

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21
of the Companies Act)
(Registration number: 1991/003485/08)

ANNUAL FINANCIAL STATEMENTS
30 JUNE 2005

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ANNUAL FINANCIAL STATEMENTS
30 June 2005

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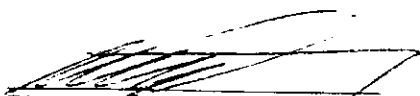
DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS


The directors are responsible for ensuring that the annual financial statements fairly present the financial position and operating results of the company. The annual financial statements have been compiled by management in terms of South African Statements of Generally Accepted Accounting Practice and are supported, where appropriate, by reasonable and prudent judgements and estimates.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for the foreseeable future.

The annual financial statements, set out on pages 6 to 23, were approved by the board of directors on 27 October 2005 and are signed on its behalf by:


Director


Director

**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION**

Introduction

We have audited the annual financial statements of The Small Enterprise Foundation set out on pages 6 to 23 for the year ended 30 June 2005. These annual financial statements are the responsibility of the company's directors. Our responsibility is to report on these annual 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 amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

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

Qualification

In common with similar organisations, it is not feasible for the company to institute accounting controls over cash collections from grants received prior to the initial entry of the receipts in the accounting records. Accordingly, it was impracticable for us to extend our examination beyond the receipts actually recorded.

Audit opinion

Except for the effects of any adjustments which might have been necessary had it been possible for us to extend our examination of cash collections from grants, in our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 2005, and the results of its operations and cash flow information for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION (continued)**

Funding of the business

Without further qualifying our opinion above, we draw attention to the fact that the company is not yet generating sufficient income to fund its operations and business activities, and is still dependent on grants in order to continue as a going concern in the foreseeable future.

**Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (SA)
Johannesburg**

27 October 2005

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS
30 June 2005

The directors have pleasure in presenting their report on the company for the year ended 30 June 2005.

BUSINESS REVIEW

The principal business of the organisation is to motivate the poor to take up income generating activities and to extend credit to micro-entrepreneurs to enable them to realise their potential and thereby generate income and employment. The company is registered with the Micro Finance Regulatory Council.

The Small Enterprise Foundation ("SEF"), has since inception, granted 217 660 (2004: 167 768) loans to the value of R236 million (2004: R170 million).

OPERATING RESULTS

Results for the year ended 30 June 2005 are set out on page 7 of the financial statements. The directors are pleased to report a 38% increase in loan advances as well as a 40% increase in loan interest income. At the same time expenses, excluding finance costs and impairment of advances, increased by 33% due to four new branches being established.

LOAN LOSS RESERVES

In cases where borrowers experience death amongst their members, the company will decrease the group's repayment and write-off the amount owed by the member. Such write-offs are classified as death write-offs and are included under operating expenses. During the year under review an amount of R125 046 (2004: R71 240) was written-off.

A debt is declared bad once it is 84 days in arrears. An amount of R93 810 (2004: R207 159) was written off during the year under review.

We believe that this excellent performance will be maintained due to the nature of the lending procedures, the diligence of the field staff and the commitment of clients.

The only instance where the organisation allows the renegotiation of delinquent loans is where clients are able to provide medical evidence of long-term illness. Such amounts are not written off, and the respective clients are urged to continue with loan repayments when their condition improves. The accumulative amount renegotiated in this way since inception and still outstanding at year-end was R111 860 (2004: R49 862).

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS (continued)
30 June 2005

DIRECTORS AND SECRETARY

The directors of the company for the year under review, and at the date of this report were as follows:

Ms Marie Albertina Kirsten (Chairperson)
Mr Mutle Constantine Mogase (Non-executive)
Mr John Robert de Wit (Managing Director)
Mr Matome Patrick Malatji (Non-executive)
Mr Sanjay Doshi (Non-executive)
Mr Ben Nkuna (Executive)
Ms Sizeka Monica Rensburg (Non-executive)

Secretary and Public Officer - J R de Wit and Nexia Levitt Kirson Chartered Accountants (SA)
Auditors – Deloitte & Touche

Business address
42 Boundary Street
Tzaneen
0850

Postal address
P O Box 212
Tzaneen
0850

POST BALANCE SHEET EVENTS

No events have occurred between the financial year-end and the date of this report that are expected to have a material adverse effect on either the operations of the company or its financial position.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
BALANCE SHEET
as at 30 June 2005

	Notes	2005 R	2004 R
ASSETS			
Non-current assets			
Property and equipment	2	1 308 128	926 480
Total non-current assets		<u>1 308 128</u>	<u>926 480</u>
Current assets			
Advances- principal amount outstanding	3	26 421 580	19 089 947
Accrued interest on advances		1 206 451	933 428
Accounts receivable	4	264 117	207 755
Cash and short-term funds	5	3 460 932	4 461 846
Total current assets		<u>31 353 080</u>	<u>24 692 976</u>
TOTAL ASSETS		<u>32 661 208</u>	<u>25 619 456</u>
FUNDS AND LIABILITIES			
Funds			
General capital reserve	6	587 953	587 953
Development reserve	7	6 765 589	6 760 016
Educational reserve	8	20 188	20 188
Accumulated income		7 075 130	5 315 260
Total funds		<u>14 448 860</u>	<u>12 683 417</u>
Non-current liabilities			
Long term loans	9	9 227 351	7 501 260
Current liabilities			
Short term loans	10	6 879 733	4 470 818
Accounts payable		2 105 264	963 961
Total current liabilities		<u>8 984 997</u>	<u>5 434 779</u>
TOTAL FUNDS AND LIABILITIES		<u>32 661 208</u>	<u>25 619 456</u>

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
INCOME STATEMENT
for the year ended 30 June 2005

	Notes	2005 R	2004 R
OPERATING INCOME			
Interest earned on advances		14 936 760	10 701 784
Other interest received		194 772	173 110
Finance costs	11	(1 526 998)	(937 030)
Impairments of advances	12	(93 810)	(207 159)
		<hr/>	<hr/>
MARGIN ON LENDING ACTIVITIES			
Operating expenses		13 510 724	9 730 705
		(8 790 524)	(6 615 061)
		<hr/>	<hr/>
OPERATING INCOME			
Sundry income		4 720 200	3 115 644
(Loss)/profit on disposal of property and equipment		94 957	140 959
		(1 156)	12 512
		<hr/>	<hr/>
INCOME before head office expenses			
Head office expenses		4 814 001	3 269 115
		(6 046 881)	(3 929 215)
		<hr/>	<hr/>
LOSS before grants			
Operational grants utilised to cover expenses	13	(1 232 880)	(660 100)
	14	2 992 750	2 619 335
		<hr/>	<hr/>
NET INCOME before taxation			
		1 759 870	1 959 235
Taxation		-	-
		<hr/>	<hr/>
NET INCOME FOR THE YEAR			
		1 759 870	1 959 235
		<hr/>	<hr/>

THE SMALL ENTERPRISE FOUNDATION
 (An association incorporated under Section 21 of the Companies Act)
STATEMENT OF CHANGES IN EQUITY
 for the year ended 30 June 2005

	General capital reserve R	Development reserve R	Educational reserve R	Accumulated income R	Total R
Balance as at 30 June 2003	587 953	6 709 676	5 800	3 356 025	10 659 454
Development and educational grants received	-	50 340	14 388	-	64 728
Net income for the year	-	-	-	1 959 235	1 959 235
Balance as at 30 June 2004	587 953	6 760 016	20 188	5 315 260	12 683 417
Development grants received	-	5 573	-	-	5 573
Net income for the year	-	-	-	1 759 870	1 759 870
Balance as at 30 June 2005	587 953	6 765 589	20 188	7 075 130	14 448 860

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
CASH FLOW STATEMENT
for the year ended 30 June 2005

	Notes	2005 R	2004 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised by operations	17	(6 215 974)	(5 451 565)
Other interest received		194 772	173 110
Finance costs		(1 526 998)	(937 030)
		<hr/>	<hr/>
Net cash outflow from operating activities		(7 548 200)	(6 215 485)
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(601 043)	(112 211)
Proceeds on disposal of property and equipment		15 000	9 000
		<hr/>	<hr/>
Net cash outflow from investing activities		(586 043)	(103 211)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in long term loans		1 726 091	3 376 321
Increase in short terms loans		2 408 915	1 360 109
Developments grants received		5 573	50 340
Educational grants received		-	14 388
Operational grants received		2 992 750	2 583 733
		<hr/>	<hr/>
Net cash inflow from financing activities		7 133 329	7 384 891
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1 000 914)	1 066 195
Cash and cash equivalents at beginning of year		4 461 846	3 395 651
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	3 460 932	4 461 846
		<hr/>	<hr/>

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
30 June 2005

1. ACCOUNTING POLICIES

The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice. The annual financial statements are prepared on the historical cost basis, except for certain financial instruments which are fair valued, and incorporate the following principal accounting policies, which have been consistently applied with prior years in all material respects:

1.1 Interest earned on advances

Interest earned on advances is recognised using the effective interest rate method over the term of the loans.

1.2 Other interest received

Other interest received is accrued on a daily basis using the effective interest rate method.

1.3 Grants received

Operational grants received

These are grants which are specifically designated as being for operational expenses, where the expenses to which they relate have actually been incurred and charged to income in the same period, and where all the contractual conditions for payment of the grant amount have been met.

Grants for loan capital

Grants designated for loan capital are taken directly to General Capital Reserve and Development Reserve.

1.4 Property and equipment

Property and equipment are stated at historical cost and are depreciated using the straight-line method over the estimated useful lives of the assets.

Furniture and fittings	5 years
Office equipment	5 years
Computer equipment	3 years
Motor vehicles	4 years
Buildings	40 years

Land is not depreciated.

The carrying amounts of property and equipment are written down to their estimated recoverable amounts, where the estimated recoverable amount is lower than the carrying value.

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
30 June 2005

1. ACCOUNTING POLICIES (continued)

1.5 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on balance sheet when the company becomes a party to the contractual provisions of the instrument.

All financial instruments are initially measured at cost, which is the fair value of the consideration given or received in exchange for these instruments.

At 30 June 2005, the company's principal financial assets included cash and short term funds, advances and accrued interest, and accounts receivable. Advances and accrued interest are measured at amortised cost. Cash, short term funds and accounts receivable are stated at their nominal values which approximate fair values. All financial assets are reduced by appropriate allowances for estimated irrecoverable amounts where applicable.

At 30 June 2005, the company's principal financial liabilities included accounts payable, short and long term loans. Short and long term loans are measured at amortised cost. Accounts payable are stated at their nominal value which approximate fair value.

1.6 Retirement benefits

Contributions to retirement benefit funds are charged to the income statement when they are incurred.

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
 30 June 2005

2. PROPERTY AND EQUIPMENT

2005 Cost	Land & buildings R	Furniture & fittings R	Office equipment R	Computer equipment R	Motor vehicles R	Total R
At beginning of year	530 191	198 880	187 481	311 687	287 438	1 515 677
Additions	264 336	83 384	91 720	154 660	6 943	601 043
Disposals and scrappings	-	-	-	-	(23 500)	(23 500)
At end of year	794 527	282 264	279 201	466 347	270 881	2 093 220
Accumulated depreciation						
At beginning of year	26 266	152 916	104 974	204 150	100 891	589 197
Depreciation	(6 912)*	26 333	28 075	91 344	64 399	203 239
Disposals and scrappings	-	-	-	-	(7 344)	(7 344)
At end of year	19 354	179 249	133 049	295 494	157 946	785 092
Net book value	775 173	103 015	146 152	170 853	112 935	1 308 128

*Previously, depreciation was charged on land which was not in accordance with the accounting policy note. The cumulative depreciation on land of R21 396 was reversed against the depreciation charge for land and buildings in the current year.

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 30 June 2005

2. PROPERTY AND EQUIPMENT (continued)

2004 Cost	Land & buildings R	Furniture & fittings R	Office equipment R	Computer equipment R	Motor vehicles R	Total R
At beginning of year	530 191	190 280	149 015	290 987	268 523	1 428 996
Additions	-	8 600	63 996	20 700	18 915	112 211
Disposal and scrappings	-	-	(25 530)	-	-	(25 530)
At end of year	530 191	198 880	187 481	311 687	287 438	1 515 677
Accumulated depreciation						
At beginning of year	13 011	125 593	102 187	121 989	35 484	398 264
Depreciation	13 255	27 323	22 829	82 161	65 407	210 975
Disposal and scrappings	-	-	(20 042)	-	-	(20 042)
At end of year	26 266	152 916	104 974	204 150	100 891	589 197
Net book value	503 925	45 964	82 507	107 537	186 547	926 480

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

	2005 R	2004 R
2. PROPERTY AND EQUIPMENT (continued)		
The land and building is situated on Erf 199 in the township of Tzaneen Extension 4, Registration Division LT, Limpopo Province. In 2003, P. Visser (MIVSA), a professional valuer, independently estimated the market value of the property at R880 000.		
3. ADVANCES- PRINCIPAL AMOUNT OUTSTANDING		
Loans outstanding	26 696 527	19 554 450
Impairment provision	(274 947)	(464 503)
	<hr/>	<hr/>
	26 421 580	19 089 947
	<hr/>	<hr/>
Movement in impairment provision		
Balance at beginning of year	464 503	327 564
Current year movement in provision for bad debts	(189 556)	136 939
	<hr/>	<hr/>
Balance at end of year	274 947	464 503
	<hr/>	<hr/>

The advances have been ceded as security on the Hivos Triodos Bank loan and the Khula Enterprise Finance loan. See note 9.

The entity is operational in Tzaneen, in the Limpopo province and Mpumalanga province, South Africa. Individual loans do not exceed R10 000.

Nominal annual interest rates, based on a declining balance, range from 70,1% p.a to 82,1% p.a.

Amounts written off during the year were expensed directly to the income statement.

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

	2005 R	2004 R
3. ADVANCES -PRINCIPAL AMOUNT OUTSTANDING (continued)		

A total amount of R139 556 (2004: R65 529) was in arrears at the financial year-end. An analysis of the arrears for the current year is presented below. The ratios presented are based on the arrears balance, divided by the gross advances principal amount as at year-end.

4. **ACCOUNTS RECEIVABLE**

Included in accounts receivable is an amount for staff debtors of R33 870 (2004: R93 000). These constitute small loans available generally to all first time vehicle users, salary advances given to staff, as well as study loans. These loans are interest free. There were no arrears in respect of staff loans (2004: R nil) at the financial year-end. Loans are normally repaid over a period of two years.

Staff debtors and other accounts receivable	264 117	207 755
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5. **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprised the following balance sheet amounts:

Cash and short-term funds	3 460 932	4 461 846
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THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

	2005 R	2004 R
6. GENERAL CAPITAL RESERVE		
<p>The General Capital Reserve comprises of grants received from donors other than USAID (see Development Reserve, note 7). Such grants are, for the most part, non-recurring grants from a variety of organisations wanting to express their interest in, and support of, the work performed by The Small Enterprise Foundation. All grants have been designated by the donors concerned as loan capital to be utilised for future disbursements of loans to members. No new grants were received during the year under review.</p>		
Balance at end of year	587 953	587 953
	<u> </u>	<u> </u>
7. DEVELOPMENT RESERVE		
<p>The Development Reserve comprises mainly of grants received from USAID in terms of a five year agreement that expired in September 1995. Such funds were designated by USAID as Financial Structure support. As with General Capital reserve, all such grants are designated as loan capital to be used for future disbursements of loans to members.</p>		
Balance at the end of year	6 765 589	6 760 016
	<u> </u>	<u> </u>
8. EDUCATIONAL RESERVE		
<p>The Educational Reserve comprises of small grants by individuals. The donors have requested the funds be used to disburse educational loans to existing members of the organisation under an educational loan programme introduced in 1998.</p>		
Balance at the end of year	20 188	20 188
	<u> </u>	<u> </u>

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

2005
R

2004
R

9. LONG TERM LOANS

Hivos Triodos Bank

Hivos Triodos Bank of the Netherlands has approved two loan facilities totalling R5 million. The first facility, for R1 million, is redeemable in South African Rand in one instalment of R1 million on 1 November 2005. No specific grace period is specified in the contract.

For the initial tranche of R500 000, interest is paid at the prime rate, with a minimum of 12% and a maximum of 18% per annum. For the second tranche of R500 000, interest is paid at a rate of 4% below prime, with a minimum of 14% and a maximum of 18% per annum. Interest is payable six monthly in arrears.

The second facility of R4 million is redeemable in South African Rand, in two instalments of R2 million each, on 1 July 2007 and 1 July 2008 respectively. No grace is specified in the contract. Interest is paid at the prime rate, with a minimum of 12% and a maximum of 18% per annum, and is payable six monthly in arrears.

The purpose of the Hivos Triodos loans is to increase the working capital for the purposes of on lending to micro entrepreneurs. The loans are secured by a first cession of the advances book to micro entrepreneurs financed by this loan facility.

Balance at the beginning of the year	3 000 000	1 000 000
Additional drawdowns	2 000 000	2 000 000
Short-term portion transferred to current liabilities	(1 001 620)	-
	<hr/>	<hr/>
Balance at the end of the year	3 998 380	3 000 000

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

2005 **2004**
R **R**

9. LONG TERM LOANS (continued)

The average balance outstanding during the year on the first loan, calculated on a straight-line basis, was R1 000 000 (2004: R1 000 000). Interest accrued and paid during the year amounted to R130 000 (2004: R140 000). There were no arrears in respect of this loan during the year under review (2004: R Nil).

The average balance outstanding during the year on the second loan, calculated on a straight-line basis, was R3 666 667. Interest accrued and paid during the year amounted to R436 666. There were no arrears in respect of this loan during the year under review. (2004 : R Nil)

Khula Enterprise Finance Limited

In 2003, the company entered into a business loan agreement with Khula Enterprise Finance Limited. The maximum loan facility under this agreement is R10 million. Interest on loan drawdowns is calculated at prime base rate minus 3% and drawdowns are repayable over 36 months from the date of the specific drawdown.

In the current year, the company entered into two additional business loan agreements with Khula Enterprise Finance Limited. The maximum loan facilities under these agreements are R2.1 million and R9.6 million. Interest on loan drawdowns is calculated at the prime rate minus 3%. Drawdowns in respect of the R2.1 million facility are repayable over 36 months from the date of the specific drawdown. The repayment period in respect of the R9.6 million facility is set at a maximum of 60 months from initial drawdown.

This loan is secured by a cession of the Khula end user loans.

Balance at the end of year	8 496 357	6 940 476
Short-term portion transferred to current liabilities	(5 163 020)	(4 018 309)
	3 333 337	2 922 167

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

	2005	2004
	R	R
9. LONG TERM LOANS (continued)		
Tembeka Social Investment Company Limited		
In November 2003, the company entered into a new loan agreement with Tembeka Social Investment Company Limited. The loan facility under this agreement is R500 000. Interest is calculated at 12% and is payable quarterly in arrears. The principal loan amount is repayable on 30 November 2006.		
Balance at the end of year	505 000	505 000
Short term portion transferred to current liabilities	(5 000)	-
	<u>500 000</u>	<u>505 000</u>
Tembani International Guarantee Fund and Teba Bank		
In February 2004, the company entered into a loan agreement With Tembani International Guarantee Fund and Teba Bank. The maximum loan facility under this agreement is R3 000 000. Interest is calculated at prime less 1% and is payable monthly. The loan is repayable monthly. Maturity date is 25 February 2009.		
This loan is secured by a cession of a fixed deposit of R500 000 held at Standard Bank and a letter of credit for R2.1 million by City Bank New York on behalf of Tembani International Guarantee Fund.		
The loan is secured by a cession of end user loans.		
Balance at the end of year	2 051 637	476 221
Short-term portion transferred to current liabilities	(656 003)	(402 128)
	<u>1 395 634</u>	<u>1 074 093</u>
	9 227 351	7 501 260

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

	2005 R	2004 R
10. SHORT TERM LOANS		
In the previous year the company entered into a loan agreement with Margaretha Vintges. The loan amount advanced was R50 000 and interest is calculated at prime less 4%. The full amount outstanding is repayable on short-term notice by the lender.		
Loan from Margaretha Vintges	54 090	50 381
Current portion of Hivos Triodos Bank loan	1 001 620	-
Current portion of Khula Enterprise Finance Limited business loan	5 163 020	4 018 309
Current portion of Tembeka Social Investment Company loan	5 000	-
Current portion of Teba Bank loan	656 003	402 128
	-----	-----
	6 879 733	4 470 818
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THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

	2005 R	2004 R
11. FINANCE COSTS		
Finance costs consist of the following:		
Finance costs in respect of loans	1 526 998	937 030
	<u>1 526 998</u>	<u>937 030</u>
12. IMPAIRMENT OF ADVANCES		
Impairment of advances consist of the following:		
Advances written off	178 219	280 867
Impairment of advances recovered	(84 409)	(73 708)
	<u>93 810</u>	<u>207 159</u>
13. LOSS BEFORE GRANTS		
The loss before grants is arrived at after taking into account the following:		
Staff costs	9 698 543	7 093 542
Auditors' remuneration		
- Statutory audit – current year	131 760	73 530
- Statutory audit – prior year under provision	30 090	13 619
- Audit expenses	31 476	23 012
- Other services	5 040	4 583
Depreciation	203 239	210 975
Operating lease payments – buildings*	99 240	65 979
Lease rentals-motor vehicles*	34 006	-
Death write off	125 046	71 240
Legal fees	29 606	111 507
Directors' emoluments		
- For managerial duties (paid by the Company)	953 730	761 032
- Expenses relating to managerial duties	17 404	69 839
Current year movement in impairment provision	(189 556)	136 939

*The lease agreements for buildings are negotiated on an annual basis and the current lease agreements expire on 30 June 2005. The future lease commitments, relating to motor vehicles, are R244 172 for the period not later than one year, and R1 292 552 for the period later than one year and not later than five years.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

	2005 R	2004 R
14. OPERATIONAL GRANTS RECEIVED		
H.S.D.U.	-	194 667
Institute for development studies	-	123 528
Khula Enterprise Finance Limited	2 690 449	1 687 677
Hivos Triodos	302 300	613 463
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	2 992 750	2 619 335
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No donations or subsidies in kind were received during the year under review (2004: R Nil).

A seed loan, convertible into a grant, of R2 414 634.00 was extended by Khula Enterprise Finance Limited during the current year. No interest was charged on this unsecured loan. The loan amount was converted to a grant after year end due to certain performance targets being met by 30 June 2005.

15. TAXATION

No provision has been made for taxation as the company is exempt from taxation. The company has applied for tax exemption from SARS, and are still awaiting a response in this regard.

16. RETIREMENT BENEFITS

All permanent employees of the company are members of the Old Mutual Orion Provident Fund. The provident fund is in the nature of a defined contribution plan, where the retirement benefits are determined with reference to the employer and employees' contributions to the fund. In 2005, the employer contributed R945 681 (2004: R693 434) towards to provident fund and group life premiums. Current contributions to the provident fund are charged against income as incurred.

THE SMALL ENTERPRISE FOUNDATION
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 June 2005

	2005 R	2004 R
17. CASH UTILISED BY OPERATIONS		
Loss before grants	(1 232 880)	(660 100)
Adjusted for:		
Other interest received	(194 772)	(173 110)
Finance costs	1 526 997	937 030
Depreciation	203 239	210 975
Loss/(profit) on disposal/scrapping of property and equipment	1 156	(3 512)
Movement in provision for bad debts	(189 556)	136 939
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Cash generated before working capital changes	114 184	448 222
Adjusted for changes in working capital:		
Increase in accounts receivable	(56 362)	(56 310)
Increase in accounts payable	1 141 304	224 052
Increase in operating assets – principle outstanding and accrued interest before movement in provision for bad debts	(7 415 100)	(6 067 529)
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Cash utilised by operations	(6 215 974)	(5 451 565)

18. RISK MANAGEMENT

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation, and cause the other party to incur a financial loss. The Company mitigates this risk by employing a comprehensive framework of policies, procedures and limits to ensure a process of risk assessment, quantification and monitoring.

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. As the Company is still dependant on grants in order to continue as a going concern, the managing of this risk factor is critical to the Company's survival. The company does however have loan facilities available should funds be required to meet commitments.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The Company mitigates this risk by setting fixed repayment terms for all loans and advances.