

ACCELERATED DELIVERY



NATIONAL
EMPOWERMENT
FUND

Growing Black Economic Participation

Annual Report 2006



Minister Mandisi Mpahlwa

FOREWORD

from the Honourable Minister

The need to broaden economic participation is a key element of the government programme of action, supported in part by developing the framework for broad-based BEE and enhancing the capacity of the NEF to support black entrepreneurs.

Further, through our Accelerated and Shared Growth Initiative (ASGISA), key target areas have been identified to overcome the historical divide in our economy. It is through a combination of these efforts that we are now able to observe an increasing number of black people who manage, own and participate in businesses. This also reflects the emphasis being placed by both the private sector and government on the broader principles of empowerment, such as skills development, employment equity, preferential procurement and enterprise development.

The National Empowerment Fund, as an agency of the dti, is a pivotal roleplayer in driving and implementing broad-based BEE through the Codes of Good Practice. By developing innovative investment and transformation solutions, the NEF has moved ahead with many sustainable achievements enumerated in this report. More significantly, it is also a conduit for government to demonstrate its financial commitment to broadening

participation in the economy. The NEF goes further in supporting the ASGISA objectives through its focus on reducing financial barriers to entry for black entrepreneurs thereby supporting job retention and creation. Equally important, the NEF's reach into communities around the country will assist with the empowerment of and participation by black women.

The NEF has made steady progress towards achieving these objectives of facilitating economic equality and transformation by approving transactions in the order of R491 million, of which R277 million had already been disbursed as at 31 March 2006.

I am supportive of the strategic plan the NEF has developed under the leadership of the Chairman, Ronnie Ntuli, and the CEO, Philisiwe Buthelezi. I am confident that the NEF has the solutions in place to continue to deliver on its mandate. I would like to commend the entire NEF team as we look forward to another successful year ahead.

Mandisi Mpahlwa, MP
Minister of Trade and Industry



CATALYST

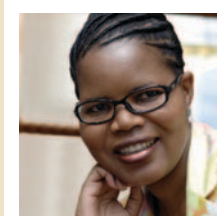
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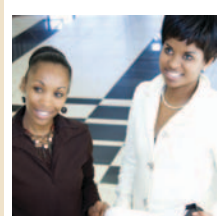
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MISSION

The National Empowerment Fund (NEF) is the catalyst of Broad-Based Black Economic Empowerment in South Africa.

We enable, develop, promote and implement innovative investment and transformation solutions to advance sustainable black economic participation.

VISION

Our vision is to become the leading provider of innovative finance and investment solutions for an inclusive economy.

VALUES

Service excellence
Result-orientated
Innovation and continuous improvement
Ownership and accountability
Recognition and reward
Respect, empathy and fairness
Honesty and integrity
Open and honest communication
People development

“NEF has vibrant, young, self-driven professionals with a sense of public duty. Our people are motivated to structure meaningful deals.”

Nhlanhla Nyembe, Fund Manager

MANDATE

The NEF was established by the National Empowerment Fund Act No 105 of 1998, to promote and facilitate black economic equality and transformation. Its mandate and mission is to be the catalyst of Broad-Based Black Economic Empowerment (BB-BEE).

The NEF implements this mandate in two ways:

- As a facilitator of the Codes of Good Practice of the Broad-Based Black Economic Empowerment Act (the Codes), to support the pillars of black enterprise by providing finance and financial solutions across a range of sectors; and
- By structuring accessible retail savings products for black people through its Asset Management Division, which is a custodian of certain equity allocations in State Allocated Investments (SAIs), the NEF aims to foster a culture of savings and investment amongst its beneficiaries.

STRATEGIC ROLE AND POSITIONING

The NEF's role is to support BB-BEE. As the debate around what constitutes meaningful and sustainable BB-BEE evolves, the NEF anticipates future funding and investment requirements to help black individuals, communities and business achieve each element of the Codes of Good Practice. These include a focus on preferential procurement, broadening the reach of black equity ownership, transformation in management and staff and preventing the dilution of black shareholding.

The NEF differentiates itself not only with a focused mandate for BB-BEE, but by assuming a predominately equity-based risk to maximise the empowerment dividend. Reward should balance the risk with the application of sound commercial decisions to support national priorities and Government policy such as the Accelerated and Shared Growth Initiative for South Africa (ASGISA) or targeted investments through the dti's industrial policy.

The work of the NEF therefore straddles and complements other development finance institutions (DFIs) by allowing the organisations to work in close collaboration. With them the NEF can enhance other DFIs and their mandates by sharing its specialist sector expertise and knowledge.

CHAIRMAN'S REPORT

For the year ended 31 March 2006

The underlying belief of the NEF is mentoring and growing black entrepreneurs.

This has been an exceptionally exciting year for the NEF. During my tenure I have had the satisfaction of watching the team consolidate and shift the organisation into 'full steam ahead'; accelerating its delivery in the form of considerable value to all stakeholders, in particular its target beneficiaries.

The many accomplishments of the NEF during the year demonstrate determined delivery on its mandate by funding and supporting black enterprises. This happened through a significant ramp up in the financing activities of the organisation as well as the approval of its first BB-BEE retail investment product to be launched during the new financial year.

The biggest milestone for the year 2005 – 2006 has been the appointment of a new Board of Trustees in November 2005. The Honourable Minister Mandisi Mpahlwa and his team assisted greatly in the selection and appointment of the Board.

The new Board comprises eight trustees, inclusive of the CEO. This Board reflects a healthy balance of representation from the private and public sector. Trustees on the new Board are young and dynamic, offering the organisation a sound combination of experience and skills that bridge the commercial and political arenas.

The Board, executive team and staff are working together in a well-oiled fashion to entrench good



Ronnie Ntuli

governance and drive the strategy and delivery in line with the NEF's mandate and government policy. I am proud to work with this talented group of people who have all assisted in the formulation of the NEF's revised strategic direction and policy. Their example promotes our organisation's emphasis on delivery to meet its stakeholders' objectives.

GOVERNANCE

This year saw the NEF take great strides to ensure that its comprehensive governance structures and procedures are beyond reproach.

As Chairman of the new Board of Trustees, I am confident that the Board committees are constituted by members with the appropriate skills and personal integrity. These Board committees create the necessary channel of communication between the executive and the Board.

The review of the NEF's governance structures will be ongoing to ensure best practice. Of considerable importance is sound, unimpeachable enterprise-wide risk management. In this regard our organisation does and will continue to monitor and address any issues relating to funding risk, remuneration, financial and non-financial processes and procedures to ensure healthy checks and balances.

CHAIRMAN'S REPORT continued

STAKEHOLDER RELATIONSHIPS

Our organisation cultivates strong relationships with its key stakeholders, primarily in the public sector, private sector and also with the Presidency. It has also explored the best ways to work with other DFIs. Ultimately it is desired that the coordination of efforts and activities will lead to the achievement of BB-BEE in South Africa.

ACCELERATED DELIVERY HAS BECOME OUR MANTRA

It is particularly pleasing to be part of an organisation committed to underpinning South Africa's political transformation with sustainable economic transformation. At financial year-end, the NEF had disbursed funds of R277 million on 63 transactions¹, 90% of which were financed in the past 12 months. In terms of total committed capital including disbursements, we approved 77 deals with a value of R492 million. Over half of these transactions represent start-up businesses owned and managed by black entrepreneurs. As at 31 March 2006, the NEF has a pipeline of transactions valued at more than half a billion rand about to undergo the evaluation and due diligence processes as indicated in the diagram below.

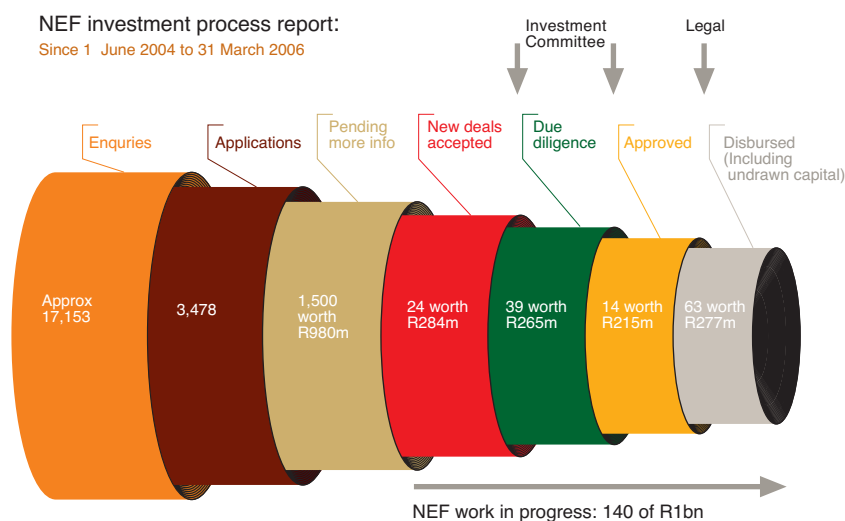
Against a backdrop of continuing commitment from government and business to embrace the Codes, the NEF will have a greater role to play in coming years, supporting BB-BEE through our range of products.

These products aim to support black entrepreneurs through the funding of their business ventures, fostering economic and community development, assisting applicants to access the capital-markets (both through the JSE and AltX), and providing liquidity and warehousing facilities.

REVISED STRATEGY

Further on in this report you will find information about the NEF's strategy going forward which focuses on Fund Management and Asset Management. In essence, each strategic division houses products and services to provide the tools for empowerment. Our strategy is positioned within the NEF's regulatory framework and is underpinned by its mandate and Government policy. The team that administers and operates the NEF is excited about this revised strategy breathing new life into the organisation.

The focus of our organisation is not exclusively on financial return, but also on the empowerment dividend created. The underlying belief of the NEF is that it is imperative to bridge the first and second economies by identifying, mentoring and growing black entrepreneurs. By backing new black business, we endeavour not only to support their entry into the mainstream economy. We also facilitate the establishment of robust black enterprises that will compete with the traditional players in the market. Contributing to this empowerment dividend is important not only for the NEF, but for South Africa as a whole.



¹ Includes undrawn commitments.

CHALLENGES

The key challenges facing the NEF are as follows:

- ensuring that stakeholders deliver on their undertakings to our organisation;
- ensuring that the investee companies honour their repayment schedules;
- rendering assistance to entrepreneurs to build their business planning and business management capabilities.

The sustainability of both the NEF balance sheet and its investee companies is also a challenge. We operate within a high-risk environment. By prudently managing risk and ensuring sustainability, the NEF will validate its mandate and demonstrate to stakeholders that the NEF objectives can be accomplished.

PROSPECTS

The NEF is rolling out a number of compelling structures and products to reinforce its commitment to black enterprise and transformation in South Africa. Although BB-BEE has enjoyed considerable momentum, much attention has focused on the transfer of ownership from white to black. We will continue to support the transfer of business assets to create new black enterprises, that will become commanding brands. This funding and support of these black enterprises will contribute to the national priorities of economic growth and employment creation. Our new BB-BEE retail investment products, which will utilise the assets of certain SAls, will facilitate empowerment of both a financial and an educational nature by inviting black South Africans to participate in the stock market.

Our strategy is bearing fruit as the accelerating number of applications and disbursements indicate. New and exciting products to complement those already in existence will be launched in the coming year. We will continued to foster relationships with our investors.

The NEF architecture is in place and a solid foundation has been cast. The team looks forward

to building on this in the coming year. The continued commitment, drive and energy from the Board, the executive and all our employees and stakeholders in supporting the NEF initiatives will certainly contribute to achieving this success.


APPRECIATION

Thank you first and foremost to our stakeholders, especially the Honourable Minister and the Department of Trade and Industry, all of whom have been extremely supportive of our efforts.

As detailed in the 2005 annual report, it was with great pleasure and enthusiasm that the NEF welcomed the appointment of Philisiwe Buthelezi as the new CEO from 1 July 2005. Her involvement in the drafting and implementation of BB-BEE legislation and the Codes of Good Practice, coupled with her economic and financial background, illustrates how fortunate our organisation is to have people who can marry the NEF's public sector mandate with efficient execution.

I express my gratitude and appreciation to the Board of Trustees and each of the Board committees for their valued strategic contribution, their good attendance records as well as their overall enthusiasm and support for the organisation and its work.

Most sincerely, I thank the CEO, her team of executives and staff for the dedication, passion and excellence displayed to achieve the results for the year under review.



Mr Ronnie Ntuli
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

The dynamic energy and intelligence of our team of young professionals is evident in the feedback from clients and stakeholders.

I welcome this opportunity to look back to July 2005 when I was asked to administer the promise of the National Empowerment Fund. It has been my great privilege to do so.

This has been a year of hard work, intense internal scrutiny and organisational change. Our aim has been to develop an organisation that gives effect to the principles of the Codes of Good Practice. It is with a real sense of accomplishment that I can report that the NEF successfully met our financial and operational targets and accelerated our demonstrated commitment to BB-BEE.

By facilitating economic participation for the many individuals and enterprises formerly excluded and by harmonising the role of the NEF with ASGISA, we have made considerable progress in meeting our mandate. Below is a comprehensive review of the actions indicating that the NEF is now delivering to its constituency.

BUILDING CAPACITY TO DELIVER

A key challenge we faced during the year under review was to build capacity within the NEF.

Without talented human capital even the best strategy backed up with considerable resources can fail.



Philisiwe Buthelezi

We embarked on an extensive recruitment drive across all levels of the organisation – from the executive to investment associates. It is extremely gratifying to report that the calibre of individuals we have brought on board is tangible. The dynamic energy and intelligence of our team is evident in the feedback from clients and stakeholders. We currently have 53 employees. We expect to nearly double this number to 93 over the new financial year, predominantly in the Fund Management Division.

STRATEGY TO DELIVER

During the past year the NEF embarked on the first revision of its strategic planning processes since inception. This procedure assisted us to fine-tune our business plan. By reassessing both the current BB-BEE landscape and financing environment, we updated our understanding of the market's failures to provide appropriate financing or funding instruments. Our review process was welcomed by Government, the dti and other key stakeholders.

The reassessment of our strategic planning was informed by the data we have collected from

evaluating some 17 000 enquiries and processing 3 500 applications over the 18 months to end March 2006.

Based on that data we identified that black entrepreneurs still remain unable to access capital for their businesses due to insufficient personal wealth and creditworthiness. In addition, few funders focus on the assessment of BB-BEE transactions from the perspective of considered commercial viability as opposed to intrinsic value at transaction date.

This data analysis also showed a clear 80:20 split around the R3 million funding level. We found 80% of the deals assessed were valued below R3 million while 20% had a higher valuation. This prompted the NEF to reconsider how it should assess applications most effectively around this pivotal value point.

The organisation firstly restructured its core business divisions into Asset Management and Fund Management. Within the Fund Management Division, two funds were split by the R3 million transaction limit: the NEF iMbewu Fund and the NEF Corporate Fund.

The iMbewu Fund handles NEF applications from black entrepreneurs for debt funding below the R3 million threshold and debt funding in excess of R3 million for preferentially procured contracts. The NEF Corporate Fund accepts applications in excess of R3 million and of a more complex, combined debt and equity nature. The trustees' report provides more detail with respect to the funds and the funding products.

As our Fund Management products were already structured in such a way to remain relevant in a changing economic environment, they required no redesign. Some enhancements were introduced to address new BB-BEE issues such as the need to support funding for preferential procurement through a

new product offering bridging finance. This was particularly relevant in the logistics sector, where funding was being leveraged off banking asset finance facilities. Discussions with financiers in this regard have progressed well and are being implemented on a deal-by-deal basis.

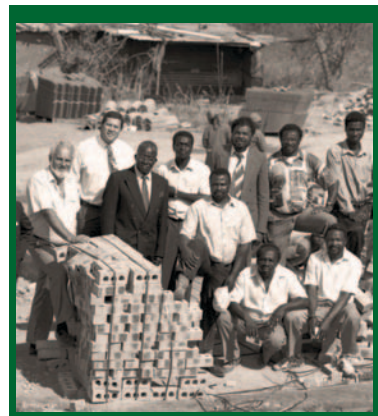
SUCCESSFUL IMPLEMENTATION

The business plan designed to implement our strategic thinking provides realistic milestones to acknowledge the limited capitalisation allocated to the NEF. This was due to the previous perceptions of our credentials and capabilities held by our primary shareholders: Government, the dti and the National Treasury.

As part of our restructuring and recruitment drive, we have adopted a 'cradle to grave' philosophy to streamline our investment process and address the backlog of applications. Separate teams are now responsible for pre-investment screening, another for due diligence while the post-investment team monitors and mentors the sustainability of the entities we finance. This new approach encourages expertise, structure and focus and acknowledges the ultimate accountability of the NEF to our applicants and investees from various divisions of specialised expertise. We are seeing results and have removed the backlog of applications to date.

We also embarked on a programme of proactive relationship management by supplying regular briefings and engaging with the Office of the Presidency, especially in support of the drafting of the ASGISA strategy. The exercise has proven to be an invaluable initiative to communicate not only the NEF's operational performance, but to clearly distinguish our role and mandate from those of other DFIs such as the IDC and Khula. Going forward, given our proven delivery, we hope to persuade Government to allocate additional funds to the NEF.

CHIEF EXECUTIVE OFFICER'S REPORT continued



EXTENDING DELIVERY

We are developing tools to measure our investment funds' impact on the empowerment dividend and contribution to other socio-economic objectives. We have reported that the enterprises we have funded have created some 1 500 jobs and saved 4 500 more.

We carefully track the origin of applications to provide data on the geographical and gender spread. The NEF recognises the need to identify ways to assist in facilitating increased economic activity. By analysing the data obtained, the NEF is able to determine where support is required and target its efforts accordingly.

In addition to its financing role, the NEF is increasingly protecting the interests of applicants to ensure that their BEE transactions are not overvalued or overpriced.

To facilitate broader participation in the stock market, our Asset Management Division will be rolling out the NEF's first BB-BEE retail product. High on our priority list for the coming year is increasing our holdings in other SAIs as per the transfer framework prepared by the dti, which will provide opportunities to develop additional BB-BEE retail products.

The NEF is currently capitalised by draw-downs in the order of R400 million per annum over five years to 2009. A total capitalisation of R2 billion is anticipated. We have committed the capital received to date. There is a further half a billion rand in the pipeline that could be financed on receipt of further capitalisation. Our funding limitations prompt careful consideration to refrain from over-committing to applications.

ADMINISTRATION THAT DELIVERS

Included in our restructuring was a new approach to the use of our senior employees' time and focus. Prior to the year under review executives were thinly stretched and lacked cohesiveness and coordination. A team of five executives now support and focus on the operating divisions, finance, strategy and the office of the CEO. Their core portfolio responsibilities have become paramount to straddling multiple portfolios.

We also moved to new, larger premises in Morningside, Johannesburg, where we have further developed our IT infrastructure and conducted a comprehensive systems evaluation. We have improved our customer relationship management system and created an applications database to better handle the volumes and variations of reporting to effectively measure the impact of our portfolio on BB-BEE.

“We’ve enjoyed a professional relationship with the NEF. During the negotiations stage, they dealt with us fairly; we never felt we were being short-changed. As a result we built a good relationship with the company we invested in since in the end we both had trust in the NEF.”

Sipho Velempini, Time Mining

CHALLENGES AND PROSPECTS

Looking ahead we will devote considerable attention to the Post-Investment Division to ensure that the NEF is creating sustainable businesses. We take a long-term view, backing businesses in a start-up phase with the aim of ultimately creating globally competitive enterprises. Start-ups are accompanied by a higher level of risk but with the correct analysis, support and guidance the risk can provide greater rewards through the creation of jobs and capital.

In addition by engaging DFIs overseas we will benchmark our experiences in South Africa against what is taking place in the international markets. At the same time, several countries, France in particular, are hoping to learn from our experiences with transformational issues – from drafting policy to implementing an empowerment programme. This endorsement extends to global companies to whom we hope to introduce to black entrepreneurs to facilitate joint ventures or partnerships in preparation for the 2010 World Cup.

APPRECIATION

The lessons of the past year have been rich and rewarding and I am grateful to have had generous guidance from our new Board of Trustees, our governmental stakeholders and colleagues.

I extend particular thanks to the Honourable Minister, the dti and the Office of the Presidency. With their encouragement we have formulated a clearly-defined and articulated strategic vision aligned to that of Government’s broader macro-economic design. By developing a clear business case for our institution and demonstrating the linkages between what we are doing and what Government wants to achieve, our partnership has advanced significantly over the year in review.

I have been extraordinarily pleased with the level of commitment and passion in the NEF executive and the members of staff. Without these two qualities, we could not have achieved the positive results we have presented in this report.



Ms Philisiwe Buthelezi
Chief Executive Officer

BOARD OF TRUSTEES



RONNIE NTULI



SONJA SEBOTSA



JAMES THELEDI



THANDO MHLAMBISO

NON-EXECUTIVE TRUSTEES

Ronnie Ntuli (LLB) – Chairman

Mr Ntuli is founding partner of Thelo Group, an investment group seeking to acquire meaningful stakes in businesses with growth potential in selected sectors, including a recent transaction with Comair. Prior to forming the Thelo Group, Mr Ntuli conceptualised and founded Andisa Capital in partnership with the Standard Bank Group. He was Andisa's Chief Executive. Mr Ntuli's leadership, strategic thinking and corporate governance guidance are valuable assets to the NEF. He is a director of Thelo Group, Incwala Resources, Incwala Platinum, Lonmin Platinum and Hans Merensky Holdings.

James Theledi (BCom, MBA)

Mr Theledi holds the position of Deputy Director General in the State-owned Enterprise portfolio at the Department of Public Enterprises. His considerable experience in the financial services sector and understanding of economies provides the NEF with expert guidance from the micro to the macro. He is a member of the Institute of Risk Management of South Africa and serves on the NEF Audit Committee.

Sonja Sebotsa (LLB (Hons), MA)

Ms Sebotsa comes to the NEF with experience in managing strategic investment portfolios, investment banking, corporate finance and advisory work. She is an Executive Director at WDB Investment Holdings and spent six years at Deutsche Bank, including its UK and offices in Japan. Her work advising

on BB-BEE, economic access for women, and the structuring of transactions makes her an invaluable trustee of the NEF, where she chairs the Human Capital and Remuneration Committee. Ms Sebotsa sits on the boards of Adcorp Holdings, Paracon Holdings Limited, Makalani Holdings, FirstRand Group Limited and Discovery Holdings. She is a member of the Association of Black Securities and Investment Professionals and is registered with the Securities and Futures Authority in the UK.

Thando Mhlambiso (AB, JD, MBA)

Mr Mhlambiso is founder and managing partner of Seaview Partners, an infrastructure investment firm. To the Board of the NEF he brings 16 years' experience in private equity investing, investment banking and corporate finance law, from both South Africa and the United States. Previously Mr Mhlambiso held senior positions at Sanlam, including CEO of Sanlam Private Equity and served on the Executive Committees of Sanlam Investments and Sanlam Investment Management. Mr Mhlambiso was founding partner of both Kagiso Ventures Private Equity Fund and Genesis Capital Partners. In the United States he was an M&A associate at JP Morgan and a corporate attorney at Skadden Arps. He chairs the Investment Committee of the NEF Board and serves as a director of Allan Gray.

**JENNIFER HOFFMANN****POLO RADEBE****KABELO SEITSHIRO****PHILISIWE BUTHELEZI****Jennifer Hoffmann** (BA (Hons) MBA)

Ms Hoffmann sits on the Board Investment Committee of the NEF. Previously CEO of MTN Banking, Ms Hoffman has held positions in microfinance consulting and was Managing Director for Teba Bank. She was Investment Executive in South Africa for the Commonwealth Development Corporation and has considerable experience in developmental finance. A member of the Institute of Chartered Accountants in England and Wales, Ms Hoffman is a Director of the South African Banking Council and has advised on agriculture and land reform policy.

Polo Radebe (BCompt (Hons)/CTA, Higher Diploma in Auditing)

Ms Radebe who was actively involved in formulating and extending the practice of the BB-BEE Codes of Good Practice serves the NEF as a member of the Board Investment Committee. Ms Radebe is the Chief Director: BEE Unit at the dti. She has considerable experience in investment research and analysis, worked for a firm of accountants and auditors and performed due diligence exercises for the corporate finance division of a major banking institution.

Kabelo Seitshiro (BCom, CA, Diplomas in Accountancy and Taxation)

Mr Seitshiro brings a wealth of experience to the Board of Trustees. He chairs the Risk Management Committee of the NEF. Mr Seitshiro is currently Chief Director: Asset Management for the National Treasury. With a background in

auditing, several aspects of investment banking, including structured and corporate finance; he is a Director of the Export Credit Insurance Corporation of South Africa Limited and a council member of the Vega School of Brand Communication.

EXECUTIVE TRUSTEES

Philisiwe Buthelezi MBA (Corporate Finance), MSc (Economics) (thesis not defended) – Chief Executive Officer Ms Buthelezi was appointed Chief Executive Officer in July 2005, bringing a diverse knowledge of banking, capital markets and international investment in South Africa. Her experiences encompass both private and public sector activities and provide the NEF with unparalleled understanding of the environment in which the organisation operates. Prior to joining the NEF, Philisiwe worked for a French Investment Bank in London, held responsibility for Risk Management Control at the South African Reserve Bank and worked in the Treasury division at Standard Corporate and Merchant Bank. She was then employed by the dti to promote European investment in South Africa. In 2002 she returned to South Africa to become the Chief Director of the Black Economic Empowerment Unit of the dti which, developed the Government's Broad-Based Black Economic Empowerment strategy, the BB-BEE Act and the Codes of Good Practice.

REPORT OF THE TRUSTEES



ENABLING

CORE OPERATING ACTIVITIES

The most fundamental structural achievement this year was forming the clear distinction between the two core operating activities of the NEF into Fund Management and Asset Management and the restructuring of the organisation to reflect that focus.

The objectives of the NEF as set out in the NEF Act reflect two overall roles that the NEF must play to deliver upon its mandate: the support of black entrepreneurs and black enterprise as well as the creation of an investment and savings culture through the provision of products facilitating access to the investments held by the NEF in the SAIs.

These two roles are captured in the NEF objectives:

- To provide black people with the opportunity of, directly or indirectly, acquiring shares or interest in state allocated investments (SAIs) that are being restructured or in private business enterprises;
- To encourage and promote savings, investments and meaningful economic participation by black people;
- To foster and support business ventures pioneered and run by black enterprises;
- To improve the universal understanding of equity ownership among black people;
- To encourage the development of a competitive and effective equities market inclusive of all persons in South Africa;
- To contribute to the creation of employment opportunities; and
- To generally employ schemes, businesses and enterprises as may be necessary to achieve the objects of the NEF Act.

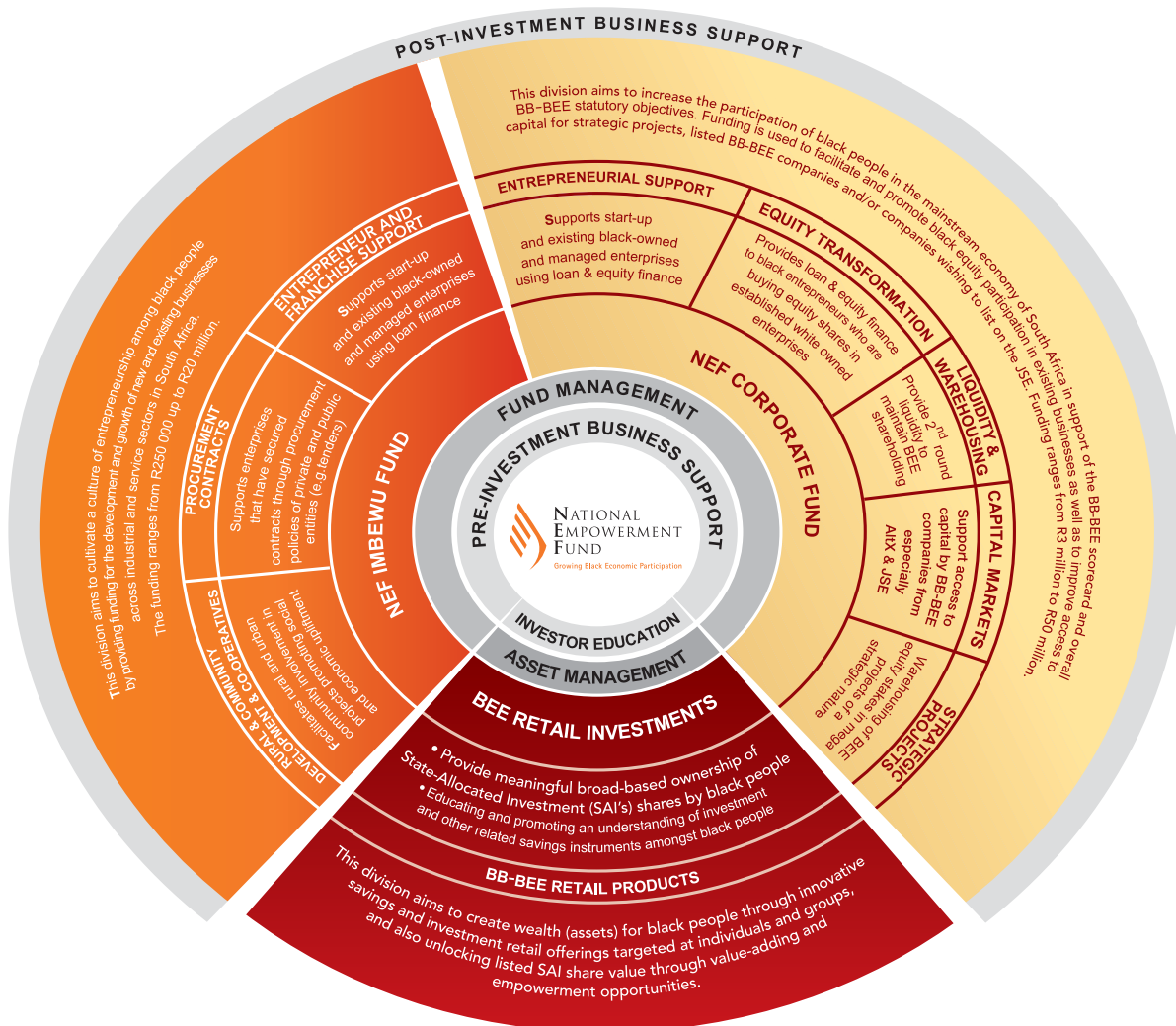
THE NEF “WHEEL” OF OPERATING ACTIVITIES

The operating activities of the NEF are structured into two operating divisions: Fund Management and Asset Management. Within Fund Management the Pre-Investment Business Support Unit provides targeted non-financial support to qualifying applicants to the Fund Management Division. These applications depending on their size and complexity are channelled through to one of the two NEF Funds, the NEF iMbewu Fund the NEF Corporate Fund. The Funds themselves have their respective funding products and funding thresholds against which these applications are evaluated.

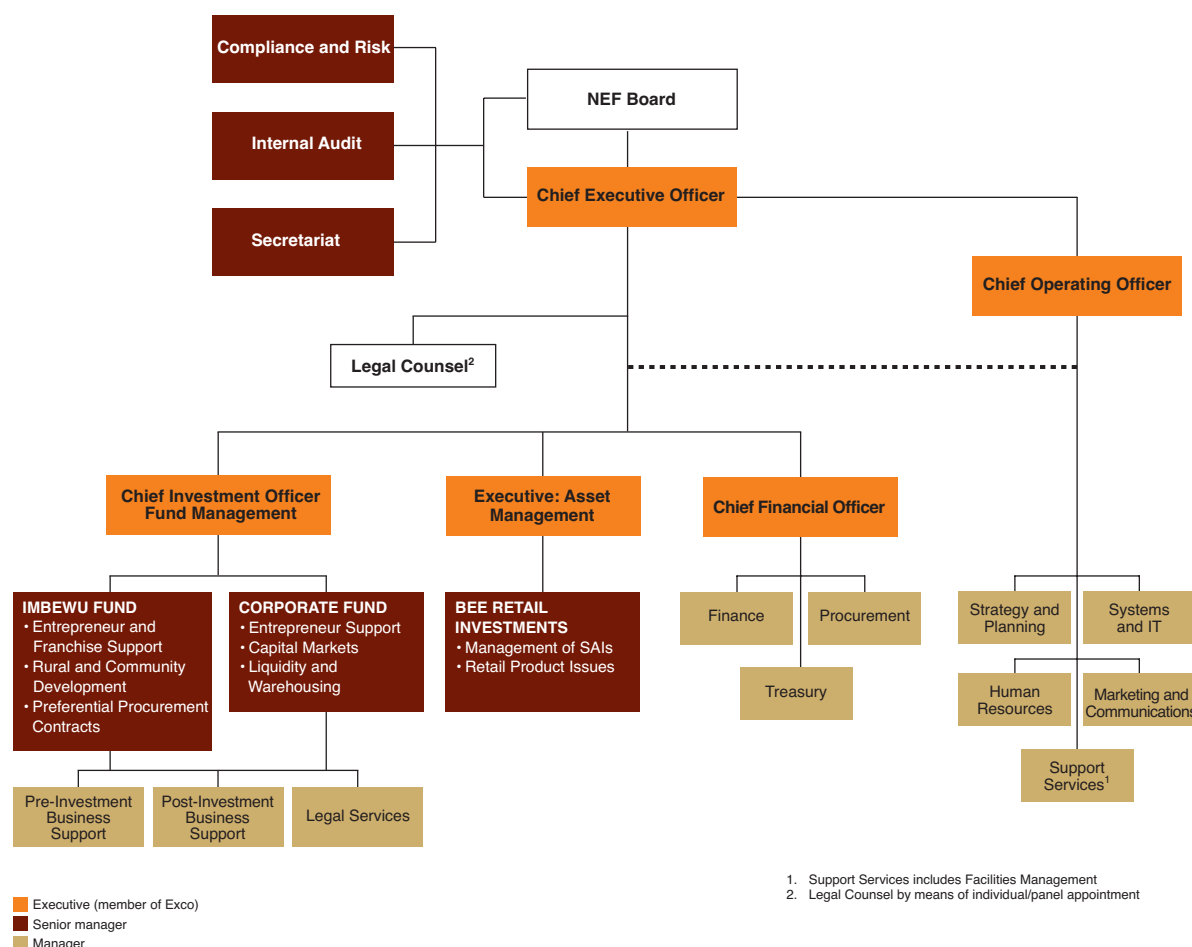
The Post-Investment Business Support Unit then monitors and manages the invested portfolio.

Within Asset Management the investor education programme will facilitate and promote understanding of the BEE Retail Investment products, structured around the SAIs, developed and implemented by the Asset Management Division.

These core operating activities are reflected diagrammatically in the NEF “wheel” of operating activities as shown below.



THE NEF ORGANISATIONAL STRUCTURE



The revised strategic plan of the NEF catered for a new organisational structure as depicted above which was implemented during the course of the financial year. The Fund Management Division, led by the Chief Investment Officer, invests the funds placed under the management of the NEF by National Treasury through the dti. Fund Management then uses those resources to offer investment funding products to qualifying black entrepreneurs.

The Asset Management Division reports directly to the office of the Chief Executive and is responsible for managing the transfer of SAIs identified for the NEF. Upon receipt of these investments, the division is tasked with issuing unique retail investment products, 'BEE Retail Investment products' to

encourage and accommodate general public participation in those SAIs.

A new portfolio under the Chief Operating Officer is responsible for strategic development and business planning of the NEF as well as operational performance reporting of the organisation. Support services necessary for the integrated delivery of this function such as technology, systems, human resources, marketing and communications have also been allocated to this portfolio.

The finance portfolio under the Chief Financial Officer has been re-focused to include only finance-related functions as well as the introduction of a dedicated procurement portfolio.



Andrew Wright
Chief Operating Officer



Raymond Mokgalagadi
Chief Financial Officer



Victor Mabuza
Executive: Asset Management

FUND MANAGEMENT

Overview

The NEF has structured two funds to effectively manage the Fund Management Division: the NEF iMbewu Fund and the NEF Corporate Fund. These funding products offer finance to businesses which are either starting-up, expanding or undergoing a process of BEE, ranging from R250 000 up to as much as R50 million.

OPERATIONAL PERFORMANCE

Exponential achievements have been made this year in the number of transactions approved for committed investment by the NEF Fund Management Division. What is particularly pleasing is that an increase has been achieved in parallel with the implementation of sound investment approval frameworks and committees, the foundations of which were put in place in prior years.

“The forging of relationships with provinces allows us to extend our own broad-based reach to more communities. These relationships were utilised to expose the provinces to the funding products available from the NEF, especially to underdeveloped regions. We hope, by example, to encourage the private sector into investing in all the provinces and to also play a crucial role in giving life to the government's Broad-Based Black Economic Empowerment policy.”

Philisiwe Buthelezi

REPORT OF THE TRUSTEES continued

Figure 1

NEF – Invested portfolio by sector by value: 31 March 2006

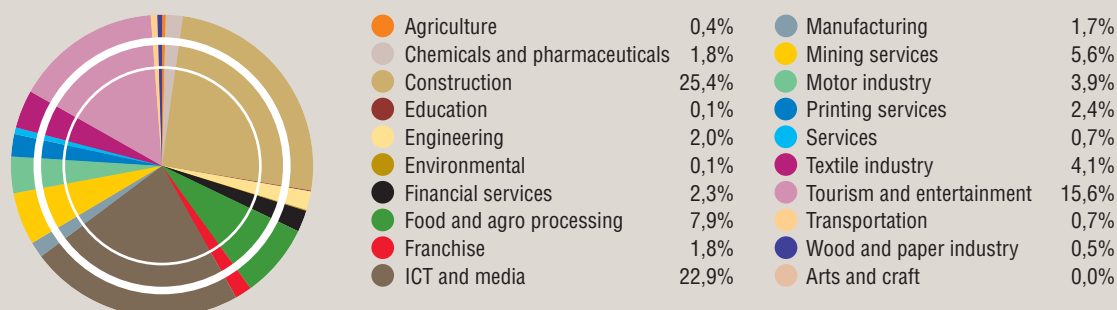


Figure 2

NEF – Invested portfolio by industry sector by number: 31 March 2006



Figure 3

NEF – Invested portfolio by stage of investment by value: 31 March 2006

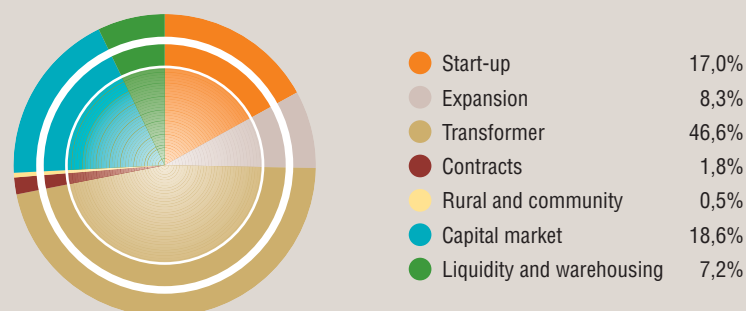


Figure 4

NEF – Invested portfolio by stage of investment by number: 31 March 2006

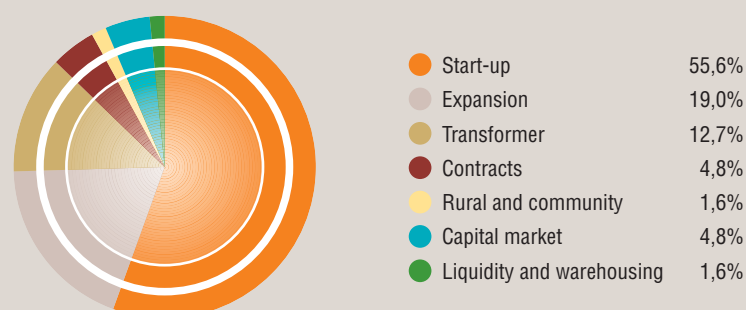


Figure 1 and 2 highlight that the NEF's investment portfolio is a generalist portfolio by sector but does strive to mirror the priority sectors as identified by the dti's industrial policy as well as identified in ASGISA. By value as indicated in Figure 1, most investments have been made in the construction, ICT and tourism sectors but this tends to spread out more evenly across the sectors when the portfolio is evaluated by number of transactions, with quite a number of transactions having been undertaken in the agri-processing sector. This portfolio does demonstrate a diversified portfolio by sector, but still focused on sectors that have been targeted for transformation and development.

When analysing the portfolio by business stage in Figure 3, a satisfactory investment value has been made into established businesses undergoing BB-BEE equity transformation, capital markets listing and where equity has been warehoused by the NEF. This provides balance and risk mitigation against investment in higher risk start-up and expansion stage investments. A highly satisfactory trend is indicated in the number of start-up businesses as indicated in Figure 4, representing 55% of the number of deals supported. These transactions represent the extent to which the NEF is going towards supporting new black empowered business enterprise and the associated job and wealth creation therewith.

Altogether 65% of the disbursed portfolio by number of transactions are for investment values of less than R3 million, implying funding of SMEs.

Support for SMEs will also be apparent in the transactions above R3 million, however, these will obviously be larger, medium-sized enterprise transactions starting up, expanding or undergoing an equity transformation process.

The NEF was able to meet its targets set with the dti by both value and volume to trigger approval for further capitalisation draw-downs for these Fund Management activities.

The NEF's impact on BB-BEE and success in delivering upon its mandate to support enterprises owned and managed by black entrepreneurs was used as the primary benchmark to assess the performance of the Fund Management portfolio. In this regard, the NEF utilises the balanced scorecard as provided for in the Codes of Good Practice as a primary indicator in the evaluation of transactions for approval.

An alternate but equally important benchmark is the contribution of the NEF toward another key Government priority: Job creation. Those figures are highlighted in Table 1 below which also illustrates the highly competitive rate at which the NEF has been able to create jobs, expand existing BB-BEE business as well as supply funding for preferentially procured contracts. Enterprises financed by the NEF should lead to the creation of nearly 1 500 new jobs and ensure the retention and support of some 4 500 workers, empowering not only the business owners but also their existing and future employees.

Table 1: Jobs maintained and created: 31 March 2006

	Rand invested (disbursed)	Number of jobs (total)	Existing jobs	New jobs	Rand per job (total)
Start-up	47 014 743	486		486	96 738
Expansion	22 884 791	531	163	368	43 098
Transformer	129 016 875	1 135	606	529	113 671
Contracts	4 978 426	124	58	66	40 149
Rural and community	1 450 000	12		12	120 833
Capital market	51 587 480	3 530	3 530		14 614
Liquidity and warehousing	20 000 000	206	206		97 087
Portfolio	276 932 315	6 024	4 563	1 461	45 971

REPORT OF THE TRUSTEES continued



Claire Busetti
Chief Investment Officer



Nhlanhla Nyembe
Fund Manager: iMbewu Fund



Campbell Barnes
Fund Manager: Corporate Fund

New initiatives

Leading up to the strategic planning for the new financial year, further analysis was undertaken to determine the cause of the market failures still facing black empowered businesses. The data gleaned from applications received by the NEF over the period since the launch of its initial product offerings in June 2004, was assessed for this purpose. The results showed that no significant progress has been made since June 2004 and that black businesses still face the same key challenges: lack of access to funding and skills. In that context the broadness of the NEF funding threshold to service black empowered business across-the-board remains relevant in line with the mandate of the NEF. However, some variations and enhancements of the products were required as follows:

- A black entrepreneur that secures contracts through preferential procurement will be funded through a product that has been tailored specifically to meet the criteria of each transaction. This product takes the form of asset finance or bridging finance to enable the supplier to deliver upon the terms of the contract. The procurement product is also designed to bolster the ability of the business to operate and remain sustainable. Entrepreneurs would also be able to acquire assets through partnered asset finance facilities with the commercial banks.
- Product funding thresholds have also been revised to better accommodate the numerous good quality applications received by the NEF, which were previously declined due to these thresholds. The NEF is now better positioned to

meet its requirements to support black owned start-up businesses and those seeking to expand their operations as well being in a position to be the sole funder of rural and community projects.

Analysis of application data clearly indicates that outlying provincial regions require specific focus to effect development. To address this, the NEF is engaging with provincial governments to identify opportunities to partner with existing initiatives so as to create synergies and increase effective and efficient delivery.

The NEF is further seeking to formalise working relations with SEDA and the IDC to broaden reach and improve service delivery. The SEDA programme represents a possible point of access into the markets with an opportunity to establish information desks with staff trained to help entrepreneurs submit applications and answer enquiries about NEF funding products.

ASSET MANAGEMENT

Overview

The Asset Management Division is responsible for managing the transfer of SAIs identified for the NEF.

The NEF holds the SAIs on behalf of black South Africans to give them the opportunity of accessing these stocks by designing and issuing retail investment products. These products aim to educate and promote an understanding of investments and other related saving instruments by black people.

Operational performance

The SAIs currently held in custody by the NEF, which are MTN and Uthingo, yielded dividend

“Collaborating with the National Empowerment Fund has seen WesBank accelerate its growth strategy of offering co-funded financial solutions where the needs are unique from our more established customers, creating the realisation of real broad-based empowerment transactions.”

JC Pieters, WesBank

income of R38 million for the year. These dividend receipts are re-applied back into capital, distinct from operational requirements.

During the year under review extensive work has taken place to establish a commitment and process that should see the first NEF BB-BEE retail product issued in the new financial year. The Board is committed to issuing this first product and many roleplayers, including the major financial services institutions, were engaged when researching the product. As custodians of this shareholding, the NEF hopes to transfer shares to the intended beneficiaries, and provide investment access to the SAI's currently held by the NEF for black South Africans either as groups or individuals, with a bias towards women, the youth and people with disabilities.

Also during the year under review the NEF assisted the dti to draft a framework document outlining the mechanism for the transfer to the NEF of the remaining already identified SAIs for the purposes of structuring further retail products against these transfers received.

The NEF looks forward to being able to report positively on the successful facilitation of further transfers in the new financial year as discussions in this regard are progressing.

NON-FINANCIAL SUPPORT

Pre-Investment Business Support

The strategic and business planning of the NEF has clearly recognised the importance of good support structures for applicants seeking funding, in the

form of basic funding advice and structuring, assistance with business planning and advice on the appropriate NEF funding product.

The NEF has to date offered a basic product advisory service through its mini call centre. This has helped applicants navigate the application process with the added benefit to the NEF of improvements in the quality of applications received. Reduced turnaround times and greater efficiency are enjoyed by both applicants and the NEF.

Continued focus will be given to prospective applicants around the quality of their submissions thus leading to a further increase in NEF approval rates, which are strictly governed by the completeness of the application, eligibility and the commercial viability of the applicant's business. Consequently, the NEF is bolstering its Pre-Investment Business Support to allow for a higher level of interaction with and advice to potential applicants.

The backlog of applications has been cleared out and the process has been refined. The team has identified bottlenecks and implemented a solution while at the same time exploring the correct systems platform to make the process more streamlined with excellent monitoring and reporting features. Applicants can now expect to have initial feedback within two weeks of receipt of a complete application as to the status of their submission.

In addition it is envisaged that this service will be extended to the provinces through the SEDA infrastructure as outlined earlier in this report.

Post-Investment Business Support

The NEF recognises that crucial to achieving sustainable BB-BEE is the need for close post-investment monitoring of its portfolio. In order to ensure that businesses funded by the NEF are successful, the NEF must seek to mitigate risk by monitoring those businesses and actively engage in providing ongoing support and advice.

The NEF has already developed the structures and policies around which post-investment support will be provided. Staff are currently being recruited to work as part of the Fund Management team with the mandate to closely monitor the performance, reporting and funding compliance of the investee companies.

In addition, and if required, the NEF will engage the help of mentors and assign them to investees using accredited mentor networks within the dti and other funding agencies.

Through these initiatives, the success of the investments made by the NEF will be significantly enhanced as any business risk should be identified at an early stage, allowing the NEF to implement corrective action.

In the new financial year, Post-Investment Business Support will be adding recruits and bolstering support for investee companies in three important respects – monitoring, business support and ICU. To encourage a culture of repayment of loans, to support investee companies to become sustainable and, to ultimately, become globally competitive, this division concentrates on the following aspects:

Monitoring investments

Monitoring and intervention where necessary is a key focus of the Post-Investment team. Activities include:

- Ongoing financial evaluation against the investee's budget;
- Ensuring adherence to legal agreements;
- Ensuring the submission of financial statements on time;
- Assessment of profitability;
- Regular evaluation of the sustainability of the empowerment dividend with continual monitoring

of the empowerment component and skills transfer of the companies that are being funded.

Supporting business

Mentorship in skills and business acumen provides access to financial management training, accounting, income taxes, VAT collection and more. The NEF works with strategic partners and SEDA to extend reach and offer accredited training. It also provides investee companies with networking opportunities by facilitating participation in seminars, local and international exhibitions and trade delegations organised by the dti to promote their products and services. This will assist the investee companies to appreciate the competitive environment in which they are operating.

ICU

For businesses in distress or in default, the NEF works with management teams to review actions, taking the necessary steps to turn the businesses around, or find other entrepreneurs willing and able to do so. The new focus on broadening the variety of post-investment services aims to reduce the businesses falling into the ICU category.

OPERATIONS

Staff, status and recruitment

The number of employees grew from 25 to 43 in 2005 and reached 54 for the financial year under review. Recruitment is continuing in order to meet the current application activity and will potentially reach 93 by the end of the new financial year. Year-on-year the NEF has doubled in size over the last three years.

The staff recruitment drive will continue to address stakeholder concerns surrounding the capacity, skills and experience required of its staff to continue to be able to deliver at the levels seen over this financial year. The emphasis on recruitment at present is on further investment professionals to be able to turn the current work-in-progress into committed transactions. In addition, the invested portfolio is growing by the month and the establishment of the Post-Investment Business Support Unit to monitor and guide the investee businesses requires adequate resources to be able to apply due attention to this now essential function.

Employment equity

The NEF continues to proudly represent an employee race profile that is well reflective of the demographics of South Africa. In addition, the NEF reflects a gender profile in consideration of and well in excess of the targeted employee equity thresholds.

The NEF believes it is an example in this respect to the financial services sector. Figure 5 and 6 reflect this information diagrammatically.

Supply chain management policy

As the NEF grows it is faced with the regular need to review processes and systems and approve and implement new policy. Consequently, the NEF is updating its formal procurement process implemented in the 2004/2005 financial year to cater for, as a priority in terms of its mandate, the new specific requirements of the Codes of Good Practice read in consideration with the Preferential Procurement Policy Framework Act. All of its procurement is thus done in consideration of the BB-BEE status of its suppliers.

The NEF has been able to increase its procurement from black empowered suppliers to in excess of 50% of its procured goods and services over the last quarter of the financial year.

National and provincial initiatives

One of the primary focuses of the NEF has been to extend its national footprint. The NEF is engaging with provincial government in an attempt to identify support structures that exist in the province with which the NEF can partner and use as access points for its funding products. For example discussions in KwaZulu-Natal with the MEC for Finance and Economic Development lead to proposed cooperation with provincial DFIs as well as initiatives within the MEC's office directly. Similar exercises are being undertaken with Northern Cape and Eastern Cape and these will then flow into the other provinces.

Cooperation discussions with SEDA have also progressed to written commitment. It is envisaged

Figure 5
NEF employment equity report by race

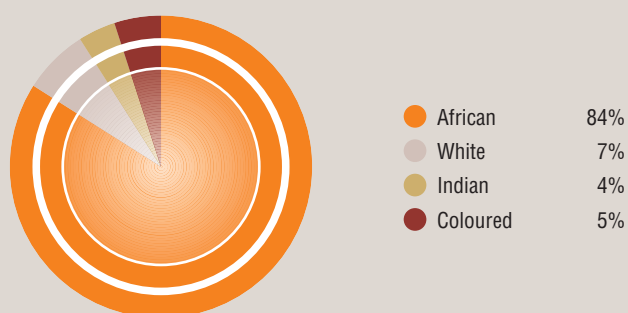
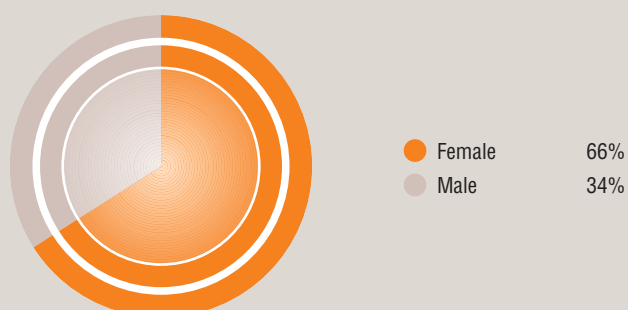


Figure 6
NEF employment equity report by gender



“The team at NEF is dynamic and passionate about what they do. The emphasis on competence and delivery has instilled a new confidence and lifted morale within the organisation. Our culture is to provide solutions to the challenges that face us as a country.”

Khabo Xaba, Human Resource Manager

that the NEF will partner with SEDA in its national roll-out initiative to provide access to NEF products and advice at the SEDA provincial and branch offices. This is expected to materialise during the new financial year as the SEDA staff are appointed and trained in the NEF products and applications process.

Press and media coverage

The trustees have been pleased to note the developing trend in media coverage of the NEF indicating a shift in focus from its legacy to one of reporting on the operational activities of the NEF and its progress in achieving its mandate. The NEF has approached its media relations with caution and has chosen to focus on the fundamentals of delivery on its business plan, preferring actions and not promises to be reflected by the media. The results reflect a press corps now reporting on the achievements of its Fund Management Division and waiting with interest for the first BB-BEE retail product from its Asset Management Division. In addition the CEO, Ms Philisiwe Buthelezi, and her contribution to the sculpting of the BB-BEE policy in South Africa and her new role in the NEF and its implementation successes, has attracted a lot of interest from the media.

We look forward to further constructive engagement with the media and wider communication of the achievements and role of the NEF in the BB-BEE landscape to all audiences.

Finance

The NEF has posted a consolidated accounting surplus for the year of R44 million. This accounting surplus arises after investment income, fair value gains and the impairments of investments. The

income statement has been extended to allow the reader to clearly understand the make-up of the financial performance activities of the NEF and hence the make of the up the surplus itself.

The cash balance amounts to R400 million as at 31 March 2006. Of this amount, R215 million has been committed to Fund Management investments and a further R17 million has been approved but has not yet been drawn down by current investees. The balance of the cash resources will be fully applied against potential Fund Management investments currently under due diligence that may be approved by the investment committees upon successful completion thereof.

National Treasury has been engaged and application has been made for permission to retain the reported surplus. Management views this surplus as fully committed to future investment activities and as such has made application to National Treasury for reclassification of the NEF from a PFMA Schedule 3A Public Enterprise so as to better cater for the nature of its operating activities and Generally accepted Accounting practice that the NEF has to employ.

Post-balance sheet event

During this period following the reporting date of the annual financial statements and the date of drafting this report Uthingo Management (Pty) Limited, of which the NEF has a 5% shareholding interest, was not successful in its bid to have its licence renewed to operate the National Lottery. This possibility was catered for in the fair value already reported in the annual financial statements and no further adjustment is required in this regard.

REPORT OF THE SECRETARIAT: GOVERNANCE

If management is about running the business, governance is about seeing that it is run properly.¹ More specifically, governance is concerned with the structures and processes associated with management, decision-making and control in organisations.

The NEF's governance framework and processes have evolved substantially from a time when very little in terms of a governance structure was in place. This report provides a high level overview of the corporate governance practices and structures currently in place at the NEF.

The NEF is governed by a Board of Trustees appointed by the President, on the advice of the Minister of Trade and Industry. The year under review saw the term of office of one Board of Trustees reach conclusion and another commence. The Board appointed effective 1 November 2005, for a three-year term, underwent a comprehensive induction programme and at 31 March 2006 had attended two Board meetings and applied their minds at a weekend strategy workshop.

During the year under review, the attendance record of the respective Board members was as follows:

OUTGOING BOARD OF TRUSTEES

Member	5 May 05 (special)	30 May 05 (special)	7 June 05 (special)	14 June 05	3 Aug 05 (special)
Alistair Ruiters	✓	✓	✓	✓	✓
Nchakha Moloi	✓	✓	✓	✓	✓
Philisiwe Buthelezi	N/A ²	N/A	N/A	N/A	✓
Brian Molefe	Apologies	✓	✓	Apologies	Apologies
Tumelo Chipfupa	✓	✓	Apologies	✓	Apologies
Polo Radebe	✓	✓	✓	✓	Apologies
James Theledi	✓	✓	✓	✓	✓

INCOMING BOARD OF TRUSTEES

Members	29 Nov 05 ³	04 Feb 05
Philisiwe Buthelezi	✓	✓
Polo Radebe	✓	✓
James Theledi	✓	✓
Ronnie Ntuli	✓	✓
Sonja Sebotsa	✓	✓
Jennifer Hoffmann	✓	✓
Kabelo Seitshiro	✓	✓
Thando Mhlambiso	✓	✓

1. *RI Tricker (1984).*

2. *Ms Philisiwe Buthelezi was excused from her responsibilities as an NEF trustee from 12 October 2004 to 30 June 2005 for the duration of the new CEO recruitment process.*

3. *First meeting of the Board of Trustees appointed with effect from 1 November 2005.*

Supporting the Board of Trustees are the following committees:

1. Audit
2. Risk Management
3. Human Capital and Remuneration
4. Investment

Each committee comprises representatives of the Board, executives and independent committee members specifically appointed for the skills they can bring to the respective committees. All of these committees have charters and are constituted in consideration of the NEF's Delegation of Authority,

REPORT OF THE SECRETARIAT: GOVERNANCE continued



the King II Report on Corporate Governance and the Protocol on Corporate Governance in the Public Sector. The four Board committees have included reports on their respective activities during the year under review.

Recommendations to these various Board committees and sometimes directly to the Board itself, flow from the Executive Committee (EXCO) which has been constituted to assist the CEO in the running of the NEF. EXCO meets weekly in an investment forum to consider deals for approval. During the financial year ending 31 March 2006, the EXCO Investment Committee (EXCO IC) met 38 times, facilitating substantial deal flow as presented earlier in this annual report. An EXCO operations meeting is also held at least once a month.

To ensure an objective and independent approach, free of conflict of interest, to all matters particularly the consideration and approval of transactions, the NEF has implemented and continuously monitors its disclosure of interests regime. The NEF highlights the need for disclosure of potential conflicts of interest to its staff, management, committee members and Board of Trustees:

1. through the provisions of the the NEF Act;
2. through the respective committee charters;
3. by declaration through the NEF committee members and staff code of conduct;
4. at each meeting as an item on the agenda;
5. by means of inclusion of a disclosure form in each meeting pack for completion and update;
6. by maintaining a register of disclosure of interests.

Notwithstanding the above, there is a high level of reliance placed on the individual's judgment,

integrity and honesty to disclose potential conflicts of interest.

The NEF's risk management programme forms part and parcel of the corporate governance process. The Risk Management Committee, a committee of the Board with its own terms of reference and primarily represented by the executive management of the NEF, is responsible for the implementation and monitoring of the risk management programme. The majority representation by executive management on the committee provides for executive management to take ownership and responsibility for the NEF's risk management.

Compliance with the legislative framework under which the NEF operates ranging from the NEF Act itself, the PFMA coupled with the National Treasury Regulations, to the Codes of Good Practice and other key legislation specific to BB-BEE. In addition regular and accurate reporting to stakeholders, are other key aspects of corporate governance which the NEF has enhanced significantly.

The corporate governance strategy and practices of the NEF are being regularly benchmarked against other DFIs and industry leaders and consistently monitored and assessed to ensure that the NEF is in keeping with best practice.

For the NEF, good governance is all encompassing. It is the means of ensuring due and adequate control over the strategy, direction and operations of an organisation in achieving its key objectives. The NEF recognises that its long-term success depends on its commitment to good governance.

REPORT OF THE BOARD INVESTMENT COMMITTEE

“For me, the NEF has changed my life. I like working for an organisation changing other people’s lives who need the money that the NEF can provide. Everyone pitches in here and we treat each other with kindness and respect.”

Zukiswa Mgijima, Kitchen Assistant

The Board Investment Committee (BIC) is a committee of the Board of Trustees of the NEF. The BIC operates pursuant to the provisions of the NEF Delegation of Authority and the charter of the BIC.

ROLES AND RESPONSIBILITIES

The BIC is required to review its charter and the terms and conditions of the Delegation of Authority specific to investments on at least an annual basis and, if necessary to recommend any suggested changes to those documents to the Board for its consideration. During the period under review, the BIC conducted an extensive review of the terms of its authority and of the structure of the NEF’s Investment Division including the appropriateness of the investment team’s investment process, monitoring and reporting and of the pricing of the NEF’s investment instruments. Although the BIC was satisfied that, by and large, the structures that are in place are appropriate, the BIC submitted several recommendations and observations to the Board for its consideration in an effort to strengthen the organisation.

With effect from 4 February 2006, the lower limit of the BIC’s investment approval threshold was increased by the Board from R5 million to R10 million. The BIC assesses and approves or declines transactions between R10 million and R50 million that are recommended to it by the NEF’s EXCO. During the period under review, 22 requests for financing totalling R462 million were taken to the BIC by the NEF’s EXCO. A total of 18 of the funding requests totalling R390 million

were approved, two were declined and two are pending approval subject to further information being provided to the BIC. The transactions that were approved by the BIC span various industry sectors including resources, agri processing, manufacturing, ICT and tourism.

At the Board’s request, the BIC may also be tasked with assessing and recommending to the Board for its consideration any new NEF investment products. During the period under review, the Board did not make such a request to the BIC.

Finally, the BIC monitors the performance of the NEF’s investment portfolio on a quarterly basis.

MEMBERSHIP AND ATTENDANCE

The membership of the BIC underwent significant changes during the course of the financial year as a result of: (a) the appointment of a new Chief Executive Officer; (b) as of 1 November 2005, the appointment of a new Board of Trustees and hence Mr Brian Molefe, Mr Nchakha Moloi and Dr Alistair Ruiters no longer sitting on the BIC; (c) the expiration on 31 December 2005 of the term of office of Ms Noluthando Gosa, formerly an independent member of the BIC; and (d) the appointment by the Board of additional independent members in order to achieve a full complement of eight members.

Accordingly, as at 31 March 2006, the BIC was comprised of the following members:

REPORT OF THE BOARD INVESTMENT COMMITTEE continued

Appointed on 16 February 2005

- Mr Greg Voigt, independent
- Ms Polo Radebe, non-executive trustee

Appointed on 1 July 2005

- Ms Philisiwe Buthelezi, Chief Executive Officer and trustee

Appointed on 29 November 2005

- Ms Lindiwe Mthimunye, independent

Appointed on 4 February 2006

- Mr Thando Mhlambiso, Chairperson of the BIC and non-executive trustee
- Ms Jennifer Hoffmann, non-executive trustee
- Mr Kugan Thaver, independent

Appointed as of 13 March 2006

- Ms Cora Fernandez, independent

During the year under review, the attendance record of the members of the BIC was as follows:

Member	17 May 05	15 Aug 05	30 Aug 05	28 Sept 05	27 Oct 05	2 Dec 05	8 Dec 05	16 Feb 06	16 Mar 06
Brian Molefe	Apologies	Apologies	Apologies	Apologies	Apologies	N/A	N/A	N/A	N/A
Nchakha Moloi	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A
Thando Mhlambiso	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Apologies ⁴	✓
Philisiwe Buthelezi	N/A	✓	✓	✓	✓	✓	✓	✓	Apologies
Alistair Ruiters	✓	✓	✓	Apologies	Apologies	N/A	N/A	N/A	N/A
Polo Radebe	✓	Apologies	Apologies	✓	✓	✓	Apologies	Apologies	✓
Greg Voigt	✓	✓	✓	✓	✓	✓	✓	Apologies	✓
Lindiwe Mthimunye	N/A	N/A	N/A	N/A	N/A	Apologies ⁵	✓	✓	✓
Noluthando Gosa	Observer	Apologies	✓	✓	Apologies	✓	✓	N/A	N/A
Jennifer Hoffmann	N/A	N/A	N/A	N/A	N/A	✓ ⁶	N/A	✓	✓
Kugan Thaver	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	✓
Cora Fernandez	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Apologies ⁷

4. Notification of the meeting was received too late for Mr Mhlambiso to attend.

5. The meeting was held too soon after her appointment for Ms Mthimunye to attend.

6. Pursuant to a resolution of the Board on 29 November 2005, Ms Hoffmann and Mr Mhlambiso were requested to serve as members of the BIC only as and when required to do so.

7. Although Ms Fernandez's appointment became effective as of 13 March 2006, the formal confirmation was received from all trustees only after 16 March 2006.

REPORT OF THE AUDIT COMMITTEE

“The NEF has lately demonstrated a genuine desire to assist black business to raise capital. They’ve gone out of their way to try and facilitate different funding mechanisms and have been creative to ensure success for their investee companies.”

Lwazi Koyana, Nation’s Capital

We are pleased to present our report for the financial year ended 31 March 2006.

MEMBERSHIP AND ATTENDANCE

The membership of the Audit Committee underwent change during the course of the financial year as a result of: (a) the appointment of a new CEO with effect from 1 July 2005 and (b) the appointment of a new Board of Trustees with effect from 1 November 2005.

Accordingly, as at 31 March 2006, the Audit Committee comprised of the following four members:

Appointed as of 27 June 2003

- Mr Anthony Coombe, Chairperson of the Audit Committee
- Mr Nick Nicholls, independent

Appointed on 1 July 2005

- Ms Philisiwe Buthelezi, Chief Executive Officer and trustee

Appointed on 29 November 2005

- Mr James Theledi, non-executive trustee

The Audit Committee met four times during the year under review to carry out its responsibilities.

Member	10 June 05	22 July 05	9 Nov 05	3 Mar 06
Anthony Coombe	✓	✓	✓	✓
Nick Nicholls	✓	✓	✓	✓
James Theledi ⁸	N/A	N/A	N/A	✓
Polo Radebe	✓	apologies	apologies	N/A
Philisiwe Buthelezi	N/A	✓	✓	✓

8. Replaces Polo Radebe with effect from 29 November 2005

AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) (ii) of the PFMA and National Treasury Regulations 3.1.13 and 27(1). The Audit Committee also reports that it has prepared appropriate terms of reference

as its Audit Committee charter, which have been duly adopted by the Board of Trustees. We have regulated our affairs in compliance with this charter and have discharged all responsibilities as contained therein.

REPORT OF THE AUDIT COMMITTEE continued



EFFECTIVENESS OF INTERNAL CONTROL

The system of internal control is designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are effectively managed. From the various reports of the internal and external auditors, we noted certain instances of inadequate procedures, systems, controls and records. We are satisfied that appropriate steps have been taken by management to enhance and address these reported weaknesses.

A separate Risk Management Committee monitors and oversees the control of risk areas throughout the NEF. The internal auditors used this risk control framework to undertake audit work in the higher risk areas identified.

QUALITY OF MANAGEMENT REPORTS

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by management and the NEF during the year under review.

EVALUATION OF ANNUAL FINANCIAL STATEMENTS

The Audit Committee has:

- reviewed and discussed with the external auditors and senior representatives of executive management the audited annual financial statements included in this annual report;
- reviewed the external auditors management letter and management's response thereto;
- reviewed the appropriateness of accounting policies and practices; and
- reviewed significant adjustments resulting from the audit.

The Audit Committee concurs with and accepts the conclusions of the external auditors 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 external auditors.

REPORT OF THE RISK MANAGEMENT COMMITTEE

In recent years risk management has been growing in importance, evolving into a discipline in its own right and making a welcome contribution to successful implementation of business strategies. One of the reasons why risk management has received so much attention worldwide is that financial disasters seem to be occurring on a regular basis, especially in large corporations. As a result, internal risk reviews are causing leading companies to abandon their silo approach to risk management in favour of Enterprise-Wide Risk Management (ERM). ERM looks within and across business lines and activities of the organisation to consider how one area of the organisation may affect the risks of other business lines and the enterprise as a whole.

Given that the NEF's mandate requires it to operate in a much riskier segment of the market, it is imperative that the NEF has a clear and focused approach to ERM. To this end, the NEF Board has created a committee to manage the NEF's risk profile, namely the Risk Management Committee (RMC).

The RMC operates pursuant to the provisions of the NEF delegation of authority and the charter of the RMC. The RMC directs all credit, market, and operational risk management activities, as well as coordinating corporate oversight units.

ROLES AND RESPONSIBILITIES

The primary purposes of the RMC are:

1. To establish and maintain a common understanding of the risk universe which needs to be addressed in order to meet corporate objectives;
2. To identify and agree the risk profile of the organisation;
3. To satisfy the corporate governance reporting requirements;
4. To coordinate the risk management and assurance efforts of the organisation; and
5. To report to the Board of Trustees on overall risk management and on the extent of any action taken by management to address areas identified for improvement.

During the period under review, management commenced formal risk management of the organisation with the compilation of a risk register. This register is reviewed on a quarterly basis by the RMC against the risks identified as well as the effectiveness of the risk management measures implemented. The results hereof in turn inform the risk profile of the NEF. A risk assessment of the entire organisation and a report thereon was also completed during the period under review.

Risk management of the invested portfolio is a priority focus of the RMC. To this extent it has closely considered the risk management initiatives put in place by management on the current investment portfolio. These include a formal post-investment policy which incorporates a risk rating approach for each transaction so as to identify problems at an early stage in order to introduce corrective action before the problems progress further. A management constituted Post-Investment Management Committee has also been established.

The RMC has been responsible for considering the Cash Management Policy and Materiality Framework for recommendation to the Board for approval. It has also guided the development of a fraud prevention policy.

Furthermore, management identified a need for the development and formal approval of a Supply Chain Management Policy that caters for all procurement requirements. A recently established Procurement Committee has been tasked with the development of this policy. In the absence of the finalisation of this policy, the NEF has procedures in place which incorporate controls from its approved Delegation of Authority and financial internal controls. These procedures have been set up in close consideration of the practices of fellow DFIs and Government departments and the current Supply Chain Management regulations. This process to develop the Supply Chain Management Policy is in progress and it is expected to be completed by 30 September 2006.

REPORT OF THE RISK MANAGEMENT COMMITTEE continued

MEMBERSHIP AND ATTENDANCE

The RMC is largely constituted by the Executive Management of the NEF to ensure that management takes ownership of the risk of the organisation. The membership of the RMC underwent significant change during the course of the financial year as a result of: (a) the appointment of a new Chief Executive Officer, (b) the appointment of a new Board of Trustees with effect from 1 November 2005 hence Mr Nchakha Moloi no longer sitting on the RMC; and (c) the resignation and re-assignment of executives and the appointment of new executives.

Accordingly, as at 31 March 2006, the RMC comprised the following members:

Appointed as of 6 October 2004

- Mr Anthony Coombe, independent and the Chairperson of the Audit Committee
- Ms E Riley, Compliance Officer

Appointed on 1 March 2005

- Mr Raymond Mokgalagadi, Chief Financial Officer

Appointed on 18 April 2005

- Ms Claire Buseti, Chief Investment Officer

Appointed on 1 July 2005

- Ms Philisiwe Buthelezi, Chief Executive Officer and trustee

Appointed 29 November 2005

- Mr Kabelo Seitshiro, Chairperson of the RMC and non-executive trustee

The RMC is currently in the process of recruiting an independent member to complete the full complement of committee members.

During the year under review, the attendance record of the members of the RMC was as follows:

Member	13 May 05	27 May 05	10 Nov 05	29 Mar 06
Nchakha Moloi	Apologies	Apologies	N/A	N/A
Kabelo Seitshiro	N/A	N/A	N/A	✓
Anthony Coombe	✓	✓	✓	✓
Philisiwe Buthelezi	N/A	N/A	✓	Apologies
Raymond Mokgalagadi	✓	Apologies	✓	✓
Claire Buseti	✓	✓	✓	✓
Emma Riley	✓	✓	✓	✓

REPORT OF THE HUMAN CAPITAL AND REMUNERATION COMMITTEE

The Human Capital and Remuneration Committee (HCRC) is a committee of the Board of Trustees. The HCRC operates pursuant to the provisions of the NEF Delegation of Authority and the charter of the HCRC.

ROLES AND RESPONSIBILITIES

The primary purposes of the HCRC are to review, make recommendations to the Board and oversee compliance on the human capital and remuneration policies, procedures and structures regulating the relationship between the NEF and its staff. Although it convened from time to time during the period under review, the HCRC activities were somewhat frustrated by the absence of an appointed human resources manager for nine months. Nonetheless the HCRC was instrumental in providing guidance and reviewing progress achieved on the development of an employee wellness programme, a revised performance management system and a salary banding and job grading exercise. The disciplinary policy and procedures of the organisation were also given due consideration for revision.

The HCRC was responsible for undertaking an extensive review of the proposed performance bonus awards and cost-of-living salary adjustments for staff before recommending same to the Board of Trustees for approval.

With the appointment of a new human resources manager in January 2006, the HCRC once again has a dedicated resource within the NEF to focus on human capital and remuneration matters.

MEMBERSHIP AND ATTENDANCE

The membership of the HCRC underwent change during the course of the financial year as a result of: (a) the appointment of a new Board of Trustees with effect from 1 November 2005, hence Mr Tumelo Chipfupa no longer sitting on the HCRC, and (b) the resignation of Ms Mpuseng Tlhabane, an independent HCRC member, with effect from 20 February 2006.

Accordingly, as at 31 March 2006, the HCRC comprised the following three members:

Appointed on 3 September 2004

- Mr Mike Marcus, independent

Appointed on 17 September 2004

- Ms Barbara Lombard, independent

Appointed on 29 November 2005

- Ms Sonja Sebotsa, Chairperson of the HCRC and non-executive trustee

The HCRC is currently in the process of recruiting a further independent member.

During the year under review, the attendance record of the members of the HCRC was as follows:

Member	1 Mar 05	5 April 05 (special)	12 April 05 (special)	17 May 05	15 Mar 06
Tumelo Chipfupa	Apologies	✓	✓	Apologies	N/A
Mpuseng Tlhabane	✓	✓	✓	✓	N/A
Mike Marcus	✓	✓	✓	✓	✓
Barbara Lombard	✓	Apologies	✓	✓	✓
Sonja Sebotsa	N/A	N/A	N/A	N/A	✓

NEF INVESTED PORTFOLIO as at 31 March 2006

First and foremost, the BB-BEE status of applications and therefore their eligibility for funding is considered against the balanced scorecard as contained in the Codes of Good Practice. The NEF further takes into account the dti's priority industrial sectors in evaluating the investment applications it receives as demonstrated in the portfolio analysis in Figures 1 to 4 earlier in this report. In addition, transactions are individually evaluated according to their business case, financial forecasts, thorough analysis of the market and provincial region in which the business intends to operate.

A large portion of applications are declined due to: unsubstantiated financial forecasts; inflated seller's prices in the case of buy-ins or buy-outs; inadequate or inappropriate ownership structures contrary to the Codes of Good Practice; and insufficient participation by the black entrepreneurs in management of the business concerned. The Pre-Investment Business Support Unit of the NEF has been established to assist applicants improve the quality of their applications. In addition cooperation with SEDA should provide more extensive national support to prospective applicants to the NEF.

In this section, the investments supported to date by the NEF are listed.

The restructuring of the Fund Management Division of the NEF into the NEF iMbewu Fund and the NEF Corporate Fund allowed for the clear distinction between the application process and the financial structuring required for each type of transaction.

The smaller, simpler structured transactions are directed to the NEF iMbewu Fund. These applications normally have straightforward requirements: for instance, the applicant seeking capital to start or expand a small business needs a loan. These transactions use loan structures, based against prime lending rates and repayable over a

period of up to five years. In some instances the loan repayment is structured against the business expected cash flows and an appropriate capital or interest holiday would be structured into the loan. The NEF would possibly seek security in the form of cession of cash balances and trade debtors book without compromising the business' ability to raise additional bank funding.

In considering applications for the funding of assets required to fulfil, for example a preferential procurement order, the applications are first and foremost considered against what is available to the business from a bank asset financier. The NEF would contribute a deposit equivalent to the financier on behalf of the applicant. This may be structured as a loan to the applicant, with the bank providing the balance in the form of an asset finance agreement.

More complex transactions are funded by the NEF Corporate Fund. A combination of debt, quasi-equity such as preference shares, convertible debentures and, in some instances, ordinary equity can be used. This allows for a combined return from various funding instruments used in the transaction so as to compensate for additional investment risk borne by the NEF. The instruments are considered against the current capital and gearing structure of the business to match the cash flow affordability of the applicants. The NEF expects a minimum internal rate of return of 20% for these transactions (the combined cash flow return of all instruments over the life of the investment) and includes any possible return that may be earned out of the sale of any minority equity stakes held by the NEF directly or as a warehouse for targeted beneficiaries.

Number	Name of investment	Sector	Province
Start-up			
1	Wax Works	Manufacturing	WC
2	Emergia Solutions (Pty) Limited	Financial services	GP
3	Lindiwe Wines	Food and agri processing	WC
4	MUKS Business Enterprise CC	Motor industry	GP
5	Blink Lifestyle Trading (Pty) Limited	ICT and media	GP
6	Kula's Tissue Products CC	Wood and paper industry	GP
7	Golden Falls Trading (Misho)	Textile industry	GP
8	Nucleus Administrators	Financial services	WC
9	Isibane Safety	Manufacturing	WC
10	Amsterdam Trading	Transportation	GP
11	Setilo Fast Foods CC (Something Fishy)	Food and agri processing	GP
12	Supergold Trading T/A Secretarial Unlimited	Printing services	KZN
13	Notae Investment Holdings (Pty) Limited	Tourism and entertainment	KZN
14	Theme-U-Snack CC	Food and agri processing	WC
15	Izazi Support Systems CC	Construction	MP
16	Tilt Tango CC	Transportation	WC
17	Superior Quality Trading CC	Manufacturing	FS
18	Dynamic Bakery CC	Food and agri processing	GP
19	Limpopo Practical Electronics Institute	Education	LP
20	Henna Staffing Solutions CC	Services	GP
21	Vakasha Guided Tours CC	Tourism and entertainment	GP
22	Makarapa International Headwear	Textile industry	GP
23	Ogwini Bakery	Food and agri processing	GP
24	Exotic Breads	Food and agri processing	KZN
25	Baynes Transformers Technology	Engineering	GP
26	Bukafrika Technologies	Environmental	GP
27	Roseko Caterers & Cleaning Services	Food and agri processing	GP
28	Mexbell's Café	Food and agri processing	GP
29	Peu Ya ICT (Pty) Limited	ICT and media	GP
30	Lindiwe's Tissue Mnf. & Dist.	Wood and paper industry	GP
31	WiredloopTechnologies	ICT and media	WC
32	Riverport Brickworks	Construction	GP
33	Blisp Business Services	ICT and media	GP
34	Sacred Fire Trading (T/A Goldstar Batteries)	Manufacturing	KZN
35	The Cleanest Link Laundromat CC	Services	GP

NEF INVESTED PORTFOLIO continued
as at 31 March 2006

Number	Name of investment	Sector	Province
Expansion			
36	Clickrite	Printing services	KZN and GP
37	Banra Enterprises CC	Wood and paper industry	GP
38	Quality Frozen Foods	Food and agri processing	GP
39	National Transmission & Industry CC	Engineering	WC
40	Water Related Products CC	Manufacturing	EC
41	Godfrey Forklifts Services & Repairs CC	Motor Industry	GP
42	Phumelelani Business Enterprises CC	Printing services	GP
43	Mnandi Madiba Atchaar	Food and agri processing	LP and GP
44	Innovative Catering Services (T/A Mtiposo)	Food and agri processing	GP
45	Uptown Trading (T/A Pholani Restaurant)	Food and agri processing	EC
46	Michrel 101 (Sakhisizwe Construction)	Construction	EC
47	Afro Call (Pty) Limited	Franchise/ICT	GP
Transformer			
48	BreatheTex Corporation	Textile industry	EC
49	Intaba Technologies	ICT and media	KZN/WC
50	Telepassport (Mojaho Trading)	ICT and media	WC
51	Inca Concrete Masonry Products	Construction	EC
52	Dial Matrix Telecoms	ICT and media	GP
53	Time Mining	Mining industry	GP
54	Izingwe Automotive Investments	Motor industry	EC
55	Stone Age	Construction	GP
Contracts			
56	Sikhona Air Conditioning (Pty) Limited	Engineering	GP
57	Morobe Trading Enterprises CC	Services	LP
58	Ahanang Hardware & Construction CC	Construction	GP
Rural and Community Development			
59	Platinum Koi (Koi Gold)	Agriculture	WC
Capital Market			
60	All Joy	Food and agri processing	GP
61	Enaleni Pharmaceuticals Limited	Chemicals and pharmaceuticals	KZN
62	Hospitality Property Fund Limited	Tourism and entertainment	GP
Liquidity and Warehousing			
63	Choice Technologies	ICT and media	GP



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INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF NATIONAL EMPOWERMENT FUND TRUST

For the year ended 31 March 2006

We have audited the annual financial statements and group annual financial statements of National Empowerment Fund Trust set out on pages 39 to 61 for the year ended 31 March 2006. These financial statements are the responsibility of the trustees. 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. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the trust and of the group at 31 March 2006, and the results of their operations and cash flows for the year ended in accordance with South African Statements of Generally Accepted Accounting Practice.



PricewaterhouseCoopers Inc

Director: N Ayob

Registered Auditor

31 August 2006



Simama (CA) SA

Director: C Mbili

Registered Auditor

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2006

		Consolidated		Entity	
		2006	2005	2006	2005
	Note	R	R	R	R
ASSETS					
Non-current assets		1 615 442 233	1 048 433 942	1 615 463 431	1 055 408 453
Property and equipment	4	2 776 447	1 688 038	2 776 447	1 687 739
Intangible assets	5	194 329	92 816	194 329	92 816
Investment in joint venture	6	–	–	–	10 131 344
Investment in associates	7	5 407 670	3 156 534	5 407 730	–
Investments available-for-sale	8	1 444 021 791	1 041 464 843	1 444 021 791	1 041 464 843
Loans	9	153 041 996	2 031 711	153 063 134	2 031 711
Investments held to maturity	10	10 000 000	–	10 000 000	–
Current assets		486 044 629	223 987 786	487 800 082	224 725 780
Investments held for trading	11	66 784 154	5 097 537	66 784 153	5 097 536
Trade and other receivables	12	19 138 744	1 474 095	19 138 744	1 111 799
Cash and cash equivalents	13	400 121 731	217 416 154	401 877 185	218 516 445
TOTAL ASSETS		2 101 486 862	1 272 421 728	2 103 263 513	1 280 134 233
EQUITY AND LIABILITIES					
Capital and reserves		2 087 338 589	1 268 704 666	2 085 619 335	1 274 530 659
Trust capital	14	740 600 000	370 000 000	740 600 000	370 000 000
Fair value reserves	15	1 270 006 330	865 446 506	1 270 006 329	865 446 505
Accumulated surplus		76 732 259	33 258 160	75 013 006	39 084 154
Current liabilities		14 148 273	3 717 062	17 644 178	5 603 574
Trade and other payables	16	11 184 446	1 542 197	8 311 005	1 486 503
Inter-group loan	17	2 963 827	–	9 333 173	2 200 581
Provisions	18	–	2 174 865	–	1 916 490
TOTAL EQUITY AND LIABILITIES		2 101 486 862	1 272 421 728	2 103 263 513	1 280 134 233

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 March 2006

		Consolidated		Entity	
		2006	2005	2006	2005
	Notes	R	R	R	R
Revenue	20	105 369 587	49 057 557	105 274 062	48 986 508
Grants		40 000 000	24 622 143	40 000 000	24 622 143
Investment income from fund management		26 697 405	6 182 653	26 601 880	6 134 281
Dividends from state allocated investments		38 404 791	18 214 243	38 404 791	18 214 243
Other revenue		267 391	38 518	267 391	15 841
Other income		6 326	–	6 326	–
Fair value gain – fund management		16 882 372	164 437	16 882 372	164 437
Total income		122 258 285	49 221 994	122 162 760	49 150 945
Administration expenses		(40 632 683)	(26 077 990)	(48 082 469)	(24 680 942)
Impairment of investments – fund management		(38 151 498)	(250 000)	(38 151 438)	(250 000)
Surplus for the year	21	43 474 104	22 894 004	35 928 853	24 220 003

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2006

		Consolidated		Entity	
		2006	2005	2006	2005
	Notes	R	R	R	R
Cash flows from operating activities					
Cash receipts from customers		87 704 939	48 920 848	87 247 117	40 055 841
Cash paid to suppliers and employees		(29 371 658)	(39 644 996)	(35 212 349)	(27 460 084)
Cash generated from operating activities	25	58 333 281	9 275 852	52 034 768	12 595 757
Interest paid		(2 976)	–	(2 976)	–
Net cash from operating activities		58 330 305	9 275 852	52 031 792	12 595 757
Cash flow used in investing activities		(246 224 728)	(11 025 987)	(239 271 052)	(13 567 875)
Additions to property and equipment	4	(1 823 579)	(884 928)	(1 823 579)	(884 927)
Additions to intangible assets	5	(193 182)	(117 414)	(193 182)	(117 414)
Increase in investments		(244 214 293)	(10 023 645)	(237 260 617)	(12 565 534)
Proceeds from sale of equipment		6 326	–	6 326	–
Increase in trust capital		370 600 000	150 000 000	370 600 000	150 000 000
Net cash from financing activities		370 600 000	150 000 000	370 600 000	150 000 000
Increase in cash and cash equivalents		182 705 577	148 249 865	183 360 740	149 027 882
Cash and cash equivalents at the beginning of the year		217 416 154	69 166 289	218 516 445	69 488 563
Cash and cash equivalents at the end of the year	13	400 121 731	217 416 154	401 877 185	218 516 445

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 March 2006

	Trust capital R	Accumulated surplus R	Fair value reserves R	Total R
GROUP				
Balance at 31 March 2004	220 000 000	10 364 151	605 794 851	836 159 002
Movement for the year	150 000 000	–	259 651 655	409 651 655
Surplus for the year	–	22 894 004	–	22 894 004
Balance as at 31 March 2005	370 000 000	33 258 155	865 446 506	1 268 704 661
Movement – Trust capital	370 600 000	–	–	370 600 000
Movement – Available-for-sale investments	–	–	402 421 948	402 421 948
Movement – Associates	–	–	2 137 876	2 137 876
Surplus for the year	–	43 474 104	–	43 474 104
Balance at 31 March 2006	740 600 000	76 732 259	1 270 006 330	2 087 338 589
ENTITY				
Balance at 31 March 2004	220 000 000	14 864 150	605 794 851	840 659 001
Movement for the year	150 000 000	–	259 651 654	409 651 654
Surplus for the year	–	24 220 003	–	24 220 003
Balance as at 31 March 2005	370 000 000	39 084 153	865 446 505	1 274 530 658
Movement – Trust capital	370 600 000	–	–	370 600 000
Movement – Available-for-sale investments	–	–	402 421 948	402 421 948
Movement – Associates	–	–	2 137 876	2 137 876
Surplus for the year	–	35 928 853	–	35 928 853
Balance at 31 March 2006	740 600 000	75 013 006	1 270 006 329	2 085 619 335

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2006

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

1.1 Basis of preparation

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

Standard

GRAP 1: Presentation of financials	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

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 and 3 has resulted in the following significant changes in the presentation of the financial statements:

1. Terminology differences:

Standard of GRAP

Statement of financial performance
Statement of financial position
Statement of changes in net assets
Net assets
Surplus/deficit for the period
Accumulated surplus/deficit
Contributions to owners
Reporting date

Replaced statement of GAAP

Income statement
Balance sheet
Statement of changes in equity
Equity
Profit/loss for the period
Retained earnings
Share capital
Balance sheet date

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

3. Specific information such as:

- Receivables from non-exchange transactions
- Taxes and transfers payable

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

Paragraphs 11 – 15 of GRAP 1 have not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

1.2 Consolidation

(a) Joint ventures

Joint ventures are accounted for by applying the proportionate consolidation method, on a line by line basis. Surpluses and deficits on transactions between the Trust and its joint ventures are recognised only to the extent of the profit/loss attributable to the interest of the other party.

(b) Associates

Associates are all entities over which the Trust has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The NEF Trust has elected to designate the equity investments in associates at fair value through the statement of financial performance. This treatment is permissible as AC110 scopes relevant organisations in

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 March 2006

having to equity account for their associates, if they upon initial recognition decide to designate the investments at fair value through the statement of financial performance. Accordingly such investments will not be equity accounted but designated as investments accounted for through the statement of financial performance in terms of AC133.

1.3 Revenue recognition

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

Revenue comprises Government grants, dividends received, interest received, royalties and profit on disposal of investments.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and effective rate over the period to maturity, when it is determined that such income will accrue to the Trust.

Dividends are recognised when the right to receive payment has been established.

Grants from the Government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Trust will comply with all the relevant conditions.

Government grants relating to costs are deferred and recognised in the statement of financial performance over the period necessary to match them with the costs for which they are intended to compensate, only where it is possible to match the income and expenditure. Grants that do not meet this criteria are recognised in income.

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

1.4 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment cost. Depreciation is calculated using the straight-line method to allocate the cost of assets to their residual values over their estimated useful lives as follows:

Computer equipment and intangibles	33,30%
Leasehold improvements	20%
Audio visual equipment	33,33%
Motor vehicles	25%
Office equipment	20% – 40%
Furniture and fittings	16,67%
Other assets – paintings	2%

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the statement of financial performance.

1.5 Intangible assets

Acquired computer software is capitalised on the basis of cost incurred to acquire and bring to use the specific software and is amortised on a straight-line basis over their estimated useful lives. Intangible assets with an indefinite useful life are not amortised. The useful life of intangible assets that are not being amortised is reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment for those assets.

1.6 Financial instruments

The Trust classifies its financial assets in the following categories: cash and cash equivalents; financial assets at fair value through statement of financial performance; loans and receivables; investments held to maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Cash and cash equivalents

Cash and cash equivalents are carried at statement of financial performance cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities.

(b) 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 Trust provides money, goods or services directly to a debtor with no intention of trading the receivables.

(c) Investments held-to-maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Trust's management has the positive intention and ability to hold to maturity.

(d) Financial assets at fair value through statement of financial performance

This category has two sub-categories: financial assets held for trading and those designated by management at fair value through the statement of financial performance on inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(e) Available-for-sale investments

Available for sale investments are those intended to be held for indefinite period of time, which may be sold in response to the needs of liquidity or changes in interest rates, exchange rates or equity prices or non-derivatives that are not classified in any other category.

Purchases and sales of financial assets at fair value through statement of financial performance, held to maturity and available for sale are recognised on trade date, the date on which the Trust commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through statement of financial performance. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or where the Trust has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and held-for-trading investments are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through statement of financial performance category are included in the statement of financial performance in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in net assets. When securities classified as available-for-sale are sold or impaired the accumulated fair value adjustments are included in the statement of financial performance.

The fair value of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the NEF establishes fair value by using valuation techniques. These include the use of discounted cash flow analyses and other valuation techniques commonly used by market participants.

1.7 Impairment of financial assets

(a) Assets carried at amortised cost

The Trust assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Trust about the following loss events:

- (i) significant financial difficulty of the issuer of obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty; a concession that the lender would not otherwise consider;

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 March 2006

- (iv) it becoming probable that the borrower will enter bankruptcy or other financial difficulties; or
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the Trust.

The Trust first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Trust determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of financial performance. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Trust may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less cost for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics (i.e. on the basis of the Trust's grading process that considers assets type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairments are estimated on the basis of the contractual cash flows of the assets in the Trust and historical loss experience for assets with credit risk characteristics similar to those in the Trust. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Trust to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amount previously written off decrease the amount of the provision for loan impairment in the statement of financial performance.

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. The amount of the reversal is recognised in the statement of financial performance.

(b) Assets carried at fair value

The Trust assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of financial performance – is removed from net assets and recognised in the statement of financial performance. Impairment losses recognised in the statement of financial performance on equity instruments are not reversed through the statement of financial performance. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increased and the increase can be objectively related to an event occurring after the impairment loss was recognised in statement of financial performance, the impairment loss is reversed through the statement of financial performance.

Borrowings are recognised initially at fair value net of transactions costs. Borrowings are subsequently stated at amortised cost. Borrowings are classified as current liabilities unless the Trust has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

1.8 Off-setting

The Trust offsets assets and liabilities if, and only if, the Trust:

- has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.9 Leases

Leases, where the significant portion of the risk and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to the statement of financial performance on the straight-line basis over the period of the lease.

1.10 Employee benefits

The Trust contributes to the Alexander Forbes RF Provident Fund, which is a defined contribution plan, on a monthly basis. A defined contribution plan is one under which the Trust pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions when the Fund does not hold sufficient assets to pay all benefits relating to employee service in the current and prior periods. For defined contribution plans, the Trust pays contributions to publicly or privately administered insurance plans on a contractual basis. Once the contributions have been paid, the Trust has no further payment obligations. The regular contributions constitute the net periodic costs for the year in which they are due, and are included in staff costs.

1.11 Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made. Long-term provisions are discounted to net present value.

2. FINANCIAL RISK MANAGEMENT

2.1 Interest rate risk

Exposure to interest rate risk comes through the financing of investment proposals as well as cash management activities. Changes in market interest rates affect the fair value of cash and investment assets. Investment interest rate risk is managed through the pricing policy while cash returns are managed through the cash management policy.

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2.2 Credit risk

Credit risk comprises the potential loss on financing due to counterparty default. All applications are thoroughly investigated by way of due diligence, covering technical, marketing and management risks which are reported as part of the submission for approval to the Investment Committee. A review on the level of bad debts is managed through post-investment risk processes.

2.3 Market risk

Market risk represents the risk that the value of the investments will fluctuate because of changes in market interest rates and prices, whether those changes are caused by factors specific to individual instruments or its issuer or factors affecting all instruments traded in the market. Market risk embodies not only the potential for loss but also the potential for gain.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Impairment losses on loans and advances*

The Trust reviews its loan portfolios to assess impairment once a year. In determining whether an impairment loss should be recorded in the statement of financial performance, the Trust makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The portfolio is made up of new empowerment investments, which are also start ups in the market, and as a result there is no financial performance history which guides the impairment process. The Trust management has thus developed an impairment matrix which was discussed with peers in the market and was found to be an acceptable basis for performing impairment. Among others the impairment matrix encompasses the following observable data:

- Falling markets
- History of payment default
- Legal action taken against the investee
- Breach of contract
- Submission of management accounts
- General attitude of the investee
- Value of security
- Arrears payments
- Integrity of borrower

Management further uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(b) *Impairment of investments available-for-sale equity*

The Trust determines that investments available-for-sale equity are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Trust evaluates among other factors, the normal volatility in earnings. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

Despite Uthingo Management (Pty) Limited (Uthingo) entering their final year of the current licence term, its management has assumed that the entity will carry on trading as a going concern. Therefore an income approach which indicates the market value of ordinary shares of the business based on the value of the cash flows that the business can be expected to generate in the future was used by Uthingo. After undertaking this approach to value, 20% discount for lack of marketability was applied to indicate the market value of non-marketable, 100% controlling interest in the entity.

4. Property and equipment

	Motor vehicles R	Computer equipment R	Audio visual equipment R	Office equip- ment R	Furniture and fittings R	Leasehold improve- ments R	Other assets R	Total R
CONSOLIDATED								
2006								
Opening balance								
Cost	136 260	699 638	481 731	354 870	951 164	2 449 596	174 200	5 247 459
Accumulated depreciation	(103 204)	(321 072)	(227 458)	(85 293)	(346 640)	(2 449 598)	(26 158)	(3 559 421)
Net book value	33 056	378 566	254 273	269 577	604 524	–	148 042	1 688 038
Movement for the year:								
Additions	–	313 530	107 341	194 606	1 112 113	–	95 988	1 823 579
Disposals	–	(23 417)	–	–	–	–	–	(23 417)
Depreciation on disposed asset	–	23 417	–	–	–	–	–	23 417
Depreciation	(20 879)	(199 409)	(170 834)	(101 788)	(235 194)	–	(7 065)	(735 169)
	(20 879)	114 121	(63 493)	92 818	876 919	–	88 923	1 088 409
Closing balance								
Cost	136 260	989 751	589 072	549 476	2 063 277	2 449 596	270 188	7 047 620
Accumulated depreciation	(124 083)	(497 064)	(398 292)	(187 081)	(581 834)	(2 449 596)	(33 223)	(4 271 173)
Net book value	12 177	492 687	190 780	362 395	1 481 443	–	236 965	2 776 447
2005								
Opening balance								
Cost	136 260	309 421	481 731	74 361	736 963	2 449 596	174 200	4 362 532
Accumulated depreciation	(82 326)	(184 874)	(66 901)	(22 893)	(196 770)	(1 597 164)	(19 858)	(2 170 786)
Net book value	53 934	124 547	414 830	51 468	540 193	852 432	154 342	2 191 746
Movement for the year:								
Additions	–	390 217	–	280 509	214 201	–	–	884 927
Depreciation	(20 878)	(136 198)	(160 557)	(62 400)	(149 870)	(852 432)	(6 301)	(1 388 636)
	(20 878)	254 019	(160 557)	218 109	64 331	(852 432)	(6 301)	(503 709)
Closing balance								
Cost	136 260	699 638	481 731	354 870	951 164	2 449 596	174 200	5 247 459
Accumulated depreciation	(103 204)	(321 072)	(227 458)	(85 293)	(346 640)	(2 449 598)	(26 158)	(3 559 421)
Net book value	33 056	378 566	254 273	269 577	604 524	–	148 042	1 688 038

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For the year ended 31 March 2006

	Motor vehicles R	Computer equipment R	Audio visual equipment R	Office equip- ment R	Furniture and fittings R	Leasehold improve- ments R	Other assets R	Total R
4. PROPERTY AND EQUIPMENT								
CONTINUED								
Entity								
2006								
Opening balance								
Cost	136 260	605 604	481 731	352 192	951 164	2 449 596	174 200	5 150 747
Accumulated depreciation	(103 205)	(227 249)	(227 458)	(82 701)	(346 640)	(2 449 596)	(26 159)	(3 463 008)
Net book value	33 055	378 355	255 273	269 491	604 524	-	148 041	1 687 739
Movement for the year:								
Additions	-	313 530	107 341	194 607	1 112 113	-	95 988	1 823 579
Disposals	-	(23 417)	-	-	-	-	-	(23 417)
Depreciation on disposed asset	-	23 417	-	-	-	-	-	23 417
Depreciation	(20 879)	(199 199)	(170 834)	(101 700)	(235 194)	-	(7 065)	(734 871)
	(20 879)	114 331	(63 493)	92 907	876 919	-	88 923	1 088 708
Closing balance								
Cost	136 260	895 719	589 072	546 799	2 063 277	2 449 596	270 188	6 950 909
Accumulated depreciation	(124 083)	(403 031)	(398 292)	(184 401)	(581 834)	(2 449 596)	(33 224)	(4 174 462)
Net book value	12 176	492 686	190 780	362 398	1 481 443	-	236 964	2 776 447
2005								
Opening balance								
Cost	136 260	215 387	481 731	71 683	736 963	2 449 596	174 200	4 265 820
Accumulated depreciation	(82 327)	(112 150)	(66 901)	(20 667)	(196 770)	(1 597 164)	(19 858)	(2 095 837)
Net book value	53 933	103 237	414 830	51 016	540 193	852 432	154 342	2 169 983
Movement for the year:								
Additions	-	390 217	-	280 509	214 201	-	-	884 927
Depreciation	(20 878)	(115 099)	(160 557)	(62 034)	(149 870)	(852 432)	(6 301)	(1 367 171)
	(20 878)	275 118	(160 557)	218 475	64 331	(852 432)	(6 301)	(482 244)
Closing balance								
Cost	136 260	605 604	481 731	352 192	951 164	2 449 596	174 200	5 150 747
Accumulated depreciation	(103 205)	(227 249)	(227 458)	(82 701)	(346 640)	(2 449 596)	(26 159)	(3 463 008)
Net book value	33 055	378 355	254 273	269 491	604 524	-	148 041	1 687 739

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
5. INTANGIBLE ASSETS				
Computer software				
Opening balance				
Cost	117 414	–	117 414	–
Accumulated amortisation	(24 598)	–	(24 598)	–
Net book value	92 816	–	92 816	–
Movement for the year:				
Additions	193 182	117 414	193 182	117 414
Disposals	–	–	–	–
Amortisation	(91 669)	(24 598)	(91 669)	(24 598)
Closing balance	101 513	92 816	101 513	92 816
Cost	310 596	117 414	310 596	117 414
Accumulated amortisation	(116 267)	(24 598)	(116 267)	(24 598)
Net book value	194 329	92 816	194 329	92 816
6. INVESTMENT IN JOINT VENTURE				
National Empowerment Fund Ventures Trust				
Investment at cost	–	–	17 492 517	12 269 220
– Operational contributions	–	–	7 650 000	7 012 500
– Investment contributions (Equity)	–	–	441	441
– Investment contributions (Loans)	–	–	9 842 076	5 256 279
Fair value adjustment to investment in joint venture	–	–	(2 137 876)	(2 137 876)
Purchases of investments from joint venture:	–	–	15 354 641	10 131 344
– Loans	–	–	(9 842 517)	–
– Shares held in associates	–	–	9 842 076	–
	–	–	441	–
Reversal of previous impairment	–	–	2 137 876	–
Impairment of operational contributions	–	–	7 650 000	10 131 344
	–	–	(7 650 000)	–
	–	–	–	10 131 344

The National Empowerment Fund Trust together with the Industrial Development Corporation (IDC) have taken a decision to wind down the activities of NEF Ventures Trust. The transaction is effective 31 March 2006. The NEF has agreed to acquire the investment portfolio at cost and the effects of this transaction have been accounted for in the financial statements.

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For the year ended 31 March 2006

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
7. INVESTMENT IN ASSOCIATES				
Shares at cost	10 001 310	5 286 297	10 001 310	–
– Equity	10 001 310	441	10 001 310	–
– Loans granted to associates during the year	5 285 856	5 285 856	5 285 856	–
– Loans purchased from joint venture reclassified to loans receivable	(5 285 856)	–	(5 285 856)	–
Fair value adjustments	(4 593 640)	(2 137 876)	(4 593 580)	–
– Balance brought forward from prior year	2 137 876	–	–	–
– Fair value adjustments	4 593 580	2 137 876	4 593 580	–
– Reversal of fair value adjustment on investments taken over from joint venture	(2 137 816)	–	–	–
Loans to associates	–	8 113	–	–
Net investment in associates	5 407 670	3 156 534	5 407 730	–
The entity's principal associates are:				
Name	Country of incorporation	Principal activity	Interest held (%) 2006	Interest held (%) 2005
Unlisted:				
Blink Media Holdings (Pty) Limited	South Africa	Media	40,00	20,00
Choice Technologies (Pty) Limited	South Africa	ICT and media	49,00	–
Clickrite (Pty) Limited	South Africa	Printing	40,00	20,00
Energia Solutions (Pty) Limited	South Africa	Financial services	49,00	24,50
Inca Concrete Masonry (Pty) Limited	South Africa	Construction	35,00	–
Lak Investment T/A Stone Age (Pty) Limited	South Africa	Construction	25,00	–
Lindiwe Wines (Pty) Limited	South Africa	Marketing and distribution	49,00	24,50
Notae Entertainment (Pty) Limited	South Africa	Tourism and entertainment	26,00	–
Nucleus Administrators (Pty) Limited	South Africa	Financial services	49,00	24,50
Wired loop (Pty) Limited	South Africa	ICT and media	25,00	–
Name	Voting power 2006	2005	Shares at cost 2006	Shares at cost 2005
			R	R
Unlisted:				
Blink Media Holdings (Pty) Limited	40,00%	20,00%	80	40
Choice Technologies (Pty) Limited	49,00%	0,00%	10 000 000	–
Clickrite (Pty) Limited	40,00%	20,00%	120	60
Energia Solutions (Pty) Limited	49,00%	24,50%	96	48
Inca Concrete Masonry (Pty) Limited	35,00%	0,00%	350	–
Lak Investment T/A Stone Age (Pty) Limited	25,00%	0,00%	25	–
Lindiwe Wines (Pty) Limited	49,00%	24,50%	490	245
Notae Entertainment (Pty) Limited	26,00%	0,00%	20	–
Nucleus Administrators (Pty) Limited	49,00%	24,50%	96	48
Wired loop (Pty) Limited	25,00%	0,00%	33	–
			10 001 310	441

After the Investment Committee recommended the unwinding of the National Empowerment Fund Ventures Trust, which was consented to by the boards of the parties to the joint venture, the parties have agreed that the NEF would acquire the investment portfolio at cost with effect from 31 March 2006. Accordingly all investments previously held by the joint venture have been included in the various investment categories.

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
8. INVESTMENTS				
AVAILABLE-FOR-SALE				
Balance at the beginning of the year	1 041 464 843	780 918 100	1 041 464 843	780 918 100
Revaluation surplus	402 421 948	260 546 743	402 421 948	260 546 743
Additions	135 000	–	135 000	–
	1 444 021 791	1 041 464 843	1 444 021 791	1 041 464 843
Available-for-sale investments include:				
Listed securities:				
– Equity securities: RSA	1 438 386 416	1 029 089 468	1 438 386 416	1 029 089 468
Unlisted securities:				
– Securities traded on inactive markets of private issuers	5 635 375	12 375 375	5 635 375	12 375 375
	1 444 021 791	1 041 464 843	1 444 021 791	1 041 464 843
The fair value of unlisted shares is determined by management and trustees, based on the income approach.				
	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
9. LOANS				
Opening balance	2 281 711	–	2 281 711	–
Loans granted during the year	173 460 133	2 281 711	173 481 271	2 281 711
Loans purchased from joint venture	15 701 590	–	15 701 590	–
– Through joint venture	9 842 076	–	9 842 076	–
– From joint venture partner	5 859 514	–	5 859 514	–
Closing balance	191 443 434	2 281 711	191 464 572	2 281 711
Impairments associated with BB-BEE	(38 401 438)	(250 000)	(38 401 438)	(250 000)
– Opening balance	(250 000)	–	(250 000)	–
– Normal impairment	(28 266 735)	(250 000)	(28 266 735)	(250 000)
– Impairment loss due to time value of money	(9 884 703)	–	(9 884 703)	–
	153 041 996	2 031 711	153 063 134	2 031 711

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For the year ended 31 March 2006

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
10. INVESTMENTS HELD TO MATURITY				
Debentures at cost	10 000 000	–	10 000 000	–
Fair value as at 31 March	10 000 000	–	10 000 000	–

Held-to-maturity investment consists of 25 unsecured, convertible, redeemable debentures of R400 000 each. Interest is payable on the third and fourth anniversary at a rate of 10% per annum. The debentures shall be redeemable or converted at the end of 48 months with a redemption premium of 30% of the issue value. Should the debentures be converted, each converted debenture share shall equate to 1% equity shareholding in the company.

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
11. INVESTMENTS HELD FOR TRADING				
Balance at the beginning of the year	5 097 537	–	5 097 536	–
Additions	40 427 480	5 000 000	40 427 480	5 000 000
Disposals	(216 817)	(66 900)	(216 817)	(66 900)
Fair value gains	21 475 954	164 437	21 475 954	164 436
Balance at the end of the year	66 784 154	5 097 537	66 784 153	5 097 536

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
12. TRADE AND OTHER RECEIVABLES				
Deposits	720 311	953 407	720 311	953 407
Short-term portion of loans	1 768 121	508 381	1 768 121	113 674
Dividend receivable	15 202 458	–	15 202 458	–
Other receivables	1 423 669	–	1 423 669	–
Prepayments	–	19 948	–	19 948
Staff loan	24 185	24 770	24 185	24 770
Provision for doubtful debts	–	(32 411)	–	–
	19 138 744	1 474 095	19 138 744	1 111 799

The trustees consider that the carrying amount of trade and other receivables approximates to their fair value.

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
13. CASH AND CASH EQUIVALENTS				
For the purposes of cash flow statements, the cash and cash equivalents comprise the following:				
Bank balances				
– Current accounts	610 605	322 010	610 605	322 010
– Short-term bank deposits	401 261 580	218 189 435	401 261 580	218 189 435
Petty cash	5 000	5 000	5 000	5 000
Joint venture account	(1 755 454)	(1 100 291)	–	–
	400 121 731	217 416 154	401 877 185	218 516 445

The effective interest rate on short-term deposits was 6,5% (2005 – 4,2%).

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
14. TRUST CAPITAL				
Investment in listed shares				
– At cost	171 000 000	171 000 000	171 000 000	171 000 000
Closing balance	171 000 000	171 000 000	171 000 000	171 000 000
Cash funds received from the dti:				
Opening balance	199 000 000	49 000 000	199 000 000	49 000 000
Funds received for the year	370 600 000	150 000 000	370 600 000	150 000 000
	569 600 000	199 000 000	569 600 000	199 000 000
Closing balance	740 600 000	370 000 000	740 600 000	370 000 000

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
15. FAIR VALUE RESERVE				
Balance at the beginning of the year	865 446 506	605 794 851	865 446 505	605 794 851
Impairment of investment in joint venture	–	(865 088)	–	(865 089)
Revaluation of investments available-for-sale	402 421 948	260 516 743	402 421 948	260 516 743
Reversal of previous impairment of interest in joint venture	2 137 876	–	2 137 876	–
Balance at the end of the year	1 270 006 330	865 446 506	1 270 006 329	865 446 505

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	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
16. TRADE AND OTHER PAYABLES				
Trade creditors	4 276 142	920 174	1 402 701	586 902
Accruals	6 908 304	622 023	6 908 304	899 601
	11 184 446	1 542 197	8 311 005	1 486 503

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
17. INTER-GROUP LOANS				
NEF Ventures Trust				
Owing for purchase of investments (current liabilities)	2 963 827	–	5 822 264	
Joint venture cash balance included in cash equivalents	–	–	3 510 909	2 200 581
	2 963 827	–	9 333 173	2 200 581

The loan is unsecured, does not bear interest and has no fixed terms of repayment.

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
18. PROVISIONS				
Provision for bonuses				
Opening balance	2 174 865	2 538 461	1 916 490	2 280 086
Amounts paid during the year	–	(1 196 105)	–	(1 196 105)
Charged to the statement of financial performance	(2 174 865)	832 509	(1 916 490)	832 509
Closing balance	–	2 174 865	–	1 916 490

In previous years the bonus provision consisted of a performance-based bonus. The bonus payable is determined by applying a specific formula based on the employees' achievement of performance targets.

19. RELATED PARTIES TRANSACTIONS

National Empowerment Fund Trust is a public entity reporting to the Department of Trade and Industry (**the dti**) from whom it received grants and investment capital in the current and prior years.

The trust owns a 50% interest in National Empowerment Fund Ventures Trust, through whom further empowerment funding is made. The National Empowerment Fund Ventures Trust does not maintain its own bank account and therefore all cash transactions are routed through the bank of the Trust. The following transactions were carried out with related parties.

		Consolidated	
		2006	2005
		R	R
Grants and capital received			
Department of Trade and Industry (income and capital)		410 600 000	174 622 143
Investments in joint ventures			
National Empowerment Fund Ventures Trust		–	10 131 344
Intergroup loan payable			
NEF Ventures Trust		2 963 827	–
Expenditure			
Telkom		818 377	501 642
National Intelligence Agency		12 000	–
Small Enterprise Development Agency		3 320	–
South African Broadcasting Corporation		128 987	–
Compensation Commission		47 874	–
Investments in associates	% holding	Loans receivable 2006	Investment 2005 at cost
		R	R
Blink Media Holdings (Pty) Limited	40	3 499 920	500 000
Choice Technologies (Pty) Limited	49	–	–
Clickrite (Pty) Limited	40	4 987 252	2 493 626
Emergia Solutions (Pty) Limited	49	3 100 004	1 550 002
Inca Concrete Masonry (Pty) Limited	35	29 999 000	–
Lak Investments T/A Stone Age (Pty) Limited	25	25 199 975	–
Lindiwe Wines (Pty) Limited	49	3 032 235	480 389
Notae Entertainment (Pty) Limited	26	959 980	269 952
Nucleus Administrators (Pty) Limited	49	1 039 904	–
Wiredloop (Pty) Limited	25	1 345 653	–
		73 163 923	5 293 969
			10 001 310

For trustees and senior management remuneration see note 22.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 March 2006

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
20. REVENUE				
Grants received	40 000 000	24 622 143	40 000 000	24 622 143
Dividends received – state allocated investments	38 404 791	18 214 243	38 404 791	18 214 243
Interest received				
– Bank (call and short-term deposits)	23 126 974	6 005 625	23 126 974	6 005 625
– Deposits	70 453	63 225	70 453	63 225
– Loans	3 499 978	113 803	3 404 453	65 431
Royalties	923	720	923	720
Other	67 900	37 798	67 900	15 121
Profit on disposal of listed investments	198 568	–	198 568	–
	105 369 587	49 057 557	105 274 062	48 986 508
21. SURPLUS FOR THE YEAR	43 474 104	22 894 004	35 928 853	24 220 003
Surplus from operations is arrived at after taking into account:				
Auditors' remuneration				
– external audit fees	458 519	110 317	458 782	99 832
Consulting fees	841 476	627 265	841 476	627 265
– Internal audit	527 782	145 353	527 782	145 353
– HR consultancy	40 258	124 541	40 258	124 541
– IT consultancy	31 635	7 980	31 635	7 980
– Legal fees	9 198	14 455	9 198	14 455
– Professional fees – Investments	165 928	146 273	165 928	146 273
– Corporate strategy	66 675	188 663	66 675	188 663
Interest paid				
– Other	2 976	–	2 976	–
Profit on disposal of fixed assets	6 326	–	6 326	–
Depreciation	735 169	1 388 636	734 871	1 367 171
– Motor vehicles	20 879	20 879	20 879	20 878
– Computer equipment	199 409	136 198	199 199	115 099
– Audio visual equipment	170 834	160 557	170 834	160 557
– Office equipment	101 788	62 400	101 700	62 034
– Furniture and fittings	235 194	149 869	235 194	149 870
– Other assets	7 065	6 301	7 065	6 301
– Leasehold improvements	–	852 432	–	852 432

		Consolidated		Entity	
		2006	2005	2006	2005
		R	R	R	R
21. SURPLUS FOR THE YEAR					
(CONTINUED)					
Trustees and senior management emoluments	22	6 363 223	1 931 244	6 363 223	1 931 244
Amortisation of intangible assets (computer software)	5	91 669	24 598	91 669	24 598
Operating lease rentals		1 538 868	1 931 600	1 538 868	1 812 910
– Property rental		1 219 746	1 595 940	1 219 746	1 492 193
– Equipment rental		319 122	335 660	319 122	320 717
Staff costs					
– Salaries and benefits		25 147 894	13 525 198	25 147 894	12 461 183
Number of employees at year-end		54	43	54	40

22. TRUSTEES AND SENIOR MANAGEMENT EMOLUMENTS

	Salary	Bonuses and performance payments	Pension contributions	Other contributions	Other	Total
	R	R	R	R		R
Year ended 31 March 2006						
Executive trustees						
P Buthelezi (CEO)	1 139 028	637 500	135 892	12 820	–	1 925 240
N Moloi (acting CEO)	540 905	–	–	265	33 680	574 850
	1 679 933	637 500	135 892	13 085	33 680	2 500 090
Senior management						
A Wright (COO)	885 164	380 000	91 733	50 373	–	1 407 270
CA Buseti (CIO)	749 550	400 000	103 537	35 669	–	1 288 756
PR Mokgalagadi (CFO)	799 921	147 000	85 488	43 302	–	1 075 711
	2 434 635	927 000	280 758	129 344	–	3 771 737
Non-executive trustees						
A Ruiters	–	–	–	–	69 693	69 693
R Ntuli	–	–	–	–	21 703	21 703
	–	–	–	–	91 396	91 396
Total	4 114 568	1 564 500	416 650	142 429	125 076	6 363 223

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 March 2006

	Salary R	Bonuses and per- formance payments R	Pension contri- butions R	Other contri- butions R	Other	Total R
22. TRUSTEES AND SENIOR MANAGEMENT EMOLUMENTS						
(CONTINUED)						
Year ended 31 March 2005						
Executive trustees						
S Maree (CEO)	342 843	–	79 863	29 582	–	452 288
N Moloi (acting CEO)	525 819	–	–	530	–	526 349
	868 662	–	79 863	30 112	–	978 637
Senior management						
P Naidoo (acting CIO)	438 441	–	–	707	–	439 148
A Wright (CFO)	445 413	52 379	14 783	884	–	513 459
	883 854	52 379	14 783	1 591	–	952 607
Total	1 752 516	52 379	94 646	31 703		1 931 244

No remuneration was paid to non-executive trustees in 2005.

	Consolidated 2006 R	2005 R	2006 R	Entity 2005 R
23. COMMITMENTS				
Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases are as follows:				
Not later than one year	23 994	898 658	23 994	898 658
Later than one year but not later than five years	13 169 035	25 906	13 169 035	25 906
	13 193 029	924 564	13 193 029	924 564
These operating lease commitments consist mainly of property and equipment rental. The property lease expires in October 2010.				
Undrawn investments and contingent liabilities				
Not later than one year	16 977 626	3 856 826	16 977 626	3 856 826
Monies committed to investees in terms of contractual arrangements, which will be payable only on the achievement of certain specified conditions.				
Investments approved and committed but not contracted for				
Not later than one year	215 579 000	–	215 579 000	–

Funds approved and committed but not yet contracted for.

24. MTN SHARE DISPUTE

On 24 August 1998, the Trust together with eight (8) other Black Economic Empowerment Companies (BEE Companies), acquired a total of 5% of the issued share capital of MTN Group. The Trust's portion of this acquisition amounted to 1,5% of the total number of MTN Group's share capital.

On 27 September 1999, one of the BEE Companies disposed of its shares. These shares were subsequently acquired on a proportional basis by all of the BEE Companies, except for the Trust. This was contrary to the shareholders' agreement in that the shares should have been offered to all of the holders of empowerment shares on a pro rata basis.

This failure to adhere to the provision of the shareholders' agreement led to the Trust instituting action against the BEE Companies for recovery of its pro rata portion of the shares that have been disposed of. All but two of the BEE Companies have settled with the Trust. Of the remaining two BEE Companies that have not settled, the Trust has reinstituted discussions. The number of shares in dispute is 44 320 valued at R2 725 710,75 at the year-end. However, there is no prospect of recovery with the other party.

	Consolidated		Entity	
	2006	2005	2006	2005
	R	R	R	R
25. NOTES TO THE CASH FLOW STATEMENT				
Reconciliation of net surplus to cash generated from operations:				
Surplus for the year	43 474 104	22 894 004	35 928 853	24 220 003
Adjustment for:	22 092 614	1 378 145	22 092 256	2 706 321
Depreciation and amortisation	826 838	1 413 234	826 540	1 391 769
Interest paid	2 976	–	2 976	–
Movement in provisions	–	(120 651)	–	1 228 990
(Profit)/loss on the sale of fixed assets	(6 326)	–	(6 326)	–
Impairment of investments	38 151 498	250 000	38 151 438	250 000
Fair value gains	(16 882 372)	(164 438)	(16 882 372)	(164 438)
Operating surplus before working capital changes	65 566 718	24 272 149	58 021 109	26 926 324
Working capital changes	(7 233 437)	(14 996 297)	(5 986 341)	(14 330 567)
(Increase)/decrease in trade and other receivables	(17 664 649)	(137 204)	(18 026 945)	55 841
(Decrease)/increase in trade and other payables	10 431 212	(14 859 093)	12 040 604	(14 386 408)
Cash generated from operations	58 333 281	9 275 852	52 034 768	12 595 757

ADMINISTRATION

31 March 2006

TRUSTEES

The following trustees' term of office expired on 31 October 2005:

Dr A Ruiters
Dr M Mohale
Mr B Molefe
Mr N Moloi
Mr T Chiptupa

The following trustees were appointed on 1 November 2005:

Mr R Ntuli (Chairman)
Ms S Sebotsa
Ms J Hoffmann
Mr T Mhlambiso
Mr K Seitshiro

The following trustees continued in office during the year under review:

Ms P Buthelezi (CEO)
Ms P Radebe
Mr J Theledi

BANKERS

Standard Bank Limited
First National Bank Limited

AUDITORS

PricewaterhouseCoopers Inc.
Simama Chartered Accountants (SA)

BUSINESS ADDRESS

West Block
187 Rivonia Road
Morningside
2057

POSTAL ADDRESS

PO Box 31
Melrose Arch
Melrose North
2076

REGISTERED ADDRESS

West Block
187 Rivonia Road
Morningside
2057

GLOSSARY OF TERMS

NEF	National Empowerment Fund
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BB-BEE	Broad-Based Black Economic Empowerment
DFI	Development Finance Institution
the dti	Department of Trade and Industry
DPE	Department of Public Enterprises
The Codes/The Codes of Good Practice	Broad-Based Black Economic Empowerment Codes of Good Practice
PFMA	Public Finance Management Act No. 1 of 1999 (as amended by Act No. 29 of 1999)
EXCO	Executive Committee
EXCO IC	EXCO Investment Committee
RMC	Risk Management Committee
BIC	Board Investment Committee
HCRC	Human Capital and Remuneration Committee
NEF Act	National Empowerment Fund Act No. 105 of 1998
ICT	Information Communication Technology
MEC	Member of the Executive Council
SEDA	Small Enterprise Development Agency
IFRS	International Financial Reporting Standards
SAI	State Allocated Investments
JSE	JSE Limited
IDC	Industrial Development Corporation of South Africa
ERM	Enterprise-wide Risk Management
SME	Small and Medium Enterprises
ECIC	Export Credit Insurance Corporation
Khula	Khula Enterprise Finance

[illegible]





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