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# THE SMALL ENTERPRISE FOUNDATION

## MANAGEMENT REVIEW

30 JUNE 2003



*"I am very happy. SEF has made a difference because I can now regard myself as someone who is working and can provide for her family. I have been able to build a successful business. SEF has helped me both economically and socially. It has given me a loan, business advice and a sense of community".*

*Francina Malai (SEF Member)*

**THE SMALL ENTERPRISE FOUNDATION  
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
MANAGEMENT REVIEW  
FOR THE YEAR ENDED 30 JUNE 2003**

The Small Enterprise Foundation, SEF, is a non-profit, non-government organisation dedicated to ending poverty. The organisation was registered in July 1991 and disbursed its first loans in January 1992. The following is a summary of performance:

<b>Indicator</b>	<b>June 2003</b>	<b>June 2002</b>
<b>Number of loans outstanding</b>	18 812	13 387
<b>% Women clients</b>	99%	98%
<b>Value of loans outstanding</b>	R 13.5 million <sup>1</sup>	R 8.4 million
<b>Current average loan size disbursed</b>	R 1 158	R 1 033
<b>Number of loans disbursed since inception</b>	127 276	94 603
<b>Amount disbursed since inception</b>	R 124 million	R 91.5 million
<b>Bad Debt rate</b>	1.5 %	2.2 %
<b>Portfolio at risk &gt; 30 days</b>	1.1 %	0.5 %
<b>Since inception Re-scheduled loans (due to illness)</b>	R 117 422	R 121 875
<b>Death Write-Offs</b>	R 51 377	R 38 695
<b>Total Savings as held by clients</b>	R 2,5 million	R 2,2 million
<b>Average number of all staff</b>	101	105
<b>Average no. of operations staff</b>	83	82
<b>Average no of Development and Training, Loans Administration, and Head office staff</b>	18	23
<b>Clients per loan officer</b>	301	209
<b>Operational self sufficiency<sup>2</sup></b>	78 %	51 %
<b>Financial self sufficiency<sup>3</sup></b>	76 %	51 %

<sup>1</sup> At the close of the financial year the Rand/US\$ exchange rate stood at R7.59 = US\$1.00

<sup>2</sup> Operational self sufficiency = Loan interest income / (total operating costs + loan loss provision)

<sup>3</sup> Financial self sufficiency = Total income / (total operating costs + total finance costs + loan loss provision)



### **Introduction**

The Small Enterprise Foundation is a growing development organization.

### **Values**

We believe in :

Respect for all

Having positive impact on the lives of our stakeholders

Striving for operational efficiency and self-sufficiency

### **Mission**

To work aggressively towards the elimination of poverty by reaching the poor and very poor with a range of financial services to enable them to realise their potential.

### **Vision**

A world free of poverty

## **BACKGROUND**

SEF (The Small Enterprise Foundation) began operations in 1992 with the aim of alleviating poverty in a sustainable manner by enabling the poor to increase their income through microcredit and by assisting them in the accumulation of savings. The performance summary shows that since inception the organisation has disbursed 127 276 loans to the value of R124 million. SEF's recovery performance has been exceptional with cumulative bad debts since inception amounting to only R479 949 or 0.4% of the total amount disbursed<sup>4</sup>. In the past year the organisation has made strong improvements in self-sufficiency and is budgeting to attain operational self-sufficiency by April 2004 and financial self-sufficiency before December of that year.

Limpopo Province, in which SEF is located, is characterised by severe poverty. 60% of households live below the poverty line and 40% live below half that level<sup>5</sup>. As the organisation's mission statement suggests SEF works to reach the poor. In 1996 the organisation started a special program which targets the "very poor" – those in the poorest 30% of households in the province. The first program is known as MCP, the Microcredit Programme, and the specially targeted program is known as TCP, the Tšhomisano Credit Programme<sup>6</sup>. MCP currently has 9 652 active clients whereas TCP serves 8 406 clients.

## **BACKGROUND (continued)**



<sup>4</sup> SEF writes off a loan when any part of any instalment is more than 84 days in arrears

<sup>5</sup> The "household subsistence" level is used as the poverty line. In 2001 this stood at R920 (US\$121) per family of five per month. 40% of households in the Northern Province live below half this line.

<sup>6</sup> Tšhomisano is the Northern Sotho word meaning "Working together".

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Both of SEF's operations, MCP and TCP, utilise a methodology that has been adapted from that of the Grameen Bank of Bangladesh<sup>7</sup>. In the case of TCP SEF starts working in a community by first conducting participatory wealth ranking or PWR. Thereafter field staff go to the poorest households to motivate the women of those households to start or resume an income generating enterprise. By definition the very poor do not have money and thus once motivated microcredit becomes the means by which the individual will start her business.

While the majority of MCP's clients are certainly poor, in fact some 20% are very poor, a requirement of this program is that the individual must have been operating a business for at least six months. In this case microcredit is used to change a business from being very fragile to being secure and to attain growth which can dramatically improve household income.

In both MCP and TCP once a client requests a loan she is required to form a group with four others whom she knows very well and trusts. Each of the five must also be interested in obtaining a loan for their own individual businesses. The five group members are then required to guarantee each others' payments. No other collateral is required. SEF's loans are only for enterprise and a series of checks are in place to ensure that loans are not diverted for other purposes.

While SEF may not take deposits it strongly encourages savings by the poor by training clients how to open and operate a formal savings account, ensuring that this is done, and then motivating clients to save at each of their fortnightly meetings. Due to its extensive outreach in rural areas SEF's clients utilise the Post Bank. As at the end of the financial year the cumulative sum of savings as held by clients in their Post Bank accounts amounted to R 2.52 million.

## **OPERATIONAL PERFORMANCE REVIEW**

The 2003 financial year was a truly excellent year for SEF. Highlights include:

- Number of active client increased by 35% to 18 058
- Principal outstanding increased by 60% to R13.5 million
- Client retention improved from 74% to 80%
- Loan interest income increased by 58%
- Operational costs, including loan losses and excluding interest paid, were contained to an increase of just 4%
- Financial self-sufficiency for the year improved from 51% to 76%.

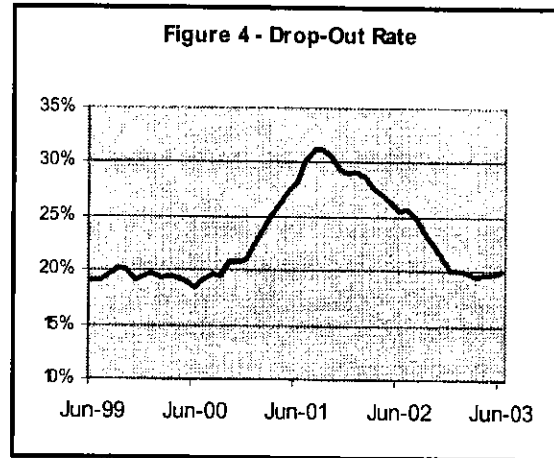
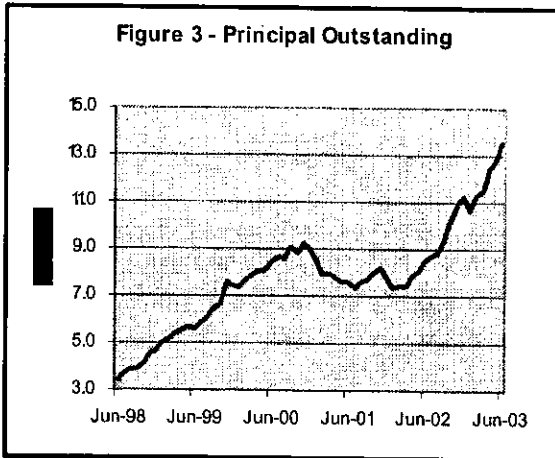
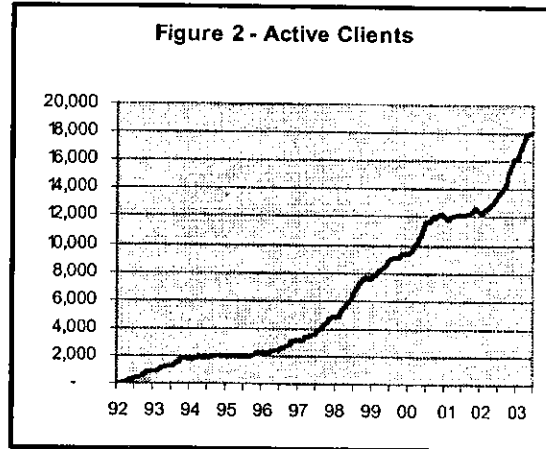
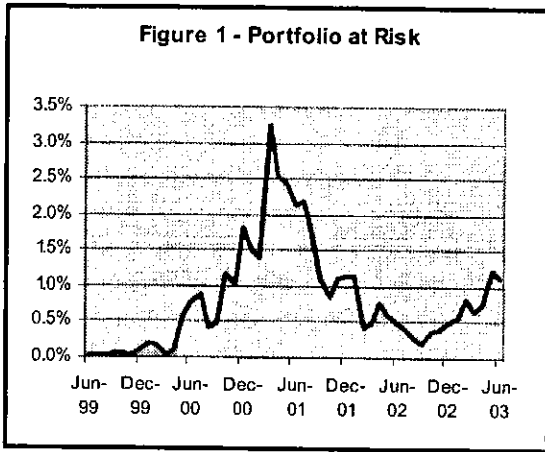


<sup>7</sup> Grameen Bank currently serves over 2.7 million clients. For more information go to [www.grameen.com](http://www.grameen.com)

All at SEF are also very proud of certain milestones that were achieved this year:

- Attaining 18 000 active clients
- Breaking through R100 million cumulative disbursements since inception
- Breaking through 100 000 loans disbursed since inception

The following graphs illustrate the organisation's performance in key areas:



**THE SMALL ENTERPRISE FOUNDATION  
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**REASONS FOR THE STRONG PERFORMANCE IN THE CURRENT YEAR**

A review of our last two annual reports will show that the period from July 2000 to June 2002 was particularly difficult for SEF. This can be seen in the above graphs where it may be noted that during this time the portfolio in arrears reached record levels, the number of clients stagnated at the 12 000 level, the principal outstanding actually declined and the client drop-out rate increased to unacceptable levels.

In the 2001 and 2002 annual reports we outlined a whole series of corrective actions that were taken to address the declining performance. These measures improved SEF's current year performance.

We believe that the changes that contributed most to the turnaround in performance were those that related to leadership and management of the organisation. These included:

- a strong focus on our branch manager core; including recognition of their vital role, concentrated training and performance management;
- strong and clear communication to all staff that either we dramatically improved performance or would face a very uncertain future - including suspending wage negotiations while we put in place a plan to restructure the organisation so as to ensure sustainability;
- proper implementation of a rigorous performance management system;
- increasing staff training;
- creating an atmosphere in which all staff are encouraged to use their initiative and take on more responsibility;
- ensuring excellent management of our branch managers; and
- ensuring that the administration team is highly motivated, positive and efficient

**ATTAINING SELF-SUFFICIENCY**

Strategies are now in place which are expected to result in SEF attaining full financial self-sufficiency during the 2005 financial year. We expect April 2004 to be the last month in which operational expenses (not including interest payments) will exceed loan interest income and December 2004 to be the last month in which all expenses will exceed operating, loan and investment, income.

**ATTAINING SELF-SUFFICIENCY (continued)**



Over this period:

- the focus will be on the current 11 branches and no new branches will be opened;
- the number of Field Workers<sup>8</sup> will be increased to 73 as compared to the average of 65 for this year;
- the number of clients is expected to increase to 23 000;
- the average loan size in MCP is expected to grow by 4% per annum;
- as it is a younger program with many clients still graduating from first to higher loans the average loan size in TCP is expected to increase by 13% per annum; and
- costs will be contained, especially as an agreement is in place for wage increases in July 2003 and July 2004 to be at the inflation rate (64% of all non-interest costs consist of salary and related expenses)

The following have been identified as risks to these plans:

- Thus far the organisation has not seen any major impact of HIV/AIDS either on staff or on loan performance. Nevertheless the effects of this pandemic in South Africa are likely to be dramatically more noticeable in the coming three years. In terms of the organisation we have piloted a workplace HIV/AIDS program and will now roll this out. As illustrated below, SEF is also working on a large scale pilot to try to assist its clients, and their communities, to resist and cope with HIV/AIDS. In terms of financial sustainability factors such as the client drop-out rate and reasons for drop-out are being monitored.
- During the last quarter of the financial year SEF lost 11 of its Field Workers, including several top-performers, mainly due to misconduct in support of a strike by five employees. While their positions have been filled and much focus is being put into providing the replacements with training and support there is concern that there may be a decline in performance in the areas affected by the staff turnover in the next 6 to 12 months.

In summary SEF's business plan sees the organisation's progressing to self-sufficiency as follows:

Performance Factor	June 2003	June 2004	June 2005
Active Clients	18 100	22 400	23 100
Principal Outstanding	R 13.5 million	R 16 million	R 18 million
Operational Self-Sufficiency	78%	98%	112%
Financial Self-Sufficiency	76%	90%	100% <sup>9</sup>

## HIV/AIDS AND MICROFINANCE PILOT PROJECT



<sup>8</sup> The SEF term for an extension or loan officer

<sup>9</sup> The last month in which SEF will experience an operating loss, including financial expenses, is expected to be December 2004.

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Since 2001 SEF has been working in partnership with the Rural AIDS & Development Action Research Programme (RADAR) of the School of Public Health, University of the Witwatersrand, on a pilot programme to address HIV/AIDS. The programme, known as the IMAGE Study, the Intervention with Microfinance for AIDS & Gender Equity, is being conducted in one of SEF's new branches in the Sekhukhuneland area of the Limpopo Province. It combines poverty-focused microfinance with a curriculum on gender-based awareness and HIV/AIDS.

The first phase of the program involves 10 structured one-hour sessions that take place before SEF's regular fortnightly centre meetings. This is followed by the appointment of 'natural leaders' from each centre who participate in a one week workshop on leadership skills. The final phase uses these natural leaders and the skills that the centre has developed during the training to identify critical community issues and an action plan that centres can take forward in their villages. The goal of the initiative is to reduce the incidence of both HIV infection and gender-based violence.

This programme was initiated in September 2001 and is being conducted alongside an intensive evaluation that combines qualitative and quantitative methods, overseen by a joint SEF-RADAR team. Eight villages were selected to participate in the evaluation – four of whom received the IMAGE intervention while the other villages, similar in size and level of development, are being used to compare impacts at the level of individuals, households and the community at large.

To date, 430 SEF clients have received the intervention. A similar number of 'potential clients' from non-SEF villages are being followed over a 3 year period. As part of the baseline quantitative evaluation, over 4000 interviews were conducted on various aspects of social and economic well-being, in addition to HIV knowledge, attitudes and risk behaviour, including a measure of HIV prevalence using an oral fluid collection device. The qualitative evaluation involves a team of anthropologists interrogating dynamics within client centres, households (including relationships with partners and children) and community level factors that may influence outcomes.



More information on this important work can be found at the RADAR website at [www.wits.ac.za/radar](http://www.wits.ac.za/radar). However, a selection of quantitative findings thus far reveals that:

- Self-employment and unemployment is very high: 50% (males, 35-65 years of age), 82% (females, 35-65 years of age)
- 55% of households have at least one adult member who is a labour migrant, while 40% of households are headed by a female.
- The population structure in this rural area, thought to be early in the epidemic, is already beginning to feel the impact of HIV/AIDS as the number of young adults and children is being reduced as a consequence of premature death.
- High proportions of people still believe that a healthy looking person cannot be infected with the HIV virus: 52% (14-19 years old), 38% (20-24 years old), 32% (25-29 years old), 30% (30-35 years old).
- In this community only 15-18% of those 14-35 years old feel they are at 'high risk' of getting HIV. Most (40-60%) feel they are at 'no risk'.
- By 18 years of age 80% of boys and girls have had sex.
- Among women, their first sexual experience was something they felt was 'not wanted'.
- Patterns of condom use during the last sexual contact are low – reported to be 25% by female respondents and 32% by male respondents.
- Most men in relationships (70-80%) that are 'non-spousal' report providing some form of material support to that partner.

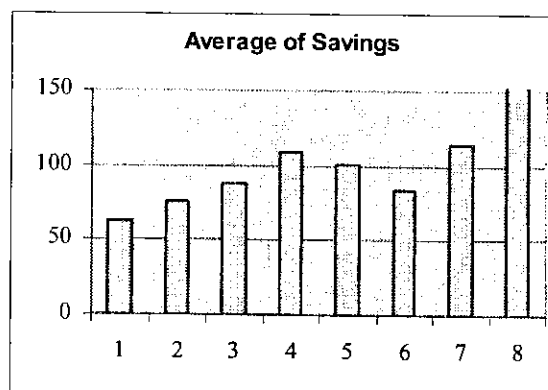
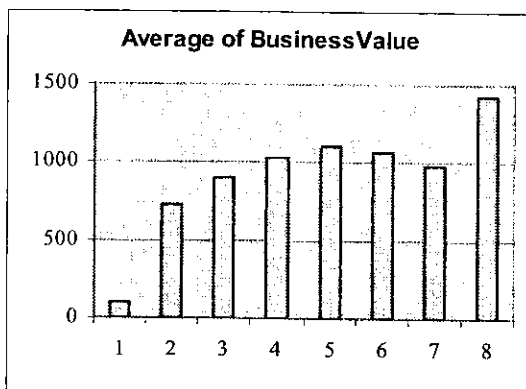
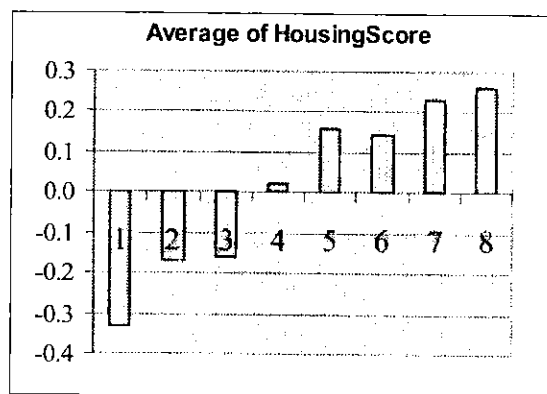
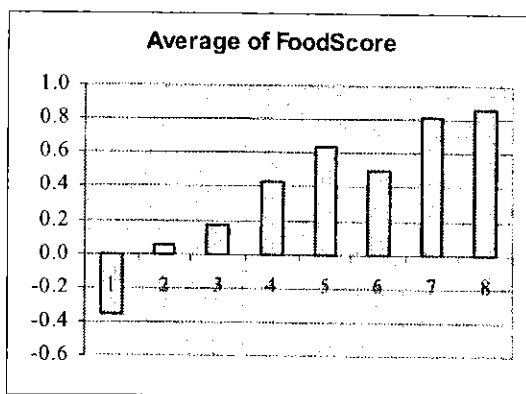


IMPACT

**THE SMALL ENTERPRISE FOUNDATION  
 (AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
 MANAGEMENT REVIEW  
 FOR THE YEAR ENDED 30 JUNE 2003**

Microfinance is not simply a matter of whether people take and repay loans or use convenient, low cost savings instruments. Microfinance is about whether people utilise such opportunities to improve their lives and the lives of their families. Thus SEF is not only concerned about its own operational efficiency and sustainability but whether its work is having positive impact on the lives of those with whom it works.

SEF has an impact monitoring system which is used to understand the impact on clients on an ongoing basis. Using a participatory methodology each client in our TCP program is interviewed on a number of key impact indicators before each loan cycle. This understanding not only informs us of whether we are attaining our goals of positive impact but also provides information on how we need to improve our performance to ensure better impact, and consequently better operational and financial performance. The following graphs illustrate outputs from the impact monitoring system for the quarter ending 30 June 2003:



**FUNDING**

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE CASH FLOW STATEMENT**  
**for the year ended 30 June 2003**

	<b>2003</b>	<b>2002</b>
	<b>R</b>	<b>R</b>
<b>A. CASH UTILISED BY OPERATIONS</b>		
Loss before grants	(1 961 131)	(4 581 548)
Adjusted for:		
Investment income	(303 646)	(201 717)
Profit on sale of investments	(388 740)	-
Finance costs	649 210	407 589
Depreciation	130 626	92 009
Loss on disposal/scraping of property and equipment	978	-
Movement in provision for bad debts	118 787	58 260
	<hr/>	<hr/>
Operating loss before working capital changes	(1 753 916)	(4 225 407)
Decrease/(increase) in accounts receivable	226 847	(278 646)
Increase in accounts payable	99 338	57 191
Increase in operating assets – principal outstanding and accrued interest before movement in provision for bad debts	(5 496 568)	(742 950)
- As previously reported	<span style="border: 1px solid black;">(5 496 568)</span>	<span style="border: 1px solid black;">(700 950)</span>
- Change in accounting policy	<span style="border: 1px solid black;">-</span>	<span style="border: 1px solid black;">(42 000)</span>
	<hr/>	<hr/>
Cash utilised by operations	<u>(6 924 299)</u>	<u>(5 189 812)</u>
 <b>B. CASH AND CASH EQUIVALENTS</b>		
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	<u>3 395 651</u>	<u>5 961 223</u>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**ACCOUNTING POLICIES**  
**30 June 2003**

The annual financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies, which have been consistently applied with prior years in all material respects:

**Interest earned on advances**

Interest earned on advances is recognised using the effective interest rate method over the term of the loans. Refer to note 5 “Change in accounting policy”.

**Other interest received**

Other interest received is accrued on a daily basis.

**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. Where such grants have not been fully utilised during the relevant period, the balance remaining is transferred to reserves.

*Grants for loan capital*

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

**Investments**

Investments are stated at cost less amounts written off. Where, in the opinion of the directors, a permanent diminution in value has occurred, a provision is raised and charged to the income statement.

**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. As from 1 July 2002 the company commenced depreciating its buildings. This resulted from a change in accounting estimate with regard to the useful life of the company’s buildings.

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

Land is not depreciated.

As has been seen this, has been a splendidly successful year for the organisation. This year also brought into the spotlight the wonderful achievements of each and every staff member. In this year it became clear how important the contribution of each individual was, working to be as good as they could be in their own area of responsibility. The combination of all of these efforts resulted in the success of this year. On behalf of the Board of directors I would like to thank all of SEF's staff and to say how proud I am to work with each and every one of you.

John de Wit  
Managing Director  
26 August 2003



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

**ANNUAL FINANCIAL STATEMENTS**

**30 JUNE 2003**

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**(Registration number: 1991/003485/08)**  
**ANNUAL FINANCIAL STATEMENTS**  
**30 June 2003**

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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 judgments 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 21, were approved by the board of directors on 26 November 2003 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 4 to 21 for the year ended 30 June 2003. 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 2003, 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 interest 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.

Registered Accountants and Auditors  
Chartered Accountants (CA) SA  
Johannesburg  
26 November 2003

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**REPORT OF THE DIRECTORS**  
**30 June 2003**

The directors have pleasure in presenting their report on the company for the year ended 30 June 2003.

**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 Small Enterprise Foundation ("SEF"), has since inception, granted 127 276 (2002: 94 603) loans to the value of R124 million (2002: R91,5 million).

**OPERATING RESULTS**

Results for the year ended 30 June 2003 are set out on page 7 of the financial statements. The directors are pleased to report a 60% increase in loan advances as well as a 58% increase in loan interest income. At the same time expenses, excluding finance costs, increased by only 4%.

**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 R51 378 (2002: R38 695) was written-off.

A debt is declared bad once it is 84 days in arrears. An amount of R195 432 (2002: R184 899) 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 R175 696 (2002: R121 875).

**THE SMALL ENTERPRISE FOUNDATION**  
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**REPORT OF THE DIRECTORS (continued)**  
**30 June 2003**

**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)	
Ms Daphne Ramaisela Motsepe (Non-executive)	(Resigned March 2003)
Mr Matome Patrick Malatji (Non-executive)	
Mr Sanjay Doshi (Non-executive)	
Mr Ben Nkuna (Executive)	
Ms Sizeka Monica Rensburg (Non-executive)	(Appointed May 2003)

Secretary and Public Officer - J R de Wit

**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.