



NATIONAL EMPOWERMENT FUND

Growing Black Economic Participation

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A member of the dti group



the dti

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BRIDGING THE DIVIDE

NATIONAL EMPOWERMENT FUND
ANNUAL REPORT

2007



FOREWORD

from the Minister of Trade and Industry, the Hon. Mr Mandisi Mpahlwa

A feature of this Annual Report is the account of progress being made to increase the participation in the national economy by all South Africans. The National Empowerment Fund (NEF) is an agency of the dti that contributes towards this objective. It fulfills this important contribution through its work in supporting Broad-Based Black Economic Empowerment and, more specifically as the implementation of the Codes of Good Practice takes root in our society. Its delivery model is to support businesses owned and managed by black entrepreneurs as well as to target the establishment and transformation of savings and investment activities among its beneficiaries.

It is therefore a significant achievement that the NEF has recently reached a milestone R500m in disbursement of funds to over 100 black-empowered enterprises. These outcomes have been achieved within two years after its capitalisation in 2005. In recognition of this success, the National Treasury has committed to further support the NEF in this financial year.

I am also aware that the NEF remains committed to the important challenge of having a strong presence in all provinces. The NEF will meet that challenge by establishing partnerships with provincial DFIs to further understand and promote the mandate of the NEF and to identify and to promote regional business funding opportunities to the NEF and the other DFIs.

A memorable achievement in the year just concluded will be the launch of the NEF Asonge Share Scheme. The Scheme is innovative and will result in a large number of black South Africans in all provinces benefiting equitably from the sale of blue chip shares. At the same time, the scheme fulfills the second tier of the NEF's two-pronged mandate: the promotion of savings and boosting investment activity.

I congratulate the NEF on these achievements and look forward to the ongoing efforts to fulfill its mandate in line with government's objectives of broadened participation in the South African economy for the benefit of all.



The Hon. Mandisi Mpahlwa, MP
Minister of Trade and Industry
Republic of South Africa

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MISSION

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

VISION

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

VALUES

- Service excellence
- Result orientated
- Innovation and continuous improvement
- Ownership and accountability
- Recognition and reward
- Respect, empathy and fairness
- People development



MANDATE

The NEF was established by the National Empowerment 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 through its Fund Management division; 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 & 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 businesses 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 also assuming a predominantly 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.



REPORT OF THE CHAIRMAN OF THE BOARD OF TRUSTEES

Bridging the Divide

Every year in the strategic planning process at the NEF we develop a theme. This theme encapsulates the key achievements and focus of the activities flowing out of the strategy for that year. This year, that theme is *"Bridging the Divide"*.

The year under review saw strategic initiatives that have long been in the planning stage finally reaching implementation. This feat was achieved out of the tenacity of the Board of Trustees, the Executive and staff in obtaining the eventual approval for the launch of the first NEF BEE Retail Product being developed out of the long-held State Allocated Investments (SAIs). This is a precursor to the activities that the NEF Asset Management Division will undertake upon receipt of the remaining SAIs from government. This retail product will see the NEF assisting its beneficiaries to *Bridge the Divide* between economic wealth and broad participation in that wealth. In this regard our mandate is supportive of those people determined to establish their economic citizenship, to become an active and integral part of ownership, management control, skills development and overall growth in the economic heritage of our nation.

Fund Management

Last year's theme of *"Accelerated Delivery"* spoke to an immense ramping up of activities by the Fund Management Division. This Division this year maintained the momentum of performance, while identifying key consolidation initiatives required for ongoing returns from the invested portfolio.

The results achieved in 2007 illustrate a strong and appreciable increase in Fund Management activities, which is divided into the iMbewu Fund and Corporate Fund. This was supported by the goals that were established for 2007 to address the greater implementation of non-financial support activities to buttress application quality and post-investment sustainability.

We believe that the migration to Construction as the number-one investment sector, which did not come about as a result of a reduction in funding to other sectors, is comforting because it indicates a support of labour-intensive industries and underpins the very focus of the country on the development of expanded infrastructure. The outperforming of other sectors by Construction is also meaningful because it provides

and addresses opportunities for skills development in a sector where they are most acutely required.

Mechanisms to achieve the ultimate objective of the preservation of capital are continually being put in place. This is with respect to moving the NEF to a level of sustainability where it no longer has to rely on funding for operations from its shareholder, the dti. A further step forward this year was in the reported surplus. This is accounted for by investment revaluations and interest income, indicating that the mechanisms referred to above are yielding results even after portfolio investment impairments.

Asset Management

The Asset Management Division was the second leg upon which the NEF turnaround has depended. With this Division rests the critical role of supporting the establishment and promotion of a savings and investment culture amongst black communities, as defined in the Broad-Based Black Economic Empowerment Act.

In December 2000, Cabinet resolved for State Allocated Investments to be housed under custody of the NEF, for eventual beneficial transfer to black people by means of the development of investment and savings products. As a consequence of that Cabinet decision, the NEF has held 1.5% of the MTN Group's shareholding.

In accordance with the provisions of the BB-BEE Act, the dti approved the launch by the NEF of an exciting and historic once-off share offering of these MTN shares, for the exclusive benefit of black beneficiaries. Valued at R1.3-billion, this benefit will extend exclusively to black South African citizens of African, Indian or Coloured descent, over the age of 18 years.

This share offer is unique because the NEF deliberately designed it to benefit the largest number of women and black savings groups. Amongst these, we count stokvels, church groups, burial societies, and other savings and community-based groups. The fulfilment of this important balance of the NEF's objectives accordingly marks a memorable entry into unique A-grade share participation by the broader public.

REPORT OF THE CHAIRMAN OF THE BOARD OF TRUSTEES (Continued)

Typically, the NEF's successes have been characterised by the achievements of the Fund Management Division. This historic development on the Asset Management front has endowed the NEF with the structure of a tripod supporting funding, the savings and investment imperative, as well as a number of strategic projects in the future.

Regional co-operation

The period under review saw increasing requests for advice from other parts of Africa on economic transformation. We expect that as the Continent's economic agenda assumes centre-stage, the NEF's interaction with Governments, business and civil society from other parts of Africa will intensify in the time ahead.

Work with the Department of Foreign Affairs will therefore continue. We recognise in this regard that the growth of our economy is inextricably bound to Africa's continued prosperity and development, and what learnings our country can receive and impart, are organic to our regional mandate.

Governance

We are satisfied with the deepening cohesion between our stakeholders, the Board and the Executive. The Board has been closely involved in crafting, reviewing and supporting the implementation of the NEF strategy and products, working hard on the first BEE retail product with the Asset Management Division as reported above, as well as the development of new funding products in the Fund Management division.

In order to act as a catalyst to support the alignment process, capacity and resource-building required in the greater macro perspective, the NEF has been focusing on the building of greater capacity with the additional processes and systems required.

Being at a critical stage in the organisation's evolution of ongoing, new and exponential growth, the Board of Trustees is continuously confronted with volumes of new information for initiatives that are presented to the board for approval and support, following close consideration by the Board Committees.

These structures have also brought the additional capacity required in assisting the alignment and operations, leading to the overall implementation that the NEF has achieved once more over this period.

Stakeholder Relations

Over the past year the organisation has worked tirelessly to consolidate interaction and relations with stakeholders, and we are positive in the knowledge that the NEF has earned the confidence and faith of key decision-makers amongst its stakeholders, for its achievements as a pivotal vehicle for the broad-based transformation of the economy.

This overall increase in the confidence of the brand NEF is represented by the additional capital invested in NEF, approaches by external stakeholders to assist in the implementation of investment funds and broad-based ownership schemes, as well as the on-going volumes of applications for funding from our public.

Challenges and prospects

Key among these is the need to continue to heed the national imperative of the close alignment of BB-BEE with economic growth. Indeed, the first alignment is essential to achieving the second, of economic growth.

The role of the NEF as a Development Funding Institution is as a catalyst for transformation aimed at addressing economic distortion. It is important that the NEF accordingly be positioned in the pivotal role in this alignment process, i.e. NEF *Bridges the Divide* between BB-BEE and economic growth. The sustainability of economic growth in turn is to be underpinned by fair distribution of economic wealth – the danger being that the absence of parity may lead to unsustainable growth due to unequal participation in the economy.

Sustainable economic growth must then further be supported by the development of additional resources and capacity. And it is especially in this regard that we as a nation will find our biggest challenge in sustaining economic growth. This challenge must be dealt with through access to existing skills and the unlocking of new capacity, by developing new skills through training, retaining and attracting top calibre people to fulfil such roles.

Looking forward, the year ahead presents real opportunities for the NEF in growing its capital base and applying this further to both its Fund Management and Asset Management activities. Additional capital will be made available to black-empowered business opportunities through increased and broadened Fund Management products, as well as in sourcing key assets to be applied in the development of further retail products under the Asset Management Division. Accordingly the NEF will be active in lobbying Government for the transfer of more State Allocated Assets which must now materialise so that we may further enhance the mandate to entrench a culture of savings and investments among black people.

Working in conjunction with provincial DFIs, the NEF will diversify its products and ensure a wider and more meaningful presence countrywide, so that our interventions may penetrate the most far-flung parts of the country. In pursuance of this resolve, we see particular application and relevance of the Rural and Community Development funding product.

Appreciation

The NEF is grateful to the Presidency, Cabinet, Parliament, the National Treasury, the Department of Public Enterprises, and in particular to the Hon. Minister and the Department of Trade and Industry, whose custodianship, guidance and wisdom is the root behind the many milestones associated with the NEF today.

We must single out the partnerships with other DFIs such as the IDC, DBSA and SEDA, our investee companies, Parliamentarians and mentorship consultants who collectively form part of a tapestry of achievements, and are indeed part of a collective future.

The Board also salutes the visionary and world-class leadership of the Executive and the teams of dedicated and highly competent members of staff at the NEF, who are the people behind the advancements that continue to unfold in ensuring that the implementation and investment in the Codes of Good Practice become a living reality and an integral part of our economic life as a country.

It is a privilege to serve in the midst of a team of farsighted, reputable and exceptionally accomplished leaders who together constitute the NEF's Board of Trustees. South Africa is grateful for their leadership in steering this bastion of empowerment from one glowing accomplishment to another.



Mr Ronnie Ntuli
Chairman

"The year under review saw strategic initiatives that have long been in the planning stage finally reaching implementation."

Mr Ronnie Ntuli, Board Chairman



REPORT OF THE CHIEF EXECUTIVE OFFICER

A tribute to distinction

It has been two years since I accepted the privilege of discharging my patriotic duty in the service of the NEF. It has been especially rewarding during this period to work with an accomplished Board, a consummate Executive and first-rate staff; indeed to be part of the refinement and implementation of a strategy that is set to catapult the organisation to world-class excellence. Testimony to the organisation's innovation is the ongoing development of unique and creative solutions, to further the strategy crafted in support of the mandate of the NEF, which is to *Bridge the Divide* in advancing sustainable black economic participation.

The emphasis at the NEF has always been on addressing and implementing our mandate in a sustainable manner. This translates into identifying and supporting viable and sustainable business transactions that are eligible for funding from the NEF's funding products, and also in designing retail products that offer solutions for sustainable investment and savings for the beneficiaries of the NEF.

Following our prior year of *Accelerated Delivery* with a significant ramp up in the scale of operations at the NEF, we have expended significant time and energy this year focusing on ensuring that the portfolio built up over this time will be sustainable, underpinned and supported by strong monitoring and performance review mechanisms.

Fund Management

It is true that every strong strategy begins with a review of the environment and the impact, relevance and effect which the existing strategy has on that environment. Our review was undertaken with a view to refining the fund management application and review processes. Further funding product criteria adjustments were also made in response to the survey of the funding environment in which black empowered businesses find themselves in their attempts to access capital. These adjustments saw participation thresholds being softened, so as to attract and allow eligible capital from otherwise non-qualifying business partners to be leveraged against NEF funding.

The development of an Entrepreneur Product for Small-to-Medium Enterprises (SMEs) start-ups, as well as a focused product for the funding of franchise applications, were amongst the other Fund Management product enhancements. The suite of Fund Management products are highlighted later in this Annual Report, as well as the progress being made in their implementation and impact on the targeted applicant groups.

In terms of this impact assessment, we are especially heartened by the progress the NEF has made in the targeting of black women's participation in the shareholding and management of the business applications that the NEF has supported. The results of these efforts can be seen in the increase of women's participation in the NEF portfolio from 35% in 2006 to 41% in 2007, year-on-year. This result is also especially fitting in the context of the month of release of this annual report; namely the month that we recognise and celebrate the achievements made by South African women, across the spheres of human endeavour.

Provincial Representation

Our provincial representation remains an area of focus. We have designed and initiated an action campaign in partnership with provincial Development Finance Institutions (DFIs), to identify and collate potential black empowered business funding applications from their respective provinces, for funding consideration by the NEF.

It is the contention of the NEF and of the Hon. Minister of Trade and Industry that provincial DFIs, by virtue of their location, mandate, scope and focus, remain best positioned to identify and understand funding applications for the funding products of the NEF. We remain firm in our view that the NEF should not attempt to replace the role of the provincial DFI by establishing satellite provincial offices. We must instead rely on the partnership, infrastructure and presence of these DFIs in order to achieve overall provincial spread of the NEF investment portfolio. The NEF has therefore undertaken to pursue this initiative and to develop a programme of action with provincial DFIs, as far as it affects their engagement with the NEF.

REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

Asset Management

The implementation of the new strategy hinged around the NEF Asset Management Division in the execution of its objective to develop retail products in the promotion and development of a culture of savings and investments amongst black people. In liberation and legislative parlance, these comprise African, Coloured and Indian people.

This highly exciting component of the NEF mandate initially relies on the already transferred State Allocated Investments, namely the 1.5% allocation in MTN shares, and the development and release of the first NEF retail product, specifically designed around the MTN share.

The NEF Asonge Share Scheme launched on 23 June 2007 will allow investors to participate in a blue-chip listed share at a 20% discount. The structure and mechanisms of this product had to be carefully considered across all potential scenarios so as to ensure that the sustainability of this product is first and foremost provided for on behalf of investors. We thus had to consider building-in a protection mechanism to cater for sudden market price dips. This had to ensure that potential investors did not take a short-term view by profiteering through the scheme and in turn adversely affecting the market price of MTN.

On the other end of the scale we wished to also incentivise subscribers to take a medium-term view on investment. We did this by rewarding investors through a bonus share scheme after the holding of shares for the initial two years. Thus each scenario was assessed on behalf of and in the interest of the investor and a corrective or protective mechanism built into the features of the product.

The NEF Asonge Share Scheme has received publicity well in excess of what we anticipated and has clearly set a benchmark for future schemes that the NEF will implement. Such schemes may replicate Asonge based on other key assets which still need to be transferred by Government to the NEF. This will enable the development of retail products to continue in the fulfilment of this key objective for which the NEF was established, so that black people are given the opportunity to participate in the equity holdings of State Allocated Investments (SAIs). We are confident that the Asonge Share Scheme will encourage Government to transfer the remaining SAIs identified for this purpose through the NEF.

The funds received from the retail schemes clearly will be reapplied into identifying other key assets for the purposes of developing new retail products for release by the NEF. In this way, a cycle will be created for the NEF Asset Management Division to become a sustainable division in its own right, adding to the overall emphasis of the NEF on developing lasting solutions in the execution of its objectives.

The achievements made by both the Fund and Asset Management Divisions up to and including this year, were based on a solid foundation of processes and decision-making bodies. The NEF is thereby positioning itself and focusing on products supporting sustainable outcomes, so that the NEF itself moves towards being a self-sustainable DFI.

Accounting Discipline

Our surplus reported this year is further testimony that the NEF is moving in the direction of self sustainability. It has displayed good budgeting discipline where costs are matched to grants allocated for operations. The net result this year is that our surplus is represented by interest income on cash on call, dividends received from our SAIs, plus fair value appreciations on other equity investments.

Our Fund accounting discipline has been accordingly maintained where income earned in specific operating or investment activities is not accounted for against costs incurred in other, unrelated activities. It is comforting to also note that loan impairments did not exceed income on loans. Some of the loans granted are approaching two years, allowing the NEF to develop a trend analysis of loan impairments in this development sector in which it is focused as a DFI.

Further, and based on this trend analysis, the NEF is developing a risk tolerance model. Impairment levels may accordingly be assessed in relative terms as opposed to absolute terms at present. This is the progressive step in the risk management process which concluded the year with a thorough risk assessment of the entire organisation, developing this model from the base departmental risk assessment level to the higher enterprise risk level.

Entrenching the Brand

The brand-building strategy of the NEF got off to a solid start with product campaigning taking place during the last quarter of the financial year, leading into the build-up to the launch of the Asonge Share Scheme. The considerable and positive media coverage we have garnered has been immensely satisfying. The NEF has recognised the importance of this brand awareness-building as well as the need to engage with the media to share the successes and role of the NEF. The media in turn has been patient in the past and most receptive of this recently renewed vigour of the communication function at the NEF. For this partnership, we thank the members of the mass media.

Stakeholder Relations

Our ongoing engagements with our stakeholders in the dti and National Treasury continue to be productive. Additional capital has been allocated to the NEF for the new financial year which again requires that the NEF move into a higher gear in the implementation of its mandate. Further engagements with the Parliamentary Portfolio Committee have intensified during the period under review and the NEF undertakes to further continue this engagement through the provincial parliamentary officers in its provincial action plan.

The NEF has also been recognised to be a valuable source of experience and reference for the neighbouring countries in their missions to learn more about the successful development of BEE policy in South Africa, with an associated implementation vehicle in the form of the NEF. The NEF has welcomed delegations from these countries as well as initiatives from other foreign governments and DFIs and sees this as an imperative responsibility in its role in sharing this knowledge and experience.

We have established significant targets for the next financial year, both in terms of investment as well as in terms of new initiatives. We pride ourselves in innovation and are targeting products, funds and sectors in this regard. Further, we continue to apply our role as a catalyst in establishing key strategic partnerships in providing the bridging solution required to successfully implement transformation agendas.

So often the broader solutions are available and require the necessary equity contribution or facilitatory role to nudge parties closer to consummation. This is the broader achievement of ongoing transformation in our growing economy so that this growth is of a sustainable nature and level, and all-inclusive of the citizens of South Africa.

I believe that this Annual Report is a tribute to the distinguished niche which the NEF has begun to carve out for itself as it continues to bridge the divide between the two economic poles that characterise our society today and which the NEF is committed to bridging.



Ms Philisiwe Buthelezi
Chief Executive Officer

"The achievements made by both the Fund and Asset Management Divisions up to and including this year, were based on a solid foundation of processes and decision-making bodies."

Ms Philisiwe Buthelezi



BOARD OF TRUSTEES

Ronnie Ntuli (LLB) – Chairman

Mr Ntuli is founding partner and Executive Chairman of Thelo Group, an independent investment company founded by prominent South African investors in partnership with a global strategic investor. Prior to his role at Thelo Group, in partnership with one of Africa's biggest banks, Mr Ntuli founded and was Chief Executive of Andisa Capital, an independent and diversified financial services group with interests in private equity, stock-broking, capital markets, corporate finance and treasury solutions. Mr Ntuli's leadership, strategic thinking and corporate governance guidance are valuable assets to the NEF. He is also the Chairman of Incwala Resources, a US\$1.5-billion resources investment company, and a director on a number of boards and public sector committees.

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, Ms Buthelezi 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 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.

James Theledi (BCom (Hons) (Economics), MBA)

Mr Theledi is currently the CEO of the Universal Services and Access Agency of SA (USAASA), and until recently held 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.

Mr Theledi is also the Chairman of the NEF Board Sub-committee on BEE Retail Product. In addition, he serves on the NEF Audit Committee and is a member of the Institute of Risk Management of South Africa.

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 in Mergers and Acquisitions, Privatisations and IPO's at Deutsche Bank, including its offices in the UK and 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 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



Jennifer Hoffmann



Polo Radebe



Kabelo Seitshiro

Thando Mhlambiso (AB, MBA, JD)

Mr Mhlambiso is a founder and managing partner of Seaview Partners, an infrastructure investment firm. To the Board of the NEF he brings 17 years' experience in private equity investing, investment banking and corporate finance law, in both South Africa and the United States. Previously Mr Mhlambiso held senior positions at Sanlam, including as CEO of Sanlam Private Equity, and served on the Executive Committees of Sanlam Investments Cluster 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 finance attorney at Skadden Arps. He chairs the Investment Committee of the NEF Board and serves as a director of Allan Gray, a member of the governing council of University of Cape Town and Chairman of E².

Jennifer Hoffmann (BA (Hons) MBA)

Ms Hoffmann sits on the Board Investment Committee of the NEF. Previously CEO of MTN Banking, Ms Hoffmann is a consultant in the field of microfinance with a particular interest in the issues around the use of technology and access to finance. She was previously Managing Director for Teba Bank and a Director of the South African Banking Council.

Ms Hoffmann has also held the position of 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, she has also advised on agriculture and land reform policy.

Polo Radebe (B.Compt (Hons) / CTA, Post Graduate Diploma in Auditing)

Ms Radebe was until 30 June 2007 employed by the dti as the Chief Director for BEE where, amongst other things, she was in charge of the formulation of the Codes of Good Practice on BB-BEE. Ms Radebe also played an advisory role on transformation in general and BEE in particular to assist companies, organized business institutions and other public sector institutions in developing and implementing their transformation strategies.

Prior to her employment at the dti, she held various portfolios such as Analyst / Manager for the Standard Property Income Fund, Research Analyst for Aloecap (Pty) Ltd and Trainee Accountant at Gobodo Inc. CA SA.

Ms Radebe is a Non-Executive Director of Icembe Medical (Pty) Ltd and Meago (Pty) Ltd, respectively. She is also a member of the NEF's Board Investment Committee.

Kabelo Seitshiro (BCom, CA)

With a background in auditing, several aspects of investment banking, including structured and corporate finance and Public Sector Finance, Mr Seitshiro brings a wealth of experience to the Board of Trustees. Mr Seitshiro is an Executive Director for IDG Financial Services and chairs the Risk Management Committee of the NEF.

He was previously a Chief Director: Asset Management for the National Treasury and is a Director of the Export Credit Insurance Corporation of South Africa Limited and a council member of the Vega School of Brand Communication. Mr Seitshiro is also a founder member of INGOA (the International Network of Government Ownership Agencies).

"We have seen steady progress in the advancement of black people in the economy. From owning just over 3% of the market capitalisation of the JSE in 2004, this has increased to close on to 5%; and the proportion of blacks in top management has grown from 24% of the total to 27%. Yet we must remain concerned that these figures are still woefully low."



REPORT OF THE TRUSTEES

1. STRATEGIC INITIATIVES

Introduction

The financial year ending March 2007 saw the NEF reach two significant and strategic milestones in its history since its establishment: an on-going track record in the Fund Management Division, as well as the development of effective and regular stakeholder reporting, leading to the support for additional Fund Management capital being allocated to the NEF; the now fully-active Asset Management Division was able to obtain the overall approval for the NEF's first BEE Retail Product, structured and based on the MTN share allocation of 1.5% being held in the custody of the NEF for the purpose of on-transferring this to the beneficiaries of the NEF.

Brand Awareness

For the first time, the NEF embarked upon the implementation of a brand-building and positioning campaign, with the aid of a brand management agency. This campaign has communicated the strategic positioning of the NEF as a Development Finance Institution (DFI) with the exclusive mandate to fund black empowered business and promote shared wealth-creation.

Funding Applications and Pre-Investment support

Though transaction funding applications continue to flow in each month, the overall success rate of these applications progressing to approved and funded transactions remains relatively low. This is as a consequence of an on-going lack of clear and substantiated business plans, which are not validated by reliable and verified source data. Most business plans received present unrealistic and unsubstantiated assumptions which have resulted in them being declined.

The NEF has, however, made it incumbent upon itself to put interventions in place in order to assist in the remedy of this on-going trend without only transferring applicants facing this problem to support-structures such as SEDA. This initiative has therefore led to the implementation of non-financial support programmes through the Pre-Investment department in order to improve the level of transaction approvals. These will take the form of advising on the compilation of applications and increasing the depth of application screening to lessen the burden on the fund management staff in assessing the transactions.

A bridge to Africa and the World

To give expression to the pan-African doctrine of the New Partnership for Africa's Development, the NEF has over this financial year committed itself as a South African

DFI both on the African continent and internationally, in support of the pan-African doctrine. This has been achieved through its participation in conferences, forums and exhibitions that involve a theme directed at such participants. The positioning of the NEF in this regard has been in its role as a promoter of the necessity and awareness of Black Economic Empowerment (BEE) in new and on-going foreign direct investment relationships, as well as the role the NEF can play in investment-funding of BEE participants in shareholding structures with international entities.

The NEF has also over this year contributed to promoting the South African brand by participating in delegations attending bi-lateral discussions with foreign governments. This was done at the invitation of the respective delegation heads through the department of Foreign Affairs. NEF delegates have participated in these discussions energetically, and proudly presented the achievements of the South African Government and the supporting role that the NEF plays in this regard.

2. KEY PERFORMANCE MILESTONES

Fund Management

Over this financial year, there has been on-going delivery of Fund Management activities and the take-up of funding products especially in applications for the acquisition and expansion of business by black entrepreneurs. As highlighted again here, the product criteria of these funding products must support the overall objectives of the NEF in promoting sustainable BEE through not only funding transactions that result in the transfer of equity ownership; eligible transactions must also directly link to all elements of Broad-Based Black Economic Empowerment as detailed in the BB-BEE Codes of Good Practice.

Focus is always on transactions that not only illustrate a sale of equity from existing white shareholders to passive new black shareholders as part of an investment holding structure. A transaction of this nature must also address all of the seven elements of BB-BEE, namely:

- Ownership
- Management control
- Employment equity
- Skills development
- Preferential Procurement
- Enterprise development
- Socio-economic development

This financial year also saw the first major transactions coming through the iMbewu Fund on the preferential procurement product in respect of contracts won by entrepreneurs.

This is an essential product to further develop in light of it supporting a key driver behind the overall successful implementation of BB-BEE in the South African Economy.

This product looks at providing funding to black empowered businesses that have obtained a supply contract but lack the financial resources to implement and honour this contract. Funding is therefore provided for example, to bridge working capital requirements or to fund the acquisition of assets for use in the delivery of the contract service.

What has further been identified in the marketing and brand awareness strategy, is the need to clearly and separately market the funding products that the NEF offers as well as the retail products that the NEF will be offering the public out of the BEE Retail Product initiatives. Campaigning and awareness created therefrom will be aimed at creating a specific understanding of the eligibility of applicants as well as the specific qualification criteria for such products. Further, such campaigning will provide a high education component on matters such as what qualifies as a comprehensive and substantiated business plan, as well as on the appreciation of the importance of a culture of investment and savings.

In terms of delivery against Key Performance Indicators (as established for the 2006/7 financial year) in the business plan presented to and approved by the dti:

- The Fund Management Division aimed to approve and disburse a large portion of 17 transactions of R240m for the Corporate Fund and 33 transactions of R133m for the iMbewu Fund;
- The Corporate Fund achieved a disbursement level of 11 transactions of R187m with a further 7 transactions of R98m in a legal drafting stage. The iMbewu Fund closed on 12 transactions of R32m with a further 8 transactions of R34m pending legal drafting.

Table: 1

NEF INVESTED PROCESS REPORT 31 st MARCH 2007					
	NEW DEALS ACCEPTED	DUE DILIGENCE	APPROVED	DISBURSED	TOTAL
Since inception to 31st March 2007	38 worth R471m	29 worth R265m	16 worth R196m	86 worth R496m	169 worth R1,428m
iMbewu Fund	24 worth R126m	23 worth R143m	8 worth R34m	58 worth R97m	113 worth R400m
Corporate Fund	14 worth R345m	6 worth R122m	8 worth R162m	28 worth R399m	56 worth R1,028m

The differential between disbursed and approved transactions can be explained in that bottlenecks were encountered in the volume-based demand placed on the legal services department, who had to cope with the drafting of numerous agreements for the approved transactions. This was addressed by bringing in the services of external legal firms to assist, but also in attempting to design loan agreement templates for the loans-based funding occurring in the iMbewu Fund. This Fund has to cope with high volumes of similarly-based applications as opposed to the lower volume but structurally more complex applications flowing into the Corporate Fund, that require specific legal agreements customised specifically for such transactions.

The iMbewu Fund also lacked the capacity to handle the volumes of transactions during the year. This was addressed during the year through the recruitment process. It yielded results and this on-going recruitment campaign aims to service the expansion activities of the organisation and to address the capacity constraints within the funds and the support departments of the Fund Management Division. Further bottlenecks were alleviated through the revision of the investment application process, due diligence process and evaluation templates. This follows the appointment of the new CIO who brought processing expertise from experience in the larger DFIs.

Asset Management

The Asset Management Division concluded the year with the approval for release of the NEF Asonge Share Scheme; a share scheme designed to transfer half of the MTN share portfolio held by the NEF to targeted investment and savings groups. The targeted beneficiaries included burial societies, stokvel associations, savings groups and individuals. The shares would be offered at a discount to a 30 days volume-based share trading price and would include a lock-in period after which a bonus share would be offered to qualifying investors. The launch of this NEF Asonge Share Scheme in June 2007 saw the Asset Management Division coming into the mainstream as the second core operating division of the NEF, focusing on the second group of the NEF objectives. These are to support and promote a culture of savings and investment amongst its beneficiaries as well as instil an understanding of the benefits of equity ownership through supporting public education and awareness campaigns. The development of this and future retail products will depend on the remaining and other State Allocated Investments yet to be transferred to the NEF as well as the sourcing of additional key assets that may be applied in this regard.

3. PORTFOLIO STATISTICS & OUTCOME ASSESSMENT

a. Targeted support:

For the year under review:

- i. the average transaction size for Corporate Fund was R16-million;
- ii. the average transaction size for iMbewu Fund was R3.4-million.

For the portfolio since the launch of the funding products in May 2004:

- i. the average transaction size for Corporate Fund was again R16-million;
- ii. the average transaction size for iMbewu Fund is however R2-million.

Table: 2

NEF INVESTED PORTFOLIO BY SIZE OF TRANSACTION 31 st MARCH 2007				
	(R) VALUE	% BY VALUE	BY NUMBER	% BY NUMBER
Greater than R5m	R372m	75.0%	18	20.9%
Less than R5m	R124m	25.0%	68	79.1%
	R496m	100%	86	100%

The above results illustrate the effective implementation of the targeted approach of products aimed at both the larger acquisition and expansion corporate finance-based sector, yet still provide access to funding for the smaller SME sector. This was a clear strategic decision taken in developing the targeted Funds of the NEF with their specific investment products. This approach supports the overall mandate of the NEF being on the focus of providing support across the board to black empowered business irrespective of stage of business or level of funding. However this strategic approach is implemented in an organised fashion through the Funds targeting stages and levels of funding required. This re-organisation in implementation allows for focused assessment of applications and an element of specialisation within the Funds themselves, around this R5-million funding level threshold.

The Rural and Community Development Programme has gained significant momentum with the next major transaction being disbursed immediately following the end of the financial year. This transaction was in favour of supporting a raspberry farm owned and operated by the community of the Amajuba district in KZN, which was funded in partnership with the IDC.

The statistics of the stages of businesses supported below, indicate that the greatest volumes of deals being approved are at the start-up and expansion stages, but these do not account for the largest value of the NEF investment portfolio. This category is represented by funding for acquisitions by BEE parties.

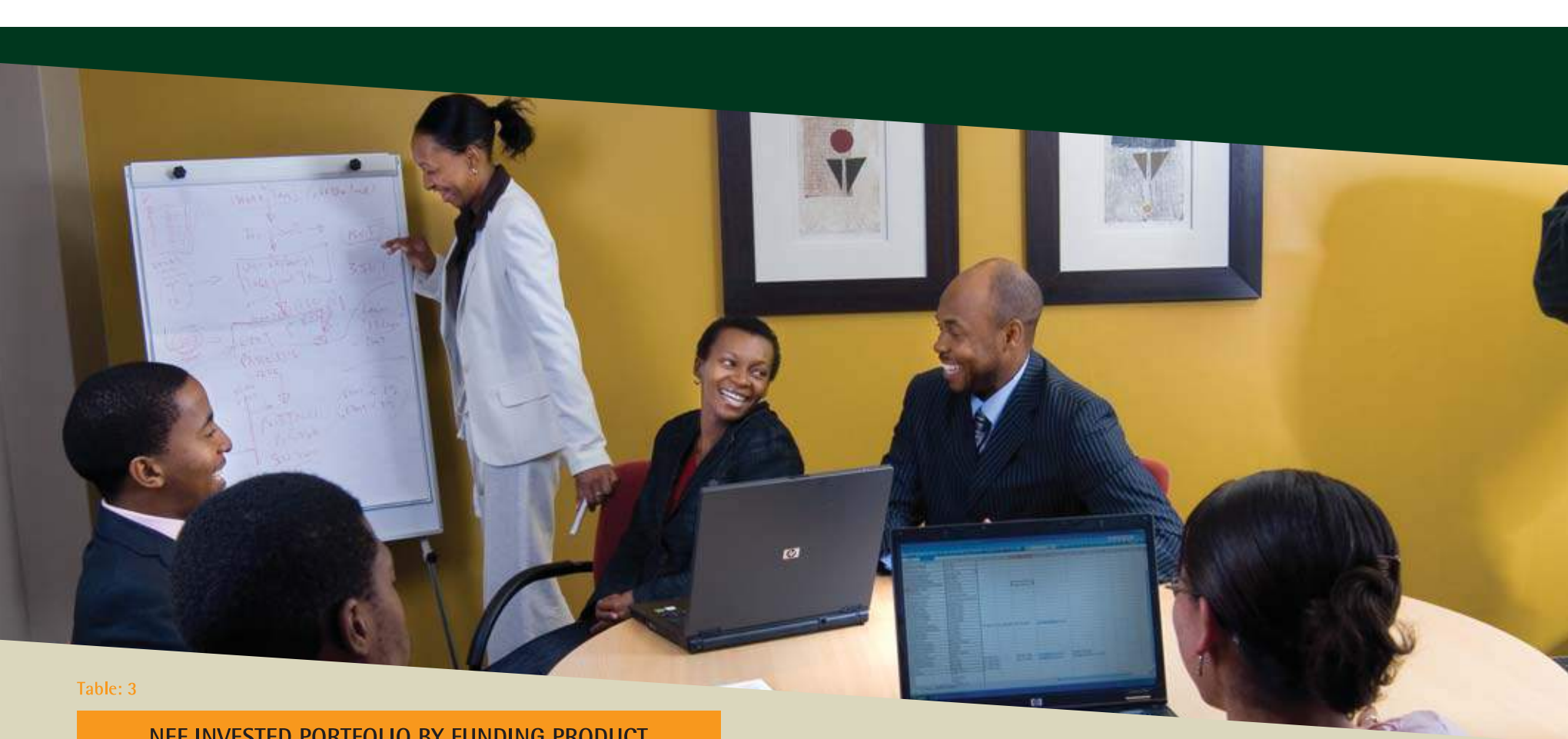


Table: 3

NEF INVESTED PORTFOLIO BY FUNDING PRODUCT 31st MARCH 2007

	(R) VALUE	% BY VALUE	BY NUMBER	% BY NUMBER
Acquisition Funding	R237m	47.7%	12	14.0%
Capital Market	R74m	14.9%	4	4.7%
Start-Up	R4m	12.9%	42	48.8%
Liquidity & Warehousing	R60m	12.1%	3	3.5%
Expansion	R40m	8.1%	18	20.9%
Contracts	R20m	4.0%	6	7.0%
Rural & Community	R1m	0.3%	1	1.1%
	R496m	100%	86	100%

"The NEF has been able to overcome a lot of communication challenges especially with regard to dealing with far-flung organisations such as ours."

Nonkululeko Pityana, CEO: Izingwe (Investee Company)

Figure 1

NEF – Invested portfolio by funding product by value 31 March 2007

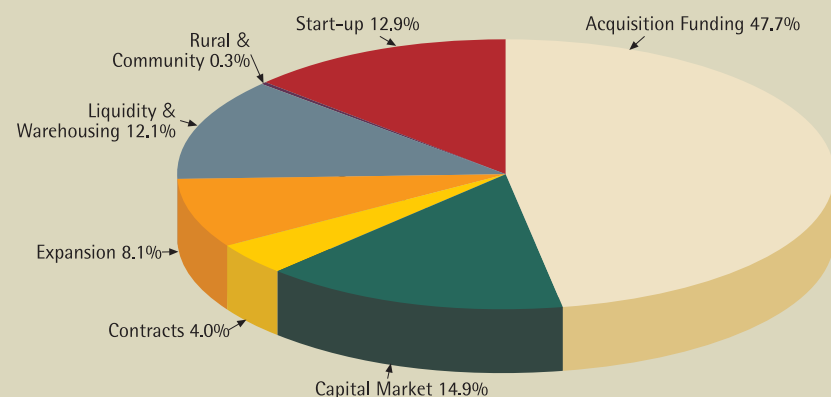
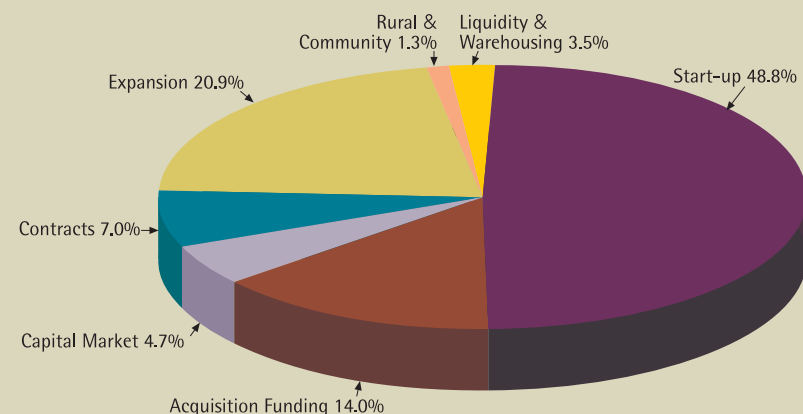


Figure 2

NEF – Invested portfolio by funding product by number 31 March 2007



b. Job creation

- i. 3 000 new jobs will be created as a result of the funding advanced by the NEF, and 6 000 existing jobs will be supported;
- ii. This year alone saw a marked focus on the establishment of 1 500 new jobs and the support of 1 600 existing jobs.

Table: 4

JOB CREATION 31 st MARCH 2007					
	Rand Invested	Number of Jobs	Existing Jobs	New Jobs	Rand per Job
Start-Up	R64,2m	817	3	814	R78,5k
Expansion	R40,1m	784	279	505	R51,2k
Acquisition Funding	R236,7m	2,519	1,492	1,027	R93,9k
Contracts	R19,8m	500	210	290	R39,6k
Rural & Community	R1,4m	12	0	12	R120,8k
Capital Market	R73,8m	3,930	3,830	100	R18,8k
Liq & W/housing	R60,0m	542	362	180	R110,7k
TOTAL PORTFOLIO:	R496,0m	9,104	6,176	2,928	R54,5K
		68%	32%	Average	

It is important to note that these statistics reflect planned jobs and must be read in that context. During the year, an impact assessment was conducted which indicated that new jobs created had reached 30% of the above targets. This level of achievement is understandable and acceptable in that planned jobs are made over a three-to-five year business planning cycle. Having already reached a milestone of 30% of planned new jobs would be in line with or marginally ahead of the respective business plan targets.

From an investment impact perspective, trends since the launch of the funding products in June 2004 indicate that it requires investment levels from the NEF of on average R79 000 to create a new job in a start-up organisation, versus R51 000 to sustain and create new jobs in an existing enterprise that is expanding and requiring the funding therefore. This implies a 53% premium paid for new jobs in a start-up enterprise.

The year under review saw an interesting reverse trend of the investment level required for new jobs for start-ups going down to R55 000, and that of maintaining and creating jobs in expansion activities exceeding this to R64 000. This trend will be monitored going forward to see whether it is maintained or is unique to the specific transactions supported in these categories and industry sectors this year.

The above job creation costs appear to be well below industry trends reported by other funders

c. Empowerment of women

The NEF prioritises the empowerment of black women as an additional component to the assessment of its impact in the implementation of BEE. The year under review saw the target of 40% black women participation in new deals financed being met and marginally exceeded by 1%. This target is set in line with that of the Codes of Good Practice. This then brings overall participation by black women in the portfolio to date to 35%.

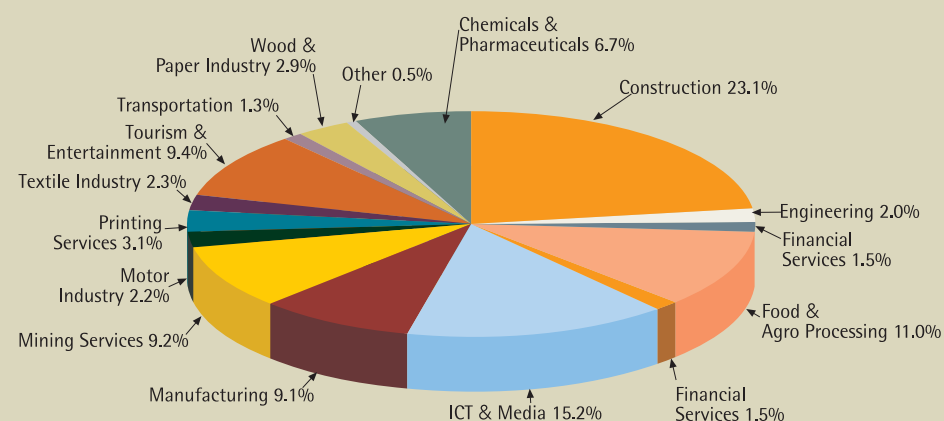
d. Priority industry sectors

The priority sectors set in terms of the alignment of the NEF strategy to that of the dti and ASGISA have been identified as follows:

- i. Arts & Culture,
- ii. Tourism,
- iii. Textiles,
- iv. Agro-Processing
- v. Automotive,
- vi. Chemicals,
- vii. ICT, Aerospace
- viii. Film Industry,
- ix. Exports,
- x. Business Process Outsourcing,
- xi. Beneficiation

The NEF portfolio presented below indicates exposure in the priority sectors above bar participation in the film industry and arts and culture sectors. These two sectors have been considered in the application process but have not at this stage been successful in proceeding to final approval.

Figure 3
NEF – Invested portfolio by sector by value 31 March 2007



The overall current highest exposure to the Construction industry is in line with current infrastructural spend emphasis coming through from the Public Works Programme, as well as priorities identified in ASGISA. Further, this sector would be a key contributor to the commercial implementation of the Codes of Good Practice through the preferential procurement process in, for example, the awarding of construction contracts to BEE businesses.

e. Regional distribution

The regional distribution of the NEF investment portfolio must be considered against the overall contribution of the provinces to the GDP of South Africa. It is the NEF's ongoing endeavour to meet or beat these contribution levels.

Table: 5

NEF INVESTED PORTFOLIO BY REGION 31 st MARCH 2007					
	(R) VALUE	% BY VALUE	BY NUMBER	% BY NUMBER	% VALUE PROVINCE CONTRIBUTION TO GDP
Gauteng	R227,6m	45.9%	50	58.1%	33.7%
Eastern Cape	R108,2m	21.8%	8	9.3%	7.9%
Western Cape	R95,5m	19.3%	14	16.3%	14.7%
Kwa-Zulu Natal	R34,9m	7.0%	8	9.3%	16.3%
Mpumalanga	R26,7m	5.4%	2	2.3%	6.7%
Limpopo	R2,8m	0.6%	3	3.5%	6.7%
Free State	R0,3m	0.1%	1	1.2%	5.5%
Northern Cape	-	0.0%	0	0.0%	2.2%
North West	-	0.0%	0	0.0%	6.3%
	R496,0m	100%	86	100%	100%

The NEF has taken a strategic decision to not replicate existing provincial funding infrastructures by opening provincial offices. Instead, the NEF must represent a presence to the provinces through provincially-based DFI structures. Provincial DFIs and National DFIs with a provincial presence such as SEDA are best positioned and most informed to identify eligible transactions that best support the provinces' economic development. This has been the approach of the NEF thus far in engaging the provinces through structures such as the provincial government DFIs and SEDA. The NEF will be stepping up this engagement on a project-planned basis to rotate engagements with provinces and track undertakings made by provincial DFIs. This project will be extended to include provincial Members of Parliament and their offices.

"South Africa's economy has grown and from September 1999 through to June 2005, the annual economic growth rate averaged 3,5%. In the decade prior to 1994, economic growth averaged less than one percent a year. Last year our growth reached 4,5%. Our concern, however, is increasing the number of people who benefit from our growing economy."

f. Portfolio returns and performance

The overall performance of the portfolio yielded a neutral real return on the loans portfolio, with impairments (R26,5-million) almost matching investment income from fund management activities (R27,2-million). This is a marked improvement on the previous year's results with the loans advanced now beginning to meet repayment obligations.

Fair value gains on equity investments made to date show a nominal return of 29% this year, which is up from 24% last year. This is however not an Internal Rate of Return (IRR) but is indicative of strengthening trends which will now be supported by detailed IRR calculations following the Post Investment management department coming to bear.

g. Overall performance against KPIs

On a balanced outcome therefore, the trustees present that the NEF has met its objectives as set out in the NEF empowerment dividend model. This is despite the overall shortcoming of provincial investment spread, which is being addressed. The NEF's empowerment dividend, which encompasses criteria the organisation uses to measure its performance, comprises the following:

- Broad-Based Black Economic Empowerment
- Black Women Empowerment
- Job Creation
- Growth Industry Sectors
- Geographic Spread
- Investment Return
- Value of Investments Disbursed

In terms of addressing market failure, studies conducted by the NEF during the year in order to inform its strategic planning revisions clearly pointed to funding gaps in the range of products that the NEF offers. This research did point to the opportunity to marginally adjust a few of the investment product thresholds which will be marketed during the new financial year.

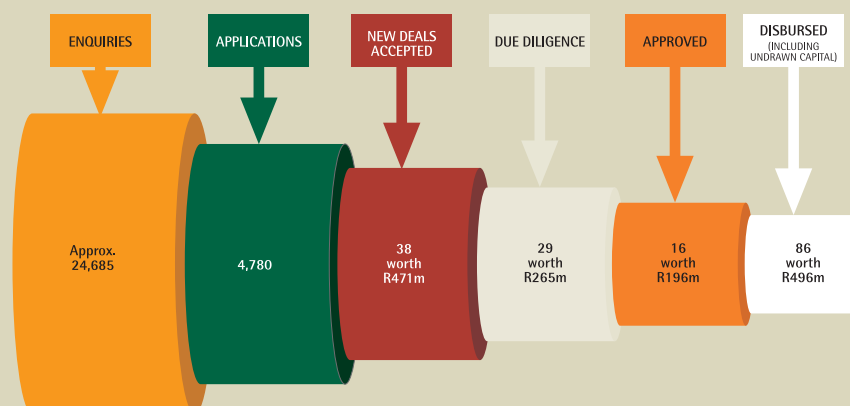
The declining ability of the NEF to leverage funding against the private sector, down from 44% in 2006 to 28% in 2007, is also a clear indicator of the banks' ongoing reluctance to fund start-up activity as well as expansion of existing SME business, largely due to the insufficient creditworthiness of our applicants.

4. FINANCIAL PERFORMANCE

The financial year under review saw the NEF grow as a fund value from a R2-billion fund to a R3.5-billion fund. This overall fund growth is largely attributable to additional trust capital being introduced over the year by the dti shareholder, of R500-million, plus the growth of the Asset Management and Fund Management portfolio by R1-billion. This is after providing for impairments which include the full impairment of the Uthingo investment by a further R5-million.

The Fund Management division grew the investment portfolio by R219-million in favour of 23 transaction applications. A further R196-million has been approved but not yet disbursed in favour of 16 transactions. Following disbursement, these will then move into the "Disbursed" category below. Over and above this, a further 29 transactions of R265-million are being subjected to the due diligence process with some 38 applications worth R471-million under consideration. This additional R736-million of new transactions is carefully monitored against capital and cash resources, currently R792-million, in order to avoid over-committing the NEF to funding applications.

Table: 6



This year again saw a net reported surplus. This surplus of R112-million is principally made up of dividends received from state allocated investments of R30-million, interest earned on cash balances of R44-million and fair value gains on equity investments made by the Fund Management division of R30-million. The cost of impairments of loans and investments was met out of interest earned on originated loans. Operational expenditure was up from R41-million in the year 2006 to R62-million, representing an increase of 30%. This increase was within budgeted expenditure to cater for the growth requirements of the NEF to maintain its expansionary fund management activities.

Half of the budget increase has been applied to additional staff resources but human resource costs have been maintained at 60% of total operating expense, an improvement on 63% last year. This ratio is indicative of the financial services sector in which the NEF operates, in order to attract quality professional staff and is within budget. Consulting fees grew as expected in terms of due diligence and special reports on applications required by the Fund Management division. This is attributable to the deals being considered, whose volume and complexity warranted such information.

5. LOOKING AHEAD

Operationally the NEF now presents the critical mass supportive of implementing its mandate, both at a capitalisation level as well as a resource and infrastructure level. However, the new year's business plan again provides for a staff resource increase as well as restructuring of the organisational structure to cater for a new executive portfolio responsible for corporate services, to include initially human resources and facilities management and thereafter to potentially add information and systems technology.

Cash on hand has again doubled, which is an indication of the stakeholder support for the NEF and additional commitment by the State to invest in BEE, through the NEF, as well as the NEF's ability to deliver thereon and implement its mandate. From this perspective it must be borne in mind that the NEF's investment products are two years old, having gone through small criteria changes in this time. The NEF is still therefore in its infancy from a capitalisation and investment activity perspective, and significant cash balances should be expected in a young organisation. These would expectedly diminish as the funds reach their investment maturity periods.

From a stakeholder support perspective the NEF has been allocated an increased amount of R709-million for the new financial year. This represents an additional R300-million. The budget has been set to increase disbursements in the Fund Management division to R450-million. The successful implementation of the retail product had been allocated a significant budget for its design, supporting systems and the marketing campaign. The balance of this allocation will go to funding the continued expansion of the organisation in order to cater for systems installations to provide CRM and ERP capabilities, as well as growth in staff complement and office space.

Mr Ronnie Ntuli
Chairman

Ms Philisiwe Buthelezi
Chief Executive Officer



REPORT ON CORPORATE GOVERNANCE

Introduction

Corporate governance is regarded by the NEF as an essential management tool. As reported in 2006, the NEF's governance framework and processes had evolved substantially from a time when very little in terms of a governance structure was in place. This improved state of corporate governance has signalled not the end, but the beginning of an evolutionary process as the NEF endeavours to continually advance corporate governance within the organisation.

Shareholding

The Government of the Republic of South Africa is the sole shareholder of the NEF. The shareholder representative is the Minister of Trade and Industry. A shareholder performance agreement is concluded annually between the NEF and its shareholder. This agreement details the agreed key performance objectives and indicators for the NEF.

Legislative framework

The NEF is born of statute, the National Empowerment Fund Act No. 105 of 1998 and this piece of legislation serves as the founding document of the NEF. The NEF is further governed by the precepts of the Public Finance Management Act No.1 of 1999 (PFMA), (as amended) coupled with the National Treasury Regulations. The NEF is also guided by the Report on Corporate Governance for South Africa 2002 (King II Report) and the Protocol on Corporate Governance in the Public Sector 2002. All legislation specific to Broad-Based Black Economic Empowerment forms a vital part of the NEF's legislative framework too.

Board of Trustees

Composition of the Board

The NEF is governed by a Board of Trustees appointed by the President, on the advice of the Minister of Trade and Industry.

The Board is comprised of 7 non-executive Trustees and one executive Trustee. This Board appointed with effect from 1 November 2005, is serving the second year of its three-year term. The Trustees have extensive experience across a diverse range of sectors which accordingly enables them to provide balanced and independent advice and judgment in the decision-making process. Profiles of each individual Trustee appear earlier in the report.

Attendance of the Board

Meetings of the Board are scheduled in advance, as per the annual Board plan. Special meetings are convened as specific circumstances dictate. During the year under review, the attendance record of the respective Trustees was as follows:

	12/04/ 2006	12/07/ 2006	08/08/ 2006 (special)	26/08/ 2006 (special)	24/11/ 2006	25/01/ 2007	24/02/ 2007 (special)	28/03/ 2007 (special)
Ronnie Ntuli (chairman)	✓	✓	✓	✓	✓	✓	✓	✓
Philisiwe Buthelezi	✓	✓	✓	✓	✓	✓	✓	✓
Jennifer Hoffmann	✓	✓	Apologies	Apologies	✓	✓	✓	✓
Thando Mhlambiso	✓	✓	✓	✓	✓	✓	✓	✓
Polo Radebe	Apologies	✓	✓	✓	✓	✓	✓	Apologies
Sonja Sebotsa	✓	Apologies	✓	✓	✓	✓	✓	✓
Kabelo Seitshiro	✓	✓	Apologies	✓	✓	✓	✓	✓
James Theledi	✓	✓	✓	✓	✓	✓	✓	Apologies

Role and function of the Board

The Board is the accounting authority of the NEF in terms of the PFMA. In conjunction with the NEF Act, the Board charter sets out clear direction with regard to the role and responsibilities of the Board, composition and requirements for Board meetings. In summary, the Board is ultimately responsible for:

- Providing strategic direction and leadership;
- Approving strategy, business plans and budgets;
- Monitoring operational performance and management;
- Ensuring effective risk management and internal controls;
- Legislative and regulatory compliance;
- Approval of the annual financial statements;
- Ensuring good corporate governance and ethics;
- Ensuring appropriate succession planning;
- Ensuring effective reporting and communication to the shareholder and all stakeholders respectively; and
- Approving transactions above the delegated authority levels.

Executive management and the Board work closely together in determining the strategic approach of the NEF. Authority has been delegated to the Chief Executive Officer and executives for the implementation of strategy and the ongoing management of the organisation. The Trustees are apprised of progress through reporting at Board meetings and regular communications with executive management.

Remuneration of the Board

Independent non-executive Trustees and Board Committee members receive a fee for their contributions to the Board and Board Committees on which they serve. Fees are determined by the shareholder. Refer to notes 21 and 22 of the Annual Financial Statements for further disclosure on remuneration.



Board Committees

The Board has four Committees to which it has delegated various matters in accordance with their respective charters. These Committees are:

- Investment;
- Audit;
- Risk Management; and
- Human Capital & Remuneration.

During the reporting period, the Board deemed it appropriate to establish the BEE Retail Product Sub-Committee to deal specifically with the development and launch of the Asonge Share Scheme. This Sub-Committee is also governed by a charter.

Each of these aforementioned Board Committees comprises representatives of the Board, executives and independent Committee members specifically appointed for the skills they can bring to the respective Committees. The Board Committees have provided separate reports on their respective activities during the year under review.

Executive Committee

The Board has delegated the management of the NEF to the Chief Executive Officer, who is supported by the Executive management. The Executive Committee is responsible for the implementation of strategy and the operational performance of the NEF, in addition to ensuring the effective management of the day-to-day operations of the NEF. The Executive Committee meets at least twice a month in an investment forum to consider

transactions for approval and an Executive Committee operations meeting is also held once a month.

The Board recognises that it is ultimately accountable and responsible for the performance and affairs of the NEF and that the use of delegated authorities to Board Committees and management in no way mitigates or dissipates the duties of the Board and its Trustees.

Secretariat

All Trustees have access to the advice and services of the NEF Secretariat, who is responsible to the Board for ensuring that established procedures and the relevant statutes and regulations are complied with.

The Secretariat also assists the Chairman and Chief Executive Officer in determining the annual Board plan, Board agendas and addressing governance and Board-related matters.

Conclusion

By working to achieve what the NEF regards as the objectives of good corporate governance, namely good business management, effective relations with its shareholder and all stakeholders, consideration for staff and the environment and compliance with laws and regulations, the NEF is in tandem striving to enhance its organisational performance for the benefit of its shareholder and all stakeholders, enhance information and decision-support processes and provide a framework for management and the Board of Trustees to perform their duties better and meet the responsibilities for which they are accountable.

REPORT OF THE BOARD INVESTMENT COMMITTEE

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 Board Investment Committee.

Roles and Responsibilities

The roles and responsibilities of the BIC are to:

1. monitor adherence to the BIC Charter and have due regard for the principles of good corporate governance and best practice;
2. represent the interests of the NEF;
3. be entitled at any time, over and above the mandatory annual review of this Charter, to propose such amendment or variation of the policies or provisions of this Charter as it may deem reasonable or necessary to fulfil the objectives of the NEF; provided further that any such amendment or variation shall not be of any force or effect and any act, matter or thing done by the Board IC pursuant to or in terms of such amendment or variation shall be voidable at the instance of the Board, unless and until such amendment or variation of this Charter, or act, matter or thing taken or done by the Board IC, shall have been approved and / or ratified, as the case may be, by resolution of the Board;
4. subject to the provisions hereof relating to the composition of the Board IC, the Board IC shall, unless otherwise resolved by the Board, act effectively as an investment committee of the Board, and as such, subject always to any limitations on their powers provided herein, shall be responsible for taking all decisions pertaining to the matters specified hereunder, including:
 - 4.1 the making of investments (including follow-on investments) by the NEF and the making of binding commitments relating to such investments on behalf of the NEF and in accordance with this Charter and the individual investment product limits, subject to an overall maximum limit of R50 000 000 per investment transaction;
 - 4.2 the release, distribution and / or realisation of (in relation to the investment portfolio) investments of the NEF above R10 000 000. Investments of R10 000 000 and less shall be dealt with by the EXCO IC;
 - 4.3 committing the NEF to incur non-recoverable costs pertaining to potential investment such as due diligence costs, above R150 000 per transaction;
 - 4.4 committing the NEF to any material expenditure to protect the NEF's rights as a shareholder or lender where the expenditure is expected to be in excess of R150 000 per investment;

"The beauty of the NEF is that they understand the unique challenges faced by black business and how to address these challenges with unique finance products."

Sifiso Pretorius, CEO: Polyzomba (Investee Company)

- 4.5 approval of valuations, impairments, exercising options or decisions related to the sale and / or exit of existing, approved investments above R20 000 000 and up to and including R50 000 000;
- 4.6 recommending the approval of valuations, impairments, exercising options or decisions related to the sale and / or exit of existing, approved investments above R50 000 000 to the Board;
- 4.7 approving, as delegated by the Board, the NEF Investment policy and any changes thereto from time to time;
- 4.8 approving, as specifically delegated by the Board, any new NEF investment products and recommending same to the Board; and
- 4.9 the review of the NEF's quarterly investment portfolio report detailing the performance of investments.

Performance FY 2006 / 2007

During the period under review, 10 requests for financing totalling R239,2m were taken to the BIC by the NEF's executive committee. Eight of the funding requests totalling R211,4m were approved and one transaction was approved subject to conditions being met. Requests totalling R27,8m were declined. The transactions that were approved by the BIC span various industries including resources, agriculture, manufacturing, ICT and tourism.

A major milestone that was achieved by the BIC was approval of funding for a rural and community development project in partnership with the Industrial Development Corporation (IDC). This transaction contributed significantly to the NEF investment portfolio, particularly in the rural and community development product.

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

Membership and Attendance

The BIC is comprised of the following members:

- a. Mr Thando Mhlambiso, Chairperson of the BIC and Non-Executive Trustee
- b. Ms Philisiwe Buthelezi, CEO and Executive Trustee
- c. Mr Greg Voigt, Independent – resigned in March 2007
- d. Ms Polo Radebe, Non-Executive Trustee
- e. Ms Jennifer Hoffmann, Non-Executive Trustee
- f. Ms Lindiwe Bakoro, Independent
- g. Mr Kugan Thaver, Independent
- h. Ms Cora Fernandez, Independent

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

Member	19/04/2006 (telecon)	04/05/2006	18/05/2006	13/07/2006	17/08/2006	19/10/2006	16/11/2006	14/12/2006	18/01/2007	23/01/2007 (special)	22/03/2007
Thando Mhlambiso	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Philisiwe Buthelezi	✓	✓	✓	✓	✓	Apologies	Apologies	✓	✓	✓	✓
Lindiwe Bakoro	✓	Apologies	Apologies	✓	Apologies	✓	Apologies	✓	✓	Apologies	Apologies
Cora Fernandez	✓	✓	✓	Apologies	✓	✓	✓	✓	✓	✓	Apologies
Jennifer Hoffmann	Apologies	✓	✓	✓	✓	✓	✓	Apologies	✓	✓	Apologies
Polo Radebe	Apologies	✓	✓	Apologies	Apologies	Apologies	Apologies	Apologies	Apologies	Apologies	Apologies
Kugan Thaver	Apologies	✓	✓	Apologies	Apologies	✓	✓	✓	✓	Apologies	✓
Greg Voigt	✓	✓	✓	Apologies	✓	Apologies	✓	Apologies	✓	Apologies	✓



Mr Thando Mhlambiso
Chairperson of the Board Investment Committee

"During the period under review, ten requests for financing totalling R239,2m were taken to the BIC by the NEF's executive committee."

Mr Thando Mhlambiso, Chairperson of the BIC

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2007.

Audit Committee Members and Attendance:

The Audit Committee consists of the members listed below. It met five times during the year under review to undertake its responsibilities.

Member	25/05/ 2006	28/07/ 2006	28/07/ 2006	21/11/2006 (special)	21/02/ 2007
Anthony Coombe ¹	✓	✓	✓	✓	✓
Philisiwe Buthelezi ²	✓	✓	✓	Apologies	✓
Nick Nicholls ³	✓	Apologies	✓	✓	✓
James Theledi ⁴	✓	Apologies	✓	✓	✓

1. Independent, Chairperson
2. CEO and Executive Trustee
3. Independent
4. Non-Executive Trustee

Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a)(ii) of the Public Finance Management Act and 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 adopted by the Board of Trustees. We have regulated our affairs in compliance with this charter and have discharged all responsibilities contained therein.

Effectiveness of Internal Control

A 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 critical and significant report categories of internal and external audit, we note instances of inadequate procedures, systems, controls and records, predominantly in the finance and core business areas.

Management reports that they have developed action plans and initiatives to address these reported weaknesses in the 2007 / 8 reporting year.

In our opinion, based on discussion with management and the internal and external auditors, the audit findings reported above arose mainly due to vacancies in certain key positions during the reporting period. Filling these vacancies is a prioritised part of the corrective management initiatives reported above.

A separate Risk Management Committee monitors and oversees the assessment and mitigation of risk on a prioritised basis throughout the NEF. The internal auditors used this risk control framework to prepare their audit coverage plans and to undertake audit work in the higher risk areas identified.

Quality of Management Reports

During the financial year under review interim and quarterly management reports have been enhanced by including performance information related to core business achievements. The Audit Committee is now satisfied with the content and quality of monthly and quarterly reports prepared and issued by management and the NEF.

The Accounting Authority, consisting of a Board of Trustees, currently operates without a Finance Committee to review the budgetary process, the monthly management accounts, annual financial statements, financial control weaknesses reported and other key financial matters.

Evaluation of Annual Financial Statements

The Audit Committee has

- reviewed and discussed with the external auditors and senior representatives of management the audited annual financial statements to be included in the 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 has discussed, concurs with and accepts the conclusions of the external auditors on the annual financial statements, read together with the report of the external auditors and has recommended these to the Board of Trustees for acceptance.



Mr Anthony Coombe
Chairperson of the Audit Committee

"Working for the NEF is a fulfilling experience, especially when one considers the many lives that we touch in a positive way."

Fatima Ebrahim (member of staff)





REPORT OF THE RISK MANAGEMENT COMMITTEE

As 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 focussed approach to Risk Management. The NEF has, as a result chosen to use an Enterprise-Wide Risk Management (ERM) approach versus a silo approach to Risk Management. ERM looks at risks within and across all business lines and activities of the organisation to consider how one area of the organisation may affect the risks of other business units and the enterprise as a whole.

The Board has established a Risk Management Committee (RMC) that reports directly to the Board. The RMC operates pursuant to the provisions of the NEF Delegation of Authority and the Charter of the RMC. The RMC oversees all credit, market, and operational risk management activities, as well as co-ordinating corporate oversight units. The RMC is largely constituted by the Executive Management of the NEF to ensure that management takes ownership of the risks of the organisation.

During August 2006 a Risk and Compliance Manager was appointed at the NEF to facilitate the implementation of an ERM approach and implement measures to ensure that laws and regulations are complied with.

The following risk management activities were undertaken during the current year:

Risk Management Framework

A Risk Management Framework was prepared and approved by the RMC. The key elements of the Risk Management Framework are:

- Policies
- Structures
- Processes (how we identify, assess, address and report on our risk)
- Standards for risk management at the NEF.

The Framework is currently being submitted to the Board for approval.

Fraud Prevention Plan

A Fraud Prevention Plan has been compiled and approved by RMC for submission to the Board. The plan indicates the fraud risks identified, measures in place to mitigate against these risks and the fraud risk management strategy of the NEF.

Risk management awareness

Risk management awareness sessions have been held with operational management to inculcate a risk management culture at the NEF.

Risk assessment

Operational risk assessments have been completed for all areas within the NEF and key strategic risks have been identified. Risk registers have been prepared for all departments and are updated on a quarterly basis in terms of any changes and progress made on actions identified. The final risk registers will be submitted to Board for approval.

Investment portfolio

Risk management of the invested portfolio is a key 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.

Compliance with laws and regulation

The compliance process at the NEF is being enhanced with the development of a Compliance register and a Compliance Assurance Plan, to ensure that all the relevant legislation that impacts on the NEF is currently being complied with.

In addition the RMC:

- Reviewed and approved the Materiality Framework
- Reviewed the Business Continuity Plan that is being finalised
- Considered and approved a proposal for directors' and officers' insurance.

The RMC also:

- Reviews procedures for identifying and managing risks
- Establishes and maintains an understanding of risks that need to be managed
- Ensures that executive management have effectively identified key risks and that they are adequately managed
- Ensures that management identify all relevant legislation that needs to be adhered to and that adequate measures are in place to adhere to legislation
- Receives updates on investigations into theft, etc.
- Reviews any other matters that fall within the ambit of its charter
- Reports to the Board of Trustees on overall risk management and the extent of any action taken by management to address areas identified for improvement.

"Risk management awareness sessions have been held with operational management to inculcate a risk management culture at the NEF."

Mr Kabelo Seitshiro, Chairperson of the Risk Management Committee

Identification of Key Risks

The following key risks have been identified for the NEF:

EROSION OF CAPITAL

The risk that the NEF portfolio may be eroded due to funding poor quality deals and high-risk deals such as start-ups, etc.

Mitigation measures

The NEF mitigates this risk by ensuring that we have adequate screening and due diligence processes in place before an investment is approved. In addition we have prudential limits in place and have also entered into strategic partnerships with Banks and other DFI's to share the risks. We have also developed new product categories such as franchising, procurement contracts, etc. that would assist in reducing our exposure in this area.

LACK OF SKILLS, KNOWLEDGE AND EXPERIENCE BY STAFF

The risk that the NEF staff do not have adequate skills and experience in the investment area and poor performance of staff.

Mitigation measures

The NEF mitigates this risk by having a robust recruitment process and various training initiatives. In addition certain senior positions (i.e. Post-Investment Manager, etc.) have been filled by technically strong and experienced individuals. The middle management level within investments is being capacitated (i.e. appointment of senior investment associates). A performance management process is in place and linked to reward mechanisms.

INEFFECTIVE MONITORING OF INVESTMENTS

The risk that monitoring of investments is ineffective due to lack of experience by investees and inadequate monitoring mechanisms.

Mitigation measures

The NEF mitigates this risk by having an independent Post-Investment unit that is managed by an experienced individual and the unit is currently being capacitated with additional staff. In addition a review of the investment portfolio is currently being undertaken to determine the level of assistance required by investees. A Post-Investment Committee which consists of staff from investment and other departments is also responsible for monitoring the portfolio.

LACK OF BUSINESS SKILLS AND EXPERIENCE BY INVESTEES AND APPLICANTS

The risk that investees and applicants do not have adequate entrepreneurial and business skills.

Mitigation measures

The NEF has entered into strategic partnerships with other institutions such as SEDA, etc. to ensure that investees and applicants receive non-financial support. In addition tools are being developed (i.e. business plan software, training initiatives, etc.) that will assist applicants with the drafting of business plans.

A mentorship fund is also being set up that will provide funding for mentorship. A specific mentorship plan will be developed for identified investees based on a review that is currently in progress at investees.

HIGH STAFF TURNOVER

The risk of losing staff.

Mitigation measures

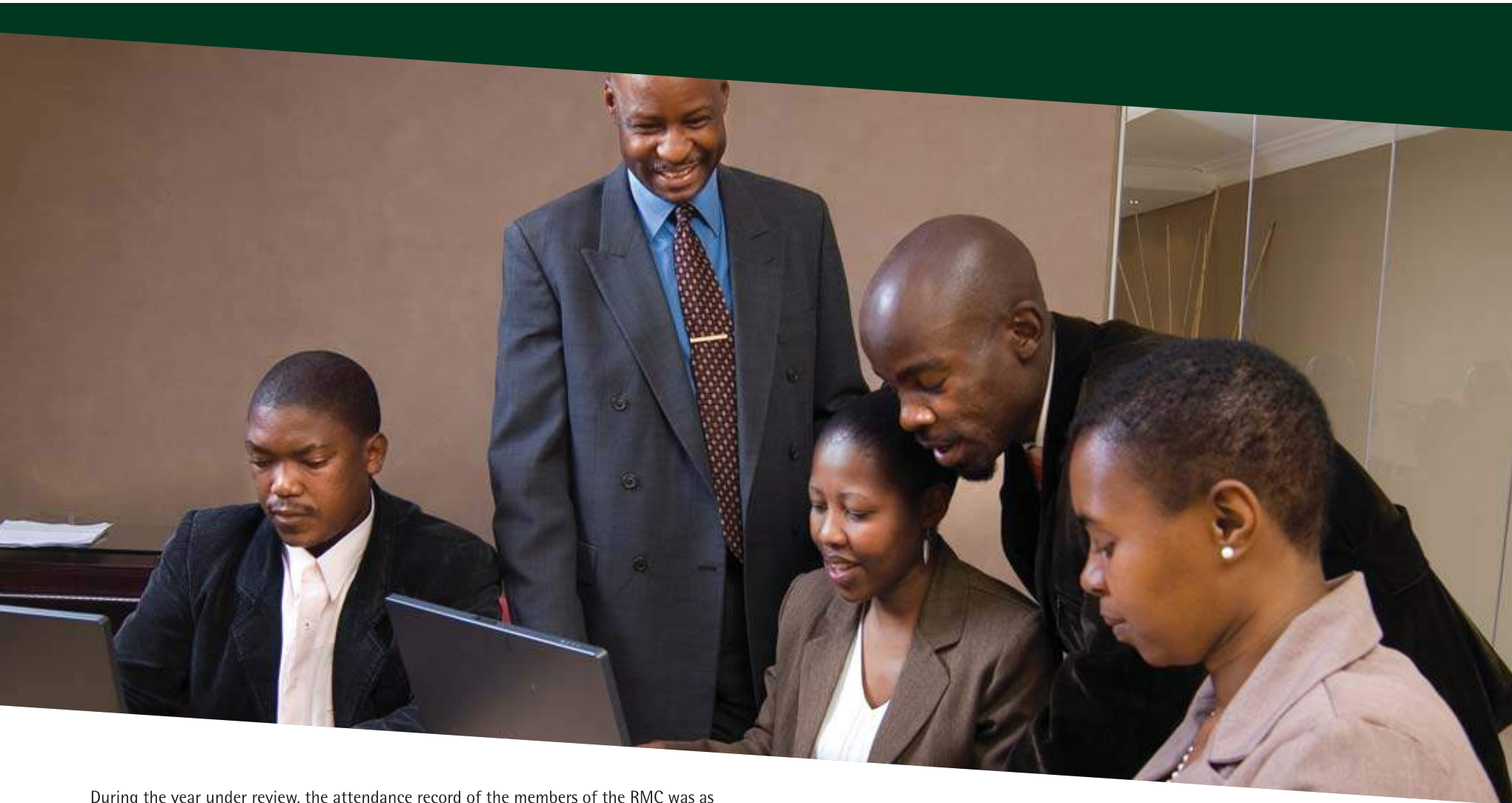
This risk is mitigated by having remuneration and retention strategies in place. In addition recruitment strategy is also being refined to ensure that we have an adequate balance of staff (i.e. experienced, etc).

Membership and Attendance

The RMC is comprised of the following members:

- a. Mr K Seitshiro, Chairman of the RMC and Non-Executive Trustee
- b. Mr A Coombe, Independent and Audit Committee Chairperson
- c. Ms P Buthelezi, CEO and Executive Trustee
- d. Mr F Gillion, Chief Investment Officer
- e. Mr A Wright, Chief Operating Officer
- f. Mr M Mia, Risk and Compliance Manager

The recruitment of an additional member to make up the full complement of Committee members was completed and the Board approved the appointment of the additional member. However, due to delays in the appointed candidate obtaining approval from her employer, the Committee does not have a full complement yet.



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

Member	19/06/2006	14/09/2006	04/12/2006	29/03/2007
Kabelo Seitshiro	✓	✓	✓	✓
Philisiwe Buthelezi	✓	✓	✓	Apologies
Anthony Coombe	✓	✓	✓	✓
Claire Buseti ¹	✓	✓	✓	✓
Frencel Gillion ²	-	-	-	✓
Muhammed Mia	✓	✓	✓	✓
Raymond Mokgalagadi ³	✓	Apologies	Apologies	-
Andrew Wright	✓	✓	✓	✓
Emma Riley ⁴	✓	✓	-	-

1. Former Chief Investment Officer, resigned with effect from 31 January 2007
2. Appointed 01 January 2007
3. Former Chief Financial Officer, resigned with effect from March 2007
4. Secretariat and Compliance Officer, replaced by Risk and Compliance Manager, with effect from 01 August 2006

"The NEF has been instrumental in opening doors for a black entrant like our organisation in the manufacturing of exotic breads."

Nelson Godfrey, CEO: Exotic Breads (Investee Company)

Mr Kabelo Seitshiro
Chairperson of the Risk Management Committee



REPORT OF THE HUMAN CAPITAL AND REMUNERATION COMMITTEE

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

Roles and Responsibilities

The roles and responsibilities of the HCRC as reflected in the HCRC charter are as follows:

1. annual review of the human capital policies and procedures applicable to all staff members;
2. annual review of executives' remuneration to ensure that it is reasonable and is in line with current industry practice;
3. keeping abreast of current industry practice and developments in the human capital arena that will impact upon the NEF;
4. overseeing and review of principles governing remuneration packages and policies, existing and proposed fringe benefits and any incentive/ performance bonus schemes applicable to all staff members;
5. advising the Chairperson of the Board on undertaking and reviewing evaluations of the performances of independent trustees and executives, as input to the determination of their remuneration;
6. advising the Chairperson of the Board on the annual evaluation of the performance of the Board Committees as to their effectiveness and value-add;
7. review of executive retirement and termination payments; for the former, in conjunction with the retirement fund trustees;
8. overseeing that executive compensation is tied to performance;
9. undertaking duties and responsibilities assigned by the Board, from time to time;
10. having due regard to the principles of governance and best practice as per King I; and
11. having due regard to the Code of Conduct for Committee Members.

During the period under review, the HCRC was instrumental in the build-up process that led to Board approval of a revised performance management system. The appointment of an additional member to the Committee is underway and this will bring the Committee membership to its full complement.

Membership and Attendance

The membership of the HCRC is as follows:

- a. Ms Sonja Sebotsa, Chairperson of the HCRC and Non-Executive Trustee
- b. Ms Barbara Lombard, Independent
- c. Mr Mike Marcus, Independent

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

Member	05/05/2006	11/05/2006	27/06/2006	05/10/2006	05/12/2006	08/02/2007
Sonja Sebotsa	✓	✓	✓	✓	✓	✓
Adv. Mike Marcus	✓	✓	✓	✓	✓	✓
Barbara Lombard	✓	✓	✓	✓	✓	✓



Ms Sonja Sebotsa
Chairperson of the Human Capital and Remuneration Committee

"Having worked for the NEF for the past three years, I have first-hand experience of the development and organic growth of the organisation."

Lerato Seleke (member of staff)



REPORT OF THE BEE RETAIL PRODUCT SUB-COMMITTEE

The BEE Retail Product Sub-Committee is a Sub-Committee of the Board of Trustees of the NEF. The mandate given to the Sub-Committee by the Board at its meeting on 12 April 2006, was that in light of "...the sensitivities of the launch of the first BEE Retail Product, in that it is a strategic project for the NEF and that a listed share is central to the project, a Board Sub-Committee will be established..." The Sub-Committee operates pursuant to the provisions of the NEF Delegation of Authority and the Charter of the BEE Retail Product Sub-Committee.

Roles and Responsibilities

The roles and responsibilities of the Sub-Committee as reflected in its charter are to:

- 1. do a detailed technical review of the NEF's first BEE Retail Product, regarding its development and progress;
- 2. make recommendations on all of the aforementioned matters to the Board for final approval, unless mandated otherwise; and
- 3. ensure that reports on its activities are submitted to the Board in advance of each Board meeting. The Chairman of the Sub-Committee will be expected to talk the Board through these reports at the Board meetings, with the assistance of the Asset Management Executive.

The Sub-Committee was responsible for considering and providing input to proposals made by the Executive with regard to taking the BEE Retail Product to market. It approved recommendations for Board approval in terms of target market, product structure, lock-in period and other pertinent aspects of the Product.

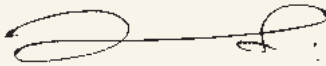
Membership and Attendance

The Sub-Committee comprises four Trustees duly appointed by the Board:

- a. Mr J Theledi, Chairpesron of the Sub-Committee
- b. Ms S Sebotsa, Non-Executive Trustee
- c. Mr T Mhlambiso, Non-Executive Trustee
- d. Ms P Buthelezi, CEO and Executive Trustee

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

Member	04/05/2006	14/06/2006	12/07/2006	09/11/2006	23/01/2007	20/03/2007
James Theledi	✓	✓	✓	✓	✓	✓
Thando Mhlambiso	✓	✓	✓	✓	✓	✓
Philisiwe Buthelezi	✓	✓	Apologies	Apologies	✓	✓
Sonja Sebotsa	✓	Apologies	Apologies	Apologies	✓	✓



Mr James Theledi
Chairperson of the BEE Retail Product Sub-Committee

"Working with the NEF has been an exciting experience. I have come to understand the workings of development finance institutions, and how these differ from commercial banks."

Vincent Mokholo, CEO: Telepassport (Investee Company)



Philisiwe Buthelezi



Andrew Wright



Frencl Gillion

EXECUTIVE COMMITTEE

**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, Ms Buthelezi 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 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.

**Andrew Wright – B.Compt (UNISA), FCCA (UK), FCIS (SA), CPA (TS)
– Chief Operating Officer**

Mr Wright completed articles in auditing and accounting with BDO Spencer Steward in Parktown, Johannesburg, in 1995. He is a fellow of ICSA and ACCA (in the UK) and also a member of the Texas Society of Certified Public Accountants in the United States.

His career spans investment banking, private equity and venture capital fund management, as well as development finance in the public sector. In June 2004, he was approached by the National Empowerment Fund to assist in the rollout and implementation of its approved business plan. He was later promoted to Chief Financial Officer and thereafter, in 2006, Chief Operating Officer. He holds this position to date, and is responsible for strategic and business planning, and performance measurement of the organisation.

Frencl Gillion – B.Com (Hons) CA (SA) – Chief Investment Officer

Mr Gillion is a qualified chartered accountant. He boasts over 12 years' experience in finance and banking, in areas such as corporate finance, project finance and private equity. He cut his teeth in both private sector and development finance institutions, joining the NEF from Actis Private Equity where he was an Investment Manager in its BEE Fund. Previously he held the position of Head: Corporate Finance at DBSA, and there managed the BEE investment portfolio as well as its Private Equity Fund of Funds Portfolio. Before then Mr Gillion was Head: Public Finance at African Merchant Bank (AMB). The Division was responsible for providing corporate finance advice on numerous privatisation mandates. His career began at the IDC, where he gained valuable investment experience in a broad range of economic sectors.



Victor Mabuza



Phillipa Minnaar



Maria Luke

Victor Mabuza – Executive: Asset Management

Mr Mabuza has held various senior positions predominantly in retail, corporate and investment banking. Over the past 13 years, he has worked for various financial institutions such as ABSA, Standard Bank and STANLIB. His career has been predominantly centred on SMME development and financing, corporate banking as well as investment banking.

Mr Mabuza holds qualifications in accounting, finance and a post-graduate qualification in entrepreneurship (M.Phil thesis to be submitted).

Phillipa Minnaar – B.Com (Hons) CA (SA) – Acting Chief Financial Officer

Ms Minnaar is seconded to the NEF as Acting CFO from Gobodo Inc. She has been involved with the Audit of the NEF since its inception 6 years ago, and brings with her an in-depth understanding of the systems and processes of the organisation.

Her audit experience runs to 15 years, eight of which were in the Public Sector. She has a considerable grasp of the legislation applicable to such entities. She has also served many public and private sector clients in South Africa in an advisory capacity, as well as in the New York offices of PricewaterhouseCoopers Inc.

Maria Luke – Executive: Corporate Services (appointed August 2007)

Ms Luke has wide-ranging experience in the Human Resources arena, including 10 years in the Financial Services environment. In 1994, she was employed by De Beers Consolidated Mines as a Human Resources Trainee, working at one of the company's mining operations. A year later, she took up a position at Norwich Life, which was later taken over by Fedsure. Her rise through the ranks culminated with her becoming HR Manager at Fedsure Health. In 2000, she moved to Egoli Gas in a similar role. In 2002, she took up a position as HR Integration Manager at Stanbic, based in Uganda, and was later appointed HR Regional Manager for East Africa. Two years later she moved to Barclays Bank in Johannesburg as HR Operations Manager. In 2006, she was appointed HR Manager at AMSCO.

She obtained a scholarship from the British Council and through this, later acquired an honours degree (Law and Politics) from Middlesex University, in the United Kingdom. She is currently studying towards her Masters in Labour Law.

"The Board also salutes the visionary and world-class leadership of the Executive and the teams of dedicated and highly competent members of staff at the NEF."

Mr Ronnie Ntuli, Board Chairman



FUNDING PRODUCTS AND SERVICES

The NEF's Fund Management Division fulfils the NEF mandate by providing funding to black entrepreneurs to support new and existing business ventures with start-up, franchising and expansion capital, and with the acquisition of equity interests in existing businesses for transformation purposes.

The division services its clients through two funds, each targeted at a particular market:

THE IMBEWU FUND

This fund is designed to promote the creation of new businesses and the provision of expansion capital to early stage businesses. The iMbewu Fund aims to cultivate a culture of entrepreneurship by offering debt, quasi-equity and equity finance of up to R20-million comprising:

- Start-up finance for new businesses.
- Expansion capital for existing small businesses.
- Financing of preferential procurement contracts.
- Financing of Rural and Community Development projects with social upliftment benefits. Community groups, including co-operatives, may apply.
- Financing of franchised operations.

This is done by the following suite of products:

a. Entrepreneurship Finance

iMbewu Entrepreneurship Finance would provide risk capital to new businesses, and to early stage businesses owned and managed by black people meeting the following criteria:

- BEE applicant should be actively involved in the business.
- Minimum black ownership of 50.1%.
- Industry experience in consortium, i.e. from BEE party or non-BEE partners.
- NEF mentorship programme participation is obligatory.
- Capital structure should be sustainable. NEF to provide shortfall in equity / quasi-equity capital.
- Business with clear value add – sustainable business model.
- Business should employ minimum of 5 people.
- Maximum NEF funding of R5m.
- NEF investment horizon is 5 to 7 years.
- NEF will target a nominal pre-tax IRR of between 12% to 18% on its funding.

b. Procurement Finance

iMbewu procurement finance product is a debt product aimed at financing working capital requirements associated with procurement contracts. The product enables BEE groups to access preferential procurement opportunities whilst simultaneously providing mechanisms aimed at mitigating NEF investment risk. The key features of the NEF product are:

- Primarily short- to medium-term debt product.
- Repayment terms matched to contract terms.
- NEF funding generally limited to R10m.
- Active BEE management participation.
- Minimum black ownership of 50.1%.
- Industry knowledge within the Borrower's management structure.
- NEF will seek to co-finance with commercial banks to mitigate risk.
- NEF reserves the right to oblige applicant to participate in the NEF mentorship programme.

c. Franchise Finance

iMbewu Franchise Finance is geared towards enabling black people to leverage the infrastructure available within the franchise industry in order to gain access to economic opportunities whilst reducing investment risk. The criteria of the product follow.

- NEF has a preference for funding the top 40 rated franchises.
- Active management participation by BEE parties.
- Minimum BEE shareholding of 50.1%.
- Transactions will be composed of a sustainable capital structure, with NEF funding to bridge shortfall in equity.
- BEE party to have pre-qualified with franchisor.
- NEF funding generally limited to R5m.
- NEF will target a nominal pre-tax IRR of between 12% to 15% on its funding.
- The NEF investment horizon is 5 to 7 years.

d. Rural and Community Development Projects

The rural and community development projects facilitate community involvement in projects promoting social and economic upliftment. In accordance with the BB-BEE Act, it aims to increase the extent to which workers, co-operatives and other collective enterprises own and manage business enterprises. Also it supports the BB-BEE Act objectives of empowering local and rural communities provided the following conditions are met.

- Involvement of black managers at a senior operational level as owners.
- Active presence of black investors at board level, including women, as owners.
- Substantial ownership by black employees.
- Joint ventures between black and non-black partners with the objective of skills transfer.
- Minimum BEE shareholding of 50.1%.
- NEF will invest using debt, equity and quasi-equity instruments.
- NEF will target a nominal pre-tax IRR of 10% to 12%.
- NEF funding generally limited to R20m.
- The NEF investment horizon is 7 to 10 years.

THE CORPORATE FUND

This fund is designed to improve access to BEE capital and has five products: Acquisition Finance, Capital Markets, Liquidity & Warehousing, Project Finance and Expansion Capital. These products provide capital to black-owned and -managed enterprises, black entrepreneurs who are buying equity shares in established white-owned enterprises, project finance and BEE businesses that are, or wish to be listed on the JSE. Funding ranges from R5m to R100m and details of the products are provided below:

a. Acquisition Finance

This product caters for BEE applicants seeking to buy equity in existing businesses and provides funding from R5m to R100m.

Key features are:

- Focus on medium to large companies;
- Focus on partnerships with existing management teams and other equity investors;
- Minimum BEE ownership of 25.1% post NEF investment;
- Active BEE involvement in investee companies;
- BEE financial contribution determined on case-by-case basis;
- Investment instruments to include debt, equity and mezzanine finance;
- Typical investment horizon of 4 to 7 years; and
- Security to include personal suretyship.

b. Capital Markets

This product invests in BEE enterprises, particularly those owned by black women, that seek to list on the JSE or its junior AltX market. The Corporate Fund will also help listed BEE companies to raise additional capital for expansion. All other key features are similar to those of the Acquisition Finance product.

c. Liquidity and Warehousing

This product assists BEE shareholders who need to sell a portion or all of their shares (as minority stakes in unlisted firms are hard to sell). Also acquires and temporarily warehouses these shares before on-selling them to new BEE shareholders, and refinances BEE shareholdings where existing financing structures are costly and / or inefficient. All other key features are similar to Acquisition Finance Fund.

d. Project Finance

This product provides capital of R5m to R25m per project for BEE seeking to participate in medium-sized green-fields projects with total funding requests of between R10m and R200m.

Key features are:

- Minimum 25.1% BEE shareholding;
- Investment instruments to include debt, equity and mezzanine finance in support of BEE;
- BEE-specific financial contribution assessed on a case-by-case basis;
- NEF exposure to the project not to exceed 50% of total project costs;
- Proven management experience within consortium;
- Active BEE involvement in investee companies;
- Debt funding raised from the market to match equity funding provided by NEF and other project sponsors;
- NEF funding limited to R25m;
- NEF investment horizon is 5 to 10 years; and
- Security to include personal suretyship.

e. Expansion Capital

NEF will provide funding of R5m to R100m to entities that are already black empowered, but seek expansion capital to grow the business.

Key features are:

- Investment instruments to include debt, equity and mezzanine finance in support of BEE;
- BEE shareholding should be minimum of 25.1%;
- Pricing based on instrument, risk matrix, security package, etc.;
- Typical investment horizon of 4 to 7 years;
- Active BEE involvement in investee companies; and
- Security to include personal suretyship.



NON-FINANCIAL SUPPORT

a. Pre-Investments Business Support Unit (PIU)

Applicants who request funding may be excellent entrepreneurs, but often struggle to navigate the necessary application procedures and manage their businesses. The NEF therefore provides funding advice, business planning and general assistance, to ensure that all steps in the application process are completed to a minimum standard.

The first point of contact for many potential clients, the PIU's primary functions are to:

- Provide information on NEF products and procedures.
- Control and assist in drawing up funding applications.
- Identify applications that will qualify for funding.
- Keep clients informed on the progress of their applications.
- Advise applicants and assist with drawing up business plans.

b. Post-Investments Business Support Unit

Black businesses need to be robust and self-sustaining for BB-BEE to succeed. Recognising this fact, the NEF established structures to monitor its clients for risk and provide advice when needed. Although start-ups are inherently higher risk, the rewards for success are jobs and increased capital for further start-ups.

The unit is responsible for:

- Monitoring and preparing management information on investments.
- Administering investment contracts.

- Co-ordinating mentorship programmes.
- Facilitating investment valuations with fund managers.
- Working with distressed assets and recommending solutions such as liquidations, turnarounds and restructurings.
- Conducting strategic reviews.

c. Legal Services Unit (LSU)

The LSU provides legal services to the entire NEF and drafts legal agreements, assists with due diligence reviews and registers necessary documents.

FUNDING CRITERIA:

The NEF funds entrepreneurial individuals and groups that fundamentally further BB-BEE in South Africa. The merits of applications for funding will be qualified in terms of:

- Commercial viability of the project.
- Compliance with all relevant laws and regulations.
- Black managerial and operational involvement.
- Percentage of black ownership or interest.
- Return on investment.
- Job creation.
- Geographic location of business (rural / urban / disadvantaged area).
- Black women empowerment.
- Community involvement.
- Possibility of co-funding (private or public sector).



INVESTED PORTFOLIO

Since inception, 78% of the NEF portfolio by number has been disbursed to black entrepreneurs starting their own businesses. By value, 75% was invested on behalf of black entrepreneurs for the purchase of equity stakes in white-owned businesses. The respective application processes emphasise the contrast between these transaction types. This specialisation was entrenched by the restructuring of the Fund Management Division into the NEF iMbewu Fund and the NEF Corporate Fund.

Including work in progress, the overall portfolio of NEF investees has a cumulative value of R1.4-billion. At almost a quarter of the value of the weighting by sector, the bias is towards Construction. The combined ICT and media sector follows, with a 15% portfolio weighting. Agro-processing, Tourism and Mining are next, in an asset spread which mirrors the thrust of broad economic policy as captured in the Accelerated and Shared Growth Initiative for South Africa.

"Without the NEF's support through the provision of start-up capital, it might have taken a lot longer to establish our business."

Arthur Radebe, CEO: Banra (Investee Company)

INVESTED PORTFOLIO

as at 31 March 2007 (Continued)

No.	Name of Investment	iMbewu Fund	Corporate Fund	Date Approved	Product	Sector	Region
INVESTED CAPITAL							
1	Clickrite (Pty) Ltd.		✓	01-Mar-03	E	Printing Services	GP
2	Wax Works (Pty) Ltd.	✓		26-Oct-04	SU	Manufacturing	WC
3	Energia Solutions (Pty) Ltd.		✓	24-Aug-04	SU	Financial Services	GP
4	Lindiwe Wines	✓		30-Jun-04	SU	Food & Agro-Processing	WC
5	MUKS Business Enterprise CC	✓		30-Nov-04	SU	Motor Industry	GP
6	Blink Lifestyle Trading (Pty) Ltd.	✓		30-Jun-04	SU	ICT & Media	GP
7	All Joy		✓	10-Dec-04	CM	Food & Agro-Processing	GP
8	Banra Enterprises CC	✓		26-Oct-04	E	Wood & Paper Industry	GP
9	Kula's Tissue Products CC	✓		23-Dec-04	SU	Wood & Paper Industry	GP
10	Golden Falls Trading 174 (Pty) Ltd. (Misho)	✓		13-Jan-05	SU	Textile Industry	GP
11	Nucleus Administrators		✓	24-Aug-04	SU	Financial Services	GP
12	Isibane Personal Protective Equipment (Pty) Ltd.	✓		14-Mar-05	SU	Manufacturing	WC
13	Quality Frozen Foods (Pty) Ltd.	✓		14-Mar-05	E	Food & Agro-Processing	GP
14	Amsterdam Trading 165 CC	✓		14-Oct-04	SU	Transportation	GP
15	Platinum Koi (Koi Gold)	✓		25-Feb-05	R & C	Food & Agro-Processing	WC
16	Setilo Fast Foods CC (Something Fishy)	✓		05-May-05	SU	Franchise	KZN
17	Enaleni Pharmaceuticals Ltd.		✓	05-May-05	CM	Chemicals & Pharmaceuticals	KZN
18	Supergold Trading 078 T/A Secretarial Unlimited	✓		14-Apr-05	SU	Printing Services	KZN
19	Notae Investment Holdings (Pty) Ltd.	✓		14-Apr-05	SU	Tourism & Entertainment	WC
20	Theme-U-Snack CC	✓		14-Jun-05	SU	Food & Agro-Processing	MP
21	Izazi Support Systems CC	✓		14-Mar-05	SU	Construction	WC
22	Tilt Tango CC	✓		31-Mar-05	SU	Transportation	GP
23	Sikhona Air Conditioning (Pty) Ltd.	✓		23-Jun-05	C	Engineering	WC
24	National Transmission & Industry CC	✓		31-Mar-05	E	Engineering	FS
25	Superior Quality Trading CC	✓		14-Apr-05	SU	Manufacturing	LP
26	Morobe Trading Enterprises CC	✓		23-Jun-05	C	Services	GP
27	Dynamic Bakery CC	✓		28-Jul-05	SU	Food & Agro-Processing	EC
28	Water Related Products CC	✓		28-Jul-05	E	Manufacturing	LP
29	Limpopo Practical Electronics Institute CC	✓		28-Jul-05	SU	Education	GP
30	Henna Staffing Solutions CC	✓		25-Jul-05	SU	Services	GP
31	Vakasha Guided Tours CC	✓		28-Jul-05	SU	Tourism & Entertainment	GP
32	Makarapa International Headwear	✓		14-Apr-05	SU	Textile Industry	GP
33	Godfrey Forklifts Services & Repairs CC	✓		28-Jul-05	E	Motor Industry	GP
34	Phumelelani Business Enterprises CC	✓		23-Jun-05	E	Printing Services	WC
35	BreatheTex Corporation (Pty) Ltd.		✓	15-Sep-05	AF	Textile Industry	LP
36	Mnandi Madiba Atchaar	✓		28-Jul-05	E	Food & Agro-Processing	GP
37	Ogwini Bakery CC	✓		30-Jun-05	SU	Food & Agro-Processing	KZN
38	Exotic Breads		✓	14-Jun-05	SU	Food & Agro-Processing	GP
39	Baynes Transformers Technology (Pty) Ltd.	✓		08-Sep-05	SU	Engineering	GP
40	Bukafrika Technologies CC	✓		21-Jul-05	SU	Environmental	GP
41	Roseko Caterers & Cleaning Services	✓		21-Jul-05	SU	Food & Agro-Processing	GP
42	Innovative Catering Services (t/a Mtiposo)	✓		15-Sep-05	E	Food & Agro-Processing	GP
43	Mexbell's Café	✓		28-Jul-05	SU	Food & Agro-Processing	GP

INVESTED PORTFOLIO

as at 31 March 2007 (Continued)

No.	Name of Investment	Corporate Fund	iMbewu Fund	Date Approved	Product	Sector	Region
INVESTED CAPITAL							
44	Peu Ya ICT (Pty) Ltd.		✓	23-Jun-05	SU	ICT & Media	GP
45	Intaba Technologies (Pty) Ltd.	✓		28-Jul-05	AF	ICT & Media	KZN
46	Lindi's Tissue Mnfr. & Dist. CC		✓	20-Sep-05	SU	Wood & Paper Industry	GP
47	Riverport Brickworks		✓	06-Oct-05	SU	Construction	GP
48	Uptown Trading (T/A Polani Restaurant)		✓	03-Nov-05	E	Food & Agro-Processing	EC
49	Wiredloop (Pty) Ltd.	✓		21-Jul-05	SU	ICT & Media	WC
50	Choice Technologies (Pty) Ltd. (1)	✓		20-Oct-05	L & W	ICT & Media	GP
51	Michrel 101 (Sakhisizwe Construction)	✓		10-Nov-05	E	Construction	GP
52	Telepassport (Pty) Ltd (Mojaho Trading (Pty) Ltd.)	✓		02-Dec-05	AF	ICT & Media	WC
53	Blisp Business Services CC		✓	27-Oct-05	SU	ICT & Media	GP
54	Afro Call (Pty) Ltd.	✓		23-Nov-05	E	Franchise	GP
55	Inca Masonry Products (Pty) Ltd.	✓		05-Dec-05	AF	Construction	EC
56	Sacred Fire Trading (T/A Goldstar Batteries)		✓	03-Nov-05	E	Manufacturing	GP
57	Hospitality Property Fund (Pty) Ltd.	✓		19-Dec-05	CM	Tourism & Entertainment	GP
58	Dial Matrix Telecoms (Pty) Ltd.		✓	26-Jan-06	AF	ICT & Media	GP
59	Time Mining (Pty) Ltd.	✓		28-Sep-05	AF	Mining Industry	GP
60	Ahanang Hardware & Construction CC	✓		26-Jan-06	C	Construction	GP
61	The Cleanest Link Laundromat CC		✓	02-Sep-05	SU	Services	GP
62	Izingwe Automotive Investments (Pty) Ltd.	✓		16-Feb-06	AF	Motor Industry	EC
63	Stone Age Franchise Holdings (Pty) Ltd.		✓	02-Dec-05	AF	Construction	GP
64	DMS Powders (Pty) Ltd.	✓		2-Dec-05	L & W	Mining Industry	GP
65	Safepak (Pty) Ltd. (T/A Nungu Trading)		✓	19-Dec-05	AF	Manufacturing	WC
66	Polyzomba Contractors CC		✓	9-Mar-06	C	Construction	KZN
67	Jojo Networks (Pty) Ltd.		✓	26-Jan-06	C	Transportation	GP
68	Choice Technologies (Pty) Ltd. (2)	✓		19-Apr-06	L & W	ICT & Media	GP
69	SA Eels Pirie (Pty) Ltd.	✓		8-Dec-05	SU	Food & Agro-Processing	EC
70	Strategic Persuasions CC	✓		23-May-06	E	Printing Services	GP
71	Kean Flexible Packaging CC		✓	24-Mar-06	E	Printing Services	WC
72	Mister Bread (Pty) Ltd.		✓	10-Nov-05	CM	Food & Agro-Processing	EC
73	Autopage Cellular (Sakizandi Trading)	✓		15-Jun-06	SU	ICT & Media	GP
74	Ikhala Health Group (Pty) Ltd	✓		25-May-06	SU	Chemicals & Pharmaceuticals	GP
75	Itakane Trading 44 (Pty) Ltd. (Nyoni's Kraal Restaurant)		✓	25-May-06	SU	Tourism & Entertainment	WC
76	Dezzo Holdings (T/A Romox (Pty) Ltd.)	✓		19-Apr-06	AF	Wood & Paper Industry	KZN
77	Status Stone CC		✓	07-Sep-06	E	Construction	WC
78	Liphumile Masonary Products CC		✓	13-Sep-06	SU	Construction	EC
79	Inkwali Fabrication	✓		03-Aug-06	E	Engineering	GP
80	Sthokomele Bakery		✓	02-Nov-06	SU	Food & Agro-Processing	KZN
81	Gee Tee Concepts CC		✓	23-Nov-06	C	Printing Services	GP
82	Mafube Publishing (Pty) Ltd.		✓	06-Jul-06	E	ICT & Media	GP
83	Hlanganani Bakery & Confectionery		✓	15-Dec-05	SU	Food & Agro Processing	GP
84	O'Grady's Paint Group	✓		17-Aug-06	AF	Chemicals &-Pharmaceuticals	MP
85	Zet Squared CC (T/A Promania CC)		✓	07-Dec-06	SU	Food & Agro-Processing	GP
86	Stutt Brick Manufacturing (Pty) Ltd.	✓		19-Oct-06	AF	Construction	EC

KEY

- SU Start-up
- AF Acquisition Finance
- E Expansion
- L & W Liquidity and Warehousing
- CM Capital Markets
- R & C Rural and Community



ANNUAL FINANCIAL STATEMENTS

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APPROVAL OF FINANCIAL STATEMENTS

The Trustees are responsible for the preparation, integrity and fair presentation of the financial statements of the National Empowerment Fund. The financial statements presented on pages 54 to 79 have been prepared in accordance with Generally Recognised Accounting Practice and South African Statements of Generally Accepted Accounting Practice and include amounts based on judgements and estimates made by management. The Trustees also prepared the other information included in the Annual Report and are responsible for both its accuracy and its consistency with the financial statements.


The going concern basis has been adopted in preparing the financial statements. The Trustees have no reason to believe that the Trust will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the Trust.

The financial statements have been audited by the independent auditors, PricewaterhouseCoopers Incorporated and Simama CA (SA), which was given unrestricted access to all financial records and related data, including minutes of all meetings of Trustees and Committees of the Board. The Trustees believe that all representations made to the independent auditors during their audit are valid and appropriate.

The financial statements were approved by the Board of Trustees on 26 July 2007 and are signed on its behalf.



Ms Philisiwe Buthelezi
Chief Executive Officer



Ms Phillipa Minnaar
Acting Chief Financial Officer

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF NATIONAL EMPOWERMENT FUND

We have audited the annual financial statements and group annual financial statements of the National Empowerment Fund (the NEF), which comprise the statement of financial position and the consolidated statement of financial position as at 31 March 2007, the statement of financial performance and the consolidated statement of financial performance, the statement of changes in net assets and the consolidated statement of changes in net assets, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 54 to 79.

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and by the National Empowerment Fund Act, 1998 (Act No. 105 of 1998). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 12(4) of the National Empowerment Fund Act, 1998 (Act No. 105 of 1998), our responsibility is to express an opinion on these financial statements based on my audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as of 31 March 2007, and their financial performance and their cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and by the National Empowerment Fund Act, 1998 (Act No. 105 of 1998).

Performance information

Reporting on performance information

We have reviewed the performance information included in the annual report.

Responsibilities of the accounting authority

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

Auditor's responsibility

We conducted our engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.

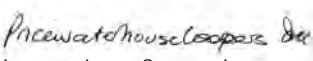
In terms of the foregoing our engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. Our procedures included:

- Obtaining an understanding of the internal controls relating to performance information;
- Documenting system descriptions relevant to reporting on performance information;
- Verifying systems descriptions by means of walkthrough tests;
- Determining the stage of performance reporting by evaluating
 - The existence of, and reporting against, predetermined objectives,
 - The existence of specific, measurable and time bound measurement objectives,
 - The consistency of the predetermined objectives recorded in the strategic plan, budget, quarterly reports and annual report,
 - The format and presentation of the performance information in the annual report; and
- Comparing reported achievement of performance against objectives to the information sources and conducting limited substantive procedures on the information.

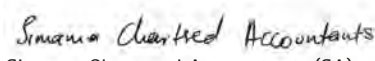
We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Audit findings

No findings were noted during our review of the performance information included in the annual report.


PricewaterhouseCoopers Inc
Director: N Ayob
Registered Auditor

31 July 2007


Simama Chartered Accountants
Director: C Mbili
Registered Auditor

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2007

		Consolidated		Entity	
		2007	2006	2007	2006
	Notes	R'000s	R'000s	R'000s	R'000s
ASSETS					
Non-current assets		2,669,406	1,615,442	2,669,406	1,615,463
Property and equipment	4	2,296	2,777	2,296	2,777
Intangible assets	5	125	194	125	194
Investment in joint venture	6	-	-	-	-
Investment in associates	7	24,317	5,407	24,317	5,407
Investments available-for-sale	8	2,303,924	1,444,022	2,303,924	1,444,022
Originated loans	9	338,744	153,042	338,744	153,063
Investments held-to-maturity	10	-	10,000	-	10,000
Current assets		896,352	486,045	896,352	487,800
Investments held-for-trade	11	79,110	66,784	79,110	66,784
Trade and other receivables	12	24,284	19,139	24,284	19,139
Cash and cash equivalents	13	792,958	400,122	792,958	401,877
TOTAL ASSETS		3,565,758	2,101,487	3,565,758	2,103,263
EQUITY AND LIABILITIES					
Capital and reserves		3,551,018	2,087,339	3,549,112	2,085,619
Trust capital	14	1,233,903	740,600	1,233,903	740,600
Fair value reserves	15	2,129,908	1,270,006	2,129,908	1,270,006
Accumulated surplus		187,207	76,732	185,301	75,013
Current liabilities		14,740	14,148	16,646	17,644
Trade and other payables	16	14,740	11,184	14,740	8,311
Inter-group loan	17	-	2,964	1,906	9,333
Provisions	18	-	-	-	-
TOTAL EQUITY AND LIABILITIES		3,565,758	2,101,487	3,565,758	2,103,263

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 March 2007

	Notes	Consolidated		Entity	
		2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
Revenue	20	170,785	105,370	169,098	105,274
Grants received to fund operations		66,024	40,000	66,024	40,000
Grant received for retail product development		1,800	-	1,800	-
Dividends from investments		30,411	38,405	30,411	38,405
Interest received from banks		43,643	23,197	43,643	23,197
Interest received from originated loans		27,152	3,501	27,152	3,405
Other revenue		1,755	267	68	267
Other income		-	6	-	6
Fair value gains/ (losses)		30,066	16,882	30,066	16,882
- Held-for-trade investments	11	12,352	21,476	12,352	21,476
- Investments in associates	7	17,714	(4,594)	17,714	(4,594)
Total income		200,851	122,258	199,164	122,162
Administration expenses		(62,385)	(40,633)	(62,385)	(48,083)
		(26,491)	(38,151)	(26,491)	(38,151)
Impairment of originated loans	9	(14,936)	(38,151)	(14,936)	(38,151)
Impairment - Held-to-maturity investments	10	(11,555)	-	(11,555)	-
Surplus for the year	21	111,975	43,474	110,288	35,928

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CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	Notes	Consolidated		Entity	
		2007	2006	2007	2006
		R'000s	R'000s	R'000s	R'000s
Cash flows from operating activities					
Cash receipts from third parties		164,033	87,705	162,400	87,247
Cash paid to suppliers and employees		(60,760)	(29,372)	(62,382)	(35,212)
Cash generated from operating activities	24.1	103,273	58,333	100,018	52,035
Interest paid		-	(3)	-	(3)
Net cash from operating activities		103,273	58,330	100,018	52,032
Cash flow used in investing activities		(202,240)	(246,225)	(202,240)	(239,271)
Additions to property and equipment	4	(417)	(1,824)	(417)	(1,824)
Additions to intangible assets	5	(35)	(193)	(35)	(193)
Additional investment in core activities	24.2	(201,814)	(244,214)	(201,814)	(237,260)
Proceeds from sale of equipment		-	6	-	6
Proceeds from sale of investments		26	-	26	-
Net cash from investing activities		(98,967)	(187,895)	(102,222)	(187,239)
Net cash flows from financing activities		491,803	370,600	493,303	370,600
Increase in trust capital		493,303	370,600	493,303	370,600
Final settlement to joint venture partner on winding down		(1,500)	-	-	-
Increase in cash and cash equivalents		392,836	182,705	391,081	183,361
Cash and cash equivalents at beginning of the year		400,122	217,416	401,877	218,516
Cash and cash equivalents at end of the year	13	792,958	400,122	792,958	401,877

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 March 2007

CONSOLIDATED	Trust capital	Accumulated surplus	Fair value reserves	Total
	R'000s	R'000s	R'000s	R'000s
Balance at 31 March 2005	370,000	33,258	865,446	1,268,704
Trust capital introduced	370,600			370,600
Fair value gains – Available-for-Sale Investments			402,422	402,422
Fair value gains – Associates			2,138	2,138
Surplus for the year		43,474		43,474
Balance at 31 March 2006	740,600	76,732	1,270,006	2,087,338
Trust capital introduced	493,303			493,303
Fair value gains – Available-for-sale Investments			859,902	859,902
Surplus for the year		111,975		111,975
Final settlement to joint venture partner on winding down		(1,500)		(1,500)
Balance at 31 March 2007	1,233,903	187,207	2,129,908	3,551,018

ENTITY	Trust capital	Accumulated surplus	Fair value reserves	Total
	R'000s	R'000s	R'000s	R'000s
Balance at 31 March 2005	370,000	39,084	865,446	1,274,530
Trust capital introduced	370,600			370,600
Fair value gains – Available-for-Sale Investments			402,422	402,422
Fair value gains – Associates			2,138	2,138
Surplus for the year		35,929		35,929
Balance at 31 March 2006	740,600	75,013	1,270,006	2,085,619
Trust capital introduced	493,303			493,303
Fair value gains – Available-for-Sale Investments			859,902	859,902
Surplus for the year		110,288		110,288
Balance at 31 March 2007	1,233,903	185,301	2,129,908	3,549,111

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2007

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

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

1. Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income Statement
Statement of financial position	Balance Sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/ deficit for the period	Profit/ loss for the period
Accumulated surplus/ deficit	Retained earnings
Contributions to owners	Share capital
Reporting date	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. In view of the specialised nature of the entity and specific disclosure requirements in terms of GAAP (in particular financial instruments), the financial statements have been prepared using GAAP terminology.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

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 or 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.

AC110 exempts venture capital organisations from equity accounting investments in associates, if they upon initial recognition, decide to designate the investment at fair value through profit and loss. As a venture capital organisation, the Trust has elected to apply this exemption and accordingly all such investments are not equity accounted but designated as investments through profit and loss 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 or loss 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. All unpaid interest is capitalised.

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 for operations are deferred and recognised in the income statement 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%
Paintings	2%

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

Assets under R2000 are written off immediately.

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

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 its estimated useful life. Intangible assets with an indefinite useful life are not amortised. The useful lives of intangible assets that are not being amortised are 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 profit and loss; loans and receivables; investments held-to-maturity; and available-for-sale financial assets. The management of the Trust determines the classification of investments at initial recognition.

a) Cash and cash equivalents

Cash and cash equivalents are carried at cost at balance sheet date. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on 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 has the positive intention and ability to hold to maturity.

d) Financial assets at fair value through profit and loss.

This category has two subcategories: financial assets held-for-trading and those designated at fair value through 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.

(e) Available-for-sale investments

Available-for-sale investments are those intended to be held for an 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

1.6 Financial Instruments (continued)

Recognition

Purchases and sales of financial assets at fair value through profit and loss, held-to-maturity and available-for-sale are recognised on trade date, which is 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 profit and loss. 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.

Measurement

Available-for-sale financial assets and held for trade investments are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the income statement 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 equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement.

The fair value of listed investments in active markets are based on current bid prices. For unlisted securities and for financial assets which are not traded the Trust 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 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, amongst others, the following loss events:

- (i) significant financial difficulty of the issuer or 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;
- (iv) it becomes probable that the borrower will encounter financial difficulties or become bankrupt; 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 by borrowers.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

1.7 Impairment of financial assets (continued)

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 and the amount of the loss is recognised in the income statement. 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 financial asset reflects the cash flows that may result from foreclosure less the cost of 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 asset 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 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 impairment 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 reflect and are 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 becomes 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 amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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 income statement.

(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 asset is 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 income statement, is removed from net assets and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

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 income statement on the straight-line basis over the period of the lease.

1.10 Employee benefits

The Trust contributes to a 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 beneficiaries 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

The Trust is exposed to interest rate risk 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 investment policy while cash returns are managed through the cash management policy.

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 is 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 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

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 originated loans

The Trust reviews its loan portfolios to assess impairment at half-yearly intervals. In determining whether an impairment loss should be recorded in the income statement, 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 is identified for an individual loan in that portfolio. The portfolio is made up of new empowerment investments, most of which are start-ups in the market. As a result, there is no financial performance history which guides the impairment process. The Trust's management has thus developed an impairment matrix and is continually refining it. The impairment matrix was benchmarked against those utilised by peers in the market. 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
- Non-submission of financial information
- General attitude of the investee
- Value of security
- Arrear payments
- Integrity of borrowed equity investments

The Trust determines that equity investments 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.

From here...



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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

4 PROPERTY AND EQUIPMENT

CONSOLIDATED 2007	Motor Vehicles R'000s	Computer Equipment R'000s	Audio-Visual Equipment R'000s	Office Equipment R'000s	Furniture & Fittings R'000s	Leasehold Improvements R'000s	Paintings R'000s	Total R'000s
Opening Balance								
Cost	136	991	589	549	2,063	2,450	270	7,048
Accumulated depreciation	(124)	(497)	(398)	(187)	(582)	(2,450)	(33)	(4,271)
Net Book Value	12	494	191	362	1,481	-	237	2,777
Movement for the year:								
Additions	-	90	10	22	295	-	-	417
Assets taken over from NEF Ventures	-	-	-	-	-	-	-	-
- Cost	-	94	3	3	3	-	-	97
- Accumulated depreciation	-	(94)	(3)	(3)	(3)	-	-	(97)
Depreciation	(12)	(258)	(132)	(115)	(371)	-	(10)	(898)
	(12)	(168)	(122)	(93)	(76)	-	(10)	(481)
Closing Balance								
Cost	136	1,175	599	574	2,358	2,450	270	7,562
Accumulated depreciation	(136)	(849)	(530)	(305)	(953)	(2,450)	(43)	(5,266)
Net Book Value	-	326	69	269	1,405	-	227	2,296
2006	Motor Vehicles R	Computer Equipment R	Audio-Visual Equipment R	Office Equipment R	Furniture & Fittings R	Leasehold Improvements R	Paintings R	Total R
Opening Balance								
Cost	136	700	482	354	951	2,450	174	5,247
Accumulated depreciation	(103)	(321)	(227)	(85)	(347)	(2,450)	(26)	(3,559)
Net Book Value	33	379	255	269	604	-	148	1,688
Movement for the year:								
Additions	-	314	107	195	1,112	-	96	1,824
Disposals at cost	-	(23)	-	-	-	-	-	(23)
Depreciation on disposed asset	-	23	-	-	-	-	-	23
Depreciation	(21)	(199)	(171)	(102)	(235)	-	(7)	(735)
	(21)	115	(64)	93	877	-	89	1,089
Closing balance								
Cost	136	991	589	549	2,063	2,450	270	7,048
Accumulated depreciation	(124)	(497)	(398)	(187)	(582)	(2,450)	(33)	(4,271)
Net Book Value	12	494	191	362	1,481	-	237	2,777

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

4. PROPERTY AND EQUIPMENT

ENTITY 2007	Motor Vehicles R'000s	Computer Equipment R'000s	Audio-Visual Equipment R'000s	Office Equipment R'000s	Furniture & Fittings R'000s	Leasehold Improvements R'000s	Paintings R'000s	Total R'000s
Opening Balance								
Cost	136	897	589	547	2,063	2,450	270	6,952
Accumulated depreciation	(124)	(403)	(398)	(185)	(582)	(2,450)	(33)	(4,175)
Net Book Value	12	494	191	363	1,481	-	237	2,777
Movement for the year:								
Additions	-	90	10	22	295	-	-	418
Depreciation	(12)	(258)	(132)	(115)	(371)	-	(10)	(898)
	(12)	(168)	(122)	(93)	(76)	-	(10)	(480)
Closing Balance								
Cost	136	987	599	569	2,358	2,450	270	7,369
Accumulated depreciation	(136)	(661)	(530)	(300)	(953)	(2,450)	(43)	(5,073)
Net Book Value	-	326	69	269	1,405	-	227	2,296
2006	Motor Vehicles R	Computer Equipment R	Audio-Visual Equipment R	Office Equipment R	Furniture & Fittings R	Leasehold Improvements R	Paintings R	Total R
Opening Balance								
Cost	136	606	482	352	951	2,450	174	5,151
Accumulated depreciation	(103)	(227)	(227)	(83)	(347)	(2,450)	(26)	(3,463)
Net Book Value	33	379	255	269	604	-	148	1,688
Movement for the year:								
Additions	-	314	107	195	1,112	-	96	1,824
Disposals at cost	-	(23)	-	-	-	-	-	(23)
Depreciation on disposed asset	-	23	-	-	-	-	-	23
Depreciation	(21)	(199)	(171)	(102)	(235)	-	(7)	(735)
	(21)	115	(64)	93	877	-	89	1,089
Closing balance								
Cost	136	897	589	547	2,063	2,450	270	6,952
Accumulated depreciation	(124)	(403)	(398)	(185)	(582)	(2,450)	(33)	(4,175)
Net Book Value	12	494	191	362	1,481	-	237	2,777

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

	Consolidated		Entity	
	2007 R	2006 R	2007 R	2006 R
5 INTANGIBLE ASSETS				
Computer software				
Opening Balance				
Cost	311	118	311	118
Accumulated amortisation	(117)	(25)	(117)	(25)
Net Book Value	194	93	194	93
Movement for the year:				
Additions	35	193	35	193
Amortisation	(104)	(92)	(104)	(92)
	(69)	101	(69)	101
Closing Balance				
Cost	346	311	346	311
Accumulated amortisation	(221)	(117)	(221)	(117)
Net Book Value	125	194	125	194
6 NATIONAL EMPOWERMENT FUND VENTURES TRUST				
Investment in Joint Venture				
Investment at cost	-	-	-	17,492
- Operational contributions	-	-	-	7,650
- Investment contributions (Equity)	-	-	-	-
- Investment contributions (Loans)	-	-	-	9,842
Fair value adjustment to Investment in Joint Venture				
	-	-	-	(2,138)
	-	-	-	15,354
Purchase of investments from Joint Venture:				
- Loans	-	-	-	(9,842)
- Shares held in associates	-	-	-	(9,842)
	-	-	-	-
Reversal of previous impairment				
	-	-	-	2,138
	-	-	-	7,650
Impairment of operational contributions				
	-	-	-	(7,650)
	-	-	-	-
The joint venture with IDC, known as National Empowerment Fund Ventures Trust was wound down with effect from 31 March 2006. In terms of the agreement between the venturers all the assets and liabilities which remained in the joint venture at that date were transferred to the trust. The IDC's share in the joint venture was purchased by the Trust. Consequently, the investment has been classified as an investment in a subsidiary.				
Inter-group loan	-	-	1,906	-
Total liabilities	-	-	1,906	-

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

	Consolidated		Entity	
	2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
7 INVESTMENT IN ASSOCIATES				
Shares at cost	11,197	10,001	11,197	10,001
- Equity	11,197	10,001	11,197	10,001
- Loans granted to associates during the year	-	5,286	-	5,286
- Loans purchased from NEF Ventures reclassified to loans receivable	-	(5,286)	-	(5,286)
Fair value adjustments	13,120	(4,594)	13,120	(4,594)
- Balance forward from prior year	(4,594)	2,138	(4,594)	-
Gains/ (losses) during year	17,714	(4,594)	17,714	(4,594)
- Fair value losses	(3,630)	(4,594)	(3,630)	(4,594)
- Fair value gains	21,344	-	21,344	-
- Reversal of fair value adjustment on investments taken over from Joint Venture	-	(2,138)	-	-
Net investment in associates	24,317	5,407	24,317	5,407

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

7 INVESTMENT IN ASSOCIATES (continued)

The entity's principal associates are:

Name	Country of incorporation	Principal activity	Interest held (%)	Interest held (%)
Unlisted:				
Blink Media Holdings (Pty) Ltd	South Africa	Media	40.00%	40.00%
Blue Glamour (Pty) Ltd	South Africa	Manufacturing	32.00%	0.00%
Choice Technologies (Pty) Ltd	South Africa	ICT & Media	49.00%	49.00%
Clickrite (Pty) Ltd	South Africa	Printing	40.00%	40.00%
Dezzo Timbers (Pty) Ltd	South Africa	Timber	30.00%	0.00%
DMS Powders (Pty) Ltd	South Africa	Mining	20.00%	0.00%
Emergia Solutions (Pty) Ltd	South Africa	Financial Services	49.00%	49.00%
Exotic Bread (Pty) Ltd	South Africa	Agro processing	49.00%	0.00%
Inca Concrete Masonry (Pty) Ltd	South Africa	Construction	35.00%	35.00%
Lak Investment T/A Stone Age (Pty) Ltd	South Africa	Construction	25.00%	25.00%
Lindiwe Wines (Pty) Ltd	South Africa	Marketing & Distribution	49.00%	49.00%
Notae Entertainment (Pty) Ltd	South Africa	Tourism & Entertainment	26.00%	26.00%
Nucleus Administrators (Pty) Ltd	South Africa	Financial Services	49.00%	49.00%
Safepak (Pty) Ltd	South Africa	Manufacturing	20.00%	0.00%
Stutt Brick Company (Pty) Ltd	South Africa	Construction	45.00%	0.00%
Wired loop (Pty) Ltd	South Africa	ICT & Media	25.00%	25.00%

Name	Voting Power		Shares at cost	
	2007	2006	2007	2006
			R	R
Unlisted:				
Blink Media Holdings (Pty) Ltd	40.0%	40.0%	80	80
Blue Glamour (Pty) Ltd	32.0%	-	20	-
Choice Technologies (Pty) Ltd	49.0%	49.0%	10,000,000	10,000,000
Clickrite (Pty) Ltd	40.0%	40.0%	120	120
Dezzo Timbers (Pty) Ltd	30.0%	-	30	-
DMS Powders (Pty) Ltd	20.0%	-	1,000,000	-
Emergia Solutions (Pty) Ltd	49.0%	49.0%	96	96
Exotic Bread (Pty) Ltd	49.0%	-	196,000	-
Inca Concrete Masonry (Pty) Ltd	35.0%	35.0%	350	350
Lak Investment T/A Stone Age (Pty) Ltd	25.0%	25.0%	25	25
Lindiwe Wines (Pty) Ltd	49.0%	49.0%	490	490
Notae Entertainment (Pty) Ltd	26.0%	26.0%	20	20
Nucleus Administrators (Pty) Ltd	49.0%	49.0%	96	96
Safepak (Pty) Ltd	20.0%	-	20	-
Stutt Brick Company (Pty) Ltd	45.0%	-	45	-
Wired loop (Pty) Ltd	25.0%	25.0%	33	33
			11,197,425	10,001,310

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

	Consolidated		Entity	
	2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
8 AVAILABLE-FOR-SALE INVESTMENTS				
Fair value balance at beginning of the year	1,444,022	1,041,465	1,444,022	1,041,465
Net fair value adjustments	859,902	402,422	859,902	402,422
Additions	0	135	0	135
Fair value balance at end of the year	2,303,924	1,444,022	2,303,924	1,444,022
Available-for-sale investments include:				
Listed securities:				
- Equity securities : RSA	2,303,757	1,438,387	2,303,757	1,438,387
Unlisted securities:				
- Securities not traded on an active market	167	5,635	167	5,635
	2,303,924	1,444,022	2,303,924	1,444,022
9 ORIGINATED LOANS AND PREFERENCE SHARES				
9.1 Originated loans				
Opening balance	191,443	2,281	191,464	2,281
Net movement for the year	180,191	173,460	180,170	173,481
Loans disbursed	181,967	183,651	181,967	176,697
Interest capitalised	27,152	3,502	27,152	3,406
Loan repayments	(28,928)	(13,693)	(28,949)	(6,622)
Loans purchased from Joint Venture	-	15,702	-	15,702
- Through Joint Venture	-	9,842	-	9,842
- From Joint Venture partner	-	5,860	-	5,860
Closing balance	371,634	191,443	371,634	191,464
Impairments	(53,338)	(38,401)	(53,337)	(38,401)
- Opening balance	(38,401)	(250)	(38,401)	(250)
- Movement for the year	(14,936)	(38,151)	(14,936)	(38,151)
	318,297	153,042	318,297	153,063
9.2 Preference shares				
Additions	20,447	-	20,447	-
Dividends	18,650	-	18,650	-
	1,797	-	1,797	-
	338,744	153,042	338,744	153,063

Some loans are secured by general notarial bonds over movable property, cession of debtors, cession of bank accounts, personal sureties, second mortgage bonds and insurance policies. Preference shares with fixed or determinable redemption dates are classified as originated loans in accordance with AC133.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

	Consolidated		Entity	
	2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
10 INVESTMENTS HELD-TO-MATURITY				
Debtentures at cost	10,000	10,000	10,000	10,000
Adjustment to amortised cost	1,555	-	1,555	-
	11,555	10,000	11,555	10,000
Impairment	(11,555)	-	(11,555)	-
	-	10,000	-	10,000

This investment was fully impaired during the current financial year.

The held-to-maturity investment consists of 25 unsecured, convertible, redeemable debtentures of R400,000 each purchased in 2006. In terms of the contract, interest is payable on the 3rd and 4th anniversary at a rate of 10% p.a and the debtentures shall be redeemable or converted at the end of 48 months with a redemption premium of 30% of the issue value. Should the debtentures be converted, each converted debtenture share shall equate to 1% equity shareholding in the company.

11 INVESTMENTS HELD-FOR-TRADE

Fair value balance at beginning of year	66,784	5,098	66,784	5,098
Additions	-	40,427	-	40,427
Disposals	(26)	(217)	(26)	(217)
	66,758	45,308	66,758	45,308
Fair value gains	12,352	21,476	12,352	21,476
Fair value balance at end of year	79,110	66,784	79,110	66,784

12 TRADE AND OTHER RECEIVABLES

Deposits	760	720	760	720
Short term portion of loans	-	1,768	-	1,768
Dividend receivable	23,176	15,202	23,176	15,202
Other receivables	348	1,424	348	1,424
Staff loans	-	24	-	24
	24,284	19,139	24,284	19,139

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

	Consolidated		Entity	
	2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
13 CASH AND CASH EQUIVALENTS				
For the purposes of cash flow statements, the cash and cash equivalents comprise the following:				
Bank balances				
- Current accounts	199,088	611	199,088	611
- Short-term bank deposits	593,870	401,261	593,870	401,261
Petty cash	0	5	0	5
Joint venture account	-	(1,755)	-	-
	792,958	400,122	792,958	401,877
The effective interest rate on short term deposits was 8% (2006 – 6.5%). Cash funds are available for further investment and operations				
14 TRUST CAPITAL				
Investment in listed shares				
- At cost	171,000	171,000	171,000	171,000
Cash funds received from the dti:	1,062,903	569,600	1,062,903	569,600
- Opening Balance	569,600	199,000	569,600	199,000
- Funds received during the year	493,303	370,600	493,303	370,600
Closing balance	1,233,903	740,600	1,233,903	740,600
15 FAIR VALUE RESERVES				
Balance at beginning of the year	1,270,006	865,446	1,270,006	865,446
Net increase	859,902	404,560	859,902	404,560
Revaluation of available-for-sale investments	865,403	402,422	865,403	402,422
Reversal of previous impairment of interest in joint venture	-	2,138	-	2,138
Write down of available-for-sale investments through equity	(5,500)	-	(5,500)	-
Balance at end of the year	2,129,908	1,270,006	2,129,908	1,270,006

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

	Consolidated		Entity	
	2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
16 TRADE AND OTHER PAYABLES				
Trade creditors	5,466	4,276	5,466	1,403
Accruals	9,274	6,908	9,274	6,908
	14,740	11,184	14,740	8,311
17 INTER-GROUP LOANS				
NEF Ventures Trust				
Owing for purchase of investments (Current liabilities)	-	2,964	-	5,822
NEF Ventures cash balance included in cash equivalents	-	-	1,906	3,511
	-	2,964	1,906	9,333
The loan is unsecured, does not bear interest and has no fixed terms of repayment. The cash is included in cash and cash equivalents in note 13.				
18 PROVISIONS				
Provision for bonuses				
Opening balance	-	2,175	-	1,916
Charged to the income statement	-	(2,175)	-	(1,916)
Closing balance	-	-	-	-

From here...



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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

19 RELATED PARTY TRANSACTIONS

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

The Trust owns a 100% interest in National Empowerment Fund Ventures Trust, through which 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 account of the Trust. The following transactions were carried out with related parties.

	Consolidated 2007 R'000s	Entity 2006 R'000s
Grants & Capital Received		
Department of Trade & Industry (Income and Capital contribution)	561,127	410,600
Inter-group Loan Payable		
NEF Ventures Trust	-	2,964
Expenditure		
Telkom	1,142	818
National Intelligence Agency	-	12
Small Enterprise Development Agency	-	3
South African Broadcasting Corporation	-	129
Compensation Commision	-	48
Department of Trade and Industry	87	-
Transactions with joint venture partner		
Industrial Development Corporation	7,388	-

From here



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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

		2007 R'000s	2006 R'000s	2007 R	2006 R
19 RELATED PARTY TRANSACTIONS (continued)					
Investments in associates		Loans receivable		Investment at cost	
	% Holding				
Blink Media Holdings (Pty) Ltd	40	3,739	3,500	80	80
Blue Glamour	32	21,426	-	20	-
Choice Technologies (Pty) Ltd	49	15,659	-	10,000,000	10,000,000
Clickrite (Pty) Ltd	40	4,950	4,987	120	120
Dezzo Timbers (Pty) Ltd	30	11,200	-	30	-
DMS Powders	20	30,470	-	1,000,000	
Emergia Solutions (Pty) Ltd	49	3,126	3,100	96	96
Exotic Bread	49	3,557	-	196,000	-
Inca Concrete Masonry (Pty) Ltd	35	34,602	29,999	350	350
Lak Investments T/A Stone Age	25	25,928	25,200	25	25
Lindiwe Wines (Pty) Ltd	49	3,519	3,032	490	490
Notae Entertainment	26	1,036	960	20	20
Nucleus Administrators	49	1,040	1,040	96	96
Safepak (Pty) Ltd	20	24,784	-	20	-
Stutt Brick Company (Pty) Ltd	45	26,000	-	45	-
Wiredloop (Pty) Ltd	25	1,853	1,346	33	33
		212,889	73,164	11,197,425	10,001,310
For Trustees and Senior Management remuneration refer to note 22.					
20 REVENUE		Consolidated		Entity	
	Note	2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
Grants received to fund operations		66,024	40,000	66,024	40,000
Grant received for retail product development		1,800	-	1,800	-
Dividends received		30,411	38,405	30,411	38,405
Interest received					
- Bank (call and short term deposits)		43,643	23,127	43,643	23,127
- Deposits		-	70	-	70
- Loans		27,152	3,501	27,152	3,405
Other income		1,755	267	68	267
- Profit on disposal of investments		7	199	7	199
- Sundry income		1,748	68	61	68
		170,785	105,370	169,098	105,274

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

		Consolidated		Entity	
		2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
21 SURPLUS FOR THE YEAR					
	Note				
Surplus from operations is arrived at after taking into account:					
Auditors' Remuneration		1,541	987	1,541	987
- External audit fees		716	459	716	459
- Internal audit fees		825	528	825	528
Consulting fees		7,504	2,615	7,504	2,615
Interest Paid					
- Other		-	3	-	3
Profit on disposal of fixed assets		-	6	-	6
Depreciation	4	898	735	898	735
- Motor vehicles		12	21	12	21
- Computer equipment		258	199	258	199
- Audiovisual equipment		132	171	132	171
- Office equipment		115	102	115	102
- Furniture and fittings		371	235	371	235
- Other assets		10	7	10	7
Trustees and senior management emoluments	22	8,946	6,365	8,946	6,365
Amortisation of intangible assets	5	104	92	104	92
Operating lease rentals		4,199	1,538	4,199	1,538
- Property rental		4,177	1,219	4,177	1,219
- Equipment rental		22	319	22	319
Staff costs					
- Salaries and benefits		37,123	25,148	37,123	25,148
Number of employees at year end		74	54	74	54

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

22 TRUSTEES AND SENIOR MANAGEMENT EMOLUMENTS

	Basic	Consolidated Bonuses & performance payments	Pension Contributions	Other Contributions	Other	Total
	R'000s	R'000s	R'000s	R'000s	R'000s	R'000s
Year ended 31 March 2007						
Executive trustees:						
P Buthelezi (CEO) (Appointed 1 July 2005)	1,651	785	197	41	-	2,674
	1,651	785	197	41	-	2,674
Senior management:						
A Wright (COO)	957	457	105	57	-	1,575
CA Buseti (CIO) (Resigned 31 January 2007)	801	-	102	42	-	945
PR Mokgalagadi (CFO) (Resigned 31 March 2007)	906	-	89	51	-	1,046
V Mabuza (Asset Management)	823	437	95	32	-	1,388
F Gillion (CIO) (Appointed 1 January 2007)	222	331	33	15	-	601
	3,709	1,225	424	197	-	5,555
Non-executive trustees: (all appointed on 1 November 2005)						
R Ntuli	-	-	-	-	160	160
J Hoffmann	-	-	-	-	146	146
T Mhlambiso	-	-	-	-	247	247
S Sebotsa	-	-	-	-	164	164
K Seitshiro	-	-	-	-	-	-*
P Radebe	-	-	-	-	-	-*
J Theledi	-	-	-	-	-	-*
	-	-	-	-	717	717
TOTAL	5,360	2,010	621	238	717	8,946
Year ended 31 March 2006						
Executive trustees:						
P Buthelezi (CEO) (Appointed 1 July 2005)	1,139	638	136	13	-	1,926
N Moloi (Acting CEO)	541	-	-	-	34	575
	1,680	638	136	13	34	2,501
Senior management:						
A Wright (COO)	885	380	92	50	-	1,407
CA Buseti (CIO)	750	400	104	36	-	1,290
PR Mokgalagadi (CFO)	800	147	85	43	-	1,075
	2,435	927	281	129	-	3,772
Non-executive trustees: (All resigned on 31 October 2005)						
A Ruiters	-	-	-	-	70	70
R Ntuli	-	-	-	-	22	22
	-	-	-	-	92	92
TOTAL	4,115	1,565	417	142	126	6,365

* - These Trustees have been nominated by National Departments and therefore are not eligible to receive fees from the Trust.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

	Consolidated		Entity	
	2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
23 COMMITMENTS				
23.1 Operating lease commitments – property rentals				
The future minimum lease payments on office premises rental under non-cancellable operating leases are as follows:				
Not later than 1 year	2,568	24	2,568	24
Later than 1 year but not later than 5 years	7,728	13,169	7,728	13,169
	10,296	13,193	10,296	13,193
The property lease expires in October 2010.				
23.2 Operating lease commitments – office equipment rental				
The future minimum lease payments on office equipment rental under non-cancellable operating leases are as follows:				
Not later than 1 year	887	-	887	-
Later than 1 year but not later than 5 years	875	-	875	-
	1,762	-	1,762	-
The equipment rentals expire over different periods depending on when the lease schedule was signed.				
23.3 Undrawn investments				
Not later than 1 year	34,676	16,978	34,676	16,978
Payment will be met out of cash reserves.				
23.4 Investments approved and committed but not contracted for.				
Not later than 1 year	195,945	215,579	195,945	215,579
Payment will be met out of cash reserves.				

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2007

	Consolidated		Entity	
	2007 R'000s	2006 R'000s	2007 R'000s	2006 R'000s
24 NOTES TO THE CASHFLOW STATEMENT				
24.1 Reconciliation of net surplus to cash generated from operations:				
Surplus for the year	111,975	43,474	110,288	35,929
Adjustment for:	(4,129)	22,093	(4,129)	22,092
Depreciation & amortisation	1,001	827	1,001	827
Interest paid	-	3	-	3
Interest accrued on investment held-to-maturity	(1,555)	-	(1,555)	-
Profit on disposal of fixed assets	-	(6)	-	(6)
Impairment of investments	26,491	38,151	26,491	38,151
Fair value gains	(30,066)	(16,882)	(30,066)	(16,882)
Operating surplus before working capital changes	107,846	65,567	106,159	58,021
Working capital changes	(4,573)	(7,233)	(6,141)	(5,986)
Increase in trade and other receivables	(5,143)	(17,665)	(5,143)	(18,027)
Increase/ (decrease) in trade and other payables	570	10,431	(998)	12,041
Cash generated from operations	103,273	58,333	100,018	52,035
24.2 Additional Investment in core activities				
Originated loans	181,967	183,651	181,967	176,697
Preference shares	18,650	-	18,650	-
Investment in associates	1,196	10,001	1,196	10,001
Available-for-sale	-	135	-	135
Held-to-maturity	-	10,000	-	10,000
Held-for-trading	-	40,427	-	40,427
	201,814	244,214	201,814	237,260

25 Fruitless and wasteful expenditure

No incidents occurred during both the current and previous year.

26 Irregular expenditure

No incidents occurred during both the current and previous year.

27 Income tax exemption

The trust is exempt from income tax in terms of Sections 10 (1)(cA).

28 Financial misconduct

No incidents occurred during both the current and previous year.

ADMINISTRATION

31 March 2007

TRUSTEES

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

P.O. 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
DBSA	Development Bank of Southern Africa
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
IRR	Internal Rate of Return
ERM	Enterprise-wide Risk Management
SME	Small and Medium Enterprises
ECIC	Export Credit Insurance Corporation
Khula	Khula Enterprise Finance