. RELATED PARTY AND RELATED PARTY TRANSACTIONS

Relationships

Parent Municipality	Ekurhuleni Metropolitan Municipality	
Fellow companies	Ekurhuleni Development Company (Proprietary) Limited	Providing administrative services to Phase 2
	Pharoe Park Housing Company (Proprietary) Limited	Nature of business similar to that of Phase 2

Purchases from related parties	12 months	16 months
GGICHC - Management		
- Management fees paid	1,757,510	818,588
Ekurhuleni Metropolitan Municipality		
- RSC levy paid	11,750	49,051
- Rates, electricity and water paid	428,527	318,335
	440,277	367,386

APPENDIX A
GERMISTON PHASE 2 HOUSING COMPANY
ACTUAL VS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2006

	Actual 2006 R	Budgeted 2006 R	Variance (R) 2006
REVENUE			
Rental income from investment property	7,548,420	9,655,953	2,107,533
Gross levies against tenant accounts	7,725,079		
Attributable to carrying of revenue at fair value	(36,449)		
Attributable to discounting of trade and other receivables	(140,210)		
Deferred income on asset-based government grants recognised during the year	33,720	0	(33,720)
Administration fees	7,700	15,600	7,900
Interest received	213,720	307,720	94,000
Gross interest received	109,498		
Attributable to carrying of revenue at fair value	36,449		
Attributable to discounting of trade and other receivables	67,773		
Recoveries	2,275	72,000	69,725
Total Revenue	7,805,835	10,051,273	2,245,438
EXPENDITURE			
Bad debts provision	313,521	793,114	479,594
Audit	41,052	71,831	30,779
Depreciation - investment property buildings	581,413	884,304	302,891
Electricity and water	428,527	1,034,175	605,648
Garden and cleaning	166,190	485,000	318,810
General expenses	93,436	93,434	(2)
Insurance	35,301	71,400	36,099
Finance costs	3,144,113	3,266,829	122,716
Interest on loans	2,981,914		
Finance costs attributable to carrying of shareholder's loan as amortised cost	162,199	0	(162,199)
Interest on Deposits	11,222	14,400	3,178
Legal expenses	59,475	423,000	363,525
Management fees	1,757,510	1,169,340	(588,170)
Repairs and maintenance	535,388	425,000	(110,388)
RSC Levy	11,750	12,010	260
Security	627,720	870,000	242,280
Seminars and workshops	0	13,200	13,200
Consulting	38,680	18,000	(20,680)
Total expenditure	7,845,298	9,645,037	1,637,541
NET (LOSS) / SURPLUS FOR THE YEAR	(39,462)	406,236	607,897

APPENDIX B
GERMISTON PHASE 2 HOUSING COMPANY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2006

	Opening Balance	Capital repayment	Interest Adjustment	Closing Balance	30/06/2005
Secured loan-NHFC @9.5% interest	23,410,587	(1,372,358)	815,936	22,854,165	23,410,587
	23,410,587	(1,372,358)	815,936	22,854,165	23,410,587

purchase price should be paid to the mayoral special projects fund. The nature of the payment was not classified in the contract. Although the money was not yet paid but accrued for, the additional payment could be seen as a dividend or donation to EMM which is in contravention of section 21(2)(a) and the Memorandum of Association.

This was due to the lack of an independent review not being performed to ensure compliance with the companies act.

6.3 Performance information

In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality. The required performance information was not prepared. The company's internal financial reporting and management processes did not accommodate the compilation of mentioned information.

7. LATE FINALISATION OF THE AUDIT REPORT

In terms of section 126(3)(b) of the MFMA the Auditor General is required to submit my report to the accounting officer within three months of the receipt of the financial statements. The audit was completed on 31 March 2007 as there had been delays in obtaining information and comments from the management of LHI.

8. APPRECIATION

The assistance rendered by the staff of the Lethabong Housing Institute during the audit is sincerely appreciated.

Masemola

Ms M.A. Masemola *for* Auditor-General

Johannesburg

28 March 2007

AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE MEMBER ON THE FINANCIAL STATEMENTS OF THE LETHABONG HOUSING INSTITUTE (LHI) FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages [ ] to [ ], for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and sections 92 and 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 1512 of 2006, issued in Government Gazette no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1 to the financial statements.

4. QUALIFICATION

4.1 Value Added Tax (VAT)

An amount of VAT receivable totalling approximately R1.9 million was included in the accounts of LHI. Management could not provide any evidence to support the existence, rights and valuation of this amount and consequently audit could not conclude on the accuracy and validity of the balance. It was also noted that in certain cases revenue from the sale of properties had been recorded without deducting output VAT resulting in an overstatement of revenue.

Furthermore the VAT output was incorrectly calculated in certain instances, resulting in the overstatement of VAT output by an amount of R101,929.00.

LETHABONG HOUSING INSTITUTE
REGISTRATION NO 2000000557308
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2006

NATURE OF BUSINESS

The company carried on business as a housing institute in the form of an association incorporated in terms of Section 21 of the Company's Act as amended, being a non-profit organisation. The business consists mainly of developing afordable housing. The annexed Balance Sheet and Income Statement reflect the financial position of the company.

DIRECTORS

The directors at the beginning of the year comprised of :

SP Gerber, S Kanyile, NA Kara, PE Sigasa and P Ucko who have held office the entire year.

S Kanyile did not attend any meetings.

Directors remuneration is shown in notes 5.2, 5.3 and 5.4

Since the year end further appointments took place:

TREASURER

A van den Berg who resigned as a director in the previous year has continued to act as treasurer.

This was due to the fact that adequate policies and procedures monitoring controls were not prescribed and implemented.

4.2 Revenue

Revenue generated from the sale of a stand in Commercia Extension 9 for an amount of R50 000 could not be verified due to the lack of supporting documentation. The audit of cost of sales relating to Commercia extension 9 was also limited in scope due to unavailability of information. This was due to the fact that policies and procedures to ensure that documents are safeguarded were ineffective.

4.3 Trust accounts held with former attorney and company secretary

The attorneys employed to deal with legal matters and to fulfil the company secretarial function to LHI, resigned during April 2006. Certain funds belonging to LHI were held in the attorneys trust account. The balance of funds held in the attorneys account could not be verified due to lack of supporting documents for trust account transactions during the year under review. Furthermore, the closing balance of R11 131 458 was not confirmed by the attorney. This was due to inadequate monitoring policies and procedures.

4.4 Departing from SA GAAP and GRAP

LHI did not disclose receivables, payables and provisions at fair value as required by IAS 39. The impact of the departure could not be quantified although the assessment of the balance indicates that the impact of departure from GRAP and GAAP will be material.

5. DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters referred to in paragraph 4, I do not express an opinion on the annual financial statements.

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

6.1 Financial Management

Due to inadequate financial management capacity, the following significant control related shortcomings were noted:

a) Lack of established financial management structures.
b) Inadequate segregation of duties over preparation and signing of cheques.
c) Creditors reconciliation statements were not prepared.
d) The process to ensure the accuracy of the annual financial statements submitted for audit purposes was not in place, this was evident from the significant audit differences identified after submission for audit. Most of these adjustments lacked audit trail and supporting documentation.
e) The audit revealed significant audit differences which had not been adjusted by management.
f) A new set of financial statements were submitted to audit during January 2007. Changes to certain balances were made in the new set of annual financial statements which were material in nature, and cast doubt on the reliability of the annual financial

	Directors' fees	Other	Total	
	55,478	62,734	118,213	c/c d
	^	^	^	

5.3(b)

Disqualified directors in terms of Municipal Finance Act

	Directors' fees	Other	Total	
S Ngwenya	11,001	-	11,001	c/c
NG Nketle	4,588	2,000	6,588	c/c
F Palm	10,625	12,375	23,000	c/c
K Sambo	9,122	-	9,122	c/c
DA Sepirwa	13,250	9,750	23,000	c/c
AJ Theron	9,000	28,821	37,821	c/c
A van den Berg (treasurer from 1 December 2004)	12,750	44,072	56,822	c/c
	70,336	97,018	167,353	d
	^	^	^	

5.3(c)

	Fees Other	Other	Total	
Treasurer from 1 December 2004 A van den Berg	6,750	43,571	50,321	c/c d

5.3(d)

In the previous year Mr CP Ucko and others purchased a sectional title unit at an arms-length gross price of R590000.

6. Provisions

		2006 R	2005 R
This relates to estimates for:			
Cost of completing properties sold already transferred		524,441	-
and properties sold but not yet transferred		-	100,000
Claim for defects in properties sold previously.	S/B 0 minus	✓230,000	230,000
Legal fees for transfer costs of roads where sold,			
properties have already been transferred.		20,000	20,000
Audit fees		175,797	170,000
	S/B 490 238	950,238	520,000

^ = CASTED

d = total directors FEES FOR 2005: 118 213 + 167 353 + 50 321 = 335 887 B1/13

LETHABONG HOUSING INSTITUTE
REGISTRATION NO 200000055730B
STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Retained Profit R	Total R
Retained profit at 30 June 2004	17,788,139	17,788,139
Net profit for the year ended June 2005	3,818,908	3,818,908
Retained profit at 30 June 2005	21,607,047	21,607,047
Net profit for the year ended June 2006	305,389	305,389
Retained profit at 30 June 2006	21,912,436	21,912,436

LETHABONG HOUSING INSTITUTE
REGISTRATION NO 2000000557308
CASH FLOW STATEMENT FOR THE YEAR ENDED
30 JUNE 2006

	2006 R	2005 R
NET CASH DEFICIT (2005 CASH FLOW) FROM OPERATING ACTIVITIES	(2,963,892)	6,456,447
Cash receipts from customers	3,697,828	21,867,088
Cash paid to suppliers and employees	(6,661,720)	(15,410,641)
Interest received	715,093	395,405
Rent received	21,477	54,542
Sundry income	2,260	-
	(2,225,063)	6,906,394
CASH EFECTS OF FINANCING ACTIVITIES		
Collateral security held by bankers increased	(261,656)	(47,917)
CASH AT BANKS DECREASED- (2005 INCREASE) (EXCLUDING COLLATERAL SECURITY)	(2,486,719)	6,858,477
Balance at end of year	10,902,343	14,041,858
Balance at beginning of year	13,389,062	7,183,381

LETHABONG HOUSING INSTITUTE
REGISTRATION NO 2000000557308
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. Property, plant and equipment

	2006 R	2005 R
COST		
At 1 July 2005	10,901	10,901
At 30 June 2006	10,901	10,901
ACCUMULATED DEPRECIATION		
At 1 July 2005	9,085	7,268
Charge for year	1,815	1,817
At 30 June 2006	10,900	9,085
CARRYING VALUE	1	1816

2. Trade and other receivables

	2006 R	2005 R
Trade account receivable	653728	887256
Advance to director for expenses	-	3052
Deposits and payments in advance	10985	106858
Total	664713	997166

3. Operating profit

Operating surplus is stated after :

Expenditure		
Auditors remunerations	170000	335094
Depreciation		
- Office Equipment	1815	1817
Directors' remuneration and treasurer remuneration	311750	335887

4. Finance income

Interest received	715093	395405

5. Related party transactions

During the year the company entered into arms length transactions with the undermentioned.

5.1 Ekurhuleni Metro

Land purchase

Land at a cost of R3000000 was purchased from the Ekurhuleni Metro.

In addition to the purchase price the company has agreed to pay a further R2000000 to Metro's Mayoral Fund.

These amount have been included in inventory.

Rates and Taxes and Deposit paid

Rates and taxes and other charges amounting to R15743 (2005 R190200) was payable to Ekurhuleni Metro. R5698 was recovered from a third party in respect of rates paid in the previous year. The deposit made in the previous year of R56000 has been repaid.

Interest paid this year R1 (2005 R4172).

5.2 SP Gerber - director and project manager.

In addition to payments for his services as a director and related duties, SP Gerber has acted as an independent project manager for which he was paid R163400 (2005 189115). In the previous year Mr SP Gerber and his wife purchased a sectional title unit at an arms-length gross price of R590000.

5.3 Directors' remuneration and treasurer - 2006

	Directors fees	Other	Total
SP Gerber	23,500	90,750	114,250
P Ucko	18,500	2,000	20,500
N Kara	20,500	4,000	24,500
E Sigasa	20,500	8,000	28,500
	83,000	104,750	187,750
Former director and treasurer			
A van den Berg	8,000	116,000	124,000
	91,000	220,750	311,750

2005
5.3(a)
Qualified directors

	Directors' fees	**Other**	**Total**
SP Gerber	23,335	49,820	73,155
N Kara	8,669	760	9,429
S Khanyili	1,347	-	1,347
E Sigasa	8,002	754	8,756
P Ucko	14,125	11,400	25,525
	55,478	62,734	118,213