TUHF

Annual Report

2007

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TUHF is a specialist financier committed to urban regeneration by providing professional financial services to emerging and established housing entrepreneurs engaged in profitable rental housing business

Company Registration Number: 1993/000217/08

Country of Incorporation and Domicile
Republic of South Africa

Board of Directors
S Moraba* (Chairman), T Adler*, C Coovadia*,
PGN Jackson (CEO), JS Strelitz*, M Mamatela*, E Mokgele*
* Non Executive Directors

Company Secretary
A Mitchell

Business Address
First Floor, UCS House
209 Smit Street, Braamfontein, 2001

Bankers
Standard Bank of South Africa

Attorneys
Hofmeyr Herbstein & Gihwala Inc

Auditors
BDO Spencer Steward (Johannesburg) Inc.
Chartered Accountants (SA)
Registered Auditors

TUHF Staff

Back row standing

Anthony Mitchell *Company Secretary*
Med Kwesiga *Portfolio Manager*
Rekwele Mmatli *Portfolio Manager*
Paul Jackson *Chief Executive Officer*
Busi Maduna *Bookkeeper*
Nano Makwela *Portfolio Manager*

Not pictured

Lusanda Mbeje *Portfolio Manager*
Antoinette Bosch *Loan Administrator*

Middle row standing

Portia Gxabuza *Office Assistant*
Roselyn Valloo *Accountant*
Sarah Webb *Operations Manager*
Ilona Roodt *Financial Manager*

Front row seated

Abigail Cocks *Programme Administrator*
Justine Saloman *Loan Administrator Assistant*
Pressage Nyoni *Liaison Officer*
Andiswa Mdazuka *Receptionist*
Cathy de Villiers *PA to the CEO*

24 Investments in subsidiaries

The company owns 100% of the issued share capital of:

		Investment in shares 2007 R	Investment in shares 2006 R	Indebtedness 2007 R	Indebtedness 2006 R
TUHF Properties (Pty) Ltd	*	100	100	1,003,458	521,067
Intuthuko Equity Fund (Pty) Ltd	**	100	100	(1,352,424)	(1,996,144)
TUHF Bridge (Pty) Ltd	***	100		15,519,361	
		300	200	15,170,395	(1,475,077)

Nature of business:
* Property deferred sales
** Equity funding
*** Bridging funding

	2007 R	2006 R
TUHF Properties (Pty) Ltd		
Interest is charged at variable rates		
Repayable within 12 months	74,156	82,362
Repayable more than 12 months	929,302	438,705
	1,003,458	521,067
Intuthuko Equity Fund (Pty) Ltd		
Interest paid at market call rates		
Repayable within 12 months	-	-
Repayable more than 12 months	(1,352,424)	(1,996,144)
	(1,352,424)	(1,996,144)
TUHF Bridge (Pty) Ltd		
Interest on amounts owing - market call rates		
Interest on amounts receivable - Prime plus 10%		
Repayable within 12 months	(1,240,476)	
Repayable more than 12 months	16,759,837	
	15,519,361	

25 Related parties

Related parties:
Subsidiary companies as disclosed in note 24

Amount due to and from related parties:
Subsidiary companies as disclosed in note 24

Related parties transactions:	2007 R	2006 R
TUHF Properties (Pty) Ltd		
Interest received	(81,399)	(26,206)
Intuthuko Equity Fund (Pty) Ltd		
Interest paid	119,573	99,833
TUHF Bridge (Pty) Ltd		
Interest received	(1,582,429)	
Interest paid	51,422	
Management fees	(157,169)	
Incentive fees	(9,941)	

Other:
S Moraba, a director of the company, is the chief executive officer of the National Housing Finance Corporation Ltd. This company has granted the company wholesale loan facilities amounting to R110 million (2006 - R110 million).

JS Strelitz, a director of the company, is an executive director of NURCHA. This company has wholesale loan facilities of R9,765,868 (2006 - R12,527,343) outstanding.

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CHAIRMAN'S REPORT

Chair

Samson Moraba

Launched in June 2003 as the Section 21 prototype of a "National Urban Regeneration Fund" concept, the Trust for Urban Housing Finance (TUHF) has evolved into a specialist financier that can sustain itself and grow commercially while remaining true to its founding mandate.

After three steady years of getting to grips with its niche "red-lined area" markets and building its loan book, this fourth financial period saw TUHF reaping the rewards of its hard-won experience by recording by far its best financial performance yet.

TUHF's approved loan book of R 525.3 million represents an increase of R306 million, which is more than double the 2006 book value of R 219.3 million. Strong revenue growth was recorded, with a 74.8% increase in net interest income and a 38.7% increase in non-interest income. Return on equity of 20.6% (2006: 13%) exceeded our projected target of 18%.

This stellar performance not only proves that TUHF is coming of age; it also demonstrates that inner-city regeneration in South Africa is both viable and sustainable.

An urban regeneration model that works

Initially the brainchild of several leading national and Johannesburg-based development organisations, TUHF revitalises degraded urban areas by providing the finance and business acumen for local businessmen and women to acquire run-down properties and upgrade these into quality yet affordable rental stock. Inner city people now recognise the TUHF logo on our distinctive refurbished buildings as the brand to trust for property financing in their areas. Although commercial banks can offer slightly cheaper loans, our client base among the smaller, hands-on entrepreneurs is broadening as they realise that TUHF understands these markets best and offers specialised knowledge and appropriately structured loans.

As more and more derelict buildings are refurbished, the desired type of tenant is attracted into these depressed areas to start establishing stable and civic-minded communities. Gradually individual buildings accumulate to form precincts, which expand into districts that are magnets for growing numbers of quality residents and further investment. This is the basis of TUHF's approach to making markets work and bringing about local economic development in all its forms.

A key spin-off is that the majority of the new property owners and landlords are previously disadvantaged individuals. Since the mid-1980s, inner-city property in Johannesburg and most major South African cities was primarily owned by white, often absentee, landlords, with their tenants generally being middle or working class black people. TUHF's policy of assisting local residents to become hands-on owners in their own neighbourhoods is changing the ownership demographics of these areas to reflect the broader South African society.

TUHF has no doubt that the invaluable lessons learnt in Johannesburg over the past four years are transferable to degraded urban areas in other cities in Gauteng and broader South Africa. We have therefore entered into or are considering projects in Durban, Port Elizabeth, East London, Tshwane and Rustenburg, while closer to home, opportunities in Randburg, Rossettenville, Brixton, Roodepoort, Benoni and Springs are being sought.

Securitisation of the loan book

The process of securitising our mortgage loan book is nearing completion and should be finalised in the current financial year. Financial institutions can participate in different aspects of the securitisation framework, with current negotiations indicating the willingness of reputable local and international organisations to participate and invest substantial amounts of capital. TUHF has also determined that the securitised loan assets will comply with the requirements of the Financial Sector Charter (FSC). Finalising this securitisation process will further prove TUHF's growing ability to achieve its development objectives as a viable component of its commercial activities.

Bridging Finance

Buying and selling or refurbishing properties can be complex, with delays in processes such as obtaining clearance certificates able to cause cash-flow problems. TUHF has stepped into the breach by launching a bridging finance product designed for balance of purchase price loans, rate clearance certificates, construction loans and sectional title body corporate loans.

This product has been welcomed by the market, is competitively priced and is quickly available to applicants.

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	GROUP 2007 R	GROUP 2006 R	COMPANY 2007 R	COMPANY 2006 R
22 Cash generated from operations				
Reconciliation of profit before tax to cash generated from operations :				
Profit for the period	2,239,411	1,639,738	2,565,659	895,469
Adjusted for :				
Bad debts	18,118	-	18,118	-
Depreciation of equipment	165,102	149,535	165,102	149,535
Notional interest	1,295,982	194,294	951,624	844,518
Loan impairment	2,457,167	871,578	1,552,682	871,578
Provisions	350,558	272,124	350,558	272,124
Other non cash items	(5,511,321)	(3,338,318)	(4,550,166)	(3,266,130)
Operating profit/(deficit) before working capital changes	1,015,017	(211,049)	1,015,017	(232,906)
Working capital changes	(630,489)	122,234	(773,483)	122,235
(Increase)/Decrease in accounts receivable	(582,195)	6,459	(590,474)	6,459
Increase/(Decrease) in accounts payable	(48,294)	115,775	(183,009)	115,776
Cash generated/(utilised) by operating activities	384,528	(88,815)	280,094	(110,671)

23 Risk management

Foreign exchange risk:
There is no foreign exchange risk.

Credit risk:
The company maintains cash and short term investments with a financial institution of high credit standing.

Cash for payment of guarantees and pending property transfer registrations is deposited into a trust account and reconciled monthly.

Credit risk with respect to advances is tightly controlled by the application of a loan and credit policy evaluating the risk of new projects and the continuous monitoring of risk levels associated with a risk rating matrix. Credit risk is further mitigated through the registration of mortgage bonds over the properties financed.

In line with this risk evaluation policy, management makes provision for a loan impairment.

Liquidity risk management:
Liquidity is managed by monitoring cash flows and ensuring that adequate borrowing facilities are maintained.

Interest rate risk:
The group funds advances from long term funding as detailed in notes 8 and 9. Interest at floating rates are payable on borrowings. Interest at a six monthly floating rate is payable on advances.

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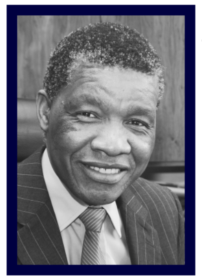
	GROUP 2007 R	GROUP 2006 R	COMPANY 2007 R	COMPANY 2006 R
18 Operating expenditure				
Auditors remuneration	130,500	12,808	124,500	12,808
Audit fees	99,500	-	99,500	-
Other fees	31,000	12,808	25,000	12,808
Depreciation	165,103	149,535	165,103	149,535
Computer equipment and intangibles	104,764	87,230	104,764	87,230
Office furniture and equipment	60,339	62,305	60,339	62,305
Information technology costs	245,683	331,768	245,683	331,768
Directors emoluments - executive director in respect of services rendered	1,060,304	886,446	1,060,304	886,446
Staff costs	3,227,894	2,740,743	3,227,894	2,740,743
Office rental	187,006	171,660	187,006	171,660
Other expenses	1,962,565	1,229,843	1,908,314	1,228,124
	6,979,055	5,522,803	6,918,804	5,521,084
19 Taxation				
South African normal tax - current	1,735,167	464,250	1,460,205	435,350
South African deferred tax:	(694,905)	102,044	(428,030)	103,272
Current	(694,905)	85,443	(428,030)	86,671
Arising from change in taxation rate	-	16,601	-	16,601
	1,040,262	566,294	1,032,175	538,622
Reconciliation between expected tax charge to actual tax :				
Expected tax charge at standard tax rate	649,449	475,524	744,041	259,686
Disallowable expenditure	390,860	74,169	288,134	262,336
Deferred taxation timing differences	690,284	275,946	428,030	275,946
Tax losses created/(utilised)	4,574	(361,389)	-	(362,618)
Actual current tax charge	1,735,167	464,250	1,460,205	435,350
The movement of deferred tax is as follows:				
Balance at beginning of the period	395,978	498,022	394,750	498,022
Deferred taxation timing differences	690,284	275,946	428,030	275,946
Rate change	-	(16,601)	-	(16,601)
Creation/(utilisation) of tax losses	4,574	(361,389)	-	(362,617)
Balance at end of period	1,090,836	395,978	822,780	394,750
Comprising:				
Deferred taxation assets				
Provisions	81,027	103,274	81,026	103,274
Loan impairment	1,004,055	291,477	741,754	291,477
Assessable taxation losses carried forward	5,754	1,227		
	1,090,836	395,978	822,780	394,751

20 Employee benefits

The company has a defined contribution provident plan governed by the Pensions Act, 1956, as amended, to which all permanent employees are required to join.
Payments to the provident plan are charged as an expense as they fall due.
The company has no obligations for post-retirement health care benefits for its retirees.

21 Borrowing capacity

In terms of the company's articles of association the borrowing powers of the company are unlimited.

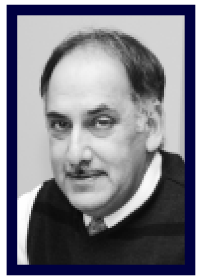


Chair
Samson Moraba

Chief Executive Officer
NHFC

BOARD

of Directors



Deputy Chair
Cas Coovadia

Managing Director
The Banking Association of South Africa

Taffy Adler

Chief Executive Officer
Johannesburg Housing Company

Mandu Mamatela

Assistant Executive
Private/Public Projects
NHFC

Jill Strelitz

Executive Director
Operations
National Urban Reconstruction and Housing Agency (NURCHA)

Evodia Mokgele

Project Manager
NHFC

Paul Jackson

Chief Executive Officer
TUHF

Relationship with City of Johannesburg

Since opening its doors, TUHF has worked hand in hand with the Johannesburg authorities and our projects accord with the objectives of the Joburg 2030 development plan. In cooperating with city programmes and development strategies, we have strong and ongoing communication links with various Johannesburg metro departments and municipal entities.

There are, however, two key areas in which the city is not currently performing up to standard, and as a consequence hindering our business and Johannesburg's own urban regeneration. The first is the chronic delays in issuing clearance certificates for properties, without which our financing transactions cannot be finalised. At this time we have a lengthening list of potential owners waiting for certificates that cannot take possession of their properties or begin refurbishing.

Another problem is that the city is not adequately enforcing its own municipal bylaws, especially its hygiene and building control regulations. Other stakeholders are participating effectively in projects such as Central Improvement Districts (CIDs) - but these initiatives need the active, on-the-ground support of the city in enforcing the law.

TUHF is also aware that Johannesburg's Better Buildings programme has a stock of between 200 and 300 degraded buildings that aren't being utilised. If these are released to the market, TUHF will bring the buyers and further accelerate the regeneration of Johannesburg's inner areas.

Board and executive level changes

Dr. Morgan Pillay, who has offered invaluable input during his time on TUHF's Board, resigned on 23 May 2006. During this period we also welcomed Ms. Mandu Mamatela and Ms. Evodia Mokgele to the Board, who are already contributing their breadth of experience and expertise.
We also wish a fulfilling and healthy retirement to Mr. Tony Mitchell, our previous financial manager, who has been instrumental in guiding TUHF safely and profitably through our early phases. Tony is replaced by Ms. Ilona Roodt, who joins us with a wealth of commercial property experience from her years in banking.

In conclusion

Although a relatively new organisation, TUHF has now graduated with flying colours into a fully fledged commercial enterprise that can rightfully claim its place among the heavyweights of urban regeneration in South Africa.

TUHF has used its founding mandate of urban renewal and BEE empowerment as the foundation upon which its business model is proving to be as sustainable as it is virtuous.

Much of this success must be deservedly credited to Paul Jackson, our CEO, and his crack team. We are now compelled to grow TUHF's staff substantially this year to stay the pace, but we will recruit the same type of people as in the current team - dedicated, knowledgeable, inner-city people with a deep understanding of their mission, and reflecting a natural cross-section of the broad South African society.

My fellow members of TUHF's Board, with their many collective years experience in housing and commerce, continue to be an invaluable resource.

I look back with satisfaction on the most successful year so far in TUHF's short history – a year that I'm convinced will be the first of many.

Yours sincerely

Samson Moraba
Chairman

CEO'S REPORT

CEO
Paul Jackson

A good business doing good.

TUHF was founded in June 2003 and by the end of 2004 had become profitable. In the previous financial period to this report (year-ending 31 March 2006), TUHF reported an operating profit of R1.83 million.

This trend of exponential growth continued in the year under review, with impressive increases recorded in operating profitability and the expansion of the loan book.

Operating profit grew by 93.8% to R 3.54 million, notwithstanding the loan impairment provision increasing by 181.2% to R 2.46 million (2006: R 0.87 million). Contributions from non-interest income amounted to R 5.4 million (2006: R3.9 million). Profit after tax of R 1.20 million (2006: R 1.07 million) was, however, impacted by the International Financial Reporting Standards (IFRS) requirement of adjusting for notional interest on present valuing financial assets and liabilities, which amounted to R 1.30 million (2006: R 200 000). Taxation also increased by 83.7% to R 1.04 million (2006: R0.57 million) partly due to tax losses of R 361 000 being accounted for in the previous year.

In this period we more than doubled our loan book, adding R306 million in authorised loans, which increased the book to over R525.3 million (2006: R 219.3 million). Advances after repayments grew by 97.2% to R 209.9 million (2006: R 106.5 million).

With resources becoming stretched by this growth, TUHF is now investing heavily in new capacity to meet the demand. We are presently recruiting new staff and, in addition, will be upgrading our MIS (Management Information Systems) technology to meet the further growth forecasted for the 2007/08 financial year.

What is TUHF?

TUHF resulted from a decision taken by several public and private sector urban development organisations to create an independent, innovative and apolitical development finance organisation to catalyse the regeneration of inner city areas through finance and expert advice. Initial funding to get the ball rolling was obtained from public sector organisations such as the National Housing Finance Corporation (NHFC), which is TUHF's principle sponsor, and the National Urban Reconstruction and Housing Agency (NURCHA).

TUHF would initially concentrate its efforts on "red-lined" areas in Johannesburg and the greater Gauteng, but if the project proved feasible, it could be the forerunner of a "National Urban Regeneration Fund".

To date TUHF has financed nearly 8 000 units in less than four years, of which over 90% qualify as low-income housing targeted at people earning between R2 500 and R10 000 per month. This factor makes TUHF's activities most attractive to financial institutions wanting to score points in terms of the Financial Sector Charter (FSC), which promotes investment into BEE causes, low income housing and agriculture. In addition to its track record in low income housing, 64% of TUHF's investment has been channelled into BEE projects and black landlords. Apart from normal commercial considerations, this effective support for BEE property ownership is attracting major financial institutions to participate in securitising TUHF's loan book.

How TUHF does business

Led by a Board and executive team with decades of experience in inner-city housing, TUHF has developed a business model that delivers effective results. When TUHF becomes actively interested in an area, we do intensive market research and engage people on the ground with intimate knowledge of their neighbourhoods. These agents are then supported by TUHF's own property expertise, wide choice of financial products and quick decision-making on deals.

Until now TUHF has not needed to advertise for available property, which it largely sources through an excellent network of contacts in the Gauteng region.

Once the property and potential client have been assessed, each transaction enters the conventional cycle of origination, appraisal, closing and servicing. Where TUHF is more rigorous than its competitors is our unique loan servicing methods - based on regular client visits and building inspections - which gives early warning on problems that may lead to eventual loan defaults.

At the time of writing this report, TUHF's default rate on its loans was zero, but the tighter monetary policies and higher prime rates instituted recently by the South African Reserve Bank may be behind a few recent late payments of instalments. All loans are continuously monitored, with remedies negotiated and implemented where necessary.
TUHF practices courteous but strict credit control and won't finance projects we suspect may be used for anti-social or criminal activities. Clients are routinely monitored to ensure compliance with tax, local authority and insurance obligations.

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12 Contingencies

As the liquidation applicant and only secured creditor, the company is liable for the costs of administration of the insolvent estate of Seven Building Company (Pty) Ltd. All rates and taxes together with utility accounts form part of such administration costs.

A draft copy of the First Liquidation and Distribution Account reflects a surplus payable to the company of R 506,506.

In May 2007, an application was submitted to the High Court of South Africa requesting that the liquidation be rescinded. In the opinion of our legal advisors this application is highly unlikely to succeed.

	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
13 Commitments				
Advances				
Advances for refurbishment of buildings	56,022,168	38,116,721	56,022,168	36,996,692
Advances pending contractual compliances	223,071,446	83,371,407	215,143,836	81,345,487
	279,093,614	121,488,128	271,166,004	118,342,179
Operating leases				
Office rental payable within 1 year	294,747	187,006	294,747	187,006
Office rental payable to 30 June 2008	71,460	245,607	71,460	245,607
	366,207	432,613	366,207	432,613
14 Interest income				
Interest on advances	19,906,301	8,573,610	18,721,257	8,577,679
Interest on advances to subsidiaries			1,663,828	-
Interest on guarantee deposits	389,385	238,691	389,385	238,691
Interest on call deposits	266,128	161,652	186,608	161,652
	20,561,814	8,973,953	20,961,078	8,978,022
15 Interest expenses				
Interest on borrowings	13,010,487	4,653,167	13,010,507	4,753,000
Interest on advances from subsidiaries			170,996	-
Interest on overdrafts	442	173	437	173
	13,010,929	4,653,340	13,181,940	4,753,173

16 Loan impairment

See note 7 of Accounting Policies and the Directors' Report.

	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
17 Non-interest income				
Agency fee	1,556,675	1,858,095	1,556,675	1,858,095
Management and incentive fees			167,110	-
Raising fee	3,592,822	2,042,140	2,214,612	2,042,140
Research grant	230,263	-	230,263	-
Rent	-	5,965	-	5,965
Sundry income	40,971	1,600	40,971	1,600
	5,420,731	3,907,800	4,209,631	3,907,800

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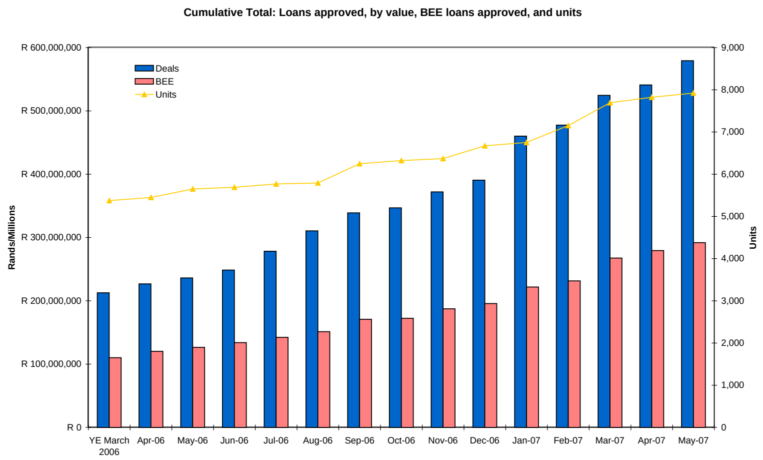
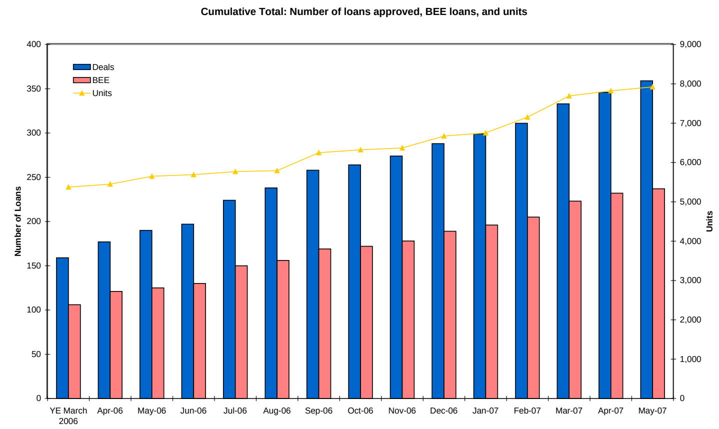
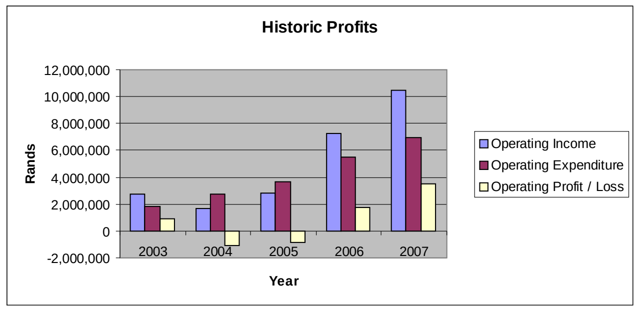
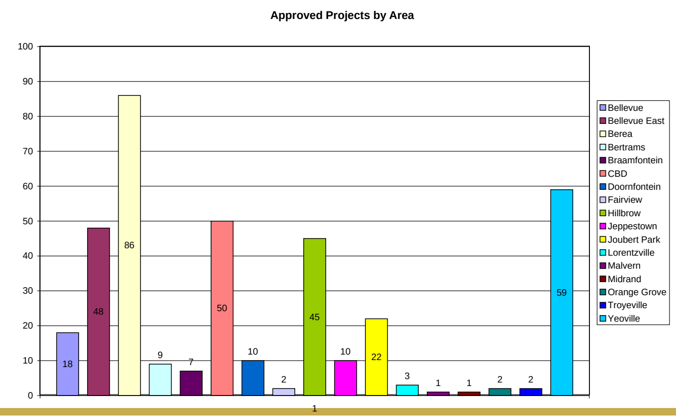
	GROUP 2007 R	GROUP 2006 R	COMPANY 2007 R	COMPANY 2006 R
Interest bearing borrowings (continued)				
The loan of R50 million from the National Housing Finance Corporation is at an interest rate of prime minus 2%. Draw downs from the facility are made as and when the collateral security in respect of the project is registered. The availability date ceases on 12 September 2007. Interest repayments commence after a 4 month moratorium from the date of each draw-down. Capital will be repaid in equal instalments over 216 months commencing on 15 October 2007. The loan is secured by a cession of all the rights, title and/or interests the company holds or which it may acquire in future, arising out of, or in connection with the end user agreements which are financed from this facility.	42,213,866	14,484,676	42,213,866	14,484,676
The loan of R150 million (2006 - R40m) from the Standard Bank of South Africa Limited is at an interest rate of prime minus 1.5%. Draw downs from the facility are made as and when the collateral security in respect of the project is registered. The loan is to be repaid in full by 15 May 2020 with a repayment profile that matches that imposed on the end users to whom this facility has been onward lent. The loan is secured by a cession of all the rights, title and/or interests the company holds or which it may acquire in future, arising out of, or in connection with the end user agreements which are financed from this facility.	38,634,833	13,750,909	39,634,833	13,750,909
The loan of R50 million from the Development Bank of South Africa Limited is at an interest rate of prime minus 2.0%. Draw downs from the facility are made as and when the collateral security in respect of the project is registered. Interest is payable on the 31 March and 30 September of each year. Capital is repaid in 32 semi-annual instalments commencing on 1 April 2007 and is to be repaid in full by 31 March 2022. The loan is secured by a cession of all the rights, title and/or interests the company holds or which it may acquire in future, arising out of, or in connection with the end user agreements which are financed from this facility.	38,974,660		38,974,660	
The loan of R15 million from the Gauteng Partnership Fund is at an interest rate of prime minus 4.0%. Interest payments commence on 15 September 2008 . Capital is to be repaid on 10 September 2013. The facility may only be invested in bridging finance projects.	15,623,257	-	15,623,257	-
	194,989,623	88,375,737	194,989,623	88,375,737
Repayable within 12 months	10,938,485	3,235,253	10,938,485	3,235,253
Repayable more than 12 months	184,051,138	85,140,484	184,051,138	85,140,484
	194,989,623	88,375,737	194,989,623	88,375,737









Commercialisation and securitisation

TUHF was founded as a "not for loss" company with a specific developmental mandate, but the commercial success and apparent sustainability of our business model has prompted us to evolve the company to its logical next level.

As I reported last year, our single negotiated lines of credit, multiple reporting requirements and high commercial lending rates continued to pose problems, with definite market resistance to our relatively high lending rate. It was apparent that TUHF needed to become more commercially independent, improve financial efficiencies through access to flexible volumes of wholesale funds, while decreasing our average cost of wholesale financing. The Board therefore approved the restructuring of TUHF to include a new commercial subsidiary to house the entire mortgage loan book. Client loans, on achieving appropriate seasoning criteria, would be securitised in a Special Purpose Vehicle (SPV), which will be financed by senior, mezzanine and junior debt.

Negotiations with potential equity investors in the commercial subsidiary and debt finance investors in the SPV are well advanced. Companies such as the NHFC, Standard Bank, Futuregrowth, International Finance Corporation (IFC), the Gauteng Partnership Fund and the Development Bank of Southern Africa (DBSA) have all indicated their willingness to participate.

TUHF's commercial subsidiary will undertake the origination of all new mortgage loans financed by a warehousing structure and will manage the SPV operations. By retaining initial control of the commercial subsidiary and participating in the junior debt of the SPV, TUHF will gain access to cheaper capital at flexible volumes, which will be offered to the market at more competitive rates. The securitised SPV will become the primary source of competitive financing for TUHF projects. This restructuring will also enable TUHF's operations function to focus on driving its business model and bringing in new accounts rather than managing the loan book.

TUHF has taken a strategic decision to expand its operations outside of its traditional Johannesburg inner city focus and is already financing projects in other parts of Gauteng - such as Rosettenville and Germiston - that comply with its degraded urban area mandate. This process will continue throughout Gauteng and even to other suitable inner cities throughout South Africa. For the record, TUHF has now financed projects in Durban, East London, Rustenburg and is in advanced negotiations in Port Elizabeth.

Impact of the National Credit Act (NCA)

South Africa's new National Credit Act (No 34 of 2005), which became fully effective on 1 June 2007, is intended to protect consumers from accepting too much credit from unscrupulous lenders. Although in principle a worthy piece of legislation, this act was clearly written to rein in the micro-financing industry. Certain of its pricing regulations are not, however, appropriate for commercial property financing.

Our hitherto zero default rate and high level of client interaction demonstrates that TUHF is a responsible lender, but the NCA's interest rate allowances are overly high and its fee caps too low to optimally fit our current model, particularly with at least 30% of our loans made to emerging entrepreneurs and BEE clients in their personal capacity.

Nevertheless, TUHF has factored the implications of the NCA into our business model and we are confident that it will not negatively influence our future prospects.

Gearing up for further growth

TUHF management believes in running a tight ship and only spends on resources when absolutely necessary. Nevertheless, with the loan book more than doubling in the past year – and showing every sign of continuing on this steep growth path – the company obviously must build additional capacity. We therefore took the decision to add eight new positions to our current staff complement of 12.

Over the past four years, we have built an outstanding team in TUHF; we therefore will select applicants that will add skills and energy while sharing our fundamental values. A key TUHF strength is the wide diversity of our staff members, who are drawn from all colours, ages and backgrounds. We have never had to specifically recruit to meet employment equity guidelines, as the best candidates generally turn out to be previously disadvantaged individuals with personal knowledge of our property market niche. The TUHF team's deep understanding of low income housing and inner city properties is invaluable to investors and emerging entrepreneurs alike.

Our full-time workforce is continuously supported by "in-sourced" professionals who perform non-core but specialised functions such as our management information system (MIS), human resources, legal services and risk compliance.

Exploring new markets

Our growing successes in our initial Johannesburg areas of operations have persuaded TUHF to broaden its horizons and look further afield into Gauteng and other South African cities, which offer abundant and sound commercial opportunities for urban renewal.

In so doing, TUHF will continue using the business formula that has proved so successful until now. Rather than attempting to manage other cities or regions from Johannesburg, we will set up local offices manned by inner-city people with real insight into their regions. In effect, we will replicate our Johannesburg marketing and sales operations in those areas - although for economies of scale, strategic services such as the ITC backbone will be managed by head office.

Johannesburg and the greater Gauteng

While property prices in previously "red-lined" areas continue to increase with continuing demand for good rental accommodation, these areas still offer immense potential for refurbishment. The inner city zones of the industrial towns of Germiston, Benoni and Boksburg, for example, have numerous run-down blocks of flats suited for development. Building stock at reasonable prices can also be procured in near-city suburbs that are showing early indications of decline.

TUHF has already decided in principle to launch an operation in the Tshwane region, which has considerable numbers of apartment blocks in the older Pretoria suburbs of Arcadia and Sunnyside.

Pilot projects

Farther afield, TUHF is already testing the waters in other major cities with pilot projects, managing three in Durban and one each in East London and Rustenburg.
Keeping in mind that TUHF was founded largely as a prototype for a "national urban regeneration fund", we will review these projects and may set up satellite offices with locally recruited staffers with the requisite expert property knowledge.

Partnerships with other organisations and associations

TUHF is partnered in its mission by several public and private sector institutions.

ShoreBank Corporation – USA

Since our founding we are extremely fortunate to be mentored on an ongoing basis by ShoreBank of Chicago, which was established in 1973 as the USA's first dedicated community and environmental bank. Now operating in several major American cities, ShoreBank has focused for over 30 years on renewing problem inner city areas similar to those we concentrate on in South Africa today.

Mr. Jim Bringley, a ShoreBank Senior Vice-President, has been inordinately helpful over the years and is always telephonically available to TUHF. We have reviewed ShoreBank's policies, systems and procedures, which were freely shared with TUHF, and have adopted many into our strategic planning, controls and administration.

National Housing Finance Corporation Limited (NHFC)

TUHF's principle sponsor is the NHFC, which played a large role in getting TUHF off the ground by providing the initial wholesale loans that enabled us to begin lending. Mr. Samson Moraba, NHFC's Chief Executive Officer (CEO), is also TUHF's current Chairman. The NHFC provides credit lines to several organisations offering low income housing and is a major driver in the national effort to provide affordable housing for all.

The Standard Bank of South Africa Limited

With a R210 million facility to TUHF, Standard Bank is currently our single biggest provider of wholesale finance. As a multi-service commercial bank, Standard Bank also offers invaluable advice, particularly in commercial property funding.

City of Johannesburg (Joburg)

Since commencing our property investment and upgrading initiative in Joburg, we have enjoyed an excellent working relationship with the city authority and its various agencies. Joburg's credit control department is diligent in assisting TUHF and its clients with queries, in obtaining clearance certificates and in cooperating with the Better Buildings Programme. We will certainly work to establish similar productive links with the municipal authorities in other cities where we may commence operations.

The Gauteng Partnership Fund (GPF)

The GPF finances TUHF's equity finance product, and through its willingness to provide funds for the bridging finance, has played a critical and invaluable role in making this product available. GPF is also a key player in TUHF's securitisation by enabling us to secure large amounts of cheaper capital while still maintaining a majority control over its operations.

Johannesburg Property Company

Joburg's Better Buildings Programme has an important role in the city's regeneration and creating BEE opportunities through its releasing of significantly degraded buildings into the property market for purchase and upgrading. TUHF continues to be a key partner in this programme by finding and financing mainly BEE investors to take up these opportunities.

Johannesburg Development Agency (JDA)

The JDA is the custodian of planned development districts in Johannesburg such as Constitutional Hill, Newtown, the Fashion District, the Health Precinct and the Ellis Park Precinct, among others.
TUHF actively engages with and invests into these development programmes, which add enormous value to the city and the properties owned by its entrepreneurs and landlords.

The year ahead

Each year since our founding in mid-2003 can be compared to a laden train pulling out of a station for a long journey. Initially progress is slow as the engines fight against the weight and inertia of its burden, but gradually the train gathers speed and momentum until it flies along the track at full cruising speed.

Up to now TUHF has been gathering momentum and the leap upwards in all our key indicators this past year shows that we are getting up to speed.

We have proved that our business model works, so while our loan officers keep the wheels turning ever faster, we at executive level must focus on ensuring that TUHF is restructured for capital efficiency and acquires the skills, tools and materials to continue building on our success – which I have no doubt the TUHF team can and will do.

Paul Jackson
Chief Executive Officer

	GROUP 2007 R	GROUP 2006 R	COMPANY 2007 R	COMPANY 2006 R
10 Non Interest bearing borrowings				
The loan from the National Housing Finance Corporation (NHFC) which has a nominal value of R10 million is unsecured and interest free until July 2008 and thereafter determined at NHFC's discretion. The capital shall be repaid on or before 28 July 2013.	10,000,000	10,000,000	10,000,0000	10,000,000
The loan from the Gauteng Partnership Fund (GPF) which has a nominal value of R2 million is unsecured and interest free and to be repaid by February 2015. The facility is to fund low collateral projects identified by the company where emerging entrepreneurs are involved.	2,000,000	2,000,000	-	-
	12,000,000	12,000,000	10,000,000	10,000,000
National interest on present valuing financial liabilities	(2,104,734)	(3,146,755)	(1,544,908)	(2,496,532)
	9,895,266	8,853,245	8,455,092	7,503,468
11 Interest bearing borrowings				
The loan of R5 million from the National Urban Reconstruction and Housing Agency (NURCHA) is used to finance jointly with the company, projects identified by the company and approved by NURCHA. Interest and capital repayments are as set out in the loan agreement entered into with the end users and benefits in and risks associated with the projects are shared equally.	862,060	3,198,039	862,060	3,198,039
The loan of R10 million from NURCHA is a fixed credit facility. Interest is at prime minus 2%. Repayment of capital and capitalised interest commenced on 10 August 2006 with the last repayment date being 10 August 2011. The loan is secured by a cession of all the rights, title and/or interests the company holds in connection with the end user agreements which have been financed from this facility.	8,903,808	9,329,304	8,903,808	9,329,304
The loan of R50 million from the National Housing Finance Corporation is at an interest rate of prime minus 2%. The availability date ceased on 16 September 2006. Interest repayments commenced after a 4 month moratorium from the date of each draw-down. Capital repayments commenced on 15 October 2006 and will be repaid in equal instalments over 216 months. The loan is secured by a cession of all the rights, title and/or interests the company holds in connection with the end user agreements which have been financed from this facility.	48,777,139	47,612,809	48,777,139	47,612,809

NOTES
to financial statements

7 Equipment	Group & company	Group & company	
Year ended 31 March 2007	Office furniture and equipment R	Computer hardware and intangible assets R	Total R
Net book value at 1 April 2006	182,551	157,043	339,594
Cost	325,364	407,599	732,963
Accumulated depreciation	(142,813)	(250,556)	(393,369)
Additions during the year	16,410	98,159	114,569
Depreciation for the year	(60,339)	(104,764)	(165,103)
Net book value at 31 March 2007	138,622	150,438	289,060
Cost	341,774	505,758	847,532
Accumulated depreciation	(203,152)	(355,320)	(558,472)
Year ended 31 March 2006			
Net book value at 1 April 2005	119,637	230,143	349,780
Cost	200,145	393,469	593,614
Accumulated depreciation	(80,508)	(163,326)	(243,834)
Additions during the year	125,219	14,130	139,349
Depreciation for the year	(62,305)	(87,230)	(149,535)
Net book value at 31 March 2006	182,551	157,043	339,594
Cost	325,364	407,599	732,963
Accumulated depreciation	(142,813)	(250,556)	(393,369)

	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
8 Other liabilities				
National Housing Finance Corporation	34,842	-	34,842	-
Trade payables	843,805	507,679	377,796	507,680
	878,647	507,679	412,638	507,680
9 Provisions				
Bonus remuneration	203,571	248,179	203,571	248,179
Leave pay	75,831	107,938	75,831	107,938
	279,402	356,117	279,402	356,117

OPERATIONAL REVIEW

Products

TUHF's core business is to finance the acquisition of properties in defined urban areas for entrepreneurs and entrepreneurial businesses. The award and value of each loan deal is determined by each project's ability to sustain debt (debt cover) and provide security (loan to value). TUHF is therefore not a debt equity financier offering the usual 70% to 30% split, but tailors each loan to meet the requirements of client and project. For first time applicants TUHF can offer up to 80% of the purchase price and 100% of the refurbishment. Loans covering up to 100% of project costs can be made to repeat clients. A fundamental axiom of our business is that the negotiated purchase price is crucial to the ultimate success of the loan.
Unlike commercial banks, TUHF doesn't distinguish between purchase and refurbishment costs, but offers a reduction in interest rate upon completion of the refurbishment.
With property development and management being primarily a cash flow proposition, TUHF also offers 15-year loans rather than the industry-standard 10-years for commercial property loans.

As a commercial property financier specialising in the rental housing business, TUHF's clients expect us to comprehensively service their property-related needs. The company accordingly offers the following broad range of products and services.

Mortgage Finance

Primarily a mortgage financing company, in this period TUHF approved 313 deals amounting to R 486.6 million. Approved loans increased by R 255.2 million, representing growth of 110.3%. Funds disbursed in the same period grew by 84.3% to R 208.4 million. All these projects are situated in the Urban Development Zone of Johannesburg.
Currently over 90% of TUHF's business is its mortgage products, which are awarded for the following project types:

- Purchasing and refurbishing blocks of flats.
- Converting office or other buildings to residential units.
- Purchasing the controlling participation quota in sectional title blocks of flats.

Mortgage loans normally range from R100 000 to R15 million. TUHF offers larger amounts through syndicated or joint financed loans with its partnerships with Standard Bank and the NHFC.
TUHF only finances viable projects that will yield sufficient funds to repay the loan with interest and also make a profit. TUHF works with the buyer to ensure that the project is feasible, the purchase price reasonable and that local market conditions are met.
Whether large or small, all TUHF clients reap the benefits of expert advice and quick decision-making.

Bridging Finance

TUHF's primary mortgage financing service is supported by value-adding products such as Bridging Finance, which was launched in May 2006 to help clients unlock property deals. Initial demand for this product has been most positive, with 25 bridging deals amounting to R 32 million concluded. Of these, 13 deals totalling R 15.3 million were repaid in the financial reporting year.
This product eases the problems that investors face when raising finance for purchasing inner city property. TUHF's bridging finance is competitively priced and quickly available. Cost-to-client is based on the level of security offered, with the highest price being for unsecured loans. Bridging Finance is used for:

Balance of purchase price:

- Clients that need to quickly raise funds ie. purchased property at an auction.
- Clients who sold property and require their share of the purchase price before registration of transfer.

Rates Clearance Certificates (RCCs):

- Where the seller cannot afford pay for the RCC.
- Where the purchaser wishes to offset the RCC payment against the purchase price of the building.

Construction loans:

- Specifically for refurbishments or conversions.
- Long-term loans can be raised once the construction risk is over.

Sectional Title Body Corporate loans:

- Refurbishment loans.
- Consolidation of debt.

Deferred Sale Finance

The Deferred Sale product is appropriate when groups of people wish to buy the property they live in, or for emerging entrepreneurs with an appetite for higher risk investments. The property is sold to the entrepreneur in terms of the Alienation of Land Act (No 68 of 1981). This product is similar in principle to the Hire Purchase or Instalment Sale arrangements commonly used to buy cars, appliances or furniture.

TUHF Deferred Sale loans work as follows:

- The property is purchased by and registered in TUHF Properties (Pty) Ltd's name. Simultaneously the property is sold to the entrepreneur at the purchase price, including legal costs incurred in terms of a Deferred Sale Agreement.
- The purchase consideration plus interest is repaid in monthly instalments over a set period.
- The property remains registered in the name of TUHF Properties (Pty) Ltd.
- While the buyer has immediate use of and responsibility for the property, ownership registration is only passed to the buyer once all instalments have been paid.
- The client can, and is encouraged to, take transfer of the project at any time by financing the balance of the deferred sale agreement.

TUHF offers deferred sale loans to co-operatives, tenant-based collectives and emerging entrepreneurs.

Equity Finance

Intuthuko Equity Fund (Pty) Ltd was created specifically to help correct the historic imbalance in inner city property ownership by providing equity finance to qualifying previously disadvantaged individuals. The funds for this product are sourced from the Gauteng Partnership Fund.
A product unique in South Africa to TUHF, Intuthuko is aimed at caretakers, property managers, construction industry artisans, police officers, firefighters and nurses, particularly those who live or work in the inner city.
A total of 12 deals amounting to R 2.7 million have been approved, of which seven deals amounting to R 1.9 million were approved during the 2006/07 financial year.

How Intuthuko works:

- It will match the applicant's own "earnest" money contribution to a maximum of R200 000 as a "silent partner".
- This more substantial deposit enables the applicant to raise a standard loan from TUHF that is sufficient to purchase and refurbish a property.

In return Intuthuko is entitled to a 40% partnership in the property, but the applicant is encouraged to buy it out. This loan can be repaid over a period of up to seven years.

Lending criteria and approvals

All loan applications are weighed against TUHF's policy, in terms of its urban regeneration mandate, of lending to good landlords who will maintain buildings to a high standard, offer good customer service and uphold firm credit control. Each application is assessed against our debt cover and loan-to-value criteria to determine loan size and structuring.
Like mainstream financiers, TUHF will do all the usual background credit checks, but places much emphasis on personally interviewing each applicant to gather the information that paper submissions cannot provide. Applicants for inner-city financing typically have different

	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
1 Cash and short term assets				
Cash	1,041	1,000	1,041	1,000
Current Accounts	94,467	375,089	88,374	375,089
	95,508	376,089	89,415	376,089
2 Money market assets				
Call accounts	2,030,081	1,883,882	2,030,081	1,883,882
Deposits for payment guarantees	7,071,670	1,989,772	7,071,670	1,989,772
Deposits pending property transfer registrations	5,428,913	420,600	5,428,913	420,600
	14,530,664	4,294,254	14,530,664	4,294,254
3 Advances				
Johannesburg inner city	209,888,194	106,460,176	191,835,330	105,901,608
Loan impairment (see note 4)	(3,462,260)	(1,005,092)	(2,557,774)	(1,005,092)
Notional interest on present valuing advances	(253,962)	-	-	-
	206,171,972	105,455,084	189,277,556	104,896,516
Maturity analysis				
Within 1 year	23,171,884	4,811,710	6,798,172	4,786,778
Within 2 to 5 years	36,455,332	21,844,847	36,108,803	21,727,371
Within 6 to 10 years	70,578,827	41,956,814	69,703,207	41,789,109
Within 11 to 15 years	79,682,151	37,846,805	79,225,148	37,598,350
	209,888,194	106,460,176	191,835,330	105,901,608
Geographical analysis				
Bellevue	19,236,219	6,180,111	18,261,009	6,180,111
Berea	45,587,381	25,789,376	44,525,073	25,230,808
Bertrams	2,311,675	1,298,015	2,182,788	1,298,015
Braamfontein	10,043,865	4,576,931	10,043,865	4,576,931
Doornfontein	6,851,637	-	6,851,637	-
Hillbrow	39,852,267	22,218,680	34,655,993	22,218,680
Johannesburg CBD	42,792,260	23,616,714	35,384,538	23,616,714
Jeppestown	4,535,154	518,905	4,535,154	518,905
Joubert Park	6,327,205	4,095,682	3,873,695	4,095,682
Lorentzville	280,132	254,269	280,132	254,269
Malvern	3,131,259	-	3,131,259	-
Orange Grove	888,727	-	888,727	-
Troyeville	1,297,500	-	1,297,500	-
Yeoville	26,752,913	17,911,493	25,923,960	17,911,493
	209,888,194	106,460,176	191,835,330	105,901,608
4 Loan impairment				
Balance at beginning of the year	1,005,092	133,514	1,005,092	133,514
Impairments raised during the year	2,457,168	871,578	1,552,682	871,578
Balance at the end of the year	3,462,260	1,005,092	2,557,774	1,005,092
5 Other Assets				
National Housing Finance Corporation	-	2,013,712	-	2,013,712
Sundry receivables	2,508	141	2,508	141
Trade and other receivables	1,508,328	197,332	1,181,676	136,532
	1,510,836	2,211,185	1,184,184	2,150,385
6 Subsidiary Companies				
Opening Balance			523,086	200
Acquisition of subsidiaries			100	-
Advances to subsidiaries			16,037,342	522,886
			16,560,528	523,086
Advance from subsidiary			(1,389,833)	(1,997,763)
Net amount owing by/(to) subsidiaries (Note 24)			15,170,695	(1,474,877)

Loans to (from) subsidiary companies:

These loans are recognised initially at fair value plus direct transaction costs. Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

Trade and other payables and borrowings:

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.
A gain or loss is recognised in the income statements when the financial asset or liability is de-recognised or impaired.
Fees earned on financial assets are recognised in accordance with the loan agreements. These are capitalised to the value of the loan and and credited to non-interest income as the fee is earned.

7 Impairment

Loans and advances:

At each balance sheet date an assessment is made whether there is an indication that an asset may be impaired.
Loans and advances are stated net of impairment. Where carrying values of loans and advances are less than discounted amounts realisable or net of recoveries from collateral, a provision is made for the differences as loan impairment. Advances are subject to a risk rating evaluation that takes into consideration inter alia the overall risk profile, collateral cover, payment record, past experiences, customers' co-operation in abiding by loan conditions and the economic climate.
Impairment losses and subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in the income statements. Advances impaired are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

8 Provisions

Provisions are recognised, when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Provisions are not recognised for future operating losses.
Contingent assets and contingent liabilities are not recognised.

9 Significant judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements are made in estimating asset impairment and the useful lives and residual value of equipment.

10 Interest income and expense

Interest income and expense are recognised in the income statements for all interest bearing instruments on an actual basis using the effective interest method. In terms of this method, interest receipts and payments are brought to account in proportion to the balance outstanding on a time proportional basis. Disclosed seperately in the income statements is the notional interest on present valuing financial assets and liabilities carried at amortised cost.

11 Non-interest revenue

Revenue from the provision of services is recognised on an accrual basis, as the service is rendered by reference to the stage of completion in accordance with the substance of the relevant agreements.

12 Taxation

The charge for current tax is based on the results for the year as adjusted for items of income and expenditure which are tax free or disallowed. It is calculated using the current enacted tax rate.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences of the carrying amount of assets and liabilities in the financial statements and the

Deferred taxation liability is recognised for all taxable temporary differences. Deferred taxation assets are the amounts of income taxes recoverable in future periods in respect of deductable temporary differences or the carry forward of unused tax losses.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Operating lease payments should be recognised as an expense on a straight line basis over the lease term. It, however, has been recognised on a contractual basis according to the lease terms as the difference between the

14 Employee benefits

The cost of all short term employee benefits are recognised during the period in which the employee renders the related service.
The provisions for employee entitlements to salaries, annual and sick leave represent the amount which the Group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

Retirement benefits:
Contributions to defined contribution funds are charged against income as

15 Standards and interpretation not yet effective

The following new standards, amendments and interpretations are not yet effective for the current financial year. The Company will comply with the new statements from the effective date or when the statement becomes applicable.

Title	Standard / Amendment to standard	Effective date
IFRS 7 – Financial Instruments: Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Company's financial instruments. It will have an impact on qualitative and quantitative disclosures for the year ending 31 March 2008.	New standard	1 Jan 2007
Consequential amendments to IAS 1 – Presentation of Financial Statements and IFRS 4 – Insurance Contracts. The amendment to IAS 1 introduces disclosures about the level of any entity's capital and how it manages capital.	Amendments to existing standards	1 Jan 2007
IFRIC interpretation 8 – Scope of IFRS 2	New interpretation	1 May 2006
IFRIC interpretation 9 – Reassessment of Embedded Derivatives	New interpretation	1 Jun 2006
AC 503 – Accounting for Black Economic Empowerment ("BEE") transactions	New SA standard	1 May 2006
IFRIC interpretation 10 – Interim financial reporting and impairment	New interpretation	1 Nov 2006
IFRIC interpretation 11 – IFRS 2 Group and treasury share transactions	New interpretation	1 Mar 2007
IFRIC interpretation 12 – Service concession arrangements	New interpretation	1 Jan 2008
IFRS 8 – Operating segments	New standard	1 Jan 2009

requirements to more orthodox borrowers, but our loan officers are experienced enough to quickly distinguish suitable candidates from the risky or inappropriate ones. The fact that no borrowers defaulted on their loans in this period proves our astuteness in accurately weighing up candidates for risk.

TUHF currently offers loans of up to R15 million, and does offer larger loans through joint financing or syndicated lending mechanisms in partnership with Standard Bank and/or the NHFC. Loans up to R2.5 million are considered at weekly meetings of the management committee, which consists of the Loan Officers, Financial Manager and CEO. Loans up to R5 million are placed before the bi-monthly Loan Committee, while larger loans must be approved by the TUHF Board, which meets on alternate months to the Loan Committee.

Loan management

Loan Officers are responsible for their property portfolios and each is required to present their portfolio to the management committee each fortnight. All reports must contain specific data on each property, including loan repayments, draw-downs against refurbishment plans, building upkeep, bylaw compliance and rates and utilities payments to the City.

Loan Officers are also expected to regularly inspect their portfolio properties and to get accurate and timely feedback from tenants as well as landlords.

Who are TUHF's property owners and landlords?

Although TUHF's BEE clients comprise more than 60% of its customer base, our clients come in all sizes, colours, backgrounds and careers. Ranging from artisans and caretakers with humble four-flat properties in Yeoville backstreets to self-made property barons with over 1 700 units - TUHF services them all. TUHF also works with established rental housing organisations that meet its criteria of properly and fairly managing buildings that uplift their surrounding environments.

Customer service and deal-making

The expertise that TUHF has built up is invaluable. We deeply understand our markets and what prices should be paid for properties, varying from run-down to completely derelict. We know what the rates and taxes in our areas are and we can quickly assess the ballpark refurbishment costs of a project.

When a deal is on the cards we do detailed feasibility studies and work through these with our clients and the sellers until all parties reach consensus that the deal is right.

Quick decision-making is crucial and we are significantly faster than our competitors. Our decision making is designed to meet the requirements of the business environment, weighed against vital accountability principles. The speed of our processes enables smaller scale entrepreneurs to compete in the property market as "cash buyers".
The prudent yet quick-acting integrity of our service continues to be instrumental in encouraging new entrants into property ownership - and to progress from part timers into fully-fledged property entrepreneurs and full-time landlords of multiple properties.

Support Programme for Social Housing (SPSH)

A joint national Department of Housing and European Union (EU) financed Support Programme for Social Housing saw TUHF playing an important role in managing a bridging finance fund for social housing institutions (SHIs). The NHFC appointed TUHF as its agent in managing this fund, a role that requires participation in all the SPSH's decision making and policy making structures.
TUHF was also tasked to manage a major study into financial structuring for SHIs that could provide the basis for a national Department of Housing initiative to expand the bridging fund to include equity and mezzanine financing instruments for SHIs.

CORPORATE GOVERNANCE

The Trust for Urban Housing Finance (TUHF) and its board of directors are committed to implementing governance compliance for the benefit of all stakeholders.

During the year under review the company updated its corporate governance framework to be better aligned to the 2002 King Report on Corporate Governance for South Africa (King 2 Report) and governance best practises. This governance compliance document deals in more precise and clearer terms with the:

- roles of members
- roles and responsibilities of the board and directors
- roles and responsibilities of the chairperson
- roles and responsibilities of the chief executive officer, and
- terms of reference of each board committee, including objectives of the committee, appointments, meetings, duties, scope of authority and reporting

Still to be finalised is the induction and training of new directors and senior management.

Board and directors
The board is ultimately responsible for corporate governance within the group. The chairman is an independent non-executive director whose role is separate and distinct from that of the chief executive officer (CEO). Other than the CEO, all other directors are independent non-executives. Although certain directors are members of boards of companies that have granted wholesale funding facilities to the group, their independence is not compromised as they, together with the remaining board members, undertook to act with care, diligence and skill in the performance of their duties, obligations and exercise of powers. With the ultimate responsibility of the group's operations resting with the board, it is required to provide objectivity in the decision-making process and to ensure that goals are clearly defined, strategies put into place and progress relating to these responsibilities monitored.

Authority is delegated to the CEO to manage the day-to-day business and affairs of the group. Where it is believed necessary to facilitate efficient decision-making in the execution of its duties, the board is authorised to establish board committees and review their minutes and reports. The creation of board committees does not absolve the board of its overall responsibility.

The board collectively bring experience and expertise to the group in the market segment in which it operates. Going forward with positive growth prospects, the board will be seeking to bring additional banking and financial skills to its profile.

At present no fees or remuneration are paid to non-executive directors. This status is being reviewed, considering the increased commercial profile the group is intending to adopt.

The board meets every alternate month. Management is invited to attend all meetings.

Loan Committee
Members: P Jackson (chairman), C Coovadia, JS Strelitz and Loan Officers by invitation.

The primary mandate of this committee is:

- review and recommend changes to the group's credit and loan policy
- provide guidance on all aspects of project development, including procedures for project preparation and approval
- evaluate and approve financing and guarantees of projects within the established value band delegated to the committee
- recommend projects above the established value band to the board

This committee meets every alternate month.

Remuneration Committee
Members: S Moraba (chairman), C Coovadia, T Adler.

The primary mandate of this committee is to:

- review the remuneration of employees and their benefits to maintain best practices and offer competitive remuneration packages
- approve and recommend, on person-for-person basis, executive salary packages and amendentments to these
- review management's recommended salary and performance increments and recommend such increases
- review and recommend the annual incentive bonus

This committee meets twice a year.

Finance and Audit Committee
This committee is to be established in the current year and its primary mandate is to:

- review the group's accounting policies and practises and, where required, recommend changes
- review the group's financial, operational and internal systems of control and make recommendations, when required, to the board
- monitor management's compliance of statutory and board-imposed regulations and ensure that management's reporting to the board is comprehensive
- evaluate the group's audit and review all external audit reports and management letters
- review annual financial statements, interim statements, notices to members for consideration and approvals by the board

This committee will be required to meet at least three times a year.

Risk Management Committee
The effective management of group risk underpins the sound management practices at the foundation of effective governance.

The group's major risks are:

- credit risk
- liquidity risk
- market risk
- operational risk
- compliance risk
- investment management risk
- business risk

The board is responsible for the entire process of risk management. It has, however, delegated the CEO to establish a risk committee consisting of himself, the financial manager, operational manager and loan officers. This committee is accountable to the board for designing, implementing, reviewing and monitoring the risk management process and integrating it into the day-to-day activities of the group. The risk committee meets monthly.

Management Committee
The members of this committee are the CEO, financial manager, operational manager, loan administrator and loan officers.

The mandate of this committee is to:

- evaluate and approve the financing and guarantees of projects within the established value bands approved by the board
- recommend projects that exceed established value bands to the Loan Committee
- assess the effectiveness of the group's loan and credit policy
- assess all operational aspects of projects, financing, development and implementation - including procedures - for project preparation and approval

This committee meets weekly.

Financial Affairs
The day-to-day financial affairs of the group, including annual audits and issues of compliance, are managed by the company secretary, who is suitably qualified for this role. The board has access to the advice and services of the company secretary.

ACCOUNTING policies

1 Accounting Convention

The company is registered under the Companies Act 1973, as an Association not for gain and as such no part of its income or property shall be distributed or transferred to its members directly or indirectly. All reserves of the company are therefore non-distributable.

2 Principal accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa. The financial statements are prepared under the historical cost convention as modified by the application of fair value to financial assets and liabilities.

Unless otherwise specifically stated, this basis is consistent with that of the previous year.

3 Basis of consolidation

The group financial statements include those of the company and its subsidiaries. Subsidiaries are companies in which the group, directly or indirectly, has the power to exercise control. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where a subsidiary is a newly registered company, the results are included from the date of incorporation. Inter-group balances, inter-group transactions and resulting profits are eliminated on consolidation. There are no minority interest shareholders in the group.

The assets and liabilities of the subsidiaries are measured at their fair values.

4 Equipment

The cost of an item of equipment is recognised as an asset when:
· it is probable that future economic benefits associated with the item will flow to the company; and
· the cost of the item can be measured reliably.
Costs include costs incurred initially to acquire equipment and costs incurred subsequently to add to and replace part of it. Equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight line method to write off the cost of assets to their residual values over their estimated useful lives at the following rates:-
Computer hardware - 25% per annum
Office furniture - 20% per annum
Office equipment - 25% - 33.33% per annum

The residual value and the useful life of an asset are reviewed on an annual basis and should expectations differ from previous estimates, changes shall be accounted for as a change in accounting estimates in accordance with IAS 8.

The gain or loss arising from the derecognition of an item of equipment is included in the income statements. The gain or loss arising from the derecognition of an item of equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

5 Intangible assets

An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the group and the cost of the asset can be measured reliably. Intangible assets are initially recognised at cost.

An intangible asset arising from development is recognised when:

- It is technically feasible to complete the asset so that it will be available for use
- There is an intention to complete the development and an ability to use it
- It will generate probable future economic benefits
- There are technical, financial and other resources available to complete the development
- The expenditure attributable to the asset during its development can be measured reliably

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Amortisation is provided to write down the intangible assets on a straight line basis to their residual basis as follows:

Computer software - 20% per annum.

6 Financial Instruments

The group classifies financial instruments on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement. Financial assets and liabilities are recognised on the group's balance sheet when the group becomes party to the contractual provisions of the instrument. Financial assets and liabilities are recognised initially at fair value.

Cash, short term assets and money market assets:
Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk in changing value. Cash and cash equivalents are measured at fair value. Money market assets are disclosed seperately and not included in cash.
Cash held in trust are funds deposited into the group's attorneys' trust account to facilitate the issue of purchase guarantees and payment of the purchase price to the property seller on the bond and transfer registration. Cash held in trust is measured at fair value.

Advances and receivables:
Advances and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss. Refer to accounting policy on impairment.

A hybrid loan exists in advances made by Intuthuko Equity Fund (Pty) Ltd where variable interest rates are based on the calculated yields of the borrowers' own equity. This yield determines the interest payable by the borrowers on the equity element of the contract and is recognised as interest on investments in the income statements. Where this yield is negative the equity investment element of the loan has no value and the loan element is recognised at amortised cost.

		GROUP		COMPANY	
	Note	2007 R	2006 R	2007 R	2006 R
Cash flows from operating activities					
Interest received		14,952,485	8,217,065	14,496,701	8,193,490
Interest paid		(8,745,618)	(3,772,204)	(8,745,618)	(3,772,204)
Grants received		278,000	278,000	278,000	278,000
Cash received from clients		1,756,944	1,162,312	1,756,944	1,162,312
Cash paid to suppliers and employees		(7,857,283)	(5,973,988)	(7,505,933)	(5,972,269)
Net cash inflow/(outflow) from operating activities	22	384,528	(88,815)	280,094	(110,671)
Cash flows utilised by investing activities		(84,032,858)	(70,158,158)	(83,934,517)	(68,136,302)
Acquisition of equipment		(114,569)	(139,349)	(114,569)	(139,349)
Cash advances, net of repayments		(98,038,974)	(70,018,809)	(81,608,853)	(69,398,102)
Advance settlements received		14,120,685	-	14,120,685	-
(Increase)/Decrease in investments				(16,331,780)	1,401,149
Cash flows from financing activities		93,603,958	68,349,358	93,603,959	66,349,358
Increase in interest bearing borrowings		93,603,958	66,349,358	93,603,959	66,349,358
Increase in non-interest bearing borrowings		-	2,000,000	-	-
Net increase/(decrease) in cash resources for the year		9,955,628	(1,897,615)	9,949,536	(1,897,615)
Cash and cash equivalents at beginning of the year		4,670,544	6,568,158	4,670,543	6,568,158
Cash and cash equivalents at end of the year		14,626,172	4,670,543	14,620,079	4,670,543

DIRECTORS'
responsibilities
and approval of the annual financial statements

The annual financial statements set out on pages 10 to 27 are the responsibility of the directors.

The directors are responsible for selecting and adopting sound accounting practices, for maintaining an adequate and effective system of accounting records, for safeguarding of assets, and for developing and maintaining a system of internal control that, among other things, will ensure the preparation of financial statements that achieve fair presentation.

After conducting appropriate procedures the directors are satisfied that the company will be a going concern for the foreseeable future and have continued to adopt the going concern basis in preparing the financial statements.

The annual financial statements were approved by the directors on 3 July 2007 and are signed on their behalf by:

S MORABA
Chairman

P JACKSON
CEO

INDEPENDENT auditors' report

to the members of the Trust for Urban Housing Finance

Report on the financial statements

We have audited the accompanying financial statements and group financial statements of Trust for Urban Housing Finance, which comprise the balance sheets as at March 31, 2007, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 12 to 27.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Trust for Urban Housing Finance and of the group as of March 31, 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act.

BDO Spencer Steward CJhb Inc

BDO Spencer Steward (Johannesburg) Inc.
Chartered Accountants (S.A.)
Registered Auditors
Johannesburg
3 July 2007

INCOME statements

for the year ended 31 March 2007

		GROUP		COMPANY	
	Note	2007 R	2006 R	2007 R	2006 R
Interest Income	14	20,561,814	8,973,953	20,961,078	8,978,022
Interest Expenses	15	13,010,929	4,653,340	13,181,940	4,753,173
Net interest income		7,550,885	4,320,613	7,779,138	4,224,849
Loan impairment	16	2,457,168	871,578	1,552,682	871,578
Income from lending activities		5,093,717	3,449,035	6,226,456	3,353,271
Non-interest income	17	5,420,731	3,907,800	4,209,631	3,907,800
Operating income		10,514,448	7,356,835	10,436,087	7,261,071
Operating expenditure	18	6,979,055	5,522,803	6,918,804	5,521,084
Operating profit		3,535,393	1,834,032	3,517,283	1,739,987
Notional Interest on present valuing of financial assets and liabilities		1,295,982	194,294	951,624	844,518
Present valuing financial assets		253,962	-	-	-
Present valuing financial liabilitiess		1,042,020	194,294	951,624	844,518
Profit before taxation		2,239,411	1,639,738	2,565,659	895,469
Taxation	19	1,040,262	566,294	1,032,175	538,622
Net profit for the year		1,199,149	1,073,444	1,533,484	356,847

STATEMENTS of changes in equity

for the year ended 31 March 2007

	GROUP	COMPANY
Balance at 31 March 2005	13,156,329	13,156,329
Net profit for the year	1,073,444	356,847
Balance at 31 March 2006	14,229,773	13,513,176
Net profit for the year	1,199,149	1,533,484
Balance at 31 March 2007	15,428,922	15,046,660

BALANCE sheets

at 31 March 2007

	Note	GROUP 2007 R	GROUP 2006 R	COMPANY 2007 R	COMPANY 2006 R
ASSETS					
Cash and short term assets	1	95,508	376,089	89,415	376,089
Money market assets	2	14,530,664	4,294,254	14,530,664	4,294,254
Advances	3	206,171,972	105,455,084	189,277,556	104,896,516
Other assets	5	1,510,836	2,211,185	1,184,184	2,150,385
Deferred taxation	19	1,090,836	395,978	822,780	394,750
Subsidiary companies	6			16,560,528	523,086
Equipment	7	289,060	339,594	289,060	339,594
Total Assets		223,688,876	113,072,184	222,754,187	112,974,674
LIABILITIES					
Taxation		2,217,016	749,633	2,180,939	720,733
Other liabilities	8	878,647	507,679	412,638	507,680
Provisions	9	279,402	356,117	279,402	356,117
Subsidiary companies	6			1,389,833	1,997,763
Non-interest bearing borrowings	10	9,895,266	8,853,245	8,455,092	7,503,468
Interest bearing borrowings	11	194,989,623	88,375,737	194,989,623	88,375,737
Total liabilities		208,259,954	98,842,411	207,707,527	99,461,498
EQUITY CAPITAL AND RESERVES					
Members funds		-	-	-	-
Reserves		15,428,922	14,229,773	15,046,660	13,513,176
Total liabilities and reserves		223,688,876	113,072,184	222,754,187	112,974,674

DIRECTORS' report

to the members of the Trust for Urban Housing Finance

Your directors submit their report for the year ended 31 March 2007

Nature of activities

The company and its subsidiaries are development finance organisations that provide short and long term finance to landlords, social housing institutions and tenant based collectives for the purchase, construction, conversion and improvement of property within South African inner city precincts, where the objective is the supply of rental housing. The company and its subsidiaries offer loan funding for such projects by way of different products secured by the property asset or approved loan structures.

Trading results

The results are fully disclosed in the attached financial statements.

Loan impairment

It is the opinion of management that the realisable values of collateral held in respect of advances exceed the book value of such advances. Advances always contain certain balances, that although not yet identified as a problem, will prove to be irrecoverable. The group does not have sufficient historical data to estimate with any degree of accuracy what these losses may be. Management has conservatively, based on risk profiles, estimated the potential impairment of advances to be a minimum of 1% on the book value of all mortgage loans, 3% on deferred sale agreements and 5% on bridging finance loans which has resulted in a loan impairment of R 2,022,191 (2006 - R274,965) for the year under review. However a risk rating of certain projects has resulted in the impairment being increased by a further R 434,977 (2006 - R596,613).

Taxation

In terms of section 10(1)(cc) of the Income Tax Act, the company is exempt from taxation. However, with the introduction of section 30, the company needed to re-apply for exemption as a public benefit organisation.

The company has submitted such an application. The South African Revenue Services has advised that exemption will be granted in terms of paragraph 3(f) subparagraph (a) and (b) of the Ninth Schedule of the Income Tax Act. However this exemption is subject to conditions prescribed by the Minister of Finance which to date have not been promulgated. Not withstanding this advice, the company has been in contact with the SARS' Tax Exemption Unit to seek further clarification on the company's status concerning its changed business operations since the application was submitted in October 2003.

The directors, however, believe that it would be prudent to provide for tax where the company has taxable income. To this end, a tax liabity of R 2,180,939 has been provided for the years ended March 2003, March 2006 and March 2007. Assessable losses were incurred in the years ended March 2004 and March 2005. For the year under review the company has provided taxation of R1,460,205. The company's subsidiaries, Intuthuko Equity Fund (Pty) Ltd and TUHF Bridge (Pty) Ltd, provided taxation of R32,728 and R242,234 respectively. TUHF Properties (Pty) Ltd has an assessable loss of R15,772.

Funding

During the year under review, the company and a subsidiary secured the following funding facilities:

An additional R 110 million from the Standard Bank of South Africa Limited repayable in full by May 2020.

R 50 million from the Development Bank of South Africa Limited repayable in full by March 2022.

R 50 million from Momentum Group Limited repayable in full by February 2022.

R15 million from the Gauteng Partnership Fund repayable in full in September 2013. This facility may only be used to fund bridging finance loans in the Gauteng province.

Draw downs, other than from the R15 million Gauteng Partnership Fund, are made as and when the advance to the end user is to be made in terms of a loan agreement and the collateral security for the advance has been registered. R15 million was received In October 2006.

Future additional funding will be sourced through the securitisation structure dealt with hereunder in this report.

Securitisation

The company's current financing structure is a number of single negotiated lines of credit, each with a respective value and specific conditions and procedures. The growth of approved loans reduces the efficiency and flexibility of this structure as well as not meeting volume needs.

It has become clear to the directors that at this point in the company's growth the financing structure needs to be reviewed in order to establish:

- Flexible volume of wholesale funds.
- Decreased average cost of wholesale financing.
- Financial efficiency.
- Increased commercial independence.

In consultation with financial advisors, these objectives will be achieved by the securitisation of the mortgage finance business. Futuregrowth Asset Management have been appointed Arranger and negotiations are well advanced, with the demand for participation high and many reputable companies indicating a willingness to participate. The securitisation structure will be in place during the 2008 financial year.

Support Programme for Social Housing

In terms of an agency agreement entered into in July 2004 the company was appointed by the National Housing Finance Corporation as its agent and representative to manage the implementation and operations of the support programme for social housing, funding of which originated from the Commission of the European Community amounting to R 23.1 million. The company's duties of agent terminates on 6 June 2007, but negotiations are in progress to renew the agency agreement with additional funds. The risks related to advances from these funds are ring fenced and have no influence on the company's operations. For this service the company is paid a monthly fee out of the interest received from the advances in projects and money markets.

Equity Funding

One of the principles of the company's lending approach is to support emerging entrepreneurs and black economic empowerment. To assist in the financial gearing of their projects, the company provides emerging entrepreneurs, who qualify for debt support, equity type finance in the form of variable interest subordinated loans.

The initial R2 million received from the Gauteng Partnership Fund for this purpose has been fully committed (2006 - R1,162,000) with R 840,000 (2006 - R102,169) drawn down. Negotiations have commenced to facilitate additional funds for this product.

Directors and Secretary

Details of the directors and secretary of the company are given on page 28.

On 23 May 2006 Dr. A. Pillay resigned as a director.

The following were appointed as directors on 21 November 2006:
M. Mamatela
E. Mokgele

Auditors

The group's auditors are BDO Spencer Steward (Johannesburg) Inc.

Members' funds

There are no members' funds.

Members' guarantee

The company is an Association without share capital incorporated under Section 21 of the Companies Act and limited by guarantee. In terms of the Memorandum of Association, each member of the company guarantees to contribute R 1 (one rand) in the event of the company being wound up. At the balance sheet date the guarantee value amounted to R 12 (2006 - R 12).

Subsidiary Companies

A new subsidiary company, TUHF Bridge (Pty) Ltd, was registered on 10 May 2006.
Information regarding the company's interest in its wholly owned subsidiaries is given in Note 24.

COMPANY SECRETARY'S certificate

to the members of the Trust for Urban Housing Finance

In accordance with the provisions of the Companies Act, 1973 (the Act), I certify that in respect of the year ended 31 March 2007, the company has lodged with the Registrar of Companies all returns prescribed by the Act and that all such returns are true, correct and up to date.

A Mitchell
Johannesburg
3 July 2007

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Rivonia
2128