

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2008

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REPORT OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE NATIONAL HOME BUILDERS REGISTRATION COUNCIL FOR THE YEAR ENDED 31 MARCH 2008.

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the National Homebuilders Registration Council (NHBRC) which comprise the statement of financial position as at 31 March 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 68 to 106.

Responsibility of the accounting authority for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). 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
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

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 judgement, including the assessment of the risks of material misstatement



of 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 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
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the NHBRC as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the PFMA.

Emphasis of matter

Without qualifying my audit opinion, I draw attention to the following matter:

Restatement of corresponding figures

As disclosed in note 22 to the financial statements, the corresponding figures for 31 March 2007 were restated as a result of prior year errors in the financial statements of the NHBRC as well as changes in the accounting policies of the NHBRC during the current year.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Matters of governance

The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
<ul style="list-style-type: none"> The NHBRC had an audit committee in operation throughout the financial year. 	X	
<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	X	
<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8. 	X	
Internal audit		
<ul style="list-style-type: none"> The NHBRC had an internal audit function in operation throughout the financial year. 	X	
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	X	
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2. 	X	
Other matters of governance		
<ul style="list-style-type: none"> The annual financial statements were submitted for audit as per the legislated deadlines (section 55 of the PFMA). 		X
<ul style="list-style-type: none"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit. 		X
<ul style="list-style-type: none"> No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. 		X
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 	X	

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

I have reviewed the performance information as set out on pages 31 to 40.

Responsibility of the accounting authority for the performance information

The accounting authority has 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.

Responsibility of the Auditor-General

I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

AUDIT FINDINGS (PERFORMANCE INFORMATION)

Objectives reported in annual report, but not predetermined as per strategic plan

I draw attention to the fact that the objectives reported on in the annual report were different from predetermined objectives as per the strategic plan as required per section 55(2) (a) of the PFMA.

Lack of sufficient appropriate audit evidence

The JD Edwards system and manual supporting documents were two sources used to populate the data as recorded in the performance information report. A number of differences existed between the JD Edwards system and the manual supporting documents at year end. The differences were not supported by reconciliations and/or supporting documentation.

APPRECIATION

The assistance rendered by the staff of the NHBRC during the audit is sincerely appreciated

Auditor-General

Johannesburg
12 September 2008



AUDITOR-GENERAL

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

REPORT OF THE CHIEF EXECUTIVE OFFICER ON THE FINANCIAL STATEMENTS OF THE NATIONAL HOME BUILDERS REGISTRATION COUNCIL FOR THE YEAR ENDED 31 MARCH 2008

The Public Finance Management Act, 1999 (Act No. 1 of 1999), as amended, requires the Council members to ensure that NHBRC keeps full and proper records of its financial affairs. The annual financial statements should fairly present the state of affairs of the NHBRC, its financial results, its performance against predetermined objectives and its financial position at the end of the year in terms of generally accepted accounting practice.

The annual financial statements are the responsibility of Council. The external auditors are responsible for independently auditing and reporting on the financial statements. The Office of the Auditor-General has audited the financial statements and the Auditor-General's unqualified report appears on pages 61 to 64. The annual financial statements have been prepared in accordance with Statements of Generally Accepted Accounting Practice and the Housing Consumers Protection Measures Act. These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

To enable the Council to meet the above responsibilities, Council sets standards and implements systems of internal control and risk management that are designed to provide reasonable, but not absolute assurance against material misstatements and losses. The entity maintains internal financial controls to provide assurance regarding:

- The safeguarding of assets against unauthorized use or disposition; and
- The maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention or the overriding of controls. An effective system of internal controls therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, financial statement presentation. Furthermore, because of changes in conditions, the effectiveness of internal financial controls may vary over time.



The Council has reviewed the entity's systems of internal control and risk management for the period from 1 April 2007 to 31 March 2008. The Council is of the opinion that the entity's systems of internal control and risk management were effective for the period under review, other than for the material losses, and irregular, fruitless and wasteful expenditure referred to in note 21 to the financial statements.

In the opinion of the Council, based on the information available to date, the annual financial statements fairly present the financial position of the NHBRC at 31 March 2008 and the results of its operations and cash flow information for the year. The annual financial statements for the year ended 31 March 2008, set out on pages 67 to 70, were approved by the accounting authority in terms of section 51(1)(f) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), as amended, and are signed on its behalf by:

A handwritten signature in black ink, appearing to read "PNS Makgathe", is positioned above the name and title.

PNS Makgathe
Chief Executive Officer



STATEMENT OF RESPONSIBILITY

for the year ended 31 March 2008

The Council, which is the Accounting Authority of the National Home Builders Registration Council (NHBRC), is responsible for the preparation, integrity and fair presentation of the annual financial statements of the NHBRC.

The annual financial statements for the year ended 31 March 2008 presented on pages 68 to 106 have been prepared in accordance with:

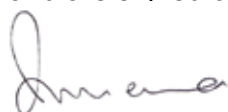
- The Housing Consumers Protection Measures Act No. 95 of 1998, (Act No. 95 of 1998)
- The Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Standards of Generally Recognised Accounting Practice; and
- South African Statements of Generally Accepted Accounting Practice.

They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates. The going concern basis has been adopted in preparing the annual financial statements. The Council has no reason to believe that the NHBRC will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

The Council is also responsible for the NHBRC's system of internal controls. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of assets. These controls are monitored throughout the NHBRC by management and employees, in an attempt to address the segregation of authority and duties with available resources. Processes are in place to monitor internal controls, to identify material breakdowns and implement timely corrective action.

The Council and NHBRC Management treat corporate governance matters seriously and whenever any instances of non-compliance to regulation are uncovered or reported, appropriate disciplinary measures in terms of policy and legislation are instituted.

The annual financial statements were approved by the Council on 01 October 2008 and are signed on its behalf:



S Nene
Chairperson: Council



PNS Makgathe
Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

as at 31 March 2008

	Notes	2008 R	Restated 2007 R
ASSETS			
Non-current assets			
Property, plant and equipment	2	26,800,220	10,085,467
Intangible assets	3	56,625,860	25,767,587
Investments	4	2,437,072,337	1,943,375,793
		<u>2,520,498,417</u>	<u>1,979,228,847</u>
Current assets			
Inventories	5	339,736	124,740
Trade and other receivables	6	12,882,690	2,367,079
Cash and cash equivalents	7	72,843,292	60,420,957
		<u>86,065,718</u>	<u>62,912,776</u>
Total assets		<u>2,606,564,135</u>	<u>2,042,141,623</u>
NET ASSETS			
Accumulated surplus		1,402,307,973	954,899,270
Other reserves	8	37,206,007	16,103,344
Non-distributable reserve	9	-	31,170,058
Total equity		<u>1,439,513,980</u>	<u>1,002,172,672</u>
LIABILITIES			
Non-current liabilities			
Provision for outstanding claims	10	47,309,552	47,887,169
Provision for unearned premium	10	870,449,816	876,430,357
Provision for unexpired risk	10	56,837,956	-
		<u>974,597,324</u>	<u>924,317,526</u>
Current liabilities			
Trade and other payables	11	184,252,831	107,151,425
Provisions	12	8,200,000	8,500,000
		<u>192,452,831</u>	<u>115,651,425</u>
Total net assets and liabilities		<u>2,606,564,135</u>	<u>2,042,141,623</u>

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2008

	Notes	2008 R	Restated 2007 R
Insurance Premium Revenue	13	548,156,708	355,402,198
Investment Income	15	177,330,055	127,674,309
Net Realised (Loss) /			
Gain On Financial Assets	14	(3,675,840)	2,949,800
Other Operating Income	15	51,774,365	44,251,936
Net Income		773,585,288	530,278,243
Insurance Claims and			
Loss Adjustment Expenses	16	3,421,057	9,700,596
Administration Expenses		216,665,890	146,220,299
Asset Management Services		4,978,124	3,612,232
Other Operating Expenses		63,955,648	45,332,142
Expenses		289,020,719	204,865,269
Results Of Operating Activities		484,564,569	325,412,974
Finance Costs	17	155,866	33,054
Net Surplus For The Year		484,408,703	325,379,920

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2008

	Accumulated surplus	Emerging contractor reserves	Non-distributable reserve	Total
	R	R	R	R
Balance at 31 March 2006	558,227,748	6,346,415	32,481,574	597,055,737
Restatement (note 22)	88,291,602	-	-	88,291,602
Balance at				
31 March 2006 restated	<u>646,519,350</u>	<u>6,346,415</u>	<u>32,481,574</u>	<u>685,347,339</u>
Net surplus for the year	325,379,920	-	-	325,379,920
Transfer to reserve	(17,000,000)	17,000,000	-	-
Reserve utilised	-	(7,243,071)	-	(7,243,071)
Investments fair value adjustment (note 4)	-	-	(1,311,516)	(1,311,516)
Balance at				
31 March 2007 restated	<u>954,899,270</u>	<u>16,103,344</u>	<u>31,170,058</u>	<u>1,002,172,672</u>
Net surplus for the year	484,408,703	-	-	484,408,703
Transfer to reserve (note 8)	(37,000,000)	37,000,000	-	-
Reserve utilised	-	(15,897,337)	-	(15,897,337)
Investments fair value adjustment (note 4)	-	-	(31,170,058)	(31,170,058)
Balance at 31 March 2008	<u><u>1,402,307,973</u></u>	<u><u>37,206,007</u></u>	<u><u>-</u></u>	<u><u>1,439,513,980</u></u>



CASH FLOW STATEMENT

for the year ended 31 March 2008

	Notes	2008 R	Restated 2007 R
Cash generated from operations	18.1	436,706,802	458,791,779
Interest paid		(155,866)	(33,054)
Interest received		177,330,055	127,674,309
Cash flow from operating activities		613,880,991	586,433,034
Investing activities			
Additions to property, plant and equipment		(21,919,120)	(6,738,467)
Additions to intangible assets		(31,365,045)	(25,629,204)
Proceeds on disposal of property, plant and equipment	18.2	53,050	261,811
Funds utilised from the emerging contractors reserve		(15,897,337)	(7,243,071)
Additions to investments		(2,218,795,155)	(1,961,574,741)
Proceeds on sale of financial assets	18.3	1,686,464,951	1,458,035,845
Cash flow from investing activities		(601,458,656)	(542,887,827)
Net increase in cash and cash equivalents		12,422,335	43,545,207
Cash and cash equivalents at beginning of year		60,420,957	16,875,750
Cash and cash equivalents at the end of the year		72,843,292	60,420,957

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The NHBRC is a statutory body incorporated in terms of the Housing Consumers Protection Measures Act, 1998 (Act No. 95 of 1998) as amended. Its principle business is the protection of housing consumers by the establishment of a warranty fund.

1.1. Adoption of new and revised standards

In the current period, NHBRC has adopted all the relevant new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. The adoption of these new and revised standards and interpretations did not result in any adjustments.

In the current year, the entity has adopted IFRS 7 (AC144) Financial Instruments: disclosures which are effective for annual reporting periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 (AC 144) has been to expand the disclosures provided in these financial statements regarding the entity's financial instruments (see note 4, 6, 7, 10 and 11).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.1. Adoption of new and revised standards (continued)

Standards and interpretations issued but not yet effective

At the date of authorisation of these annual financial statements, the following standards and interpretations were in issue but not yet effective.

Statement	Description	Effective date -Annual periods commencing on or after
IFRIC 12 (AC 445)	Service concessions	01 January 2008
IFRIC 13 (AC 446)	Customer loyalty programmes	01 July 2008
IFRIC 14 (AC 447)	IAS19 the limit on a defined benefit asset, minimum funding requirements and their interaction	01 January 2008
IFRIC 8 (AC 145)	Operating segments	01 January 2009
Revision to		
IAS 1 (AC 101)	Presentation of financial statements about entity's capital	01 January 2009
IAS 23 (AC 114)	Borrowing costs	01 January 2009
IAS 27 (AC 132)	Consolidated and separate financial statements	01 January 2009
IAS 28 (AC 110)	Investments in associates	01 July 2009
IAS 31 (AC 119)	Interests in joint ventures	01 July 2009
IAS 32 (AC125)	Financial instruments: presentation	01 January 2009
IFRIC 2 (AC139)	Share-based payments	01 January 2009
IFRIC3 (AC 140)	Business combinations	01 July 2009

The Council expects that the adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements.

1.2 Basis of preparation

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice, South African Statements of Generally Accepted Accounting Practice and the Public Finance Management Act, 1999 (Act No.1 of 1999) (as amended).

The financial statements have been prepared on a going concern basis under the historical cost convention. The accounting policies have been applied consistently throughout the period and are consistent with those of the previous year, except for

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.2 Basis of preparation (continued)

the change in methodology in estimating the technical liabilities resulting in a prior year restatement (see note 22).

Standard of GRAP	Replaced statement of GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

Terminology differences:

Standard of GRAP	Replaced statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

The cash flow statement is prepared in accordance with the direct method.

Specific information has been presented separately on the statement of financial position such as:

- i. Receivables from non-exchange transactions, including taxes and transfers
- ii. Taxes and transfers payable
- iii. Trade and other payables from non-exchange transactions



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.2 Basis of preparation (continued)

Amount and nature of any restrictions on cash balances is required.

Paragraphs 11-15 of GRAP 1 have not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

1.3 Insurance technical result

The technical result is determined on an annual basis whereby the incurred cost of insurance claims and related expenses, together with any change in other technical provisions is charged against the earned proportion of insurance premiums, as follows:

Insurance premiums written

Insurance premiums written relate to business incepted during the year, together with any differences between booked insurance premiums for prior years and those previously accrued. They include the insurance premiums for the whole of the period of risk covered by the warranty regardless of whether or not these are wholly due for payment in the accounting period.

Insurance premiums written comprise the total insurance premiums payable by the insured to which the insurer is contractually entitled and are shown net of those insurance premium refunds to registered builders which were approved in respect of the financial year. Insurance premiums written exclude value added taxation.

Insurance premiums are defined as an enrolment fee in terms of section 14 of the Housing Consumers Protection Measures Act.

Unearned insurance premiums

In terms of the Housing Consumers Protection Measures Act, the Council shall provide a warranty to housing consumers for a maximum period of five years from the date of occupation. Insurance premiums are earned over the period of the policy commensurate with the expected incidence of risk. In reaching its assessment of the pattern of risk, the Council makes reference to past insurance claims experience. Unearned insurance premiums represent the proportion of insurance premiums written that is held to cover expenses, claims and profits attributable for future years of warranty cover.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.3 Insurance technical result (continued)

In determining the unearned premium provision, initial expenses are deducted from the enrolment fee. The remaining portion of the enrolment fee is assumed to be earned over the life of the policy in accordance with the earnings curve. Initial expenses are earned uniformly over two quarters. The unearned premium provision includes an allowance for the future release of profits.

Insurance claims incurred

Insurance claims incurred comprise insurance claims and related expenses paid in the year and changes in the outstanding claims provision, including provisions for insurance claims incurred but not reported and related expenses, together with any other adjustments to insurance claims from previous years. Insurance claims are typically reported relatively quickly after the insurance claims event and are therefore subject to significantly less uncertainty than future insurance claims events.

Insurance claims outstanding represent the cost of settling all insurance claims arising from events that have occurred up to the balance sheet date, including the provision for insurance claims incurred but not reported, less any amounts paid in respect of those insurance claims.

In estimating the cost of notified but not paid insurance claims, the Council has regard to the insurance claim circumstances as reported. Basic chain ladder techniques are applied to project outstanding remedial work payments for each complaint period. The difference between the ultimate claims and the claims paid to date produced a result which includes both the "incurred but not reported" and "notified outstanding claims" provisions.

Unexpired risk provisions

An unexpired risk provision is made where the estimated cost of insurance claims, related expenses and deferred acquisition costs exceed unearned insurance premiums, after taking account of future investment income.

An assessment is made at the year-end for the estimated cost of insurance claims that will arise during the unexpired terms of policies in force at the balance sheet date. The estimated cost of insurance claims includes expenses to be incurred in settling insurance claims.

The provisions are inevitably subject to inherent uncertainties because of the range of factors, which could give rise to potentially significant insurance claims over



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.3 Insurance technical result (continued)

the five year period covered by the unexpired risk provision. The time expected to elapse between the inceptions of policies, the manifestation of events giving rise to insurance claims, and the notification to and settlement by the Council of such insurance claims accentuate these uncertainties.

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement costs. Such projections are based both upon current facts and circumstances, and a subjective analysis of a range of factors including future inflation, the impact of competition and its effect on builder behaviour in making repairs which would otherwise fall as insurance claims to the Council, the impact of large losses including those made evident by extreme weather, or latent defects caused by defective building materials, the effect of increases in cover and changes in consumer expectations and in the legal environment. Because of these inherent uncertainties a significant degree of caution has been included in exercising the judgement required for setting the unexpired risk provision at a level such that the Council is confident that it is not understated.

The Council takes all reasonable steps to ensure that it has appropriate information regarding the assessment of insurance claims in this regard. However, given the inherent uncertainty in estimating the cost of future insurance claims, it is likely that the final outcome will prove to be different from the estimate established at the balance sheet date. Any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified.

The Council in setting its unexpired risk provisions takes account of the future investment income that will be generated between the balance sheet date and settlement of the expected insurance claims on the assets held to cover such provision.

In setting the level of insurance premiums for new enrolments, the Council takes account of both the future investment income that will be earned on insurance premiums before insurance claims are paid, and any surpluses emerging on enrolments of the previous years. As a result, the insurance premium charged and therefore the unearned insurance premiums are less than the expected ultimate value of insurance claims and associated administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.3 Insurance technical result (continued)

Liability adequacy test

The solvency of the warranty fund is tested annually by an independent actuarial service company. The assessment is to confirm the solvency of the organisation and its ability to meet its future obligations. The results of the actuarial valuation indicated that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and able to fund its liabilities on a run-off basis. The change in mix of business between subsidy and non-subsidy houses and enrolment fee structures will in future determine the solvency position of the NHBRC.

1.4 Revenue recognition

Revenue arising from registration, renewal, conciliation, document and subsidy project enrolments fees is recognised on the accrual basis. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods have been transferred to the buyer. Interest income is accrued on a time proportion basis, taking into account the principal outstanding amount and the effective interest rate over the period to maturity.

1.5 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the Public Finance Management Act, or any legislation providing for procurement procedures in Government.

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government or organ of state and expenditure in the form of a grant that is not permitted in terms of the Public Finance Management Act.

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

All irregular, unauthorised, fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and, where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.6 Taxation

No provision has been made for South African normal tax as the council has been granted exemption in term of section 10 (1) (cA) (i) of the Income Tax Act, 1962 (Act No. 58 of 1962).

1.7 Leased assets

Rentals payable under operating leases are charged to surplus or deficit on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

1.8 Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

Items of property plant and equipment are initially recognised at cost, being the cash price equivalent at the recognition date.

Expenditure on additions and improvements to property, plant and equipment including the cost of related interest is capitalised as the expenditure is incurred.

Subsequent to initial recognition, items of property plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged to profit or loss so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following rates are used for the depreciation of property, plant and equipment:

Computer equipment	33,3% pa
Furniture, fittings and office equipment	16,7% pa
Motor vehicles	20,0% pa

The residual values, useful lives and economic consumption patterns for all items of property, plant and equipment are regularly reviewed and, if necessary, the consequent depreciable amounts, rates and methods are adjusted at each balance sheet date.

Any changes are accounted for as changes in accounting estimates and included in profit or loss for the current and future periods by adjusting the relevant future depreciation charges.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.8 Property, plant and equipment (continued)

Gains or losses on disposal are calculated by deducting the carrying value from the proceeds on the date of disposal and are included in profit or loss.

The gain or loss arising from the disposal or retirement of an asset is determined by deducting the carrying value from the proceeds on the date of disposal and are included in profit or loss.

1.9 Intangible assets

The intangible assets are purchased and have a finite life. Amortisation is recorded by a charge to income computed on the straight-line basis, after adjusting for residual value at the end of their useful life, so as to write off the cost of the assets over their expected useful lives. The following rates are used for the amortisation of intangible assets:

Computer software	33,3% pa
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1.10 Impairment

The carrying value of the assets is reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

If any such indication exists, the recoverable amount of the asset is estimated, to determine the extent of the impairment. Where the carrying value exceeds the estimated recoverable amount, such assets are written down to their estimated recoverable amount. Impairment losses are recognised as an expense.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.11 Inventories

Inventories are initially measured at cost and subsequently written down to the lower of cost and estimated net realisable value. Any write-down is recognised in surplus or deficit. Cost is calculated using the first-in-first-out method and comprises direct purchase costs. Estimated net realisable value is the estimated selling price in the ordinary course of business, less any costs to be incurred in distribution.

1.12 Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed below:

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs. Financial assets are classified into the following specified categories: held-to-maturity, available-for-sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the entity has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.12 Financial instruments (continued)

Available for sale ("AFS")

Unlisted shares and listed redeemable notes held by the NHBRC that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 23. Gains and losses arising from changes in fair value are recognised directly in equity in the non-distributable reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the non-distributable reserve is included in surplus or deficit for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the entity's right to receive the dividends is established. The fair value of AFS monetary assets denominated in a foreign currency determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.12 Financial instruments (continued)

For all other financial assets, including AFS, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the NHBRC's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.12 Financial instruments (continued)

Derecognition of financial assets

The NHBRC derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the NHBRC neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the NHBRC recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the NHBRC retains substantially all the risks and rewards of ownership of a transferred financial asset, the NHBRC continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The NHBRC derecognises financial liabilities when, and only when, the NHBRC's obligations are discharged, cancelled or they expire.

1.13 Provisions

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

1.14 Cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand, deposits held on call with banks, investments in money market instruments, and bank overdrafts.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

1.15 Critical accounting judgements and key sources of estimation uncertainty

Certain of the critical accounting policies require the use of judgement in their application or require estimates of inherently uncertain matters. Although the accounting policies are in compliance with South African Statements of Generally Accepted Accounting Practice, a change in the facts and circumstances of the underlying transactions could significantly change the implication of the accounting policy and the resulting financial statement impact. Listed below are those policies that the Council believes are critical and require the use of complex judgement in their application.

Insurance technical result

The accounting for the insurance technical result as disclosed in 1.3 above requires the Council to make certain assumptions that have a significant impact on the revenues, expenses and liabilities that are recorded for these insurance premiums. The expected impact as recorded in note 10, 13 and 16 is based on historical performances, current and long-term outlooks and the actuarial statistics compiled and updated by the actuarial industry on an ongoing basis.

Plant and equipment

Residual values and estimated useful lives are assessed on an annual basis. The residual values of vehicles are estimated on published second hand vehicle values as well as trading history. The residual values of all other assets are estimated to be zero.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

2. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment R	Office furniture R	Motor vehicles R	Buildings R	Total R
Year ended					
31 March 2008					
Opening					
net book amount	6,700,374	3,167,416	217,677	-	10,085,467
Additions	8,713,942	2,048,993	-	11,156,185	21,919,120
Disposals	(792,820)	(59,227)	-	-	(852,047)
Depreciation disposal	759,875	57,726	-	-	817,601
Depreciation charge	(4,119,090)	(993,562)	(57,269)	-	(5,169,921)
Closing net book amount	<u>11,262,281</u>	<u>4,221,346</u>	<u>160,408</u>	<u>11,156,185</u>	<u>26,800,220</u>
At 31 March 2008					
Cost	22,933,493	8,941,452	323,347	11,156,185	43,354,477
Accumulated depreciation	(11,671,212)	(4,720,106)	(162,939)	-	(16,554,257)
Net book amount	<u>11,262,281</u>	<u>4,221,346</u>	<u>160,408</u>	<u>11,156,185</u>	<u>26,800,220</u>
Year ended					
31 March 2007					
Opening net book amount	3,384,235	3,165,281	193,950	-	6,743,466
Additions	5,636,463	908,212	193,792	-	6,738,467
Disposals	(271,618)	(7,799)	(188,824)	-	(468,241)
Depreciation disposal	167,846	3,740	66,037	-	237,623
Depreciation charge	(2,216,552)	(902,018)	(47,278)	-	(3,165,848)
Closing net book amount	<u>6,700,374</u>	<u>3,167,416</u>	<u>217,677</u>	<u>-</u>	<u>10,085,467</u>
At 31 March 2007					
Cost	15,012,371	6,951,686	323,347	-	22,287,404
Accumulated depreciation	(8,311,997)	(3,784,270)	(105,670)	-	(12,201,937)
Net book amount	<u>6,700,374</u>	<u>3,167,416</u>	<u>217,677</u>	<u>-</u>	<u>10,085,467</u>

Building includes show houses, a training centre and a conference centre at the Eric Molobi Housing Innovation Hub. The Housing Innovation Project was established towards the end of 2005 at Thorntree View, Soshanguve A, in the Tshwane Metropolitan Municipality in Gauteng. The objective of the project is to identify, draw in and support innovative housing systems developed locally and internationally, with the ultimate aim of providing a wider choice of quality, aesthetically pleasing and affordable homes to the housing beneficiaries and end-users.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

3. INTANGIBLE ASSETS

	Computer software R	Total R
Year ended 31 March 2008		
Opening net book amount	25,767,587	25,767,587
Additions	31,365,045	31,365,045
Disposals	(67,628)	(67,628)
Amortisation disposal	67,628	67,628
Amortisation charge	(506,772)	(506,772)
Closing net book amount	<u>56,625,860</u>	<u>56,625,860</u>
At 31 March 2008		
Cost	71,765,052	71,765,052
Accumulated amortisation	<u>(15,139,192)</u>	<u>(15,139,192)</u>
Net book amount	<u>56,625,860</u>	<u>56,625,860</u>
Year ended 31 March 2007		
Opening net book amount	533,598	533,598
Additions	25,629,204	25,629,204
Amortisation charge	(395,215)	(395,215)
Closing net book amount	<u>25,767,587</u>	<u>25,767,587</u>
At 31 March 2007		
Cost	40,467,635	40,467,635
Accumulated amortisation	<u>(14,700,048)</u>	<u>(14,700,048)</u>
Net book amount	<u>25,767,587</u>	<u>25,767,587</u>

4. INVESTMENTS

Trading investments represent investments in listed bond securities, equities and cash, which generate interest income and trading gains. The value of these securities approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

	2008 R	Restated 2007 R
4. INVESTMENTS (continued)		
Included in available-for-sale financial assets are the following:		
Cash investments	1,089,999,307	786,851,191
Bonds:		
- Short-term < 7 years	525,955,552	577,268,721
- Medium-term 7 to 12 years	366,509,527	301,993,978
- Long-term > 12 years	289,642,720	271,929,613
Equity	164,965,231	5,332,290
	<u>2,437,072,337</u>	<u>1,943,375,793</u>
Opening balance	1,943,375,793	1,438,198,613
Additions	2,218,795,155	1,961,574,741
Administration fee	(5,959,045)	(4,307,767)
Disposals	(1,684,181,746)	(1,450,778,278)
Fair value net loss	(31,170,058)	(1,311,516)
Fair value adjustment transferred to profit and loss	(3,787,762)	-
	<u>2,437,072,337</u>	<u>1,943,375,793</u>
5. INVENTORIES		
Builders' manuals	339,736	124,740
6. TRADE AND OTHER RECEIVABLES		
Receivable arising from insurance contracts:		
- Due from contract holders	256	-
Other receivables:		
- Deposits	223,880	225,694
- Staff loans	52,843	5,075
- VAT receivable	11,928,002	-
- Other	677,709	2,136,310
	<u>12,882,690</u>	<u>2,367,079</u>

The receivables' impairment was estimated based on irrecoverable amounts and reference to the past default. The concentration of credit risk is limited. Accordingly Council members believe that there is no further credit provision required.

Trade and other receivables are stated at cost which approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

	2008 R	Restated 2007 R
7. CASH AND CASH EQUIVALENTS		
Cash balances	70,927,111	58,612,218
Short-term bank deposits	1,916,181	1,808,739
	<u>72,843,292</u>	<u>60,420,957</u>

8. EMERGING CONTRACTOR RESERVES

The reserve was established to develop programmes to assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building in terms of Section 3(h) of the Housing Consumers Protection Measures Act. The emerging contractor reserve has been established, with ministerial approval, to develop programmes targeted at the empowerment of emerging home builders registered with the NHBRC, which will enable learners to be able to start and manage their own construction contracting businesses. The Council has authorised the transfer of R37 million for this project in terms of Section 15(5) (d) of the Housing Consumer Protection Measures Act.

9. NON-DISTRIBUTABLE RESERVE

The non-distributable reserve relates to unrealised profits earned on long-term investments held. This reserve is not substantiated by cash reserves, which makes it inaccessible to the NHBRC.

10. TECHNICAL LIABILITIES	Outstanding claims R	Unearned premium R	Unexpired risk R	Total R
Balance at 31 March 2006	227,583,951	591,955,244	24,042,448	843,581,643
Restatement (note 22)	(186,292,701)	122,043,547	(24,042,448)	(88,291,602)
Balance at 31 March 2006 restated	41,291,250	713,998,791	-	755,290,041
Increase in period (note 16)	9,700,596	-	-	9,700,596
Increase in period (note 13)	-	166,275,287	-	166,275,287
Utilised during the year (note 16)	(3,104,677)	-	-	(3,104,677)
Reallocation to trade receivables ¹	-	(3,843,721)	-	(3,843,721)
Balance at 31 March 2007 restated	47,887,169	876,430,357	-	924,317,526
Increase in period (note 16)	3,421,057	-	-	3,421,057
(Decrease) increase in period (note 13)	-	(5,980,541)	56,837,956	50,857,415
Utilised during the year (note 16)	(3,998,674)	-	-	(3,998,674)
Balance at 31 March 2008	<u>47,309,552</u>	<u>870,449,816</u>	<u>56,837,956</u>	<u>974,597,324</u>

¹ This amount relates to the movement in the future of due receivables for which the risks and rewards of ownership have not yet transferred, and therefore the provision is netted off against receivables.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

10. TECHNICAL LIABILITIES (continued)

Methodology and assumptions

Best practice actuarial techniques were applied to value the insurance liabilities of the NHBRC on a run-off basis, using best estimate assumptions per general practice in the South African short-term insurance industry. The outstanding claims provision ("OCP") is determined at a 99.5% sufficiency level. This is consistent with the FSB's proposed financial condition reporting requirements, which will require companies to hold liabilities at the 75% level, and capital at 99.5%.

The unearned premium provision ("UPP") has been estimated using the enrolment fee earnings curve, having deducted initial expenses, which are assumed to be earned uniformly over the first two quarters. The OCP has been estimated by applying chain ladder techniques to a run-off triangle of remedial work claims paid grouped by quarter of complaint. The Bornhuetter Ferguson method ("BF Method") was used to calculate the OCP, as this method was most suitable to the data. This methodology adopted by the NHBRC is different from that applied in prior years and represents a change in accounting policy.

Sensitivity

The technical liabilities are most sensitive to initial expense assumption. Changes in other assumptions have negligible impact on the liability. The best estimate liability is R974 597 324.

Key Assumption	Assumption change %	Change in liability %
Initial expense ratio	1%	-1.44%
Initial expense ratio	-1%	1.44%
Spread of risk over period of cover	Uniform / straight line	-0.80%

11. TRADE AND OTHER PAYABLES

	2008 R	Restated 2007 R
Trade payables and accrued expenses	135,281,482	68,070,674
Income received in advance	36,754,200	10,473,898
Unprescribed deposits	4,634,644	10,993,401
VAT payable	-	10,695,144
Leave accrual	4,988,724	4,022,513
Other payables	2,593,781	2,895,795
	<u>184,252,831</u>	<u>107,151,425</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

11. TRADE AND OTHER PAYABLES (continued)

Trade and other payables are non-interest bearing and are normally settled on 30 days. The interest is charged when the amount becomes overdue. The entity's financial risk and management policies ensure that payables are paid within the credit time frame. Due to the short term nature of the payables, management believes that the carrying amount approximates the fair value.

12. PROVISIONS

	2008 R	Restated 2007 R
Legal disputes		
Balance at beginning of the year	8,500,000	9,000,000
Charged to income statement:		
- Additional provision	-	6,297,154
- Utilised during the year	(300,000)	6,797,154
Balance at the end of year	<u>8,200,000</u>	<u>8,500,000</u>

Legal disputes

The provision represents the value of the legal disputes in progress at year end.

13. INSURANCE PREMIUM REVENUE

Insurance contracts:		
- Premium received	599,014,123	521,677,485
- Change in unearned premium provision (see note 10)	5,980,541	(166,275,287)
- Change in unexpired risk provision (see note 10)	(56,837,956)	-
	<u>548,156,708</u>	<u>355,402,198</u>

14. NET REALISED (LOSS) GAIN ON FINANCIAL ASSETS

Bonds	<u>(3,675,840)</u>	<u>2,949,800</u>
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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2008 (continued)

	2008 R	Restated 2007 R
15. NET SURPLUS FOR THE YEAR		
Net surplus for the year is arrived at after taking into account the following:		
Income		
Other operating income	51,774,365	44,251,936
Registration annual fees	2,706,796	2,866,556
Renewal annual fees	7,315,237	7,332,330
Registration fees	1,926,901	3,550,058
Registration builder manual fees	452,906	465,038
Subsidy project enrolments fees	21,968,526	15,663,783
Document sales	237,975	356,247
Technical services	8,606,131	13,916,231
Testing services	-	70,114
Other income	8,559,893	31,579
Expenses		
Auditors' remuneration		
Audit fees	695,790	777,874
Depreciation	5,169,921	3,165,848
Computer equipment	4,119,090	2,216,552
Office furniture	993,562	902,018
Motor vehicles	57,269	47,278
Amortisation of intangible assets	506,772	395,215
Net profit on disposal of property plant and equipment	18,604	31,193
Rentals in respect of operating leases	6,530,240	6,607,147



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

	2008 R	Restated 2007 R
15. NET SURPLUS FOR THE YEAR (continued)		
The Council leases various outlets and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.		
The future minimum lease payments are as follows:		
Not later than 1 year	25,362,552	12,014,672
Later than 1 year and not later than 5 year	9,656,796	5,352,726
	15,705,756	6,661,946
Staff costs	127,875,913	90,426,329
Directors' emoluments	9,045,920	7,478,947
Executive directors'		
For managerial services	7,139,241	6,686,523
Non-executive directors'		
For services as directors	1,906,679	792,424
Investment income	177,330,055	127,674,309
Interest income from investments	171,226,280	125,895,434
Interest income from cash and cash equivalents	6,103,775	1,778,875
16. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES		
Current year claims and loss adjustment expenses	3,998,674	3,104,677
(Decrease) increase in the cost of claims for unexpired risks	(577,617)	6,595,919
	<u>3,421,057</u>	<u>9,700,596</u>
17. FINANCE COSTS		
Interest paid on creditors	34,054	33,054
Interest paid on enrolment refunds	121,812	-
	<u>155,866</u>	<u>33,054</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

	2008 R	Restated 2007 R
18. NOTES TO THE CASH FLOW STATEMENT		
18.1 Cash generated from operations		
Surplus for the year	484,408,703	325,379,920
Adjustments for:		
Depreciation	5,169,921	3,165,848
Amortisation	506,772	395,215
Profit on disposal of assets	(18,604)	(31,193)
Loss (profit) on sale of financial assets	3,675,840	(2,949,800)
Fair value adjustment transferred to profit and loss	3,787,762	-
Movement in provisions	(300,000)	(500,000)
Movement in technical liabilities	50,279,798	169,027,485
Interest paid	155,866	33,054
Interest received	(177,330,055)	(127,674,309)
Operating income before working capital changes	370,336,003	366,846,220
Increase in inventories	(214,996)	(107,506)
(Increase) decrease in trade and other receivables	(10,515,611)	76,422,770
Increase in trade and other payables	77,101,406	15,630,295
	<u>436,706,802</u>	<u>458,791,779</u>
18.2 Proceeds on disposal of property, plant and equipment		
Net book amount	34,446	230,618
Profit on sale of property, plant and equipment	18,604	31,193
	<u>53,050</u>	<u>261,811</u>
18.3 Proceeds on sale of financial assets		
Net book amount	1,690,140,791	1,455,086,045
(Loss) profit on sale of financial instruments	(3,675,840)	2,949,800
	<u>1,686,464,951</u>	<u>1,458,035,845</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

	Fees and salaries R	Subsistence and travel R	Total 2008 R	Restated 2007 R
19. REMUNERATION				
19.1 Total Cost - Non-executive Council members				
S Nene (Chairperson)	361,141	9,984	371,125	160,646
C Cudmore	68,622	1,083	69,705	21,162
V Maluleke	73,426	11,098	84,524	40,430
J Matthews	83,241	10,434	93,675	45,860
S De Gois	133,177	9,790	142,967	66,650
Y Jiya Tiba	72,547	7,080	79,627	47,125
S Moleshiwa	169,607	15,055	184,662	51,224
C Kadwa	127,928	16,062	143,990	65,149
F Ntumbu	73,117	4,310	77,427	55,921
S Mojapelo	139,225	17,975	157,200	44,620
A Goliger	94,589	28,478	123,067	66,758
O Shabangu	138,495	44,567	183,062	51,586
M Venter	136,544	32,289	168,833	59,465
A Dorrestein	25,062	1,753	26,814	15,828
	<u>1,676,721</u>	<u>209,958</u>	<u>1,906,679</u>	<u>792,424</u>
19.2 Total cost - Top management				
P Makgathe (Chief Executive Officer)	1,855,267	66,767	1,922,034	1,741,152
K Mahlobo (Chief Operating Officer)	1,276,528	120,000	1,396,528	1,276,305
	<u>3,131,795</u>	<u>186,767</u>	<u>3,318,562</u>	<u>3,017,457</u>
19.3 Total cost - Executive directors				
J Mahachi (Technical and Information Technology)	1,120,852	155,280	1,276,132	1,126,477
C Thorp (Finance and Supply Chain)	752,250	180,000	932,250	850,227
P Latta (Corporate Services) ¹	434,464	48,130	482,594	846,609
T Moshoeu (Customer Care)	751,198	180,132	931,330	845,753
L Less (Corporate Services) ²	156,243	42,130	198,373	-
	<u>3,215,007</u>	<u>605,672</u>	<u>3,820,679</u>	<u>3,669,066</u>

¹ Resigned - 07/09/2007

² Appointed - 15/01/2008

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

	2008 R	Restated 2007 R
19. REMUNERATION (continued)		
19.4 Bonuses		
Top management		
P Makgathe (Chief Executive Officer)	179,919	80,448
K Mahlobo (Chief Operating Officer)	130,821	51,292
	<u>310,740</u>	<u>131,740</u>
Executive Directors		
J Mahachi (Technical and Information Technology)	86,090	38,113
C Thorp (Finance and Supply Chain)	85,023	35,181
P Latta (Corporate Services) ¹	84,661	31,663
T Moshoeu (Customer Care)	84,575	30,023
L Less (Corporate Services) ²	-	-
	<u>340,349</u>	<u>134,980</u>
¹ Resigned - 07/09/2007		
² Appointed - 15/01/2008		
20. RELATED PARTIES		
Transactions with the Department of Housing:		
Insurance premium revenue	25,752,390	22,947,975
Technical revenue	8,606,131	13,916,231
	<u>34,358,521</u>	<u>36,864,206</u>
Balances with the Department of Housing:		
Income received in advance	36,754,200	10,473,897

The NHBRC provides a warranty for both non-subsidy and government subsidised homes. The fee payable by government in the subsidy market comprises 1% project enrollment fee and 0.75 % home enrollment fee. The subsidy income is funded by national government through the Department of Housing.

21. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure	121,812	-
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The fruitless and wasteful expenditure relates to interest paid on enrolment refunds (see note 17).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

22. RESTATEMENT AND CLASSIFICATIONS

	Balance previously stated	Adjustment	Restated balance
2006			
Provision for unearned premium ¹	591,955,244	122,043,547	713,998,791
Provision for outstanding claims ¹	227,583,951	(186,292,701)	41,291,250
Provision for unexpired risk ¹	24,042,448	(24,042,448)	-
Accumulated surplus ¹	558,227,748	88,291,602	646,519,350
2007			
Trade and other receivables ²	78,429,729	(76,062,650)	2,367,079
Trade and other payables ³	(102,723,687)	(4,427,738)	(107,151,425)
Provision for unearned premium ¹	606,177,445	270,252,912	876,430,357
Provision for outstanding claims ¹	340,903,098	(293,015,929)	47,887,169
Provision for unexpired risk ¹	59,997,209	(59,997,209)	-

¹ Comparative technical liabilities were restated due to a change in the actuarial methodology used from prior years to the current year. This change in methodology represents a change in accounting policy (see note 10).

² Comparative trade and other receivables were restated in accordance with IAS 18: Revenue as follows:

- prior year reversal of revenue and debtors recognised in advance by R74,139,860;
- prior year debtors overstated by R2,132,021 due to an unprocessed credit note.
- investment income understated in the prior year by R209,231.

³ Comparative trade and other payables were restated in accordance with IAS 18: Revenue and IAS 37: Provisions, Contingent Liabilities and Contingent Assets as follows:

- reclassify cash of R10,473,897 received in advance for services rendered only during the current year;
- VAT portion of debtors reversal described in ² above, R10,068,672;
- leave accrual of R4,022,513 reclassified from provisions to trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

23. FINANCIAL INSTRUMENTS

23.1 Categories of financial instruments and maturity profile

2008	0-1 Year R	>1 Year R	Total R
ASSETS			
Loans and receivables			
Trade and other receivables	12,882,690	-	12,882,690
Cash and cash equivalents	72,843,292	-	72,843,292
Available for sale financial assets			
Investments	1,089,999,307	1,347,073,030	2,437,072,337
Non financial assets			
Property, plant and equipment	-	-	26,800,220
Intangible assets	-	-	56,625,860
Inventories	-	-	339,736
Total assets	<u>1,175,725,289</u>	<u>1,347,073,030</u>	<u>2,606,564,135</u>
NET ASSETS			
Financial liabilities at amortised cost			
Provision for outstanding claims	-	47,309,552	47,309,552
Provision for unearned premium	-	870,449,816	870,449,816
Provision for unexpired risk	-	56,837,956	56,837,956
Trade and other payables	184,252,831	-	184,252,831
Equity and non-financial liabilities			
Accumulated surplus	-	-	1,402,307,973
Other reserves	-	-	37,206,007
Provisions	-	-	8,200,000
Total net assets and liabilities	<u>184,252,831</u>	<u>974,597,324</u>	<u>2,606,564,135</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

23. FINANCIAL INSTRUMENTS (continued)

23.1 Categories of financial instruments and maturity profile

2007	0-1 Year R	>1 Year R	Total R
ASSETS			
Loans and receivables			
Trade and other receivables	2,367,079	-	2,367,079
Cash and cash equivalents	60,420,957	-	60,420,957
Available for sale financial assets			
Investments	786,851,191	1,156,524,602	1,943,375,793
Non-financial assets			
Property, plant and equipment	-	-	10,085,467
Intangible assets	-	-	25,767,587
Inventories	-	-	124,740
Total assets	<u>849,639,227</u>	<u>1,156,524,602</u>	<u>2,042,141,623</u>
NET ASSETS			
Financial liabilities at amortised cost			
Provision for outstanding claims	-	47,887,169	47,887,169
Provision for unearned premium	-	876,430,357	876,430,357
Provision for unexpired risk	-	-	-
Trade and other payables	107,151,425	-	107,151,425
Equity and non-financial liabilities			
Accumulated surplus	-	-	954,899,270
Other reserves	-	-	16,103,344
Non-distributable reserve	-	-	31,170,058
Provisions	-	-	8,500,000
Total net assets and liabilities	<u>107,151,425</u>	<u>924,317,526</u>	<u>2,042,141,623</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

23. FINANCIAL INSTRUMENTS (continued)

23.2 Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

Trade and other receivables are subject to normal trade credit terms and provisions are made for long outstanding amounts. The Council members believe that the carrying amount approximates fair value.

Cash and cash equivalent deposits and facilities without specified maturity dates bear interest at market related rates. The Council members believe that the carrying amount approximates fair value.

Investments are fairly valued in accordance with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. The fair value of other investments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Technical liabilities are recognised in accordance with note 10. The Council members believe that the carrying amount approximates fair value.

23.3 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company does not undertake transactions in foreign currencies and is thus not unduly exposed to foreign currency risk.

23.4 Interest rate risk

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's interest rate profile consists of fixed and floating rate loans and bank balances that expose the company to fair value interest rate risk and cash flow interest rate risk. All cash surpluses are invested with investment fund managers in terms of the investment policy. The exposure to interest rate risk is determined by the maturity profile of investments (see note 4).

23.5 Price risk

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. Due to the nature and extent of the company's financial instruments, the company is not unduly exposed to price risks.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

23. FINANCIAL INSTRUMENTS (continued)

23.6 Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the company. Financial assets, which potentially subject the company to concentrations of credit risk, consist principally of cash and cash equivalents and trade and other receivables.

The company's cash and cash equivalents are placed with high credit quality financial institutions. The company's exposures to credit risk with regards to trade and other receivables are limited due to the balance being immaterial (refer note 6). There has been no significant change during the financial year, or since the end of the financial year, to the company's exposure to credit risk, the approach to the measurement or the objectives, policies and processes for managing this risk.

23.7 Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. At 30 June 2008, the directors did not consider there to be any significant concentration of liquidity risk. It appears as if the company will be able to raise funds to meet commitments associated with financial instruments. Management ensures sufficient liquidity by annual budget and cash flow forecasts, as well as monitoring the cash flow status of the company on a day to day basis. See note 23.1 for maturity profile of financial instruments.

23.8 Capital risk

The NHBRC manages its capital to ensure that the Council will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Council's overall strategy remains unchanged from 2007.

23.9 Management risk

The key risk is underwriting risk, as the NHBRC is governed by the Act and the risk of defaulting home builders. Premiums for the non-subsidy markets are based on the selling price of the home to be constructed, and applied on a sliding scale limited to a maximum premium of R34 000 and a maximum claim of R500 000 per home. The premiums for the subsidy sector are based on 0,75% of the current subsidy cost per unit.

The risk to the NHBRC and housing consumers is managed primarily through the assessment and registration of home builders who have the appropriate financial, technical, construction and management capacity for their specific businesses.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

23. FINANCIAL INSTRUMENTS (continued)

Within the insurance process, concentration of risks may arise in the subsidy market where a particular event or series of events could impact on the NHBRC technical liabilities. Such concentrations may arise from a single contract or through a number of related contracts in concentrated housing developments and sectional title developments.

Approximately 93% of the assets of the NHBRC are invested in interest bearing instruments and 7% in equity instruments (shares and equity derivatives). Approximately R1.175bn (45%) of assets are expected to realise within 12 months of year-end compared to approximately R0.179bn of liabilities expected to be settled within the same period. R1.430bn (55%) of assets matures within 12 years, covering the remaining liability. Approximately 76% of bonds maturing after the first year carry an AAA credit risk, equivalent to that of government (government, parastatal and quality senior corporate debt). 20% carry an AA rating and no rating is available for 4% of the bonds.

Enrolment fees currently charged by the NHBRC are sufficient to cover expenses and claims associated with the warranty cover. Surplus from non-subsidy business subsidises expected losses in the subsidy business.

Enrolment Free Adequacy						
	All	%	Non-Subsidy	%	Subsidy	%
Fee to cover enrolments & inspections	2,890	42.0%	2,977	42.0%	423	57.6%
Fee to cover complaints & conciliations	647	9.4%	658	9.3%	332	45.2%
Fee to cover remedial work claims	347	5.0%	358	5.0%	54	7.3%
<i>average</i>	73		76		12	
<i>variation margin (99.5% certainty)</i>	274		282		42	
Total expense & claims	3,884	56.5%	3,993	56.3%	809	110.1%
Average fee per enrolment	6,878		7,095		735	
Surplus / (Deficit)	2,994	43.5%	3,102	43.7%-	74	-10.1%

23.10 Insurance risk

The primary insurance activity carried out by the NHBRC assumes that the risk to the warranty fund relates to the warranty cover as defined in the Housing Consumers Protection Measures Act, 1998 (Act No. 95 of 1998) (as amended) (the Act). The insurance premiums are received in advance as a "home enrolment fee" and a

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

23. FINANCIAL INSTRUMENTS (continued)

portion of the insurance premium is invested in terms of the NHBRC investment policy, to cover future rectification of homes paid out under the warranty scheme. The risks to the warranty fund are defined in section 3 of the Act “Objects of Council” which states:

The Council shall:

- represent the interests of housing consumers by providing a warranty protection against defects in new homes;
- regulate the home building industry;
- provide protection to housing consumers in respect of the failure of the home builders to comply with their obligations in terms of the Act;
- establish and promote ethical and technical standards in the home building industry;
- improve structural quality in the interests of housing consumers and the home building industry;
- promote housing consumer rights and provide housing consumer information;
- assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building;
- regulate insurers; and
- achieve the stated objects in the subsidy housing sector.

There is no risk categorisation in determining the enrolment fees charged. The enrolment fee structure is promulgated in the regulations to the Act. Enrolment fees are charged on the selling price of the home (including land value) so that equal value homes yield equal enrolment fees. The subsidy and non-subsidy markets each have their own enrolment fee structure. The NHBRC is exposed to the uncertainty surrounding the timing and severity of claims under the warranty contract. The NHBRC also has exposure to market risk through its insurance and investment activities.

The NHBRC uses several methods to assess and monitor insurance risk exposures for the protection of housing consumers. A home builder can be registered only if he has the appropriate financial, technical, construction and management capacity for the specific business carried on by the home builder to protect housing consumers and the Council from being exposed to unacceptable risks. The Council may withdraw the registration of a home builder where the home builder has been found guilty by the disciplinary committee as prescribed in the Act. The insurance risk is further mitigated by the inspection of houses under construction, interdicts issued



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

23. FINANCIAL INSTRUMENTS (continued)

against home builders who do not comply with the provisions of the Act, and, in cases of a late enrolments, a financial guarantee is required from the home builder, calculated on a risk model which takes the stage of completion of the house at enrolment date into account. The financial guarantee is held for the full five year warranty period.

Risk to the warranty fund is further controlled by the inspection of the house during the construction phase, and rectifications are enforced when construction of the house does not comply with the provisions of the Act. The NHBRC is an insurer of last resort, as claims are paid only where a home builder fails to perform the necessary remedial work, due to liquidation or unavailability. The maximum claim per home is limited to the insured value up to a maximum claimable amount of R500 000 per home. The NHBRC has an internal audit function that regularly reviews the degree of compliance with Council procedures.

Underwriting strategy

The registration of all home builders is prescribed in terms of section 10 of the Act. The NHBRC is obliged to register and insure all new homes constructed. The NHBRC may on the recommendation of the Council, on application made to it, in exceptional circumstances, exempt a person or home from any provision of the Act.

Reinsurance strategy

The NHBRC does not reinsure any portion of the risk it underwrites due to the current low claim rate experienced. Reinsurance of the exposure to losses has been identified as a medium-term strategic objective.

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

The NHBRC's main business is highly specialised, and covers the rectification of:

- major structural defects in a home caused by non-compliance with the NHBRC technical requirements within a period of five years from the occupation date;
- non-compliance with, or deviation from, the terms, plans and specification or the agreement of any deficiency related to design, workmanship or material notified to the home builder by the housing consumer within three months from the occupation date; and
- roof leaks attributable to workmanship, design or materials occurring



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

23. FINANCIAL INSTRUMENTS (continued)

and notified to the home builder by the housing consumer within 12 months of the occupation date.

The event giving rise to a claim occurs with the insolvency, liquidation and protracted default of the home builder. The claim will be notified to the NHBRC in terms of the specific regulations to the Act. The business of the NHBRC can be classified as short to long term as the NHBRC may be notified of a claim only up to five years after occupation of the home, in the instance of structural defects.

Concentration of insurance risk

Insurance risk by geographical area

The geographical concentration of home enrolments is predominantly in the Gauteng province (51%) and the Western Cape province (20%). Both Gauteng and the Western Cape have a lower complaints ratio than KwaZulu-Natal, which has the highest complaints rate.

Insurance risk by dwelling type

Relative to enrolments, single storey houses have experienced more complaints than double storey houses. Properties with more than one story account for approximately 60% of sum insured exposure.

Insurance risk by developer

The risk per developer is ranked by units of exposure (enrolments after Sep 2002). Liquidation of the 17 largest developers constitutes R262,7 million of sum insured (comparison of 394 964 home enrolments), which could potentially increase claims against the warranty fund.

Restated 2008 R	2007 R
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24. CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by the Council but not accrued at balance sheet date:

- Contracted for	31,728,905	57,536,708
- Not contracted for	-	-
	<u>31,728,905</u>	<u>57,536,708</u>

This expenditure is in respect of buildings and intangible assets and will be financed by cash generated from operating activities.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008 (continued)

25. GUARANTEES

The NHBRC has provided guarantees totalling R1,207,702 to various beneficiaries.

26. ADOPTION OF NEW AND REVISED STANDARDS

In the current period, the NHBRC has adopted all the relevant new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. The adoption of these new and revised Standards and Interpretations did not result in any adjustments.

In the current year, the NHBRC has adopted IFRS 7: Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the entity's financial instruments (see note 23).

