

SUSTAINABLE SHELTER



THE Rural Housing Loan Fund lends money through intermediary retail finance companies, to low income rural people.

Other financial institutions are closing their rural branches and some are balking at government's insistence that they invest in poor communities. But RHLF has a seven year track record of success lending to this market and believes banks should and will follow suit.

Some 45 000 households, virtually all with incomes below R3, 500 per month, have benefited from housing loans from RHLF's retail financing intermediaries.

The RHLF model is based on making "wholesale" loans to its clients, which are relatively small lending organisations. These, in turn, on-lend to the rural working poor. The relative security of the model is based on the lenders' personal service, affordable instalments

and sound credit risk assessment. The implementation of best practices at the retail level is backed up by RHLF's risk management, capacity building and client service.

After seven years, RHLF's original capital is still intact – indeed it has grown - despite two of the most horrendous years to befall small banks and alternative retail lenders. RHLF operates with the strong belief that sustainable intermediaries will have the greatest development impact.

Many end users have borrowed from RHLF's clients, paid off their debts, then borrowed again in order to extend their homes. Some have borrowed and repaid loans four or five times and today live in relative comfort.

This is what we mean about our goal of providing sustainable shelter to the poor.



CORPORATE PROFILE (WHO WE ARE, WHAT WE DO)

RHLF was founded by Cabinet and the Department of Housing in 1996 to utilise a grant of DM50-million by the German government's development finance agency, KfW, for rural housing. In the subsequent seven years, RHLF has funded more than 45 000 home improvements, mostly built by home owners or small local builders.

In so doing, RHLF has alleviated poverty, stimulated job creation and improved the living condition of more than 250 000 people in deprived rural areas. It has thus met the two key requirements of the Department of Housing's official policy – to alleviate poverty and to generate employment through repeated access to loans.

RHLF started life managed under contract by the National Housing Finance Corporation, but in 2002 became independent and free standing, charged with managing its own risk and mandate.

Like all retail finance operators and banks, RHLF's clients have been hit by bad debts, declining disposable incomes and more complicated repayment systems. Nevertheless, not one of its clients was liquidated during the worst small banking crisis ever to hit South Africa in 2002 and 2003.

In spite of conservative provisions for doubtful debts, RHLF remains financially sound and we believe this is a sustainable model for providing funding in deep rural areas, where few banks venture.

To date, RHLF has never had – nor needed until now - funding from government or any source apart from KfW. Indeed, a condition of KfW's original funding was that South Africans, including the government, should assist in its financing. From the outset, management has encouraged participation by others. Knowing that raising outside funding would take years, management pressed ahead.

RHLF is no longer a pilot scheme, but a development initiative that has demonstrably worked and proven sustainable. All our work until now has consisted in laying the foundations of future growth.

We have a successful business model; we have an organisation that knows how to channel housing funds economically and efficiently to the working poor. Our appeal now to all players is to build on this foundation to bring housing finance to the rural poor in perpetuity.



The effective demand for housing finance in rural areas remains unmet and government's major objectives are improving rural living conditions, job generation and the alleviation of poverty. These are the pillars of the Integrated Sustainable Rural Development Programme.

RHLF's final customers either build themselves or employ local builders to construct or improve their housing. Our work thus does create employment and there is little doubt that end users receive more housing for their money. For every rand borrowed, the end-users contribute at least fifty cents in sweat equity, cash savings or own building material.

As the testimonies of the people featured in this report indicate, RHLF's financing activities, especially to repeat customers, directly alleviate poverty. RHLF is ready, willing and able to take

on a much bigger role in the provision of housing finance in the future.

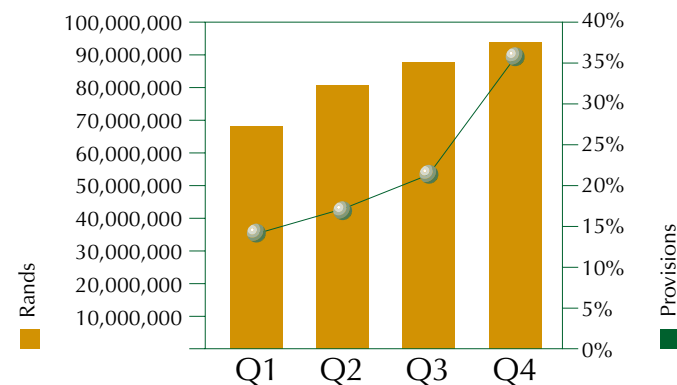
The large banks are grappling with their social responsibility to invest in previously neglected areas. RHLF could help the banks by acting as a conduit for funds to reliable, employed final borrowers identified by our clients, who have vast experience of lending in poor areas.

Once again the RHLF report contains accounts of the experiences of just a handful of its end-user clients, the people at grassroots level who benefit by its activities. Testimonies like these serve to motivate the RHLF team.

We trust these stories will also motivate the authorities and possibly the banks to engage with RHLF in providing finance for the upliftment of poor people in rural areas.

RHLF DEBT PORTFOLIO AND PROVISIONS

MARCH 2003
(excludes preference shares)



VISION

RHLF is a world class rural housing wholesale lending institution that operates with a social venture capital mindset, deriving new financial arrangements and opportunities for rural families to improve their housing, economic and their living environment.

MISSION

To empower rural people to maximize their housing choices and improve their living conditions with access to credit from sustainable retail lenders.

TEAM VALUES

- We are loyal and honest to each other and practice joint accountability.
- We practice straight talk and teamwork.
- We are passionate about improving the living conditions of the rural poor.
- We believe in sustainable, responsible social and economic development.



NORUFIN HOUSING FINANCE: GETTING STRONGER THROUGH CONSOLIDATION



Norufin Housing Finance, with its head office in Mafikeng North West, commenced its housing lending business as a commercial start-up in 1998 with RHF taking an ownership stake in the company. With the recent difficult market conditions, RHF has facilitated a consolidation process involving some of its retail lenders. The process included some commercial start-up companies and even established lenders.

Norufin has benefited from the consolidation process, and it is now a more robust and better capitalised business with a loan book size that sustains its operations and provides a platform for growth. Norufin is now indeed a prominent player not only in North West province, but also in Limpopo.

The company, under the leadership of owner/managers Mr Sherwell Rakhudu and John Jonck (pictured on the left), is steadily growing its loan book and putting lessons learnt into good practice. It is also positioning itself as a key player in housing lending in the rural parts of Northern Gauteng.

We believe that Norufin's repositioning in the marketplace and the RHF support in strengthening the company are good recipes for strategically taking this company to new heights.



BLUE DOT HOUSING:

RECENT ADDITION TO THE RHLF STABLE



Part of the strategy to rebalance the portfolio entails identifying and signing up well-capitalised retail lenders that have capacity, vision and ability to deliver the desired housing impact with value-adding oversight from RHLF. Blue Dot Housing is a newly approved RHLF retail lender, which represents a major step towards achieving this strategy.

Blue Dot is a black-owned housing finance company with a successful track record in collections and lending, and capitalised to the tune of R6 million when it was approved as a RHLF new client early in 2003. The company's shareholding structure includes NACTU, a trade union, staff and management the latter being the entrepreneurs behind the company. The company is under the leadership of Godfrey Letlape as the

Managing Director and Peki Mphahlele as the Executive Director. Both Godfrey and Peki (pictured on the left) have vast experience in the micro-finance industry, which includes among others offering strategic, operational and institutional assessment of financial institutions.

Since approved as a RHLF retail lender, Blue Dot has received a Market Development Fund grant from RHLF and a loan facility of R5 million. The company currently disburses approximately R1.3 million per month in building material loans to rural-based, formally employed workers around the country. RHLF looks forward to a fruitful business relationship with Blue Dot.



THE PEOPLE WHO BENEFIT

Lucas Molepa - Hammanskraal



I borrowed R10 000 to buy the final finishing products like window frames as well as doorframes. We will soon have more room. I plan to put in electricity and water pipes as soon as the township is connected. We should have running water on tap in two years. I do most of the work with the help of a local builder.

I live in a small community in Hammanskraal, where most of the houses are made of zinc. In my yard, stands my zinc shack, as well as the house I am building for my family with the money I make at the Pretoria International Airport as a petrol jockey.

I live here with my wife and three children. The children go to school in the nearby community closer to the farms. My wife does not work but helps her mother in a nearby town.

Before going to Blue Dot, I used to stockpile a lot of the building material valued at R50, 000.



Petros Sebotsane-Ga-Rankua



I am Petros Sebotsane and I am a pensioner. I used to work for Checkers Shoprite in Dersport. I have been living here since 1965. My wife passed away last year and my sons have left home. They are married with their own families.

My son, Gerald is a teacher at the Ga-Rankua Technikon. He found Blue Dot and helped me get finance. I borrowed R6 700.

I built two rooms for tenants because I need the rent money. The two students who live in the extension each pay me R200 a month. I use the third room to relax and entertain friends.



Philip Mokwena-Ga-Rankua



My name is Phillip Mokwena and I live here at home with my mother, Elizabeth. We live with my brothers and sisters. We are a family of seven, and I am the sole breadwinner. I work as a slot machine manager at Marula Sun.

I built the rooms outside my mom's four-roomed house. We are a big family; the boys are growing up so we need space and privacy. We have been living here, since 1965. We all grew up in the first

house, an old apartheid-style matchbox house. With the help of the contractor, we built three rooms outside the house including a garage. I use the one room, while the other is reserved for the boys. I still want to convert the last room as an outside toilet.

I initially heard about Blue Dot through some colleagues who were having a casual chat. I looked around for information and found Blue Dot. To finance the structure, I used a total amount of R20 000. I contributed R10 000 from my own pocket and Blue Dot provided the rest.



Mabel Taunyane-Mohlabeng



My name is Mabel Taunyane and I am a cleaner at the local government. My husband had to stop work after a serious car accident. We are a four-generation family of nine. I live with my husband and children, my mother and grandchildren. My mother contributes her pension to help with costs.

We first lived in a small house in the village. We built this house from scratch when we first moved to Mhlabeng. With the money I borrowed from Norufin, we built the rooms outside the house for the children. We have also taken in boarders. I use the extra money I get from the boarders to supplement my income and to pay off the loan we used to build the rooms.

Unfortunately, a fire destroyed the main house. After fixing the house, I used my second loan

with Norufin, to put in ceilings and tile the floors. The loan was for R2 000. We did not spend money on labour because my husband did the work.

I intend to go back to Norufin for my third loan, which I will be using to fix my tuck shop, to get it running again. With the remainder of the money I would like to build wall units for the bedrooms.

Norufin has improved my life. My children have a roof over their heads and food from the rent I get from the boarders. Soon the tuck shop will be in operation, so things should get better again.



Elizabeth Molema-Montshiwa Stad



My name is Elizabeth Molema and I live in Montshiwa Stad, near Mafikeng. This area belongs to my family, the Molema clan. I am a supervisor in the kitchen at the Department of Public Works, where I cook for the entire staff. I am a single parent living with two children. This used to be my grandfather's house. I have lived here since I was a child and inherited the house from my grandparents, approved by the traditional leaders.

I borrowed from Norufin to begin to renovate and extend this old house shortly after I started to work. I started by buying sand and cement and then made the blocks myself. I bought frames for the windows and doors. I will be using the blocks to add two to three more rooms.

My life has not changed much yet; I have just started to improve. Because of the little I earn, I will keep borrowing small amounts to renovate the house and build the other rooms. I have applied for a second loan and I am waiting for approval



on the application. My first loan was for R3 000.

I am pleased with the service I have received at Norufin, and intend to go back to them again.



Sylvia Metsjwamere-Mafikeng



I am Sylvia Metsjwamere and I am a sales consultant at Topics in town. I have been with the company for the past eight years. I live with my teenager son. I have made an offer to buy this RDP house but have not taken occupation yet. I am currently staying in Fentlaji Village, which is a long way to work. With the new house I will be nearer to work.

I am happy with the service I have thus far received from Norufin. I make my monthly repayments through the bank. I might go back to Norufin to borrow money to add rooms in the back yard. My son is growing up and I need privacy too.

After I saw the house and liked it, I went to Norufin. They referred me to the estate agency. The house was going for R40 000. The agency then advised that I apply for a subsidy, which came to R16 000. I went to Norufin to add to it to make it R20 000. I will be paying it back over the next two years.



Yebeau Seaby Funnah-Mafikeng



The loans have changed my life. I am living happily. I recommend Norufin. I actually heard about RHF over the radio. I will be going back to Norufin over and over again. Business in Mafikeng has been slow but it is picking up.

I am Yebeau Seaby Funnah, my husband and I live with our four kids near Mafikeng.

I have taken three loans with Norufin. I used my first loan to buy a container for my spaza shop. With my second loan I bought a sewing machine and a locker for the clothes I sell here. I used the third loan to build a wall in the room where my boys sleep. I borrowed money for housing and my small business. I am happy to say that the business is doing very well; and I pay my loan every month with cash made from my business.



CHAIRPERSON'S REPORT



RHLF has already emerged as the leading housing financier for rural South Africa, a process that has been accompanied by growing pains, some of which have been cured. Others, however, remain.

Bridging the twin functions of financing rural housing and nurturing sustainable retail financiers, while simultaneously performing a socio-economic development function, is a unique and daunting challenge. It is one that we tackle with youthful enthusiasm and energy, supported by the maturity of our funder, Germany's KfW, and South Africa's Department of Housing.

The dynamism of the environment in which we operate has, inevitably and by definition, triggered a host of changes, the most far reaching of which has been a transition from free, subsidised housing to a more widespread situation in which homeowners are called upon to contribute to the cost of their housing choices.

The transition has put the formal housing industry into a spin. Many developers, both private and municipal, and contractors have not

been able to build because they have been unsure of what was required of them by the government.

We at RHLF regard this situation as an opportunity to respond to effective demand, since our prime objective is to ensure that small loans are made available to households. And if those households are obliged to also make a contribution towards accessing their housing subsidies, then our partners are important players in helping that happen by seeing to it that the finance is in place.

For most people in our target market, their house is their major or only asset. Through repeated access to loans over many years, borrowers are building assets, sometimes complementing government's subsidy inputs, which together have a great impact on rural living conditions and rural poverty reduction.

RHLF has reached a critical stage in its evolution. It needs to critically evaluate the role of investor finance in the retail lenders it funds. To achieve long term institutional sustainability for enduring housing impact, the Board has adopted an overall strategy of rebalancing the risk profile of the portfolio in the face of an increasingly hostile lending environment. Over the past six years RHLF has funded well established lenders, all of which have been acquired, consolidated into banks or failed as a result of abrupt changes in the financial markets or flawed business models. We have also supported the start-up of much higher risk

small companies that hold the prospects for economic vitality but in markets where few lenders, especially banks, dare to lend and where transaction costs are high.

While the RHLF will continue to support clients who have the potential to be profitable and sustainable, we shall need to forge strategies that will entice the bigger, better capitalised organisations to partner with us, if we are to play a more meaningful, more viable role in the housing industry. When that happens, we can make a huge impact in the rural areas.

The President has said that rural development is still one of the nation's top priorities. Significantly, RHLF is the only organisation of substance, other than some banks that appear to be withdrawing from the market, providing finance for incremental housing in the rural areas.

The credit environment has been extraordinarily tough. It has been yet tougher for us, because we are dealing with the country's poorest people, whose incomes are low and often dependent on one economic sector. Accordingly, we feel the pinch, more painfully than most, when there are job losses.

But that doesn't mean we cannot continue to lend in those areas; just that we have to be a little more cautious and find courageous, robust partners.

How do we balance expansion with caution? Above all, as a financier, we have to remain attractive to our investors. To do so, we must demonstrate not only impact but also that we have a sustainable mechanism for managing risk;

that we are knowledgeable when it comes to how to whom and where we lend.

I am gratified to be in a position to declare that this has been one of RHLF's conspicuous success factors. We have been one of KfW's most rewarding interventions internationally. In the face of the many hurdles confronting us, we have performed in line with our mandate from government, while implementing risk management practices akin to the private sector. We are obviously on the right road.

As a clear sign that we are coming of age, for the first time in our history we shall shortly be receiving a loan, from KfW via Development Bank of Southern Africa. For an organisation to have a reason to exist, investors must be prepared to commit capital to it. For that to happen, it must yield reasonable returns.

Internationally, there are several models of financial institutions that started up with grant capital and thereafter became sustainable and viable in their own right.

I have no doubt that RHLF has the potential to emulate those models. We have committed management and staff, who have done an exceptional job in an extremely dynamic environment. The positive spin-offs are visible.

Sankie Mthembu-Mahanyele, the former Minister of Housing, was driven by a vision. Her crusade was to house the rural poor. RHLF's progress in this direction is a reflection of that vision, much of which would not have materialised had it not been for her unflinching support.

CHAIRPERSON'S REPORT continued

Her contribution has been massive. We thank her, wish her well in her new venture and welcome the new Minister of Housing Honourable Brigitte Mabandla who matches her predecessor's commitment to rural housing.

Going forward, we are looking at several scenarios. I have already mentioned the loan, for which negotiations have reached an advanced stage. And I have alluded to the quest for another investor.

Another important area of focus is the need to encourage consolidation among some of our troubled clients.

There has to be consolidation among the smaller players. These lenders have helped deepen our impact, but nowhere near sufficiently and not in a sustainable manner. We are currently engaged in a process whereby we are actively encouraging the smaller unprofitable lenders with overlapping markets and products to merge their operations.

By doing so they will enhance their sustainability and our ability to broaden and deepen our reach in the rural areas. Because critical mass is vital to small scale credit extension, consolidation is critical to all our future sustainability.

Another important future development is the timing of the risk management element of our business. If we are going to prove that there is a rural market and we are going to grow that market, we have to manage risk in such a way that we show that the market is viable; that it is

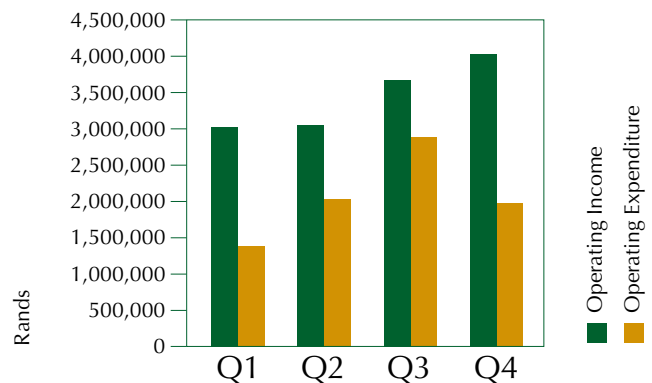
dynamic and that it is growing.

We need to implement best practice, not only internally but as a role model for other prospective participants. The learning curve in this business is steep. We are beginning to get a sense of what works and what does not, and we are happy to share this experience with others for the benefit of our nation's rural working poor.

We are thankful to many for the progress of RHLF in recent years. Foremost among them are the former Minister, the new minister and the officials of the Department of Housing, who recognise RHLF as one key leader in the implementation of a new generation of housing policy.

RHLF OPERATING INCOME VS OPERATING EXPENDITURE

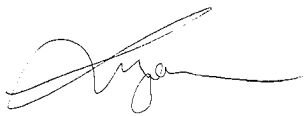
MARCH 2003



KfW, RHLF's funder, has made a remarkable contribution over the past seven years and remains committed to, and interested in, its affairs. We thank KfW and the German government and look forward to working closely with them in the future.

I would also like to thank my fellow board members for their sterling contribution. We are proud of a board the major strength of which is its diversity. Their expertise in various fields – from rural development, legal and financial services to housing development – is manifest in the value they have added, and continue to add, to RHLF.

Finally, my sincere thanks are extended to our clients, the intermediaries. Large and small, established and fledgling, they have all worked hard, in a trying environment, to bring finance for shelter to people in rural areas who have been neglected for far too long. Together we have laid the foundation for future growth and stability.



Chairperson
Nonhlanhla Mjoli-Mncube



MANAGING DIRECTOR'S REVIEW:

LAYING THE FOUNDATION FOR FUTURE GROWTH

External environment

In 2003, all providers of small-scale credit continued to feel the aftershocks of the 2002 small banks crisis.

Following the crisis in the micro-finance industry and bad debt write-offs and sharply increased provisions by banks and retailers amounting to several billion rands, many retail financiers have struggled. A number of our lending clients was heavily affected. At the same time, RHLF's clients also continued to face problems on implementing new debit order repayment systems after the shutdown of Persal, which also had a negative "knock-on" effect on private sector payroll deductions.

In the 18 months to May 2003, the Reserve Bank followed a tight monetary policy, increasing interest rates no less than four times. While this policy did have the effect of lifting the rand exchange rate dramatically in the first half of 2003, high interest rates placed severe pressure on borrowers and lenders, aggravating an already difficult banking environment. Inflation eventually decreased somewhat, but so did economic growth and job creation.

The weak rand from December 2001 to March 2002 caused fuel and food prices to soar, further eroding the disposable incomes of end users. The recovery of the rand in 2003 has been slow to alleviate inflation. Notwithstanding GDP growth of about 3 percent per annum in 2002 and 2003, unemployment continued to rise – and our end users were once again most directly affected.

Re-balancing the portfolio

In this perilous environment, RHLF has moved to consolidate and merge its retail financiers to ensure their survival. We have taken the view that a client lender needs a performing loan book of at least R25-million to break even and become sustainable. For example, by merging two clients it is possible to consolidate two loan books of 5 000 loans into one of 10 000 and to reduce overheads and increase efficiency accordingly.

We have tried to develop our customers into sustainable entities, which will be able to deliver housing finance over the long term. We are investing chiefly in small entrepreneurs. Inevitably, we shall take some losses in this process but we now have at least five clients, whom we believe will be winners.

RHLF began the process to oversee the merger and sale of two of its important clients, Lendco and Solitaire to new investors. We also began the process to strengthen Norufin, which is now a prominent player in the Limpopo and North West Provinces. The new companies will have diverse products and standardised policies and will likely double the number of loans managed.



At the same time, RHLF has now taken on two new well-capitalised clients in Blue Dot Housing Finance and Power Finance. In so doing, RHLF is re-balancing the risk profile of its portfolio and positioning RHLF for growth and stability.

Supply side constraints

In the wake of the small banks crisis and other obstacles, a number of housing organisations have been unable to spend their budgets. This is certainly not the case with RHLF, which projected disbursements of R47,7-million for the year to March and yet by March it had carefully disbursed R62-million.

RHLF has been funded solely by the KfW with an initial DM 50-million in grant funds, which are now fully drawn. This year, we hope to conclude a soft loan of 12,05-million Euros from KfW, which has also made available 1,53-million Euros for market development, promotion, research and capacity building.

Because of the high risk of the rural market, we have adopted a liquidity policy requiring RHLF to hold 50 percent of projected annual disbursements and operating costs in cash reserve.

Since effective demand for funds exceeds supply, RHLF has requested that the Department of Housing include RHLF for the first time as a line item in the budgeting process. Fresh capital or operating support from the Department will enable RHLF to gear additional funding from other financial institutions.

The large banks are generally unable to assess credit worthiness of low-income rural people. They have also trimmed their rural branch networks. RHLF could well be a conduit for banks to meet their social investment obligations by making finance available to RHLF, which can on-lend to retail lenders and still provide the banks with a market-related return.

Once RHLF has completed the process of consolidating some of its clients and bringing in new more established clients to re-balance the risk profile of our portfolio, we look forward to working with the banks and government to scale-up the delivery of finance to households in rural areas.

An effective loan product that RHLF has helped to pioneer with its clients is the extension of retail finance through third party payments to building materials suppliers. Our clients pay over funds in the name of borrowers to builders' merchants, who in turn deliver quality materials to rural households to build or extend their houses.

The RHLF faces daunting supply-side constraints but they are fewer than those on the demand side.

Demand side constraints

The primary constraint for rural households to housing credit is affordability. RHLF focuses on the rural working poor. The maximum household income of its end user clients is R4 150 – that is Minimum Living Level 2 in terms of the Unisa Bureau for Market Research definition - and most borrowers earn a good deal less than this. Market research indicates that 87 percent of

MANAGING DIRECTOR'S REVIEW continued

people in rural areas earn less than R2 500 per month. Of these, 30 percent of employed people in rural areas work for government.

In 2001, government shut down access to its Persal payroll deduction system because of abuse by banks, micro financiers and insurance companies. RHLF is concerned that government may invite tenders only from the banks to service public employees and gain access to Persal, thus neglecting small businesses that focus on development finance, such as our intermediaries.

Unfortunately many municipal, provincial and government workers who wish to improve their homes in communal areas are prevented from doing so because banks do not recognise houses on communal areas as security. RHLF funded and user loans have always been unsecured and for years we have facilitated finance for incremental housing on communal land. RHLF is therefore favourably situated to handle these applications in future. RHLF has asked the Department of Housing to engage with the Department of Finance on maximising the choices of government workers in rural areas by allowing them to use their housing allowances to pay for loans to improve and build houses situated on communal land.

RHLF is aware of potential opportunities that the transfer of land administration from traditional leaders to government and local communities may present. The Communal Land Rights Bill may in the long run enable communities to access a greater variety and volume of credit for

housing. It will also benefit our ability to finance end-user loans for the informally employed.

Because of the prohibition of access to Persal, a recent trend has been that creditors have been obtaining garnishee orders from the courts, forcing employers to deduct debt servicing and repayments from the pay of their employees. With most magistrates' courts over burdened, obtaining judgment is an extremely lengthy and costly process.

RHLF end-users are primarily buying building materials, employing local builders and injecting their own "sweat equity" to improve and extend their housing. From our research, we estimate that for every rand borrowed another fifty cents of savings and sweat equity is invested in the houses of borrowers.

Savings as a form of commitment is an important credit assessment principle, especially for reaching the informally employed.



RHLF-funded intermediaries have made more than 45 000 loans, totalling R220-million to rural borrowers, of whom nine percent are informally or self-employed. Our goal was that this market would comprise 15 percent of RHLF's end-user loans by March 2005. To reach this market we are working with deposit-taking institutions, which can manage people's savings.

The Department of Housing is reviewing its policies and is expected to implement a second generation of housing initiatives in the near future. The government has further indicated that during 2003, it would pass into law the Community Reinvestment Bill as an effort to address the challenge of access to finance for low-cost housing development.

While enjoying access to basic services, people are finding RDP houses too small and the emphasis across the country is improving and extending these "core" houses. Much of RHLF's money is used by owners of subsidised houses to improve their living situations once they have settled into their new homes. RHLF, therefore, encourages the development of "quantity with quality" subsidised housing to meet the demand for housing in rural municipalities.

We are convinced we fulfil a valuable role in rural housing access and are confident that we shall play an important part in the provision of housing finance in the future.

Sharp increase in provisions.

In line with the retail finance industry in general, and due to the rural market we serve, RHLF



increased its specific bad debt provisions substantially. We increased our provisions from 21% to 41% of our loan and equity book in client lending operations.

During the year under review RHLF incurred a loss of R17-million, compared to a profit of R3,8-million in 2002. RHLF's primary goal is to provide housing to the working poor, not to be profitable. That said, we aim to make reasonable surpluses every year to preserve capital and to remain sustainable. The loss recorded in the year under review was our first. RHLF's provisions for doubtful debts are not out of line with the operations of much larger lenders.

In response to lessons learned, RHLF has developed its own risk rating system and adjusted its risk management practices. It has applied these to its clients and assisted them to merge, where this was deemed advisable. Management has performed due diligence exercises on all its clients and is now satisfied that they are on the road to sustainability.

MANAGING DIRECTOR'S REVIEW continued



Looking ahead

By May 2003, relatively higher interest rates and the firmer rand were having desired effects on inflation. It is anticipated that in the year ahead, cuts in interest rates will go a long way in alleviating pressure on final borrowers and assist the banking system generally to stabilise. The effects of these interest cuts will, however, take some time to benefit our clients, especially if we have jobless growth going forward.

RHLF expects to incur some losses in the current financial year as the problems of the past two years are worked out of the system. Nevertheless, management is hopeful that a small profit will be earned in the year ahead, as the "debt bubble" of the past two years subsides.

In a positive vein, by far the majority of our final borrowers have kept their jobs and have responsibly continued to service and repay their

debts. We remain convinced that the RHLF model is the ideal one for the funding of housing in poor rural areas.

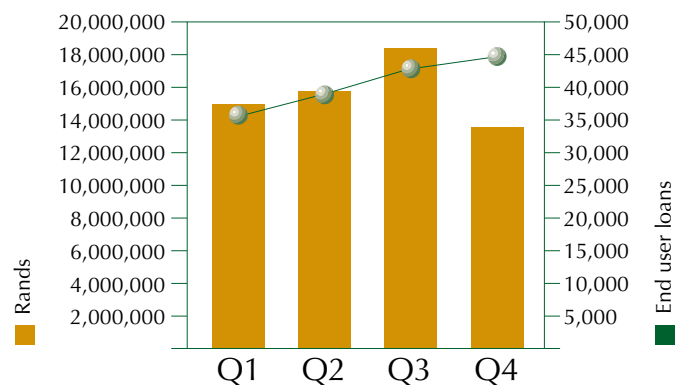
We believe that the merging of our retail-lending customers has improved their viability and that in general they are a good deal more robust and better capitalised today than a year ago.

We are extremely grateful for the continuing interest and support of the Department of Housing, KfW, and DBSA. We trust that their confidence in RHLF will shortly be matched by other potential providers of finance in rural areas.

Managing Director
Willem van Emmenis

RHLF QUARTERLY DISBURSEMENTS VS CUMULATIVE END USER LOANS

MARCH 2003



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(Association not for gain incorporated under Section 21)
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ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
(Association not for gain incorporated under Section 21)
Reg no. 1996/10988/08

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING AND APPROVAL OF THE FINANCIAL STATEMENTS

The directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the financial statements, accounting policies and related information.

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

The directors are satisfied that the information contained in the financial statements fairly present the results of the operations for the year and the financial position of the fund at year-end.

The financial statements set out on pages 25 to 52 were approved by the Board of Directors on 25 July 2003 and are signed on its behalf by:



N MJOLI-MNCUBE
Chairperson



Director

CERTIFICATION BY COMPANY SECRETARY

It is hereby certified in terms of Section 268(G) of the Companies Act 1973, as amended, that for the year ended 31 March 2003, the Company has lodged with the Registrar of Companies all such returns as are required of a company incorporated under s21 of the Companies Act, in terms of this Act and that all such returns are true, correct and up to date.



ANDREW JAGER
Company Secretary

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
(Association not for gain incorporated under Section 21)
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CORPORATE GOVERNANCE STATEMENT for the year ended 31 March 2003

FINANCIAL STATEMENTS

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

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

BOARD OF DIRECTORS

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

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

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

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

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

AUDIT COMMITTEE

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

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
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CORPORATE GOVERNANCE STATEMENT continued for the year ended 31 March 2003

CREDIT COMMITTEE

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

DEVELOPMENT COMMITTEE

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

EXECUTIVE COMMITTEE

The Executive Committee provides support to RHLF operations and acts as the link between the Board, the shareholder, and any other external stakeholders. Decisions of the Executive Committee are ratified by the RHLF Board.

HUMAN RESOURCES, ETHICS AND REMUNERATION COMMITTEE

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

MANAGEMENT

Management has carried out the following functions:

- **Internal control**
To fulfill its responsibilities, the management developed and maintained systems of internal control and adequate accounting records.
- **Internal auditing**
The internal audit function is an independent appraisal function to examine and evaluate the Company's activities, including the Management of the Company. Its objective is to assist members of executive management in the effective discharge of their responsibilities. The scope of the internal audit function is to review the reliability and integrity of financial and management information, the systems of internal control, the safeguarding of assets, the efficient management of the company's resources, and the effective conduct of its operations. The head of Internal Audit has unrestricted access to the Chair of the Audit Committee and the Chair of the Board.

GOING CONCERN

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

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
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REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE RURAL HOUSING LOAN FUND
for the year ended 31 March 2003

We have audited the annual financial statements and group annual financial statements set out on pages 29 to 52 for the year ended 31 March 2003. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- Assessing the accounting principles used and significant estimates made by management, and
- Evaluating the overall financial statements presentation.

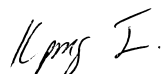
We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 31 March 2003, and the results of its operations and cash flow information for the year then ended, in conformity with the South African Statement of Generally Accepted Accounting Practice and in the manner required by the Companies Act.

KPMG

Registered Accountants and Auditors
Chartered Accountants (SA)
JOHANNESBURG



Per T. Tshikovhi
Partner
25 July 2003

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
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REPORT OF THE DIRECTORS for the year ended 31 March 2003

The directors have pleasure in presenting their report on the activities of the Company for the year ended 31 March 2003.

NATURE OF ACTIVITIES

The Rural Housing Loan Fund was incorporated in terms of Section 21 of the Companies Act on 19 August 1996, as an association not for gain.

The Company continues to act as a wholesale lender of funds to retail lending intermediaries which provide finance to low income persons living in rural areas, for purposes of providing or improving housing. The funds may also be applied to making Market Development grants designed to facilitate preparatory studies by intermediary institutions for developing new loan products or delivery mechanisms to fund rural housing.

Finance has been provided in terms of an agreement with Kreditanstalt für Wiederaufbau (KfW), a German Development Bank, which has pledged financial contributions totalling 25,565 million (DM 50 million).

RESULTS OF OPERATIONS

The financial results of the company for the year, and its financial position at year-end are set out on pages 29 to 52.

As noted above, KfW has committed € 25,565 million (DM 50 million), which at 31 March 2003 has been fully disbursed. In terms of the financing agreement with KfW, a portion of the maximum facility of € 25,565 million (DM 50 million) is payable for consulting services to 3rd party consulting firms as specified by KfW. A total of € 2,132 mil (DM 4,170 mil) out of the maximum grant facility of € 25,565 million (DM 50 mil) has been allocated to consultancy services.

As at 31 March 2003, KfW had fully disbursed all funds to the company:
(2003: €1,00 = ZAR8.61 - 2002: €1,00 = ZAR9.88)

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
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REPORT OF THE DIRECTORS continued
for the year ended 31 March 2003

	2003	2002	2003	2002
	€'000	€'000	R'000	R'000
Commitment not yet disbursed at the beginning of the year	5,260	5,260	51,967	37,140
Amounts advanced during the year	4,969	–	44,818	–
Allocation to Consultancy Firms	291	–	2,879	–
Foreign exchange difference on restatement to year-end rate	–	–	(4,270)	14,827
Commitment not yet disturbed at the end of the year	–	5,260	–	51,967

During the year under review, disbursements totalling R62 310 033 (2002: R38 348 505) were made, and a further R1 284 137 (2001: R333 235) was made available in terms of the Market Development Fund Programme.

At year-end, facilities amounting to R17 177 000 (2002: R27 643 610) had been approved, but not yet disbursed.

CONTROLLING ENTITY

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

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
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REPORT OF THE DIRECTORS continued
for the year ended 31 March 2003

DIRECTORS AND MEMBERSHIP OF SUB COMMITTEES

The directors in office as at the date of this report are:

		Date Appointed	Date Resigned	Audit	Credit	Development	HRER*	EXCO**
Ms N Mjoli-Mncube	Chair	19 August 1996		•	•	•	•	•
Mr WJ van Emmenis	Managing Director	9 October 2001						
Mr M Hathorn	Non executive	27 May 1998			•	•	•	
Ms J Huntley	Non executive	27 May 1998	16 October 2002	•		•		
Ms N Makiwane	Non executive	19 August 1998						
Ms T Memela	Non executive	27 May 1998			•		•	•
Dr D Porteous	Non executive	10 July 1997			•			
Mr M Pule	Non executive	27 May 1998		•		•		•
Mr M Silinga	Non executive	27 May 1998		•				
Mr D von Broembsen	Non executive	27 May 1998		•			•	•
Ms ES Baumbach	Alternate	30 June 1999		•				
Mr K Oliver	Alternate	23 February 2000		•	•		•	
Mr M Dlabantu	Alternate	22 October 2001		•				

* Human Resources, Ethics and Remuneration

** Executive

Company Secretary

A J Jager 13 March 2002

Business address:

2nd Floor, Liberty Gardens
10 South Boulevard
BRUMA

Postal address:

P O Box 645
BRUMA 2026

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
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BALANCE SHEET
as at 31 March 2003

	NOTE	31 March 2003	31 March 2002
		R	R
Assets			
Non-current assets			
		67,745,300	61,641,701
Advances	3	58,837,223	57,612,956
Investment in associates	4	259,678	621,738
Property, plant and equipment	5	607,822	477,259
Deferred tax asset	12	8,040,577	2,929,748
Current assets			
		76,309,275	54,942,667
Trade and other receivables	6	998,568	2,769,409
Cash and cash equivalents	7	75,310,707	52,173,258
Total Assets		144,054,575	116,584,368
Equity and Liabilities			
Capital and reserves			
		143,175,098	115,295,144
Grant capital	2	154,762,590	111,125,652
Grant capital in advance	2	–	–
Accumulated (deficit) / surplus		(11,587,492)	4,169,492
Current liabilities			
		879,477	1,289,224
Trade and other payables	8	879,477	1,289,224
Total Equity and Liabilities		144,054,575	116,584,368

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
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INCOME STATEMENT
for the year ended 31 March 2003

	NOTE	Year ended 31 March 2003	Year ended 31 March 2002
		R	R
Revenue	9	13,904,458	12,629,067
Provision for bad and doubtful debts		(26,615,563)	(9,257,233)
Interest Margin		(12,711,105)	3,371,834
Other operating income		(229,719)	7,279,426
Net Income		(12,940,824)	10,651,260
Administrative expenses		(9,230,125)	(4,100,584)
Net (Deficit) / Surplus Before Tax	11	(22,170,949)	6,550,676
Taxation	12	5,129,828	(2,727,980)
(Deficit) / Surplus for the Year		(17,041,121)	3,822,696

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
(Association not for gain incorporated under Section 21)
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STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2003

	Grant Capital	Grant Capital in Advance	Accumulated Surplus / (Deficit)	Total
	R	R	R	R
Balance at 31 March 2001	111,458,887	–	13,561	111,472,448
Qualifying disbursements	–	–	–	–
Amounts received in advance	–	–	–	–
Net surplus for the year	–	–	3,822,696	3,822,696
Transfer from Grant Capital to cover Market Developments Grants	(333,235)	–	333,235	–
Balance at 31 March 2002	111,125,652	–	4,169,492	115,295,144
Qualifying disbursements	44,921,075	(44,921,075)	–	–
Amounts received in advance	–	44,921,075	–	44,921,075
Net deficit for the year	–	–	(17,041,121)	(17,041,121)
Transfer from Grant Capital to cover Market Developments Grants	(1,284,137)	–	1,284,137	–
Balance at 31 March 2003	154,762,590	–	(11,587,492)	143,175,098

ANNUAL FINANCIAL STATEMENTS

RURAL HOUSING LOAN FUND
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CASH FLOW STATEMENT
for the year ended 31 March 2003

	NOTE	Year ended 31 March 2003	Year ended 31 March 2002
		R	R
Cash Flows from Operating Activities		(21,333,300)	20,784,228
Cash (utilised in) / generated from operations	14	(33,866,538)	11,985,493
Interest received		13,904,458	12,330,989
Taxation paid	15	(1,376,020)	(3,532,254)
Cash Flows from Investing Activities		(445,526)	(809,798)
Acquisition of fixed assets	5	(295,526)	(484,198)
Acquisition of investments in associate companies	4	(150,000)	(325,600)
Cash Flows from Financing Activities			
Grant capital in advance received	2	44,921,075	–
Net increase in cash and cash equivalents		23,142,249	19,974,430
Cash and cash equivalents at beginning of period		52,173,258	32,198,828
Cash and cash equivalents at end of period	7	75,310,707	52,173,258

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2003

1. Accounting Policies

1.1 Basis of preparation

The financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies set out below, which are consistent with those adopted in the previous financial year.

1.2 Revenue recognition

Revenue comprises interest received and investment income.

Revenue is recognised on the following basis:

- Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the entity.
- Dividends are recognised when the right to receive payment is established.

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

1.3 Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains and losses arising on translation are credited to or charged against income.

1.4 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the entity unless otherwise stated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2003

1.5 Tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.6 Provisions

Provisions are recognised when the entity has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Specific provisions for bad debts are made against identified doubtful advances, including amounts in respect of interest that is not serviced.

In addition, a general provision is maintained against unforeseen losses on advances not specifically identified as doubtful.

1.7 Financial instruments

Financial assets include cash and bank balances, investments, advances, equity instruments and accounts receivable. Financial liabilities include trade payables. All financial instruments are carried at cost.

Loan advances

Advances are stated at cost less provision for bad and doubtful debts.

Preference share advances

Advances made in the form of preference shares are carried at cost less provision for bad and doubtful debts. The carrying amount of such advances is adjusted for the premium receivable on redemption over the period to redemption date. Such advances are redeemable or convertible into ordinary shares at the option of the holder of the instrument, however, if they do not exhibit the characteristics of an equity instrument, then such advances are disclosed on the balance sheet together with other advances.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2003

Investments

Unlisted investments are shown at fair value, unless their fair value cannot be reliably determined, in which case they are shown at cost less accumulated impairment losses. Included under investments are investments in subsidiaries and associates where these are held exclusively with a view to their subsequent disposal in the near future.

1.8 Investments in associates

An associate is an enterprise over whose financial and operating policies the company has the ability to exercise significant influence and which is neither a subsidiary nor a joint venture of the entity.

The equity method of accounting for associates is adopted in the entity's financial statements. In applying the equity method, account is taken of the share of accumulated retained earnings and movements in reserves from the effective date on which the enterprise became an associate and up to the effective date of disposal.

Goodwill arising on the acquisition of associates is included in the carrying amount of the associate and is treated in accordance with the entity's accounting policy for goodwill. The retained earnings of associates have been adjusted for the amortisation of goodwill.

The share of associated retained earnings and reserves is generally determined from the associate's latest audited financial statements but, in some instances, unaudited interim results are used. Dividends received from associates are included in income from investments.

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

1.9 Goodwill and negative goodwill

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

Goodwill is carried at cost, less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over five years.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2003

1.10. Impairment

The carrying amounts of the entity's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that specific event.

1.11 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Depreciation is calculated on historical cost using the straight-line basis over the estimated useful lives of the assets, using the following depreciation rates:

Computer hardware	33,33%
Computer software	33,33%
Furniture and fittings	16,67%
Office equipment	16,67%

Leasehold improvements are depreciated over the period of the underlying lease.

The recorded value of these depreciated assets are periodically compared to the anticipated recoverable amounts if the asset were to be sold. Where an asset's recorded value has declined below the recoverable amount, and the decline is expected to be of a permanent nature, the decline is recognised as an expense. To determine the recoverable amount expected future cash flows are discounted to their present values.

1.12 Related party transactions

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

1.13 Comparative figures

Where necessary comparative figures have been reclassified.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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	2003	2002
	R	R
2. Financial Contributions		
The agreement with the Kreditanstalt für Wiederaufbau (KfW) provides for the company to use the financial contributions exclusively for purposes qualifying in terms of the agreement. Upon utilisation of such funds for payment qualifying under the financial agreement, a transfer is made to Grant Capital		
2.1 Grant capital		
Opening balance	111,458,887	111,458,887
Qualifying disbursements made during the year	44,921,075	–
Transfer to Market Development Grant	(1,617,372)	(333,235)
Balance at end of year	<u>154,762,590</u>	<u>111,125,652</u>
2.2 Grant capital in advance		
Opening balance	–	–
Amounts received in advance	44,921,075	–
Qualifying disbursements taken to capital	(44,921,075)	–
Balance as at year end	<u>–</u>	<u>–</u>

Qualifying disbursements made during the year exceeded the Grant Capital in Advance balance by R 17 388 958 (2002: R 38 348 505).

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2003

	2003	2002
	R	R
3. Advances		
<i>3.1 Net carrying amount</i>		
Gross advances	99,332,688	73,368,527
Less: Provision for doubtful debts	(40,495,464)	(15,755,571)
Net advances	<u>58,837,224</u>	<u>57,612,956</u>
<i>3.2 Movement in provision for doubtful debts</i>		
Opening balance	15,755,572	7,275,882
Amount raised per income statement	27,059,517	9,257,233
Amounts written off	(2,319,625)	(777,544)
Closing balance	<u>40,495,464</u>	<u>15,755,571</u>
<i>3.3 Closing balance is made up of the following:</i>		
General provision	3,768,128	3,768,128
Specific provision	<u>36,727,336</u>	<u>11,987,444</u>
	<u>40,495,464</u>	<u>15,755,572</u>

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2003

	Lendco (Pty) Ltd	Midfirst Finance (Pty) Ltd	Norufin Housing (Pty) Ltd	Solitaire Housing Finance (Pty) Ltd	Total
	R	R	R	R	R
<i>3.4 Advances made in the form of preference shares included in the above balance are as follows.</i>					
2003					
Nominal preference share capital	1,300,000	–	2,400,000	2,620,002	6,320,002
Cost of investment	1,300,000	–	2,400,000	2,620,002	6,320,002
Share premium on redemption accrued	99,000	–	246,000	219,223	564,223
Gross carrying amount	1,399,000	–	2,646,000	2,839,225	6,884,225
Investment written off	–	–	–	–	–
Provision for doubtful debts	(1,399,000)	–	(2,646,000)	(2,839,225)	(6,884,225)
Carrying amount	–	–	–	–	–
Number of preference shares held	1,300,000	–	2,400,000	2,620,002	
2002					
Nominal preference share capital	1,300,000	550,000	2,400,000	2,620,002	6,870,002
Cost of investment	1,300,000	550,000	2,400,000	2,620,002	3,450,000
Share premium on redemption accrued	47,000	–	150,000	114,467	311,467
Gross carrying amount	1,347,000	550,000	2,550,000	2,734,469	3,596,066
Investment written off	–	(550,000)	–	–	(550,000)
Provision for doubtful debts	–	–	–	(2,734,469)	(2,734,469)
Carrying amount	1,347,000	–	2,550,000	–	3,897,000
Number of preference shares held	1,300,000	550,000	2,400,000	2,620,002	

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2003

	2003	2002
	R	R
4. Investment in Associates		
<i>4.1 Carrying amount of associates</i>		
<i>Ordinary Shares</i>		
Carrying amount at beginning of the year	621,738	–
Cost of investment in associate acquired during the year	150,000	325,600
Conversion of structured loan to equity	–	500,000
Conversion of preference shares to equity	1,003	–
Amortisation of goodwill	(463,923)	(320,157)
Impairment loss of investment	(183,075)	–
Reversal of impairment loss of investment	–	275,505
Attributable loss for the year	133,935	(159,210)
Carrying amount at end of the year	<u>259,678</u>	<u>621,738</u>
<i>Interest-free loan</i>		
Carrying amount at beginning of the year	79,725	79,725
Loan advanced to associate	–	–
Less: specific provision	(79,725)	(79,725)
Carrying amount at end of the year	<u>–</u>	<u>–</u>
The loan bears no interest, and has no repayment terms.		
Net carrying amount at end of the year	259,678	621,738

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	Lendco (Pty) Ltd	Norufin Housing (Pty) Ltd	Indlu Finance (Pty) Ltd	Agishana (Pty) Ltd	Solitaire Housing Finance (Pty) Ltd	Total
	R	R	R	R	R	R
The carrying amount includes:						
2003						
<i>Goodwill</i>	19,650	–	–	1,356,310	497,344	1,873,304
Opening balance		102,935	150,000	368,803	–	621,738
Goodwill relating to acquisitions	219,693	135,660	(150,000)	1,856,310	577,947	2,639,610
Accumulated amortisation	(120,832)	(139,715)	–	(863,819)	(80,603)	(1,204,969)
Impairment loss of investment	(79,211)	(98,880)	–	(4,984)	–	(183,075)
Reversal of impairment loss of investment	–	–	–	–	–	–
<i>Share of net asset value acquired</i>	(19,650)	61,405	300,000	(1,356,310)	(497,069)	(1,511,624)
<i>Share of post acquisition accumulated loss</i>	–	(61,405)	(40,322)	–	(275)	(102,002)
Closing balance	–	–	259,678	–	–	259,678
2002						
<i>Goodwill</i>	142,800	146,599	(150,000)	1,732,556	498,347	2,370,302
Opening balance	–	127,548	–	–	–	127,548
Goodwill relating to acquisitions	219,693	111,047	(150,000)	1,856,310	577,947	2,614,997
Accumulated amortisation	(76,893)	(91,996)	–	(123,754)	(79,600)	(372,243)
Impairment loss of investment	(167,089)	(108,416)	–	–	–	(275,505)
Reversal of impairment loss of investment	167,089	108,416	–	–	–	275,505
<i>Share of net asset value acquired</i>	(19,650)	61,405	300,000	(1,356,310)	(498,072)	(1,512,627)
<i>Share of post acquisition accumulated loss</i>	(123,150)	(105,069)	–	(7,443)	(275)	(235,937)
Closing balance	–	102,935	150,000	368,803	–	621,738
4.2 Gross carrying amount of loans made to associates						
2003						
Interest free loan	–	–	–	–	79,725	79,725
Interest bearing loan	9,184,541	16,741,675	1,207,045	17,948,166	9,266,207	54,347,634
Preference shares	1,399,000	2,646,000	–	–	2,839,225	6,884,225
	10,583,541	19,387,675	1,207,045	17,948,166	12,185,157	61,311,584
2002						
Interest free loan	–	–	–	–	79,725	79,725
Interest bearing loan	4,227,637	8,769,050	–	12,182,790	4,636,592	29,816,069
Preference shares	1,347,000	2,550,000	–	–	2,734,469	6,631,469
	5,574,637	11,319,050	–	12,182,790	7,450,786	36,527,263

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	R	R	R	R	R	R
4.3 Post acquisition accumulated loss of associates						
2003						
Share of opening accumulated loss	(200,043)	(197,065)	–	(131,197)	(79,875)	(608,180)
Share of current year attributable profit / loss	–	(102,935)	(40,322)	(737,606)	(1,003)	(513,063)
Share of associates' loss for the year	123,150	43,664	(40,322)	7,443	–	133,935
Amortisation of goodwill	(43,939)	(47,719)	–	(371,262)	(1,003)	(463,923)
Impairment loss of investment	87,878	9,536	–	(4,984)	–	92,430
Reversal of impairment loss of investment	(167,089)	(108,416)	–	–	–	(275,505)
Share of closing accumulated loss	(200,043)	(300,000)	(40,322)	(868,803)	(80,878)	(1,121,243)
2002						
Share of opening accumulated loss	(200,043)	(204,000)	–	–	(275)	(404,318)
Share of current year attributable profit / loss	–	6,935	–	(131,197)	(79,600)	(203,862)
Share of associates' loss for the year	(123,150)	(28,617)	–	(7,443)	–	(159,210)
Amortisation of goodwill	(43,939)	(72,864)	–	(123,754)	(79,600)	(320,157)
Impairment loss of investment	–	–	–	–	–	–
Reversal of impairment loss of investment	167,089	108,416	–	–	–	275,505
Share of closing accumulated loss	(200,043)	(197,065)	–	(131,197)	(79,875)	(608,180)

4.4 List of significant unlisted associates

2003

Carrying amount	–	–	259,678	–	–	259,678
Effective holding	30.1%	28.6%	30.0%	30.0%	73.7%	
Number of shares held	43	300,000	300,000	728,936	1,477	
Directors' valuation	–	–	259,678	–	–	259,678

2002

Carrying amount	–	102,935	150,000	368,803	–	621,738
Effective holding	30.1%	28.6%	30.0%	30.0%	47.4%	
Number of shares held	43	300,000	300,000	728,936	474	
Directors' valuation	167,089	102,935	150,000	368,803	–	621,738

The nature of the business of all associates is to provide finance to the low income market in respect of low cost housing. Agishana (Pty) Ltd has a June year-end. All other associates have a February year-end. The results of the companies were accounted for until their respective year-ends. No significant changes occurred between this date and the year-end of the company. During the year control, was taken of Solitaire Housing Finance (Pty) Ltd in terms of the loan agreement. This was to facilitate a sale of the debtors book to Lendco (Pty) Ltd and the subsequent winding down of Solitaire Housing Finance (Pty) Ltd. Accordingly, the investment was not consolidated but continued to be accounted for on the equity basis.

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			2003	2002		
			R	R		
5. Property, plant and equipment						
	Cost	Accumulated Depreciation	2003 Carrying Value	2002 Carrying Value		
	R	R	R	R		
Computer Hardware	15,465	(430)	15,035	–		
Computer Software	147,034	(32,744)	114,290	–		
Office Equipment	5,200	(722)	4,478	–		
Furniture and fittings	444,334	(77,451)	366,883	399,847		
Leasehold improvements	167,691	(60,555)	107,136	77,412		
	<u>779,724</u>	<u>(171,902)</u>	<u>607,822</u>	<u>477,259</u>		
Movement						
	Computer Hardware	Computer Software	Office Equipment	Furniture & Fittings	Leasehold Improvements	Total
31 March 2003	R	R	R	R	R	R
Opening balance	–	–	–	399,847	77,412	477,259
Additions	15,465	147,034	5,200	38,860	88,967	295,526
Disposals	–	–	–	–	–	–
Impairment	–	–	–	–	–	–
Depreciation	(430)	(32,744)	(722)	(71,824)	(59,243)	(164,963)
	<u>15,035</u>	<u>114,290</u>	<u>4,478</u>	<u>366,883</u>	<u>107,136</u>	<u>607,822</u>
31 March 2002	R	R	R	R	R	R
Opening balance	–	–	–	–	–	–
Additions	–	–	–	405,474	78,724	484,198
Disposals	–	–	–	–	–	–
Impairment	–	–	–	–	–	–
Depreciation	–	–	–	(5,627)	(1,312)	(6,939)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>399,847</u>	<u>77,412</u>	<u>477,259</u>

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	Year ended 31 March 2003	Year ended 31 March 2002
	R	R
6. Trade and other receivables		
Deposits and prepayments	77,082	–
Other receivables	519,544	2,769,409
Receiver of Revenue	401,942	–
	<u>998,568</u>	<u>2,769,409</u>
7. Cash and cash equivalents		
Cash on hand	683	–
Investec Bank - South Africa	17,425,062	27,389,807
SCMB - South Africa	172,802	172,802
Standard Bank - Jersey	56,005,242	24,533,450
Standard Bank - South Africa	1,706,918	77,199
	<u>75,310,707</u>	<u>52,173,258</u>
8. Trade and other payables		
Receiver of Revenue Liability	–	993,078
Other payables	879,477	296,146
	<u>879,477</u>	<u>1,289,224</u>
9. Revenue		
Interest on advances	10,629,508	9,638,733
Interest on bank deposits	3,274,950	2,990,334
Revenue	<u>13,904,458</u>	<u>12,629,067</u>
10. Directors' emoluments		
Fees for services as directors	34,000	13,000
For other services	733,996	308,002
	<u>767,996</u>	<u>321,002</u>

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	Year ended 31 March 2003	Year ended 31 March 2002
	R	R
11. (Deficit) / Surplus before tax		
(Deficit) / Surplus before tax is arrived at after taking the following items into account:		
Income		
<i>Accrued share premium</i>	252,757	165,400
<i>Profit on foreign exchange differences</i>	5,016	7,073,796
Expenses		
<i>Auditor's remuneration</i>	190,380	156,271
– Current year's remuneration	190,380	137,000
– Underprovision previous year	–	19,271
<i>Fees for services</i>	919,867	2,848,354
– Consulting and advisory fees	919,867	431,666
– Management fees	–	2,416,688
<i>Bad and doubtful debts</i>	26,615,563	9,257,234
– Movement in specific provision	–	10,166,961
– Movement in general provision	24,739,893	(1,687,271)
– Net amounts written off	1,875,670	777,544
<i>Market Development funds grants</i>	1,284,137	333,234
<i>Amortisation of goodwill</i>	462,920	320,157
<i>Director emoluments</i>	767,996	321,002
<i>Lease rentals – equipment</i>	340,144	104,395
– buildings	387,424	35,786

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	Year ended 31 March 2003	Year ended 31 March 2002	
	R	R	
12. Taxation			
12.1 Tax charge for the year			
South African Normal Taxation	(19,000)	4,196,231	
– Current	–	4,196,231	
– Prior	(19,000)	–	
Deferred Taxation	(5,110,828)	(1,468,251)	
– Current	(5,110,828)	(1,468,251)	
– Prior	–	–	
	<u>(5,129,828)</u>	<u>2,727,980</u>	
12.1 Tax charge for the year			
Taxation has not provided for as the company has an estimated tax loss of R1 968 493			
12.3 Deferred Tax			
The deferred tax balance consists of the following temporary difference:			
– Doubtful debt provision	7,450,029	2,929,748	
– Tax Loss	590,548	–	
	<u>8,040,577</u>	<u>2,929,748</u>	
13. Commitments			
13.1 Facilities			
The Rural Housing Loan Fund has approved a total of R 210,540m (2002: R198,540m) in loan facilities as at 31 March 2003, of which R 17,177m (2002: R38,144m) has not yet been drawn by clients.			
13.2 Lease Commitments			
	March 2004	March 2005	March 2006
Future lease commitments are:			
Buildings	348,197	379,537	–
Equipment	460,767	439,214	18,677
	<u>808,964</u>	<u>818,751</u>	<u>18,677</u>

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	Year ended 31 March 2003	Year ended 31 March 2002
	R	R
14. Reconciliation of net income before taxation to cash generated from / (utilised in) operations		
Profit / (Loss) before tax	(22,170,949)	6,550,676
<i>Adjustments for:</i>		
Net movement in doubtful debts provision	20,590,135	8,396,610
– Increase in doubtful debt provision	22,909,760	9,257,233
– Reversal in doubtful debt provision relating to advances	(2,319,625)	(777,544)
– Reversal in doubtful debt provision relating to equity investments	–	(83,079)
Provision for loan in associate	–	–
Provision for equity investments	–	–
Amounts written off relating to advances	2,319,625	777,544
Equity investments written off	–	83,079
Amortisation of goodwill	462,920	320,157
Impairment loss of investment	4,332,833	–
Post-acquisition share of (profit) / loss in associate	(133,935)	159,210
Reversal of impairment loss of investment	–	(275,505)
Accrued share premium	(252,757)	(165,400)
Depreciation	164,963	6,939
Interest income	(13,904,458)	(12,629,067)
Operating profit / (loss) before working capital changes	(8,591,623)	3,224,243
<i>Working capital changes:</i>	(25,274,915)	8,761,250
Increase in accounts receivable	2,172,783	(396,592)
Decrease / (Increase) in advances	(28,031,029)	8,980,743
Increase / (Decrease) in accounts payable	583,331	177,099
Cash generated from / (utilised in) operations	(33,866,538)	11,985,493
15. Taxation Paid		
Amount outstanding at beginning of year	993,078	329,101
Current tax charge per income statement	(19,000)	4,196,231
Amount outstanding at end of year	401,942	(993,078)
Taxation paid	1,376,020	3,532,254

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16. Financial Instruments

Credit Risk

Financial assets, which potentially subject the Fund to concentrations of credit risk, consist principally of advances, short-term deposits and cash. The Fund's cash equivalents and short term deposits are placed with high credit quality financial institutions rated at least A1 or better in terms of short-term credit ratings by at least two recognised rating agencies. Advances are presented net of the allowance for doubtful receivables. Credit risk with regard to advances is limited in terms of credit policy, which provides for prudent counter-party limits in respect of client exposures as a percentage of the total advances portfolio. The advances as at year-end reflect that the Fund has exposures within approved counter-party limits.

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

The composition of the year end advances book as follows:

	2003	2002
	R	R
Fixed rate advances	93,907,372	52,778,484
Variable rate advances	5,425,316	20,590,043
Less: Provision for doubtful debts	(40,495,464)	(15,755,571)
Net advances per balance sheet	<u>58,837,224</u>	<u>57,612,956</u>

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	Fixed Rate	Floating Rate	Total	
	R	R	R	
Interest rate risk				
The Fund is exposed to interest rate price risk on facilities with a fixed interest rate, and to interest rate cash flow risk on those with a floating interest rate. The Fund is exposed to interest rate risk on the following assets:				
	Fixed Rate	Floating Rate	Total	
	R	R	R	
2003				
Advances	93,907,372	5,425,316	99,332,688	
Short-term investments	–	73,603,106	73,603,106	
Bank balances	–	57,712,160	57,712,160	
2002				
Advances	52,778,484	20,590,043	73,368,527	
Short-term investments	27,562,609	–	27,562,609	
Bank balances	–	24,610,649	24,610,649	
Fair Values				
At 31 March 2003, the carrying amounts of cash, short-term deposits, accounts payable and accrued expenses approximated their fair values due to the short-term maturity of these assets and liabilities. The net fair values of the Fund's unlisted financial assets at balance sheet date are:				
	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	R	R	R	R
Advances	58,837,224	69,496,442	57,612,956	58,591,919

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