



## Annual Financial Statements



**(ASSOCIATION NOT FOR GAIN INCORPORATED UNDER SECTION 21)**

**(REG NO. 1996/10988/08)**

**ANNUAL FINANCIAL STATEMENTS**

**31 MARCH 2010**

# ANNUAL FINANCIAL STATEMENTS

## 31 MARCH 2010

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# DIRECTORS' RESPONSIBILITY STATEMENT FOR THE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the financial statements, accounting policies and related information. The external auditors are engaged to conduct an audit and express an independent opinion on the financial statements.

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and Statements of Generally Recognised Accounting Practice. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control and that they place reliance on the Audit Committee to oversee management's implementation of sound internal control systems and procedures. Policies, procedures and approval frameworks are in place to maintain a strong control environment. Nothing suggests to the directors that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The directors are of the opinion, based on the information and explanations given by management, the internal auditors and independent external auditors that the system of internal control provides reasonable assurance and that the financial records may be relied upon for preparing the annual financial statements.

The directors are satisfied that the annual financial statements, which were prepared on a going concern basis, fairly present the group's financial results and position at the end of the financial year and that the group will be a going concern for the year ahead.

The financial statements of the Rural Housing Loan Fund for the year ended 31 March 2010, as set out on pages 37 to 88, were approved by the Board of Directors on 10 August 2010 and are signed on its behalf by:



**T MEMELA-KHAMBULE**

Chairperson



**JJ FAKAZI**

Acting Chief Executive Officer

## CERTIFICATION BY COMPANY SECRETARY

It is hereby certified in terms of Section 268(G) of the Companies Act 1973, as amended, that for the year ended 31 March 2010, the Company has lodged with the Registrar of Companies all such returns as are required of a company incorporated under S21 of the Companies Act, in terms of this Act and that all such returns are true, correct and up to date.



**H POTGIETER**

Company Secretary

# CORPORATE GOVERNANCE STATEMENT

31 MARCH 2010

## FINANCIAL STATEMENTS

It is the directors' responsibility to prepare annual financial statements that fairly present the state of affairs of the company as at the end of the financial year and the results of its operations. The external auditors are responsible for independently reviewing and reporting on these financial statements.

The financial statements set out in this report have been prepared by management in accordance with South African Statements of Generally Accepted Accounting Practice and Generally Recognised Accounting Practice, and in compliance with the Companies Act, 1973 as amended. They are based on appropriate accounting policies that are supported by reasonable and prudent judgments and estimates.

## BOARD OF DIRECTORS

The composition of the board of directors provides for a majority of non-executive directors, including a non-executive chairperson.

The board of directors retains full and effective control over the Company, monitors management and ensures that decisions on material matters are in the hands of the board.

Details of the non-executive chairperson and directors are provided in the Directors' report.

All directors have access to the advice and services of the Company Secretary and are entitled to seek independent professional advice about the Company's affairs at the Company's expense.

A number of board committees, which are discussed below, have been established by the board; these committees have the necessary delegated authority for them to deal effectively with the management of the Company, and to support the board in discharging its responsibilities.

## AUDIT COMMITTEE

The external and internal auditors have free access to this committee. The committee meets periodically with management and the external and internal auditors to review the financial statements and accounting policies, the effectiveness of management information and other systems of internal control, quarterly financial reports, and to discuss the auditors' findings. The auditors are appointed each year based on the recommendations of the audit committee.

## CREDIT COMMITTEE

The credit committee meets regularly to approve the granting of new facilities to clients, to approve changes to existing facilities and to monitor credit and related risks in terms of the Risk Management Policy.

# CORPORATE GOVERNANCE STATEMENT *(Continued)*

31 MARCH 2010

## **DEVELOPMENT COMMITTEE**

The development committee is charged with the responsibility of managing the implementation of the marketing and promotion strategy and the approval of matching development grants to qualifying applicants for marketing and operational adjustments to their businesses.

## **HUMAN RESOURCES, ETHICS AND REMUNERATION COMMITTEE**

The human resources, ethics and remuneration committee is charged with the management of human resources, the provision of guidance and monitoring with regard to ethical issues and the review of employee remuneration.

## **MANAGEMENT**

To fulfil its responsibilities, management has developed and maintained systems of internal control and adequate accounting records.

## **INTERNAL AUDITING**

The internal audit function is an independent appraisal function to examine and evaluate the Company's activities, including the management of the Company. Its objective is to assist members of executive management in the effective discharge of their responsibilities. The scope of the internal audit function is to review the reliability and integrity of financial and management information, the systems of internal control, the safeguarding of assets, the efficient management of the company's resources, and the effective conduct of its operations. The internal auditors have unrestricted access to the chair of the audit committee and the chair of the board.

## **GOING CONCERN**

The directors have no reason to believe that the business will not be a going concern in the year ahead.

# BOARD AND SUB COMMITTEE MEETINGS ATTENDANCE RECORD

|  | 2009 |     |           |           |           |     |     |           |     | 2010 |     |           | Total |
|--|------|-----|-----------|-----------|-----------|-----|-----|-----------|-----|------|-----|-----------|-------|
|  | Apr  | May | Jun       | Jul       | Aug       | Sep | Oct | Nov       | Dec | Jan  | Feb | Mar       |       |
| <b>Board Meetings</b>  |      |     |           |           |           |     |     |           |     |      |     |           |       |
| <b>Date</b>  |      |     |           | <b>28</b> |           |     |     | <b>17</b> |     |      |     | <b>16</b> |       |
| Ms T Memela-Khambule   |      |     |           | x         |           |     |     | A         |     |      |     | A         | 1     |
| Mr M Hathorn   |      |     |           | x         |           |     |     | x         |     |      |     | x         | 3     |
| Mr M Pule  |      |     |           | x         |           |     |     | x         |     |      |     | x         | 3     |
| Mr M Silinga   |      |     |           | x         |           |     |     | x         |     |      |     | x         | 3     |
| Mr K Oliver  |      |     |           | x         |           |     |     | x         |     |      |     | x         | 3     |
| Mrs N Makiwane   |      |     |           | x         |           |     |     | A         |     |      |     | x         | 2     |
| Ms T Chiliza   |      |     |           | x         |           |     |     | A         |     |      |     | A         | 1     |
| Mrs N Sihlwayi   |      |     |           | x         |           |     |     | x         |     |      |     | A         | 2     |
| Ms G Mthethwa **   |      |     |           | x         |           |     |     | A         |     |      |     | x         | 2     |
| Mr L Mashaba *   |      |     |           | A         |           |     |     |           |     |      |     |           | 0     |
| <b>Board Credit Committee</b>  |      |     |           |           |           |     |     |           |     |      |     |           |       |
| <b>Date</b>  |      |     | <b>23</b> |           | <b>18</b> |     |     | <b>25</b> |     |      |     | <b>16</b> |       |
| Mr M Hathorn   |      |     | x         |           | x         |     |     | x         |     |      |     | x         | 4     |
| Mr K Oliver  |      |     | x         |           | x         |     |     | x         |     |      |     | x         | 4     |
| Ms G Mthethwa **   |      |     | x         |           | A         |     |     | A         |     |      |     | x         | 2     |
| <b>Audit Committee</b>   |      |     |           |           |           |     |     |           |     |      |     |           |       |
| <b>Date</b>  |      |     |           | <b>14</b> |           |     |     | <b>10</b> |     |      |     | <b>16</b> |       |
| Mr K Oliver  |      |     |           | x         |           |     |     | x         |     |      |     | x         | 3     |
| Mr M Silinga   |      |     |           | A         |           |     |     | x         |     |      |     | A         | 1     |
| Mrs N Makiwane   |      |     |           | x         |           |     |     | A         |     |      |     | A         | 1     |
| M Pule   |      |     |           | A         |           |     |     | A         |     |      |     | x         | 1     |
| Ms G Mthethwa **   |      |     |           | x         |           |     |     | x         |     |      |     | x         | 3     |
| <b>HRER Committee</b>  |      |     |           |           |           |     |     |           |     |      |     |           |       |
| <b>Date</b>  |      |     |           |           |           |     |     |           |     |      |     | <b>9</b>  |       |
| Mr M Hathorn   |      |     |           |           |           |     |     |           |     |      |     | x         | 1     |
| Ms T Memela-Khambule   |      |     |           |           |           |     |     |           |     |      |     | A         | 0     |
| Ms T Chiliza   |      |     |           |           |           |     |     |           |     |      |     | x         | 1     |
| Mrs N Sihlwayi   |      |     |           |           |           |     |     |           |     |      |     | A         | 0     |
| <p>* Mr L Mashaba resigned 17 November 2009</p> <p>** Ms G Mthethwa resigned 16 March 2010</p> <p>A - Absent with permission</p> |      |     |           |           |           |     |     |           |     |      |     |           |       |

# REPORT OF THE AUDIT COMMITTEE

The Board of Directors of the Rural Housing Loan Fund (RHLF) reviewed and approved the audit committee charter during the 2009/2010 financial year.

In terms of Treasury regulations 27.1.7 and 27.1.10 (b) and (c), and as required by the Public Finance Management Act of 1999, as amended by Act 29 of 1999, we are pleased to present our report for the financial year ended 31 March 2010.

## AUDIT COMMITTEE RESPONSIBILITY

The audit committee reports that it has complied with its responsibilities arising from Section 51(1) (a) of the PFMA and Treasury Regulation 27.1.

Section 51(1) (a) of the PFMA states the following:

The accounting authority must ensure that the public entity has and maintains-

- Effective, efficient and transparent systems of financial and risk management and internal control
- A system of internal audit under the control and direction of the audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77
- An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The audit committee also reports that it has regulated its affairs in compliance with its charter and has discharged all its responsibilities as contained therein.

## EFFECTIVENESS OF INTERNAL CONTROL

The audit committee is of the opinion, based on information and explanations given by management and discussions with the internal and independent external auditors on the results of their audits and the status in addressing any matters raised, that the internal accounting controls are operating satisfactorily, to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the audit committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

## RISK AREAS

There were no major sources of risk identified in the scope for internal audit for the period under review.

# REPORT OF THE AUDIT COMMITTEE *(Continued)*

## INTERNAL AUDIT

The internal audit function focused their attention on areas of financial management, budget review, property plant and equipment, procurement, human resources, cash and bank, income and expenditure, investments, other assets, IT systems, fraud prevention and company secretarial. The general conclusion reached by internal audit in terms of their report dated January 2010 was that the control environment at RHLF was found to be acceptable and adequate.

## THE QUALITY OF IN-YEAR MANAGEMENT AND MONTHLY AND QUARTERLY REPORTS SUBMITTED IN TERMS OF PFMA

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued during the year under review.

## LEGAL COMPLIANCE

The organisation has complied with all legislative and regulatory provisions.

## EVALUATION OF ANNUAL FINANCIAL STATEMENTS

The audit committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the independent external auditor and the Accounting Authority.
- Reviewed and discussed the independent external auditor's management letter and management's response thereto.

There were no adjustments to the annual financial statements as a result of the audit.

The audit committee concurs and accepts the independent external auditors' conclusions on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the independent external auditors.



Chairperson of the Audit Committee

**K OLIVER**

Date 10 August 2010

# REPORT OF THE INDEPENDENT AUDITORS TO THE TO THE MINISTER OF HUMAN SETTLEMENTS AND MEMBERS OF RURAL HOUSING LOAN FUND *(Continued)* 31 MARCH 2010

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of Rural Housing Loan Fund which comprise the directors' report, the statement of financial position as at 31 March 2010, the statement of comprehensive income, statement of change in equity, statement of cash flow for the year then ended, a summary of significant accounting policies and explanatory notes as set out in pages 47 to 88.

## DIRECTORS' RESPONSIBILITY

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Practice and Generally Recognised Accounting Practice and in the manner required by the Public Finance Management Act (Act No.1 of 1999) and by the Companies Act of South Africa (Act No.61 of 1973). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No 31057 of 15 May 2008. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Rural Housing Loan Fund at 31 March 2010, and the results of their operations and cash flows for the year ended, in accordance with the Generally Accepted Accounting Practice and Generally Recognised Accounting Practice and in the manner required by the Public Finance Management Act (Act No.1 of 1999) and by the Companies Act of South Africa (Act No.61 of 1973).

# REPORT OF THE INDEPENDENT AUDITORS TO THE TO THE MINISTER OF HUMAN SETTLEMENTS AND MEMBERS OF RURAL HOUSING LOAN FUND *(Continued)* 31 MARCH 2010

## REPORT ON PERFORMANCE INFORMATION

We have performed procedures of an audit nature on the performance information set out on page 86.

## DIRECTORS' RESPONSIBILITY FOR THE PERFORMANCE INFORMATION

The Company's directors have additional responsibilities as required by section 55 (2) (a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

## AUDITOR'S RESPONSIBILITY

We conducted our engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No 25 of 2004) read with General Notice 616 of 2008, issued in Government Gazette No 31057 of 15 May 2008.

In terms of the foregoing our engagement entailed performing procedures of an audit nature to obtain an understanding of the internal controls relating to performance information, including the related systems, processes and procedures. Our procedures included conducting limited substantive procedures on the performance information. The procedures selected depend on the auditor's judgment.

We believe that the evidence we have obtained provides a basis for reporting material shortcomings in the process, systems and procedures of reporting against predetermined objectives that may come to our attention during the performance of our engagement and that may impact on the public interest, in the findings below.

## OPINION

In our opinion, the performance information presented on page 86, fairly presents in all material respects, the Rural Housing Loan Fund's performance for the year ended 31 March 2010 against predetermined objectives and is, where applicable consistent with that of the preceding year.



### GOBODO INC

Registered Auditor

### Per Chico Patel

Chartered Accountants (SA), Registered Auditor

Director, 10 August 2010

1<sup>st</sup> Floor, Block B, Empire Park, 55 Empire Road, Parktown, Johannesburg

# REPORT OF THE DIRECTORS

31 MARCH 2010

The directors have pleasure in presenting their report on the activities of the company for the year ended 31 March 2010.

## NATURE OF ACTIVITIES

The Rural Housing Loan Fund was incorporated in the Republic of South Africa in terms of Section 21 of the Companies Act on 19 August 1996, as an association not for gain. The Company is listed as a Schedule 3A public entity in terms of the Public Finance Management Act (Act No.1 of 1999).

The company operates its business in the Republic of South Africa and acts as a wholesale lender of funds to retail lending intermediaries which provide finance to low income persons living in rural areas, for purposes of providing or improving housing. The funds may also be applied to making Market Development grants designed to facilitate preparatory studies by intermediary institutions for developing new loan products or delivery mechanisms to fund rural housing.

## RESULTS OF OPERATIONS

The financial results of the company for the year, and its financial position at year-end are set out on pages 47 to 88.

## CONTROLLING ENTITY

The membership of the company consists of nominees of the Department of Human Settlements of the South African Government.

## ADDITIONAL FUNDING

During the 2009/2010 financial year the final drawdown on the loan facility with Development Bank of Southern Africa (DBSA) and Kreditanstalt für Wiederaufbau (KfW) was made. This amounted to R 20,1 million. No other funding was received during the current financial year.

## POST BALANCE SHEET EVENTS

No significant events occurred between year end and the date of this report.

## DIRECTORS EMOLUMENTS

### BOARD OF DIRECTORS

| Non Executives       | Directors Fees   | Executives   | Directors Fees                 |
|----------------------|------------------|--------------|--------------------------------|
| Ms T Memela-Khambule | R 4,000          | Mr JJ Fakazi | - Basic Salary R 685,560       |
| Mr M Pule            | R 16,000         |              | - Expenses Allowances R 48,000 |
| Mr M Silinga         | R 16,000         |              | - Medical Aid R 43,356         |
| Mr K Oliver          | R 44,000         |              | - Provident Fund R 123,216     |
| Mrs N Makiwane       | R 12,000         |              | - Incentive Bonus R 140,800    |
| Ms T Chiliza         | R 8,000          |              | <u>R 1,040,932</u>             |
| Mrs N Sihlwayi       | R 8,000          |              |                                |
| Ms G Mthethwa        | R 28,000         |              |                                |
|                      | <u>R 136,000</u> |              |                                |

The following non-executive directors fees were paid to the director's employer:

|              |                  |
|--------------|------------------|
| Mr M Hathorn | <u>R 32,000</u>  |
|              | <u>R 32,000</u>  |
| Total        | <u>R 168,000</u> |

## DIRECTORS' AND SECRETARY

### THE DIRECTORS IN OFFICE AS AT THE DATE OF THIS REPORT ARE:

| Chair   | Date Appointed   | Date Resigned    |
|---|------------------|------------------|
| Ms T Memela-Khambule                            | 27 May 1998      |                  |
|   |                  |                  |
| Executive Director                              | Date Appointed   | Date Resigned    |
| Mr JJ Fakazi ( Acting Chief Executive Director) | 05 January 2009  |                  |
|   |                  |                  |
| Non - Executive Director                        | Date Appointed   | Date Resigned    |
| Mr M Hathorn                                    | 27 May 1998      |                  |
| Mr M Pule                                       | 27 May 1998      |                  |
| Mr M Silinga                                    | 27 May 1998      |                  |
| Mr K Oliver                                     | 23 February 2000 |                  |
| Mr JH de V Botha                                | 24 February 2004 | 1 April 2009     |
| Mrs N Makiwane                                  | 27 July 2006     |                  |
| Ms T Chiliza                                    | 27 July 2006     |                  |
| Mrs N Sihlwayi                                  | 27 July 2006     |                  |
| Ms G Mthethwa                                   | 27 July 2006     | 16 March 2010    |
| Mr L Mashaba                                    | 27 March 2007    | 17 November 2009 |
|   |                  |                  |
| Company Secretary                               | Date Appointed   | Date Resigned    |
| Mr H Potgieter                                  | 01 October 2008  |                  |

### BUSINESS ADDRESS:

2<sup>nd</sup> Floor, Liberty Life Building  
 10 South Boulevard  
 BRUMA  
 2198

### POSTAL ADDRESS:

P O Box 645  
 BRUMA  
 2026

Website: [www.rhlf.co.za](http://www.rhlf.co.za)

# STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2010

|   |       | Group              | Group              | Company            | Company            |
|---|-------|--------------------|--------------------|--------------------|--------------------|
|   | NOTES | 2010               | 2009               | 2010               | 2009               |
|   |       | R                  | R                  | R                  | R                  |
| <b>ASSETS</b>                                       |       |                    |                    |                    |                    |
| <b>Non Current Assets</b>                           |       |                    |                    |                    |                    |
| Loans and receivables                               | 2     | 115,256,341        | 128,491,951        | 115,256,341        | 128,491,951        |
| Investments in associates                           | 3     | 3,150,198          | 2,427,598          | 250,951            | 250,951            |
| Property, plant and equipment                       | 4     | 126,720            | 225,106            | 126,720            | 225,106            |
| Intangible assets                                   | 5     | 11,083             | 13,165             | 11,083             | 13,165             |
| Held to maturity financial assets                   | 6     | -                  | -                  | -                  | -                  |
| Deferred tax asset                                  | 7     | 10,178,972         | 7,044,071          | 10,178,972         | 7,044,071          |
|   |       | 128,723,314        | 138,201,891        | 125,824,067        | 136,025,244        |
| <b>Current Assets</b>                               |       |                    |                    |                    |                    |
| Cash and cash equivalents                           | 8     | 103,291,849        | 68,091,864         | 103,291,849        | 68,091,864         |
| Loans and receivables                               | 2     | 67,515,731         | 62,281,056         | 67,515,731         | 62,281,056         |
| Other receivables and prepayments                   | 9     | 28,331,455         | 3,474,022          | 28,331,455         | 3,474,022          |
| Taxation receivable                                 | 7     | -                  | 646,992            | -                  | 646,992            |
| Available for sale financial assets                 | 10    | 1,481,590          | 7,363,943          | 1,481,590          | 7,363,943          |
|   |       | 200,620,625        | 141,857,877        | 200,620,625        | 141,857,877        |
| <b>TOTAL ASSETS</b>                                 |       | <b>329,343,939</b> | <b>280,059,768</b> | <b>326,444,692</b> | <b>277,883,121</b> |
| <b>EQUITY</b>                                       |       |                    |                    |                    |                    |
| Capital and reserves attributable to equity holders |       |                    |                    |                    |                    |
| Grant capital                                       | 11    | 154,762,590        | 154,762,590        | 154,762,590        | 154,762,590        |
| Retained earnings /(Accumulated deficit)            |       | 10,096,896         | (1,067,284)        | 7,197,649          | (3,243,931)        |
| Other reserves                                      |       | 23,014,494         | 5,234,344          | 23,014,494         | 5,234,344          |
| <b>TOTAL EQUITY</b>                                 |       | <b>187,873,980</b> | <b>158,929,650</b> | <b>184,974,733</b> | <b>156,753,003</b> |
| <b>LIABILITIES</b>                                  |       |                    |                    |                    |                    |
| Non Current Liabilities                             |       |                    |                    |                    |                    |
| Long term liabilities                               | 12    | 136,673,959        | 116,624,102        | 136,673,959        | 116,624,102        |
| <b>Current Liabilities</b>                          |       |                    |                    |                    |                    |
| Current portion of long term liabilities            | 12    | 2,968,207          | 3,002,656          | 2,968,207          | 3,002,656          |
| Taxation payable                                    | 7     | 45,667             | -                  | 45,667             | -                  |
| Provisions  | 13    | 920,864            | 891,845            | 920,864            | 891,845            |
| Trade and other payables                            | 14    | 861,262            | 611,515            | 861,262            | 611,515            |
|   |       | 4,796,000          | 4,506,016          | 4,796,000          | 4,506,016          |
| <b>TOTAL LIABILITIES</b>                            |       | <b>141,469,959</b> | <b>121,130,118</b> | <b>141,469,959</b> | <b>121,130,118</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                 |       | <b>329,343,939</b> | <b>280,059,768</b> | <b>326,444,692</b> | <b>277,883,121</b> |

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 MARCH 2010

|  |       | Group             |                  | Company           |                  |
|--|-------|-------------------|------------------|-------------------|------------------|
|  |       | 2010              | 2009             | 2010              | 2009             |
|  | NOTES | R                 | R                | R                 | R                |
| <b>REVENUE</b>                                 | 15    | 42,565,560        | 40,670,777       | 42,565,560        | 40,670,777       |
| Finance costs                                  | 16    | (9,842,384)       | (8,784,211)      | (9,842,384)       | (8,784,211)      |
| Net impairment of advances                     | 2     | (10,504,500)      | (8,820,514)      | (10,504,500)      | (8,820,514)      |
| <b>INTEREST MARGIN NET OF IMPAIRMENTS</b>      |       | 22,218,676        | 23,066,052       | 22,218,676        | 23,066,052       |
| Non interest income                            | 17    | -                 | 18,732           | -                 | 18,732           |
| Impairment of investments                      |       | -                 | (2,741,895)      | -                 | -                |
| Loss on foreign exchange differences           |       | (200,581)         | (1,557,182)      | (200,581)         | (1,557,182)      |
| <b>SURPLUS FROM OPERATIONS</b>                 |       | 22,018,095        | 18,785,707       | 22,018,095        | 21,527,602       |
| Operating expenses                             | 17    | (9,012,639)       | (9,693,473)      | (9,012,639)       | (9,693,473)      |
| <b>NET SURPLUS FROM OPERATIONS</b>             |       | 13,005,456        | 9,092,234        | 13,005,456        | 11,834,129       |
| Share of earnings from associate companies     | 3     | 722,600           | 1,696,487        | -                 | -                |
| <b>NET SURPLUS BEFORE TAXATION</b>             |       | 13,728,056        | 10,788,721       | 13,005,456        | 11,834,129       |
| Taxation                                       | 7     | (2,563,876)       | (2,358,435)      | (2,563,876)       | (2,358,435)      |
| <b>NET SURPLUS AFTER TAXATION</b>              |       | 11,164,180        | 8,430,286        | 10,441,580        | 9,475,694        |
| <b>OTHER COMPREHENSIVE INCOME</b>              |       |                   |                  |                   |                  |
| Available for sale investments                 |       | 17,780,150        | (125,758)        | 17,780,150        | (125,758)        |
| Realisation of available for sale assets       |       | 20,674,916        | -                | 20,674,916        | -                |
| Revaluation of available for sale assets       |       | -                 | (268,734)        | -                 | (268,734)        |
| Taxation                                       | 7     | (2,894,766)       | 142,976          | (2,894,766)       | 142,976          |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b> |       | <b>28,944,330</b> | <b>8,304,528</b> | <b>28,221,730</b> | <b>9,349,936</b> |

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 MARCH 2010

|   | Group              |                   |                   |                    |
|---|--------------------|-------------------|-------------------|--------------------|
|   | Grant capital      | Retained earnings | Other reserves    | Total              |
|   | R                  | R                 | R                 | R                  |
| <b>Balance at 31 March 2008</b>         | 154,762,590        | (9,497,570)       | 5,360,102         | 150,625,122        |
| Total comprehensive income for the year | -                  | 8,430,286         | (125,758)         | 8,304,528          |
| Surplus for the year                    | -                  | 8,430,286         | -                 | 8,430,286          |
| Other comprehensive income              | -                  | -                 | (125,758)         | (125,758)          |
| <b>Balance at 31 March 2009</b>         | 154,762,590        | (1,067,284)       | 5,234,344         | 158,929,650        |
| Total comprehensive income for the year | -                  | 11,164,180        | 17,780,150        | 28,944,330         |
| Surplus for the year                    | -                  | 11,164,180        | -                 | 11,164,180         |
| Other comprehensive income              | -                  | -                 | 17,780,150        | 17,780,150         |
| <b>Balance at 31 March 2010</b>         | <b>154,762,590</b> | <b>10,096,896</b> | <b>23,014,494</b> | <b>187,873,980</b> |

|   | Company            |                   |                   |                    |
|---|--------------------|-------------------|-------------------|--------------------|
|   | Grant capital      | Retained earnings | Other reserves    | Total              |
|   | R                  | R                 | R                 | R                  |
| <b>Balance at 31 March 2008</b>         | 154,762,590        | (12,719,625)      | 5,360,102         | 147,403,067        |
| Total comprehensive income for the year | -                  | 9,475,694         | (125,758)         | 9,349,936          |
| Surplus for the year                    | -                  | 9,475,694         | -                 | 9,475,694          |
| Other comprehensive income              | -                  | -                 | (125,758)         | (125,758)          |
| <b>Balance at 31 March 2009</b>         | 154,762,590        | (3,243,931)       | 5,234,344         | 156,753,003        |
| Total comprehensive income for the year | -                  | 10,441,580        | 17,780,150        | 28,221,730         |
| Surplus for the year                    | -                  | 10,441,580        | -                 | 10,441,580         |
| Other comprehensive income              | -                  | -                 | 17,780,150        | 17,780,150         |
| <b>Balance at 31 March 2010.</b>        | <b>154,762,590</b> | <b>7,197,649</b>  | <b>23,014,494</b> | <b>184,974,733</b> |

# STATEMENT OF CASH FLOW

## FOR THE YEAR ENDED 31 MARCH 2010

|   | NOTE | Group              |                   | Company            |                   |
|---|------|--------------------|-------------------|--------------------|-------------------|
|   |      | 2010<br>R          | 2009<br>R         | 2010<br>R          | 2008<br>R         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |      | 15,093,347         | (36,386,924)      | 15,093,347         | (36,386,924)      |
| Cash utilised in operations                                   |      | 12,398,775         | (43,183,988)      | 12,398,775         | (43,183,988)      |
| Loan interest received  |      | 31,970,104         | 30,497,624        | 31,970,104         | 30,497,624        |
| Interest paid   |      | (9,405,172)        | (7,996,371)       | (9,405,172)        | (7,996,371)       |
| Cash paid to employees and suppliers                          |      | (7,309,861)        | (13,812,027)      | (7,309,861)        | (13,812,027)      |
| Loan and receivables disbursed                                |      | (57,000,000)       | (85,792,298)      | (57,000,000)       | (85,792,298)      |
| Loan capital received   |      | 54,143,704         | 33,919,084        | 54,143,704         | 33,919,084        |
| Investment interest received                                  |      | 7,627,464          | 9,189,038         | 7,627,464          | 9,189,038         |
| Dividends received  |      | 2,948,063          | 912,148           | 2,948,063          | 912,148           |
| Taxation paid   | 7    | (7,880,955)        | (3,304,122)       | (7,880,955)        | (3,304,122)       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |      | (27,264)           | (86,003)          | (27,264)           | (86,003)          |
| Acquisition of property, plant and equipment                  | 4    | (20,425)           | (97,408)          | (20,425)           | (97,408)          |
| Acquisition of intangible assets                              | 5    | (6,839)            | -                 | (6,839)            | -                 |
| Proceeds on disposal of property, plant and equipment         |      | -                  | 11,405            | -                  | 11,405            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |      | 20,133,902         | -                 | 20,133,902         | -                 |
| Proceeds from borrowings                                      |      | 20,133,902         | -                 | 20,133,902         | -                 |
| <b>Net increase / (decrease) in cash and cash equivalents</b> |      | 35,199,985         | (36,472,927)      | 35,199,985         | (36,472,927)      |
| Cash and cash equivalents at beginning of period              |      | 68,091,864         | 104,564,791       | 68,091,864         | 104,564,791       |
| <b>Cash and cash equivalents at end of period</b>             | 8    | <b>103,291,849</b> | <b>68,091,864</b> | <b>103,291,849</b> | <b>68,091,864</b> |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 1. ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

#### 1.1 General information

The Rural Housing Loan Fund (RHLF), registration number 1996/10988/08, is an association not for gain incorporated under Section 21 of the Companies Act. The Company is listed as a Schedule 3A public entity in terms of the Public Finance and Management Act and resides under the executive authority of the Minister of Human Settlements.

The Company operates its business in the Republic of South Africa and acts as a wholesale lender of funds to retail lending intermediaries which provide finance to low income persons living in rural areas, for purposes of providing or improving housing.

#### 1.2 Basis of preparation

The financial statements have been prepared in accordance with South African Statements of General Accepted Accounting Practice and Statements of Generally Recognised Accounting Practice.

The financial statements have been prepared on the historical cost basis, except where otherwise indicated.

The accounting policies adopted and applied in the company's annual financial statements are consistent, in all material respects, with those of the previous financial year.

The financial statements have been prepared in South African Rands.

#### 1.3 Use of estimates, judgments and assumptions made in the preparation of the financial statements

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgment are inherent in the formation of estimates. The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below.

##### Impairment of loans and receivables

Management have estimated future cash flows and discounted these cash flows at the effective interest rate of the related loans and receivables. Shortfalls between these discounted cash flows and the gross carrying values have been raised as impairments. Objective evidence utilised in assessing future cash flows arise from the scrutiny of the clients underlying debtors book's, collection experience, vintage analysis and management accounts. Further details on the impairment provision are contained in note 2.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### AVAILABLE FOR SALE FINANCIAL ASSETS

The value of available for sale financial assets has been determined by reference to similar transactions in similar instruments. This was necessary as these financial assets are unlisted and consequently do not have a readily observable market price. Further details are disclosed in note 10.

### DEFERRED TAX ASSET

Management have recognised deferred income tax assets for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. Further details are disclosed in note 7.

### OTHER

Other judgments made relate to classifying financial assets and liabilities into categories.

#### 1.4 Financial Instruments

Financial instruments are contracts that give rise to both a financial asset to one entity and a financial liability or equity instrument to another. Financial instruments carried on the statement of financial position include cash and cash equivalents, loans and receivables, available for sale investments, held to maturity investments and trade and other payables. Financial instruments are recognised at fair value on the statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are derecognised when, and only when, the company loses control of the contractual rights that comprise the financial asset through realisation, expiration or surrender. Financial liabilities are derecognised when, and only when, the liability is extinguished, either through settlement, cancellation or expiration. Gains or losses on derecognition are recognised as part of net profit at the date of derecognition.

The company classifies its financial assets in the following categories:

- At fair value through profit and loss,
- Held to maturity,
- Loans and receivables and
- Available for sale

The company classifies its financial liabilities as, at fair value through profit and loss.

The classification depends on the purpose for which the company acquired the financial instrument.

##### 1.4.1 Financial assets at fair value through profit and loss

Cash and cash equivalents are classified as financial assets at fair value through profit and loss. Cash and cash equivalents consist of cash in banks and short term deposits.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

Cash and cash equivalents are measured at their fair value, with gains and losses recognized in profit and loss.

Interest income, calculated on the effective interest rate method, is included in revenue.

### **1.4.2 Held to maturity**

Held to maturity investments are non-derivative instruments with a fixed maturity date and where the company has a firm intention and the ability to hold investments to such date.

These investments are initially measured at the fair value including any transaction costs. These investments are subsequently held at amortised cost and reviewed for impairment where appropriate.

Dividend income is recognized when the company's right to payment has been established and it is included in revenue.

### **1.4.3 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money directly to a debtor with no intention to trade the receivable.

Loans and receivables are measured at fair value upon initial recognition and subsequently at amortised cost using the effective interest method, less any impairment losses.

Interest income, calculated on the effective interest rate method, is included in revenue.

Other receivables are classified as originated by the company. These are initially measured at the fair value required to originate the receivable, including any transaction costs. Other receivables are subsequent to initial recognition measured at amortised cost.

### **1.4.4 Available for sale financial assets**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Investments which have no fixed date of maturity and investments where less than 20% of the investee is held are classified as available for sale. These instruments are held for indefinite periods and may be sold in response to changes in economic conditions.

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised in other comprehensive income and accumulated in equity under other reserves.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

For investments where there is no quoted market price, fair value is determined by applying recognised valuation techniques. Standard methods applied include reference to the discounted expected cash flows of the underlying net asset base of the investment and recent transactional price data of trades within the instrument.

### **1.4.5 Financial liabilities at fair value through profit and loss**

Significant financial liabilities including trade and other payables are classified as financial liabilities at fair value through profit and loss.

These are initially measured at the fair value required to originate the payable, including any transaction costs. Subsequent to initial recognition these are measured at amortised cost.

Interest expense, calculated using the effective interest method, is included in finance cost.

## **1.5 Impairment**

Financial assets are impaired if their carrying amount is greater than their estimated recoverable amount.

Assets that are individually significant are considered separately for impairment.

A previously recognized impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized in prior years.

### **1.5.1 Impairment of other financial assets carried at amortised cost**

The company calculates the impairment loss for assets carried at amortised cost as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. Impairment loss is recognised in the statement of comprehensive income.

### **1.5.2 Impairment of held to maturity financial assets**

Impairment losses are recognized on financial assets held to maturity when there is objective evidence of impairment.

An impairment loss is recognized in profit and loss when the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount is calculated as the present value of estimated future cash flows discounted at the original effective interest rate of the instrument.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

The company uses the following criteria to determine whether there is objective evidence of impairment:

- The issuer of an instrument experiences financial difficulty,
- There is a breach of the contract,
- Interest rates significantly increases during the given financial period, and
- The overall economic circumstances are adverse.

### **1.5.3 Impairment of loans and receivables financial assets**

Loans and receivables are stated net of specific impairments. An impairment of loans and receivables is made if there is objective evidence that the company will be unable to collect all amounts due on a claim according to the original contractual terms. Loans and receivables are subjected to regular evaluations that take cognisance of, inter alia, past experience, the customer's overall risk profile and payment record and the realisable value of any collateral.

Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and advances and its estimated recoverable amount. The estimated recoverable amount is the present value of expected future cash flows excluding those which may result from restructuring, liquidation or collateral held.

All impaired loans and receivables are reviewed on a regular basis and any changes to the amount and timing of the expected future cash flows compared with previous estimates can result in a change to the charge for impairment of loans and receivables in the statement of comprehensive income.

The carrying value of impaired financial assets is reduced directly only when a write off takes place. In all other circumstances an allowance account is used for movement of carrying value. No amounts are ever written off directly against the allowance account.

### **1.5.4 Impairment of available for sale financial assets**

An available for sale financial asset is impaired when there is a significant or prolonged decline in the fair value of the asset below its cost price or amortised cost. At such a point, any cumulative gains or losses that have been accumulated in equity are removed from equity as a reclassification adjustment and are recognized in profit or loss. Any subsequent impairment losses are recognized directly in profit or loss.

### **1.5.5 Impairment of other assets**

The carrying amounts of the company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 1.5.6 Associates

After the application of the equity method, a determination of whether an additional impairment loss is required through the use of any objective evidence. If this is the case, impairment is calculated as the difference between the fair value of the associate and the acquisition cost and is recognised in the statement of comprehensive income.

## 1.6 Consolidation

### SUBSIDIARIES

Subsidiaries are all entities over which the company has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally in conjunction with the shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls the other entity. Subsidiaries are fully consolidated from the date on which control is transferred to the company and deconsolidated from the date that control ceases.

At company level, investments in subsidiaries are held at cost less any accumulated impairment.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the company. The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred at the date of exchange plus any attributable costs. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the company's share of identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly to the statement of comprehensive income.

Intercompany transactions, balances and income and expenses are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Currently the company has no subsidiaries.

### INVESTMENT IN ASSOCIATES

Associates are entities in which the company has a long term investment and over which the company has the power to exercise significant influence over the financial and operating policies. Associates are neither subsidiaries nor joint ventures. Significant influence is normally evidenced by ownership of 20% or more of the company's voting rights. The financial statements of the associate are used by the company to apply the equity method of accounting. If the most recent available financial statements are for an accounting period which ended more than three months prior to company's year-end, then the most recently available management accounting results have been brought into account.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

The investments in associates are carried in the statement of financial position at cost plus post acquisition changes in the company's share of net assets of the associates, less any impairment value. The statement of comprehensive income reflects the share of the results of operations of the associates.

Where the company's share of losses of an associate exceeds the carrying amount of the associate, the associate is carried at nil. Additional losses are only recognised to the extent that the company has incurred obligations or made payments on behalf of the associate.

The investments in associates in the separate financial statements of the company are carried at cost less any associated impairment.

### 1.7 Goodwill and negative goodwill

Goodwill is an excess of the cost of an acquisition over the entity's interest in the fair value of the net identifiable assets and liabilities acquired.

Goodwill is carried at cost, less accumulated amortisation and accumulated impairment losses. In accordance with IFRS3, the amortisation of goodwill ceased with effect from 1 April 2004. Previously goodwill was amortised using the straight line method over the estimated useful life. The carrying amount of goodwill is reviewed annually for indications of impairment or changes in estimated future benefits. A write down is made if the carrying amount exceeds the recoverable amount.

Negative goodwill arising on an acquisition represents any excess of the fair value of the company's share of the net identifiable assets acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, it is recognised in the statement of comprehensive income when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the statement of comprehensive income over the weighted average useful life of those assets. The balance of negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the statement of comprehensive income.

### 1.8 Property, Plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on historical cost using the straight-line basis over the expected economic life, using the following depreciation rates:

|                        |        |
|------------------------|--------|
| Computer hardware      | 33.33% |
| Furniture and fittings | 16.67% |
| Leasehold improvements | 33.33% |
| Motor vehicles         | 20.00% |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

The residual values and useful lives of the assets are reassessed annually for any changes. The impact thereof is recognised in the statement of comprehensive income.

The carrying values of plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate the carrying value may not be recoverable (whichever is earlier). If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to the recoverable amount. The recoverable amount is the greater of the net selling price and value in use.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Impairment losses are recognised in the statement of comprehensive income.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognised.

### 1.9 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets, acquired in a business combination is considered fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life reflect the expected pattern of consumption of future economic benefits embodied in the asset and are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets. The current rate of amortisation for the intangible asset of computer software is 33% per annum.

Intangible assets with indefinite useful lives are tested for impairment annually, individually or in the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continue to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 1.10 Provisions

Provisions are recognised when the Company has a present obligation, either legal or constructive, as a result of a past event, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in provision due to the passage of time is recognised as a finance cost.

### 1.11 Revenue recognition

Revenue comprises interest received on advances and investment income. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

The following specific criteria must also be met before revenue is recognised:

- Interest is recognised on the time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity. In terms of AC133, interest is also accrued in respect of impaired advances, based on the original effective interest rate used to determine the recoverable amount.
- Dividends are recognised when the right to receive payment is established.

The company's turnover relates mainly to its lending and investing activities, and comprises interest from funds invested.

### 1.12 Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. Gains and losses arising on translation are credited to or charged against income. The functional currency and presentation currency of the Company is the South African Rand (R).

### 1.13 Leases

The Company classifies leases of assets where the lessor effectively retains the risks and rewards associated with ownership as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term. Nominal rentals due after year end are reflected under commitments.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 1.14 Tax

#### CURRENT TAXATION

The charge for current tax is based on the results as adjusted for items which are not taxable or disallowed. It is calculated using tax rates that have been enacted at the statement of financial position date.

#### DEFERRED TAXATION

Deferred income tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Income tax relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 1.15 Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation.

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All irregular and fruitless and wasteful expenditure is charged against income in the period in which they are incurred.

No instances of fruitless and wasteful expenditure have occurred.

### 1.16 Retirement benefits

Contributions to the defined contribution fund are charged as an expense in the period in which they are incurred.

### 1.17 Related party transactions

All related party transactions are at arm's length and in the ordinary course of business.

### 1.18 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs are not directly attributed to the acquisition, construction or production of qualifying assets, and are therefore not capitalised to the cost of these assets.

### 1.19 New Accounting Standards

The following standards have been issued but are not yet effective and will be applicable to the company:

|          |  |
|----------|--|
| GRAP 24  | Presentation of budget information in financial statements |
| GRAP 25  | Employee Benefits  |
| GRAP 26  | Impairment of cash-generating asset                        |
| GRAP 104 | Financial Instruments                                      |

These accounting standards will have no financial impact on future financial statements but will require additional disclosures.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

## 2. LOANS AND RECEIVABLES

### 2.1 Gross loans and receivables

|                  | Group<br>2010<br>R | Group<br>2009<br>R | Company<br>2010<br>R | Company<br>2009<br>R |
|------------------|--------------------|--------------------|----------------------|----------------------|
| Opening balance  | 227,911,016        | 176,037,802        | 227,911,016          | 176,037,802          |
| Disbursements    | 57,000,000         | 85,792,298         | 57,000,000           | 85,792,298           |
| Interest accrued | 31,970,104         | 30,497,624         | 31,970,104           | 30,497,624           |
| Receipts         | (86,113,808)       | (64,416,708)       | (86,113,808)         | (64,416,708)         |
| Disposed         | (352,731)          | -                  | (352,731)            | -                    |
| Closing balance  | 230,414,581        | 227,911,016        | 230,414,581          | 227,911,016          |

#### Less: Impairment provision

|                    |              |              |              |              |
|--------------------|--------------|--------------|--------------|--------------|
| Opening balance    | (37,138,009) | (28,317,495) | (37,138,009) | (28,317,495) |
| Impairments raised | (10,504,500) | (8,820,514)  | (10,504,500) | (8,820,514)  |
| Closing balance    | (47,642,509) | (37,138,009) | (47,642,509) | (37,138,009) |

#### Less: Balance transferred to current assets

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
|  | (67,515,731) | (62,281,056) | (67,515,731) | (62,281,056) |
|--|--------------|--------------|--------------|--------------|

#### Net loans and receivables

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
|  | 115,256,341 | 128,491,951 | 115,256,341 | 128,491,951 |
|--|-------------|-------------|-------------|-------------|

### 2.2 Statement of financial performance charges

#### Loans and receivables

|                    |            |           |            |           |
|--------------------|------------|-----------|------------|-----------|
| Impairments raised | 10,504,500 | 8,820,514 | 10,504,500 | 8,820,514 |
|                    | 10,504,500 | 8,820,514 | 10,504,500 | 8,820,514 |

### 2.3 Maturity analysis of loan and receivables

|                   | Group and Company |             |                |             |
|-------------------|-------------------|-------------|----------------|-------------|
|                   | 2010              |             |                |             |
|                   | R                 |             |                |             |
|                   | Within 1 year     | 1 - 2 years | Beyond 2 years | Total       |
| Repayment profile | 67,515,731        | 80,553,684  | 82,345,166     | 230,414,581 |
|                   | 2009              |             |                |             |
|                   | R                 |             |                |             |
|                   | Within 1 year     | 1 - 2 years | Beyond 2 years | Total       |
| Repayment profile | 62,281,056        | 99,648,907  | 65,981,053     | 227,911,016 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 2.4 Terms and conditions of loans and receivables

Loan and receivables are made to clients to fund end user loans. The repayment term of loan advances are linked to the repayment term of the underlying end user loans. Interest rates are determined by the Bond Exchange of South Africa yield curve for the same maturity plus a risk margin.

### 2.5 Key assumptions

Key assumptions to the valuation of the loans and receivables portfolio relate to the impairment provision. Management have estimated future cash flows and discounted these cash flows at the effective interest rate of the related loans and receivables. Any shortfall between these discounted cash flows and the gross carrying value have been raised as impairments. Objective evidence utilised in assessing future cash flows arise from the scrutiny of the clients underlying debtors book's, collection experience, vintage analysis and management accounts.

### 2.6 Collateral

Loans and receivable are secured by the underlying loans and receivable books of the company's clients. The end user loans that make up these loans receivable books are unsecured.

### 2.7 Subordinated loans

Included within the loans and receivable balance are subordinated loans in favour of other creditors at clients amounting to R62 million (2009: R56 million). These loans carry higher credit risk due to their backranking to other creditors. The pricing of these loans reflects these additional risks.

### 2.8 Concentration risk

The loans and receivables portfolio is subject to client concentration risk which is mitigated by exposure limits as described in more detail in note 25. The loans and receivables portfolio is further subject to industry concentration risk which arises through exposure to the housing microfinance sector. This risk is not mitigated and is accepted in terms of the company's mandate from its members.

### 2.9 Cession to the Development Bank of Southern Africa

The loan agreement with the Development Bank of Southern Africa (DBSA), allows DBSA to take cession of the loans and receivables if RHLF defaults on the loan agreement. Refer to note 12.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 3. INVESTMENT IN ASSOCIATES

#### 3.1 Carrying amount of associates

##### 2010

Carrying amount analysis

|  | Lendcor<br>(Pty) Ltd<br>R | Norufin<br>Housing<br>(Pty) Ltd<br>R | Indlu<br>Finance<br>(Pty) Ltd<br>R | Total<br>R |
|--|---------------------------|--------------------------------------|------------------------------------|------------|
| Carrying amount at the beginning of the year | 2,427,598                 | -                                    | -                                  | 2,427,598  |
| Share of earnings from associated companies  | 722,600                   | -                                    | -                                  | 722,600    |
| Carrying amount at the end of the year       | 3,150,198                 | -                                    | -                                  | 3,150,198  |

Summarised balance sheet as at 31 March 2010

|                         |             |   |             |              |
|-------------------------|-------------|---|-------------|--------------|
| Current assets          | 6,785,350   | - | 212,648     | 6,997,998    |
| Non-current assets      | 3,062,880   | - | 4,404,190   | 7,467,070    |
| Current liabilities     | (660,653)   | - | (10,914)    | (671,567)    |
| Non-current liabilities | (7,228,647) | - | (4,016,009) | (11,244,656) |
| Net asset value         | 1,958,930   | - | 589,915     | 2,548,845    |

Share of aggregate post acquisition reserves of associates for 2010

|  |           |   |   |           |
|--|-----------|---|---|-----------|
|  | 2,899,247 | - | - | 2,899,247 |
|--|-----------|---|---|-----------|

##### 2009

Carrying amount analysis

|  |           |             |   |             |
|--|-----------|-------------|---|-------------|
| Carrying amount at the beginning of the year | 2,005,487 | 1,467,519   | - | 3,473,006   |
| Share of earnings from associated companies  | 422,111   | 1,274,376   | - | 1,696,487   |
| Impairment of investment                     | -         | (771,895)   | - | (771,895)   |
| Derecognition of investment                  | -         | (1,970,000) | - | (1,970,000) |
| Carrying amount at the end of the year       | 2,427,598 | -           | - | 2,427,598   |

Summarised balance sheet as at 31 March 2009

|                         |             |   |             |              |
|-------------------------|-------------|---|-------------|--------------|
| Current assets          | 9,200,648   | - | 261,411     | 9,462,059    |
| Non-current assets      | 294,444     | - | 4,330,041   | 4,624,485    |
| Current liabilities     | (783,872)   | - | (51,233)    | (835,105)    |
| Non-current liabilities | (6,822,677) | - | (3,580,521) | (10,403,199) |
| Net asset value         | 1,888,543   | - | 959,698     | 2,848,241    |

Share of aggregate post acquisition reserves of associates for 2009

|  |           |   |         |           |
|--|-----------|---|---------|-----------|
|  | 2,176,647 | - | 401,968 | 2,578,615 |
|--|-----------|---|---------|-----------|

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 3.2 Related party disclosures with associates

#### 2010

|  | Group                |                            |              |
|--|----------------------|----------------------------|--------------|
|  | Lendcor (Pty)<br>Ltd | Indlu Finance<br>(Pty) Ltd | Total        |
|  | R                    | R                          | R            |
| Interest bearing loans and receivables | 35,342,647           | 20,159,124                 | 55,501,771   |
| Provision for doubtful debts           | -                    | (16,795,047)               | (16,795,047) |
| Disbursements to associate             | 8,500,000            | 6,000,000                  | 14,500,000   |
| Receipts from associate                | 7,199,902            | 4,933,474                  | 12,133,376   |

#### 2009

|  |            |              |              |
|--|------------|--------------|--------------|
| Interest bearing loans and receivables | 29,478,865 | 17,143,320   | 46,622,185   |
| Provision for doubtful debts           | -          | (12,147,612) | (12,147,612) |
| Disbursements to associate             | 5,000,000  | 7,950,000    | 12,950,000   |
| Receipts from associate                | 5,122,908  | 6,333,823    | 11,456,731   |

The interest bearing loans and receivables arose from loan facilities granted to these clients. The advances are secured by cession of the clients underlying debtors books. Settlement of these advances arises in the form of cash receipts.

### 3.3 List of significant unlisted associates

#### 2010

##### Group

|                       | Lendcor (Pty)<br>Ltd | Indlu Finance<br>(Pty) Ltd | Total     |
|-----------------------|----------------------|----------------------------|-----------|
|                       | R                    | R                          | R         |
| Effective holding     | 20%                  | 15%                        |           |
| Number of shares held | 501                  | 300,000                    |           |
| Carrying amount       | 3,150,198            | -                          | 3,150,198 |
| Directors' valuation  | 3,150,198            | -                          | 3,150,198 |

##### Company

|                      |         |           |           |
|----------------------|---------|-----------|-----------|
| Cost                 | 250,951 | 300,000   | 550,951   |
| Less: Impairment     | -       | (300,000) | (300,000) |
| Carrying amount      | 250,951 | -         | 250,951   |
| Directors' valuation | 250,951 | -         | 250,951   |

#### 2009

##### Group

|                       |           |         |           |
|-----------------------|-----------|---------|-----------|
| Effective holding     | 20%       | 15%     |           |
| Number of shares held | 501       | 300,000 |           |
| Carrying amount       | 2,427,598 | -       | 2,427,598 |
| Directors' valuation  | 2,427,598 | -       | 2,427,598 |

##### Company

|                      |         |           |           |
|----------------------|---------|-----------|-----------|
| Cost                 | 250,951 | 300,000   | 550,951   |
| Less: Impairment     | -       | (300,000) | (300,000) |
| Carrying amount      | 250,951 | -         | 250,951   |
| Directors' valuation | 250,951 | -         | 250,951   |

The nature of the business of all associates is to provide finance to the low income market in respect of low cost housing. Indlu Finance (Pty) Ltd has an August year end and Lendcor (Pty) Ltd has a December year end. The results of the companies were accounted for until their respective year ends except for Indlu Finance (Pty) Ltd where management accounts were utilised for 6 months to report their current position.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 4. PROPERTY, PLANT AND EQUIPMENT

|                        | Group     |                             |                           |                           |
|------------------------|-----------|-----------------------------|---------------------------|---------------------------|
|                        | Cost      | Accumulated<br>Depreciation | 2010<br>Carrying<br>Value | 2009<br>Carrying<br>Value |
|                        | R         | R                           | R                         | R                         |
| Computer hardware      | 190,939   | 144,610                     | 46,329                    | 73,510                    |
| Leasehold Improvements | 59,703    | 39,802                      | 19,901                    | 43,782                    |
| Office equipment       | 120,218   | 74,522                      | 45,696                    | 64,866                    |
| Furniture and fittings | 537,777   | 522,983                     | 14,794                    | 23,518                    |
| Motor vehicles         | 166,545   | 166,545                     | -                         | 19,430                    |
|                        | 1,075,182 | 948,462                     | 126,720                   | 225,106                   |

#### MOVEMENT

|                      | Computer<br>Hardware | Leasehold<br>Improvements | Office<br>Equipment | Furniture &<br>Fittings | Motor<br>Vehicles | Total     |
|----------------------|----------------------|---------------------------|---------------------|-------------------------|-------------------|-----------|
|                      | R                    | R                         | R                   | R                       | R                 | R         |
| <b>31 March 2010</b> |                      |                           |                     |                         |                   |           |
| Opening balance      | 73,510               | 43,782                    | 64,866              | 23,518                  | 19,430            | 225,106   |
| Additions            | 11,890               | -                         | -                   | 8,535                   | -                 | 20,425    |
| Disposals            | -                    | -                         | -                   | -                       | -                 | -         |
| Depreciation         | (39,071)             | (23,881)                  | (19,170)            | (17,259)                | (19,430)          | (118,811) |
|                      | 46,329               | 19,901                    | 45,696              | 14,794                  | -                 | 126,720   |
| <b>31 March 2009</b> |                      |                           |                     |                         |                   |           |
| Opening balance      | 86,595               | -                         | 76,791              | 52,070                  | 52,739            | 268,195   |
| Additions            | 30,705               | 59,703                    | 7,000               | -                       | -                 | 97,408    |
| Disposals            | (9,423)              | -                         | -                   | -                       | -                 | (9,423)   |
| Depreciation         | (34,367)             | (15,921)                  | (18,925)            | (28,552)                | (33,309)          | (131,074) |
|                      | 73,510               | 43,782                    | 64,866              | 23,518                  | 19,430            | 225,106   |

Fully depreciated assets that are still in use amount to R 707,115.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

|                        | Company   |                             |                           |                           |
|------------------------|-----------|-----------------------------|---------------------------|---------------------------|
|                        | Cost      | Accumulated<br>Depreciation | 2010<br>Carrying<br>Value | 2009<br>Carrying<br>Value |
|                        | R         | R                           | R                         | R                         |
| Computer hardware      | 190,939   | 144,610                     | 46,329                    | 73,510                    |
| Leasehold Improvements | 59,703    | 39,802                      | 19,901                    | 43,782                    |
| Office equipment       | 120,218   | 74,522                      | 45,696                    | 64,866                    |
| Furniture and fittings | 537,777   | 522,983                     | 14,794                    | 23,518                    |
| Motor vehicles         | 166,545   | 166,545                     | -                         | 19,430                    |
|                        | 1,075,182 | 948,462                     | 126,720                   | 225,106                   |

### MOVEMENT

|                      | Computer<br>Hardware | Leasehold<br>Improvements | Office<br>Equipment | Furniture &<br>Fittings | Motor<br>Vehicles | Total     |
|----------------------|----------------------|---------------------------|---------------------|-------------------------|-------------------|-----------|
|                      | R                    | R                         | R                   | R                       | R                 | R         |
| <b>31 March 2010</b> |                      |                           |                     |                         |                   |           |
| Opening balance      | 73,510               | 43,782                    | 64,866              | 23,518                  | 19,430            | 225,106   |
| Additions            | 11,890               | -                         | -                   | 8,535                   | -                 | 20,425    |
| Disposals            | -                    | -                         | -                   | -                       | -                 | -         |
| Depreciation         | (39,071)             | (23,881)                  | (19,170)            | (17,259)                | (19,430)          | (118,811) |
|                      | 46,329               | 19,901                    | 45,696              | 14,794                  | -                 | 126,720   |
| <b>31 March 2009</b> |                      |                           |                     |                         |                   |           |
| Opening balance      | 86,595               | -                         | 76,791              | 52,070                  | 52,739            | 268,195   |
| Additions            | 30,705               | 59,703                    | 7,000               | -                       | -                 | 97,408    |
| Disposals            | (9,423)              | -                         | -                   | -                       | -                 | (9,423)   |
| Depreciation         | (34,367)             | (15,921)                  | (18,925)            | (28,552)                | (33,309)          | (131,074) |
|                      | 73,510               | 43,782                    | 64,866              | 23,518                  | 19,430            | 225,106   |

Fully depreciated assets that are still in use amount to R 707,115.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

## 5. INTANGIBLE ASSETS

|                   | Group   |                          |                     |                     |
|-------------------|---------|--------------------------|---------------------|---------------------|
|                   | Cost    | Accumulated Amortisation | 2010 Carrying Value | 2009 Carrying Value |
|                   | R       | R                        | R                   | R                   |
| Computer software | 321,853 | 310,770                  | 11,083              | 13,165              |
|                   | 321,853 | 310,770                  | 11,083              | 13,165              |

### MOVEMENT

#### 31 March 2010

Opening balance  
Additions  
Amortisation

| Computer Software | Total   |
|-------------------|---------|
| R                 | R       |
| 13,165            | 13,165  |
| 6,839             | 6,839   |
| (8,921)           | (8,921) |
| 11,083            | 11,083  |

#### 31 March 2009

Opening balance  
Additions  
Amortisation

| R       | R       |
|---------|---------|
| 21,398  | 21,398  |
| -       | -       |
| (8,233) | (8,233) |
| 13,165  | 13,165  |

Fully amortised assets that are still in use amount to R 294,906.

|                   | Company |                          |                     |                     |
|-------------------|---------|--------------------------|---------------------|---------------------|
|                   | Cost    | Accumulated Amortisation | 2010 Carrying Value | 2009 Carrying Value |
|                   | R       | R                        | R                   | R                   |
| Computer software | 321,853 | 310,770                  | 11,083              | 13,165              |
|                   | 321,853 | 310,770                  | 11,083              | 13,165              |

### MOVEMENT

#### 31 March 2010

Opening balance  
Additions  
Amortisation

| Computer Software | Total   |
|-------------------|---------|
| R                 | R       |
| 13,165            | 13,165  |
| 6,839             | 6,839   |
| (8,921)           | (8,921) |
| 11,083            | 11,083  |

#### 31 March 2009

Opening balance  
Additions  
Amortisation

| R       | R       |
|---------|---------|
| 21,398  | 21,398  |
| -       | -       |
| (8,233) | (8,233) |
| 13,165  | 13,165  |

Fully amortised assets that are still in use amount to R 294,906.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 6. HELD TO MATURITY FINANCIAL ASSETS

|   | Group     | Group     | Company   | Company   |
|---|-----------|-----------|-----------|-----------|
|   | 2010      | 2009      | 2010      | 2009      |
|   | R         | R         | R         | R         |
| Preference shares                           |           |           |           |           |
| Opening balance                             | 4,850,000 | 2,880,000 | 4,850,000 | 2,880,000 |
| Recognition of preference shares            | -         | 1,970,000 | -         | 1,970,000 |
| Closing balance                             | 4,850,000 | 4,850,000 | 4,850,000 | 4,850,000 |
| Gross held to maturity assets               | 4,850,000 | 4,850,000 | 4,850,000 | 4,850,000 |
| Less: Impairment provision                  |           |           |           |           |
| Opening balance                             | 4,850,000 | 2,880,000 | 4,850,000 | 2,880,000 |
| Recognition of preference shares impairment | -         | -         | -         | -         |
| Impairments raised                          | -         | 1,970,000 | -         | 1,970,000 |
| Impairments reversed                        | -         | -         | -         | -         |
| Closing balance                             | 4,850,000 | 4,850,000 | 4,850,000 | 4,850,000 |
| Net held to maturity financial assets       | -         | -         | -         | -         |

#### Terms and conditions of preference shares

Preference share advances are made in instruments that are cumulative, convertible and redeemable. The dividend is linked to 75% of the prevailing prime rate from time to time and is redeemable in 4 equal tranches at a premium of 20%. The preference shares include an option exercisable by the holder to convert to ordinary shares in the event of a default by the issuer. Redemption commences in March 2011.

#### Estimated timing of future cash receipts

| Payment date | Estimated Cash flow |
|--------------|---------------------|
|              | R                   |
| Sep-10       | 163,875             |
| Mar-11       | 1,474,875           |
| Sep-11       | 163,875             |
| Mar-12       | 1,474,875           |
| Sep-12       | 163,875             |
| Mar-13       | 1,474,875           |
| Sep-13       | 163,875             |
| Mar-14       | 1,474,875           |
| Sep-14       | 163,875             |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 7. TAXATION

#### 7.1 Tax charge for the year

Tax charge to the income statement

South African Normal Taxation

- Current year

- Prior year

Deferred Taxation

- Current year

Tax charge to equity

South African Normal Taxation

- Current year

Deferred Taxation

- Current year

| Group | Group | Company | Company |
|-------|-------|---------|---------|
| 2010  | 2009  | 2010    | 2009    |
| R     | R     | R       | R       |

|             |           |             |           |
|-------------|-----------|-------------|-----------|
| 5,029,601   | 3,200,656 | 5,029,601   | 3,200,656 |
| 5,031,474   | 3,200,656 | 5,031,474   | 3,200,656 |
| (1,873)     | -         | (1,873)     | -         |
| (2,465,725) | (842,221) | (2,465,725) | (842,221) |
| (2,465,725) | (842,221) | (2,465,725) | (842,221) |
| 2,563,876   | 2,358,435 | 2,563,876   | 2,358,435 |
| 3,563,942   | -         | 3,563,942   | -         |
| 3,563,942   | -         | 3,563,942   | -         |
| (669,176)   | (142,976) | (669,176)   | (142,976) |
| (669,176)   | (142,976) | (669,176)   | (142,976) |
| 2,894,766   | (142,976) | 2,894,766   | (142,976) |

#### 7.2 Tax rate reconciliation

The applicable current tax rate is 28% (2009: 28%).

Effective tax rate

Temporary difference arising from non-deductible expenses

Permanent difference arising from non-taxable income

Permanent difference arising from prior periods

Statutory rate

|     |      |     |      |
|-----|------|-----|------|
| 16% | 22%  | 16% | 20%  |
| 1%  | (7%) | 1%  | (0%) |
| 11% | 7%   | 11% | 2%   |
| 0%  | 6%   | 0%  | 6%   |
| 28% | 28%  | 28% | 28%  |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

|  | Group      | Group     | Company    | Company   |
|--|------------|-----------|------------|-----------|
|  | 2010       | 2009      | 2010       | 2009      |
|  | R          | R         | R          | R         |
| <b>7.3 Deferred tax asset</b>  |            |           |            |           |
| The deferred tax balance consists of the following temporary difference: |            |           |            |           |
| - Loans and receivables impairment                                       | 10,004,927 | 7,798,982 | 10,004,927 | 7,798,982 |
| - Pre payments   | (23,374)   | (25,312)  | (23,374)   | (25,312)  |
| - Provisions   | 257,842    | -         | 257,842    | -         |
| - Deferred capital gains   | (60,423)   | (729,599) | (60,423)   | (729,599) |
|  | 10,178,972 | 7,044,071 | 10,178,972 | 7,044,071 |
| <b>7.4 Taxation paid</b>   |            |           |            |           |
| Amount receivable at beginning of year                                   | (646,992)  | (503,028) | (646,992)  | (503,028) |
| Interest accrued on amount receivable                                    | (19,929)   | (40,498)  | (19,929)   | (40,498)  |
| Current tax charge per income statement                                  | 8,593,543  | 3,200,656 | 8,593,543  | 3,200,656 |
| Amount receivable at end of year   | (45,667)   | 646,992   | (45,667)   | 646,992   |
| Taxation paid  | 7,880,955  | 3,304,122 | 7,880,955  | 3,304,122 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 8. CASH AND CASH EQUIVALENTS

|                              | Group              |                   | Company            |                   |
|------------------------------|--------------------|-------------------|--------------------|-------------------|
|                              | 2010               | 2009              | 2010               | 2009              |
|                              | R                  | R                 | R                  | R                 |
| Cash on hand                 | 314                | 461               | 314                | 461               |
| Investec Bank - South Africa | 99,458,387         | 47,378,986        | 99,458,387         | 47,378,986        |
| Standard Bank - Jersey       | 732,623            | 15,154,050        | 732,623            | 15,154,050        |
| Standard Bank - South Africa | 3,100,525          | 5,558,367         | 3,100,525          | 5,558,367         |
|                              | <u>103,291,849</u> | <u>68,091,864</u> | <u>103,291,849</u> | <u>68,091,864</u> |

Foreign balances of € 73,628 (2009: € 16,527) were translated at a rate of R9,918/€ (2009: R12.64/€). An amount of R 93 300 is ceded as security for a guarantee issued for the same amount as required by the terms of the building lease.

### 9. OTHER RECEIVABLES AND PREPAYMENTS

|                          |                   |                  |                   |                  |
|--------------------------|-------------------|------------------|-------------------|------------------|
| Guarantee fee            | 1,337,978         | 1,893,684        | 1,337,978         | 1,893,684        |
| Deposits and prepayments | 83,477            | 90,399           | 83,477            | 90,399           |
| Other receivables        | 26,910,000        | 1,485,905        | 26,910,000        | 1,485,905        |
| Study loans              | -                 | 4,034            | -                 | 4,034            |
|                          | <u>28,331,455</u> | <u>3,474,022</u> | <u>28,331,455</u> | <u>3,474,022</u> |

Guarantee fee relates to a guarantee issued by the South African National Treasury on behalf of the Rural Housing Loan Fund in favour of the Development Bank Of Southern Africa for the €12,535 million loan from Kreditanstalt für Wiederaufbau (KfW). The fee is written off over the loan period of 30 years.

Deposits and prepayments are settled when the services are no longer required.

Other receivables are non interest bearing and are considered current and are not impaired.

Study loans are non interest bearing and are written off or recovered when the studies are completed.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 10. AVAILABLE FOR SALE FINANCIAL ASSETS

#### Unlisted investments

Carrying amount

| Group | Group | Company | Company |
|-------|-------|---------|---------|
| 2010  | 2009  | 2010    | 2009    |
| R     | R     | R       | R       |

|           |           |           |           |
|-----------|-----------|-----------|-----------|
|           |           |           |           |
| 1,481,590 | 7,363,943 | 1,481,590 | 7,363,943 |

#### 2010

| Name                     | Class of Investment | Number of shares | Effective Holding | Amount Invested | Carrying Amount | Amount Invested | Carrying Amount |
|--------------------------|---------------------|------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| Mafori Finance (Pty) Ltd | Ordinary            | 16               | 3.33%             | 1,000,000       | -               | 1,000,000       | -               |
| Izwe Loans (Pty) Ltd     | Ordinary            | 500              | 5.00%             | 50,000          | 1,481,590       | 50,000          | 1,481,590       |
|                          |                     |                  |                   | 1,050,000       | 1,481,590       | 1,050,000       | 1,481,590       |

The fair value for the available for sale investments was determined by reference to transactions and sale prices in these instruments and other valuation techniques.

#### 2009

| Name                                 | Class of Investment | Number of shares | Effective Holding | Amount Invested | Carrying Amount | Amount Invested | Carrying Amount |
|--------------------------------------|---------------------|------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| Bayport Financial Services (Pty) Ltd | Ordinary            | 1500             | 8.97%             | 350,000         | 5,882,353       | 350,000         | 5,882,353       |
| Mafori Finance (Pty) Ltd             | Ordinary            | 16               | 3.33%             | 1,000,000       | -               | 1,000,000       | -               |
| Izwe Loans (Pty) Ltd                 | Ordinary            | 500              | 5.00%             | 50,000          | 1,481,590       | 50,000          | 1,481,590       |
|                                      |                     |                  |                   | 1,400,000       | 7,363,943       | 1,400,000       | 7,363,943       |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

|                          | Group       |             | Company     |             |
|--------------------------|-------------|-------------|-------------|-------------|
|                          | 2010        | 2009        | 2010        | 2009        |
|                          | R           | R           | R           | R           |
| <b>11. GRANT CAPITAL</b> | 154,762,590 | 154,762,590 | 154,762,590 | 154,762,590 |

The agreement with the Kreditanstalt für Wiederaufbau (KfW) provides for the company to use the financial contributions exclusively for purposes qualifying in terms of the agreement. Further disclosures on the management of capital are included in note 25.

### 12. LONG TERM LIABILITIES

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Development Bank of Southern Africa            | 139,642,166 | 119,626,758 | 139,642,166 | 119,626,758 |
| Less amount transferred to current liabilities | (2,968,207) | (3,002,656) | (2,968,207) | (3,002,656) |
|  | 136,673,959 | 116,624,102 | 136,673,959 | 116,624,102 |

#### Contractual maturity analysis

##### Current

|               |           |           |           |           |
|---------------|-----------|-----------|-----------|-----------|
| Within 1 year | 2,968,207 | 3,002,656 | 2,968,207 | 3,002,656 |
|---------------|-----------|-----------|-----------|-----------|

##### Non current

|                  |             |             |             |             |
|------------------|-------------|-------------|-------------|-------------|
| Over 5 years     | 136,673,959 | 116,624,102 | 136,673,959 | 116,624,102 |
|                  | 136,673,959 | 116,624,102 | 136,673,959 | 116,624,102 |
| Total borrowings | 139,642,166 | 119,626,758 | 139,642,166 | 119,626,758 |

This loan arose as a result of a back to back loan agreement of €12,535 million between the Development Bank of Southern Africa (DBSA) and Kreditanstalt für Wiederaufbau (KfW). These funds were in turn the source of a Rand equivalent loan between the DBSA and RHLF. The loan bears interest at a fixed rate of 7.33% and interest is repayable half yearly on 15 June and 15 December. Capital is repayable in 41 equal half yearly instalments commencing on 15 December 2014. The loan agreement additionally allows DBSA to obtain security in the form of a cession of RHLF's loan receivables book and also provides for the recovery of guarantee costs. An amount of R1,5m has been provided for these costs in the outstanding balance. Refer to note 22 in respect of amounts paid to DBSA as a related party.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2010           | 2009           | 2010           | 2009           |
|  | R              | R              | R              | R              |
| <b>13. PROVISIONS</b>                  |                |                |                |                |
| Provision for leave pay                | 109,154        | 176,698        | 109,154        | 176,698        |
| Provision for incentive bonuses        | 811,710        | 715,147        | 811,710        | 715,147        |
|  | <b>920,864</b> | <b>891,845</b> | <b>920,864</b> | <b>891,845</b> |
| <b>Provision for leave pay</b>         |                |                |                |                |
| Opening balance                        | 176,698        | 247,156        | 176,698        | 247,156        |
| Leave raised                           | 169,020        | 372,117        | 169,020        | 372,117        |
| Leave utilised                         | (203,302)      | (259,702)      | (203,302)      | (259,702)      |
| Leave paid out                         | (33,262)       | (182,873)      | (33,262)       | (182,873)      |
| Closing balance                        | <b>109,154</b> | <b>176,698</b> | <b>109,154</b> | <b>176,698</b> |
| <b>Provision for incentive bonuses</b> |                |                |                |                |
| Opening balance                        | 715,147        | 874,044        | 715,147        | 874,044        |
| Bonus raised                           | 907,764        | 832,306        | 907,764        | 832,306        |
| Bonus paid out                         | (811,201)      | (991,203)      | (811,201)      | (991,203)      |
| Closing balance                        | <b>811,710</b> | <b>715,147</b> | <b>811,710</b> | <b>715,147</b> |

Leave pay provision is realised when employees take leave or terminate employment.

Provision for incentive bonuses is expected to be realised when bonuses are paid in the 2011 financial year.

### 14. TRADE AND OTHER PAYABLES

|                            |                |                |                |                |
|----------------------------|----------------|----------------|----------------|----------------|
| Trade payables             | 203,483        | 56,533         | 203,483        | 56,533         |
| Accrued expenses           | 624,699        | 519,637        | 624,699        | 519,637        |
| Accrual for lease payments | 33,080         | 35,345         | 33,080         | 35,345         |
|                            | <b>861,262</b> | <b>611,515</b> | <b>861,262</b> | <b>611,515</b> |

Accrued expenses include employee benefit accruals, audit fee accruals and sundry suppliers. These liabilities are normally settled within 30 days.

Accrual for lease payments is as a result of straight lining the office lease payments over the term of the agreement. Refer to note 19.2

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

|   | Group      | Group      | Company    | Company    |
|---|------------|------------|------------|------------|
|   | 2010       | 2009       | 2010       | 2009       |
|   | R          | R          | R          | R          |
| <b>15. REVENUE</b>                        |            |            |            |            |
| Interest on advances                      | 31,970,104 | 30,497,624 | 31,970,104 | 30,497,624 |
| Investment interest                       | 7,647,393  | 9,229,536  | 7,647,393  | 9,229,536  |
| Dividends received - Unlisted investments | 2,948,063  | 943,617    | 2,948,063  | 943,617    |
|   | 42,565,560 | 40,670,777 | 42,565,560 | 40,670,777 |
| <b>16. FINANCE COSTS</b>                  |            |            |            |            |
| Interest raised on borrowings             | 9,842,384  | 8,784,211  | 9,842,384  | 8,784,211  |

### 17. NET SURPLUS FROM OPERATIONS

Net surplus from operations includes amongst other:

#### Non Interest Income

|   |   |        |   |        |
|---|---|--------|---|--------|
| Sundry fees received                                | - | 16,750 | - | 16,750 |
| Profit on disposal of property, plant and equipment | - | 1,982  | - | 1,982  |
|   | - | 18,732 | - | 18,732 |

#### Operating expenses

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Auditor's remuneration   |           |           |           |           |
| - Current year audit fees  | 578,427   | 432,274   | 578,427   | 432,274   |
| Consulting and advisory services   |           |           |           |           |
| - Fees for services  | 314,408   | 376,013   | 314,408   | 376,013   |
| Depreciation and amortisation  | 127,732   | 139,307   | 127,732   | 139,307   |
| Directors fees - Non Executives  | 168,000   | 308,000   | 168,000   | 308,000   |
| Donations  | 22,000    | 71,000    | 22,000    | 71,000    |
| General administration   | 286,080   | 177,372   | 286,080   | 177,372   |
| Legal fees   | 79,025    | 125,686   | 79,025    | 125,686   |
| Marketing expenses   | 532,837   | 572,937   | 532,837   | 572,937   |
| Operating lease rentals - buildings                                      | 575,591   | 565,218   | 575,591   | 565,218   |
| Office expenses  | 740,054   | 848,295   | 740,054   | 848,295   |
| Staff Costs - The company has 8 full time employees. (2009: 8 employees) | 5,287,039 | 5,667,688 | 5,287,039 | 5,667,688 |
| - Salaries   | 4,560,293 | 4,984,365 | 4,560,293 | 4,984,365 |
| - Medical aid contributions  | 192,996   | 166,717   | 192,996   | 166,717   |
| - Provident fund contributions   | 533,750   | 516,606   | 533,750   | 516,606   |
| Travel and entertainment   | 301,446   | 409,683   | 301,446   | 409,683   |
|  | 9,012,639 | 9,693,473 | 9,012,639 | 9,693,473 |



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 20. RISKS ARISING FROM FINANCIAL INSTRUMENTS

The company has various financial assets such as loans and receivables, held to maturity investments, available for sale investments, investments in associates and cash and cash equivalents, which arise directly from its operations.

The company's principal financial liability comprises of long term borrowings.

The main risk arising from the company's financial instruments are credit risk, interest rate risk, liquidity risk and market risk.

#### 20.1 Credit risk

Financial assets, which could potentially subject the company to concentrations of credit risk, consist principally of loans and receivables. Loans and receivables are presented net of impairments. Credit risk with regard to loans and receivables is limited in terms of credit policy, which provides for prudent counter-party limits in respect of client exposures as a percentage of the total advances portfolio. The loans and receivables as at year-end reflect that the company has exposures within approved counter-party limits. Refer to note 25.

Further details on the exposure to credit risk with regard to loans and receivables, are provided in Note 2.

The company's cash equivalents and short-term deposits are placed with high credit quality financial institutions rated as at least A1 or better in terms of short-term credit ratings by at least two recognised rating agencies.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 20. RISKS ARISING FROM FINANCIAL INSTRUMENTS *(Continued)*

|  | Group        | Group        | Company      | Company      |
|--|--------------|--------------|--------------|--------------|
|  | 2010         | 2009         | 2010         | 2009         |
|  | R            | R            | R            | R            |
| <b>Credit quality of loans and receivables</b>   |              |              |              |              |
| Neither past due nor impaired                    | 164,442,207  | 150,562,669  | 164,442,207  | 150,562,669  |
| Past due but not impaired                        | -            | -            | -            | -            |
| Impaired   | 65,972,374   | 77,348,347   | 65,972,374   | 77,348,347   |
|  | 230,414,581  | 227,911,016  | 230,414,581  | 227,911,016  |
| Less: specific impairments                       | (47,642,509) | (37,138,009) | (47,642,509) | (37,138,009) |
| Net advances per statement of financial position | 182,772,072  | 190,773,007  | 182,772,072  | 190,773,007  |

The company's credit process considers the following to be key indicators of default:

- Evidence of financial distress when it is considered that the borrower is unlikely to pay its credit obligation in full.
- The debt is overdue
- Evidence that the value of the collateral is lower than the carrying value of the loan.

The fair value of collateral that the company holds relating to impaired loans and receivables at 31 March 2010 amounts to R18,3 million (2009: R40,2 million).

#### 20.2 Interest rate risk

The company's loans and receivables include loans with fixed rates of interest and loans which have an underlying reviewable margin above a fixed rate. The rates applicable to the loans with a reviewable margin are adjusted when such a review deems this necessary. The rates applicable to fixed interest rate loans are based on agreed market rates at the date of the disbursements and remain fixed for the full term of the loan.

The composition of the year end loans and receivables is as follows:

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Fixed rate advances                              | 75,137,721   | 29,873,486   | 75,137,721   | 29,873,486   |
| Semi fixed rate advances                         | 155,276,860  | 198,037,530  | 155,276,860  | 198,037,530  |
| Less: Impairments                                | (47,642,509) | (37,138,009) | (47,642,509) | (37,138,009) |
| Net advances per statement of financial position | 182,772,072  | 190,773,007  | 182,772,072  | 190,773,007  |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 20. RISKS ARISING FROM FINANCIAL INSTRUMENTS *(Continued)*

The company is neither exposed to significant interest rate risk nor is it exposed to significant cash flow risk. This arises from the manner in which disbursements are priced to clients. The interest rate on each disbursement is fixed for the period of the loan but each disbursement is priced according to prevailing market interest rates thereby tracking the yield curve.

|                             | Group      |               | Company    |               |
|-----------------------------|------------|---------------|------------|---------------|
|                             | Fixed Rate | Floating Rate | Fixed Rate | Floating Rate |
|                             | R          | R             | R          | R             |
| <b>2010</b>                 |            |               |            |               |
| Gross loans and receivables | 75,137,721 | 155,276,860   | 75,137,721 | 155,276,860   |
| Notice deposits             | -          | 91,387,751    | -          | 91,387,751    |
| Bank balances               | -          | 11,904,098    | -          | 11,904,098    |
|                             | 75,137,721 | 258,568,709   | 75,137,721 | 258,568,709   |
| <b>2009</b>                 |            |               |            |               |
| Gross loans and receivables | 29,873,485 | 198,037,530   | 29,873,485 | 198,037,530   |
| Notice deposits             | -          | 55,640,440    | -          | 55,640,440    |
| Bank balances               | -          | 12,451,424    | -          | 12,451,424    |
|                             | 29,873,485 | 266,129,394   | 29,873,485 | 266,129,394   |

|                           | Group       | Group       | Company     | Company     |
|---------------------------|-------------|-------------|-------------|-------------|
|                           | 2010        | 2009        | 2010        | 2009        |
|                           | R           | R           | R           | R           |
| Interest rate sensitivity |             |             |             |             |
| Loans and receivables     |             |             |             |             |
| 1% increase               | 2,137,837   | 2,054,977   | 2,137,837   | 2,054,977   |
| 1% decrease               | (2,137,837) | (2,054,977) | (2,137,837) | (2,054,977) |

The impact of 1% move in interest rates on profit before taxation, with all other variables held constant, is reflected above.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 20.3 Liquidity risk

Liquidity risk is the risk of failure to fund a cash shortfall as and when required, without incurring financial loss. It therefore encompasses both the risk of failing to obtain sufficient funds at favourable market rates, and the risk of failing to liquidate an asset in a timely manner, and without significant deviation from the prevailing market price. Liquidity risk at the company is managed within the framework of a conservative policy, which requires that the company at all times retain liquid assets equivalent to the sum of six months operating expenditure and six months disbursements. Liquidity risk management is performed by management. The liquidity is held primarily in the form of call deposits and notice deposits. In addition to ensuring that an adequate level of liquidity is maintained, the company further seeks to ensure a diverse range of funding sources.

Additional methodologies used to assess and monitor the company's liquidity requirements and risk levels include cash flow forecasts and cumulative maturity gap analyses. As at year end the company had outstanding commitments in respect of facilities granted of R56,4 million (2009: R28,8 million).

### 20.4 Market Risk

The company holds a small foreign exchange exposure amounting to €73 628 (2009: €16 527 ). A 5% move in the exchange rate would result in an exchange movement of R36 518 (2009:R10 445 ).

### 20.5 Fair Values

At 31 March 2010, the carrying amounts of cash and cash equivalents, trade and other payables and accrued expenses approximated their fair values due to the short maturity of these asset and liabilities.

### 21. RETIREMENT BENEFITS

Contributions paid over

|                         | Group<br>2010<br>R | Group<br>2009<br>R | Company<br>2010<br>R | Company<br>2009<br>R |
|-------------------------|--------------------|--------------------|----------------------|----------------------|
| Contributions paid over | 533,750            | 515,060            | 533,750              | 515,060              |

The Rural Housing Loan Fund Provident Fund is a defined contribution fund administered by Robson Savage, and is subject to the Pensions Fund Act of 1956. All 8 employees of the company participate in the fund and the company makes all contributions. The Rural Housing Loan Fund is not liable for post retirement benefits.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 22. RELATED PARTIES

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Related party relationships exist with associates listed in Note 3.2. Interest bearing loans have been extended to these entities and these loans are disclosed in the same note. Key management compensation and transactions with entities under common control are disclosed below.

|                                 | Group     | Group     | Company   | Company   |
|---------------------------------|-----------|-----------|-----------|-----------|
|                                 | 2010      | 2009      | 2010      | 2009      |
|                                 | R         | R         | R         | R         |
| <b>Key management personnel</b> |           |           |           |           |
| Short term benefits             | 1,620,792 | 1,488,393 | 1,620,792 | 1,488,393 |
| Post employment benefits        | 232,140   | 147,504   | 232,140   | 147,504   |
|                                 | 1,852,932 | 1,635,897 | 1,852,932 | 1,635,897 |

#### 2010

| Entities under common control | DBSA        | SARS      |
|-------------------------------|-------------|-----------|
| Transaction amount            | 9,405,172   | 9,224,816 |
| Outstanding balance           | 138,142,166 | (728,862) |

#### 2009

| Entities under common control | DBSA        | SARS      |
|-------------------------------|-------------|-----------|
| Transaction amount            | 7,996,371   | 4,855,137 |
| Outstanding balance           | 117,531,456 | (646,992) |

The relationship between the company and the disclosed entities under common control arises as a result of all the entities being owned by the South African government. The transactions with the DBSA are as a result of interest paid to this entity, the transactions with SARS relate to employee deductions and income tax.

### 23. MATERIALITY FRAMEWORK

The company has adopted a materiality framework which defines limits on levels of authorisation on significant transactions which require executive authority approval. The framework excludes disbursement transactions related to the business of the company as these transactions are in terms of the mandate approved by the executive authority.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

### 24. PERFORMANCE AGAINST BUDGET

The summarised performance for the current year against budget, as required by Section 55(2) of the PFMA, is presented below. This information is based on equity accounting for associates as presented within the company's approved corporate plans.

#### Budgeted and audited results for the year ended 31 March 2010.

|                                      | Actual<br>R       | Budget<br>R       |
|--------------------------------------|-------------------|-------------------|
| Finance revenue                      | 42,565,560        | 44,598,938        |
| Other income                         | 21,397,516        | 500,000           |
| <b>Total income</b>                  | <b>63,963,076</b> | <b>45,098,938</b> |
| Finance costs                        | (9,842,384)       | (10,202,843)      |
| Net impairment of advances           | (10,504,500)      | (8,705,500)       |
| Operating expenses                   | (9,012,639)       | (12,469,476)      |
| Loss on foreign exchange differences | (200,581)         | -                 |
| <b>Net Surplus before taxation</b>   | <b>34,402,972</b> | <b>13,721,119</b> |
| Taxation                             | (5,458,642)       | (3,841,913)       |
| <b>Surplus for the year</b>          | <b>28,944,330</b> | <b>9,879,206</b>  |

Key performance indicators

| Strategic goal  | Strategic objective                                    | Key performance indicator                          | Actual | Budget |
|---|--|--|--------|--------|
| Empower rural people to maximize their housing options and improve their living conditions with access to credit from sustainable retail lenders. | Broaden and deepen the reach of rural housing finance. | Number of end-user loans per year                  | 33,112 | 37,400 |
|   |  | Value of cash disbursements (R millions)           | 57.0   | 75.9   |
|   |  | Value of total disbursements (R millions)          | 161.1  | 130.9  |
|   |  | % of disbursements outside Gauteng                 | 88%    | 70%    |
|   |  | % of lenders earning R3500 or less                 | 62%    | 58%    |
|   |  | % of lenders earning R6000 or more                 | 21%    | 18%    |
| Long term financial sustainability  | Real Capital Preservation                              | Operating cost as % of revenue net of finance cost | 28%    | 36%    |
|   |  | Loans receivable impairment                        | 21%    | 15%    |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2010

Explanations of variances:

- Finance revenue is lower than budget as a result of the following:  
Lower interest received on cash and cash equivalents as a result of the lower than expected interest rates.  
The economic down turn resulted in lower than budgeted disbursements, this further contributed to the erosion of RHLF's interest income.
- Other income was significantly higher than budget, this can all be attributed to the profit on the disposal of RHLF's investment in Bayport Finance (Pty) Ltd.
- Finance costs was slightly below budget due to a delay in the receipt of the final draw down on the soft loan from DBSA.
- Net impairments of advance were higher than budget. The economic downturn had an adverse affect on the quality of RHLF's security at a few clients. This resulted in a need to increase the impairment provision.
- Operating expenses were well below budget mainly due to savings on staff cost, marketing and travel expenditure.
- The lower than expected number of loans and cash disbursements was mainly due to the fact that circumstances outside of RHLF's control forced two clients to delay their drawdown's until the new financial year.

### 25. MANAGEMENT OF CAPITAL

The company considers its grant capital, accumulated surpluses and deficits, other reserves, interest bearing debt and committed long term funding as capital. Its main objectives in managing capital are to allow for the organic growth of the company, to honour its debt obligations and to safeguard the sustainability of the company. This is achieved by ensuring the following requirements are met:

- Equity investments may not exceed 10% of total capital
- No single equity exposure may exceed 2% of total capital
- Pilot loans may not exceed 15% of total capital
- No single debt exposure may exceed 15% of total capital

The company is also subject to a liquidity requirement to hold liquid funds amounting to the maximum of 6 months of disbursements and 6 months of operating expenditure or 30% of total capital.

Total capital inclusive of committed capital at year end amounted to R329,8 million.

### 26. PROCUREMENT FRAMEWORK

The company operates within the Preferential Procurement Regulations of the Preferential Procurement Policy Framework of Act 5 of 2000. It follows the 80/20 principle for all procurement exceeding R30 000 and falling below R500 000 and the 90/10 principle for all procurement exceeding R500 000.



# ANNUAL REPORT 2010

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**human settlements**

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