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SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2005

The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of Servcon Housing Solutions (Proprietary) Limited. The financial statements presented on pages 10 to 29 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and include amounts based on judgements and estimates made by management.

The going concern basis has been adopted in preparing the financial statements. Although the existing mandate terminates on 31 March 2006, the directors believe the future continuance of the company is still certain. They believe that the going concern basis for preparing the financial statements is, however, still appropriate.

The annual financial statements have been audited by the independent accounting firm, Deloitte, who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board.

The directors believe that all representations made to the independent auditors during their audit were valid and appropriate.

Deloitte's audit report is presented on page 10.

The annual financial statements were approved by the board of directors on 29 June 2005 and are signed on its behalf by:

M.R. Moroka
Director

D.H. Anderson
Director

Servcon was commissioned to manage and satisfactorily dispose of a portfolio of 33 385 properties with a value of R1,279m representing non-performing property loans and property in possessions of banks up to and including 31 August 1997. This task was to be performed in a programmed manner over an 8 year period which ends on 31 March 2006.

At the date of my last report 19 781 properties had been satisfactorily disposed of representing nearly 60% of the portfolio. In submissions to the shareholders it was made clear that the balance of the portfolio could not be dealt with within the given time frame without large scale evictions causing social disorder of an unprecedented magnitude. Moreover, the ability of our associate Thubelisha Homes to deliver the required number of Reconstruction and Development Program (RDP) houses before 31 March 2006 was highly improbable.

Against this background and with pressure from Provincial Governments, late in October 2004 the National Housing Department approved an *in situ* rightsizing programme covering the balance of Servcon's portfolio at a level of R25 800 per property subject to the banks agreeing to write down outstanding loans to this level. With the agreement of the banks having been secured, it is anticipated that all Servcon clients will have signed applications for finance under this special dispensation by the end of September 2005. What then remains is the legal process of transfer of the properties. It is important to note that an essential feature of this programme is that the properties in question may not be sold and transfer given for a period of 5 years. This provision will be included in all relevant title deeds.

I am of the firm belief that there is an ongoing need for the expertise that has been built up in Servcon and clearly demonstrated over the past 7 years. Discussions are currently taking place with a view of ensuring that Servcon is configured in a manner that will enable it to continue providing essential services to Government and the banks and in so doing achieve retention of its human capital.

As this may well be the last report I will be submitting to shareholders, I would like to take this opportunity to thank my co-directors and in particular those directors who have served on the Executive Committee, for their support, advice and willingness to give of their time. Management and staff have been subjected to great uncertainty during elongated negotiations with the Department of Housing. I express to them the appreciation of my entire board for a task professionally and competently completed. Our Managing Director has played a significant part in all the negotiations that have and still are taking place. It is entirely apposite that we record our gratitude for the drive and energy he has brought to bear, particularly over the past 12 months, in securing a satisfactory and practical completion of our commission.



D.H. Anderson
Chairman



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
MANAGING DIRECTOR'S REPORT

31 MARCH 2005

PORTFOLIO MANAGEMENT

Our stated mandate, for the reporting period, was to achieve at least 82,5% satisfactorily disposed properties (SDO's) of the initial total of 33 385 properties. Given the fact that increased eviction processes and/or improved signing of rightsizing agreements or physical relocation of unwilling or unable or unaffording Servcon clients to afford effecting payments on agreed upon amounts could not be realized, shareholders decided to follow an alternative and only avenue of approving in situ rightsizing of all 12 274 remaining clients as at 30 September 2004.

Portfolio movement can be summed up as follows:

As at 1 April 2004, the number of Servcon clients was 13 604 and by 30 September 2004 the number had decreased to 12 274 translating into 1 330 satisfactorily disposed of properties. The achievement for the first six months of the 2004/5 financial year signalled challenges for shareholders as that constituted 1 330 out of a desired and mandatory projection of satisfactorily disposing of 5 842 properties during this year. Failure to achieve set targets was attributable to the fact all 12 274 clients were unemployed and thus incapable of effecting expected payments by Banks.

Processes which unfolded at the beginning of the financial year to 30 September 2004 included the following:

- A detailed strategic plan and business plan for the incoming Minister of Housing;
- Revised and creative approaches seeking to persuade clients to accept relocation assistance or voluntarily vacation of occupied bank-owned houses;
- Intense consultations with relevant stakeholders, seeking to find other ways of enticing remaining clients into accepting possible alternatives; and
- A detailed proposal regarding in situ rightsizing and approval thereof by Government and Banks.

Performance

The in situ rightsizing approval secured Government funding or commitment as per remaining properties indicated in the table below:

Province	Amount Paid	Properties catered for	Outstanding Properties	Outstanding Amounts
Eastern Cape	0	0	518	13 364 400
Free State	0	0	1 225	31 605 000
Gauteng	175 506 337	6 816	863	22 265 400
Kwazulu Natal	0	0	137	3 534 600
Limpopo	0	0	16	412 800
Mpumalanga	0	0	230	5 934 000
Northern Cape	0	0	9	232 200
North West	15 557 400	603	0	0
Western Cape	36 120 000	1 400	457	11 790 600
	227 183 737	8 819	3 455	89 139 000

PERFORMANCE (CONTINUED)

The amounts paid into Servcon Bank account guaranteed 69% satisfactory disposal of properties as and when properties have been registered in favour of a qualified Servcon client. It is expected that all properties shall have been transferred to qualified clients as at 31 March 2006 and in conjunction with Government policies.

IMPLEMENTATION OF PROGRAMMES

Rightsizing

The approval of in situ rightsizing on 25 October 2004 terminated an existing relationship between Servcon and Thubelisha. All funds transferred by respective Provinces to Thubelisha were paid into the Servcon bank account as per Department of Housing directive.

Housing normalization

In view of the approved Breaking New Ground Comprehensive Housing Plan and the Financial Services Charter, it was imperative for shareholders to consider in situ rightsizing as the only alternative to normalize an environment that would allow a smoother implementation of Government and banking sector common housing development and financing objective.

Staff

In situ rightsizing approval secured employment for all remaining Servcon staff to period ending 31 March 2006. Management has submitted a number of proposals, to both the Banking Sector and Government, calling for the use of available expertise and experience located within Servcon. It is expected that responses from both sectors will be provided in the 2005/6 financial year.

Board of directors

The Management and I wish to thank the Chairperson, Doug Anderson and all members of the Board for their guidance and unequivocal support and understanding during another difficult year of operation. The fact that a dedicated budget will be set aside to identify and endeavour to secure a future for Servcon and staff in the period post 31 March 2006, is another indication of the trust the Board has in its staff.



M.R. Moroka
Managing Director





SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED CORPORATE GOVERNANCE AND ACCOUNTABILITY

31 MARCH 2005

The Board of Directors remains firmly committed to the practice of sound corporate governance. A review of the King II Code's specific requirements has been performed and the Board's view is that we are compliant in so far as it is practical within the confines of the negotiated structure of the company.

In the interests of adherence to the highest standards of best practice, the company accepts the need to be managed in an ethical, disciplined and transparent manner according to prudently determined risk parameters.

THE BOARD OF DIRECTORS

Servcon has a unitary Board comprising 13 Directors and 6 alternative Directors. 12 are Non-Executive Directors, whilst one is an Executive Director.

INDEPENDENCE OF THE BOARD

The roles of Chairman and Managing Director are separate. The Chairman is an independent non-executive director, appointed by the Banking Association. The appointment of vice-chairperson is the prerogative of the Minister of National Housing. This position is currently vacant.

BOARD COMMITTEES

The Corporate Governance structure of the company is:

- Board of Directors
- Sub-Committees reporting to the Board of Directors
 - Executive Committee
 - Remuneration and Finance Committee
 - Audit Committee

The Board currently meets quarterly, to focus on strategic matters.

The Board is comprised of the following members:

- Chairperson of the Board
 - Managing Director
 - Directors representing each of the four remaining participating Banks.
 - Directors representing the Departments of National Housing, Safety and Security, National Treasury and Justice
 - A director representing central government
 - Directors representing the Housing Departments of Western Cape and Gauteng Provinces
- ❖ Each director is entitled to nominate an alternative to attend meetings in his/her absence.
- ❖ Also in attendance are members of senior management responsible for operational risk, finance, technology, internal audit, compliance and the Company Secretary.

31 MARCH 2005

BOARD COMMITTEES (CONTINUED)

- ❖ The representatives of the Shareholders also attend all meetings, the National Department of Housing as a non executive director and the Banking Association of SA as an observer. Observer status at board meetings had been granted to the CEO and COO of Thubelisha Homes until the ex-situ rightsizing of clients was terminated and has now been discontinued.

ROLE AND FUNCTION OF THE BOARD AND COMMITTEES

The Articles of Association of the company is the charter which governs the directors' roles and responsibilities.

Their duties are also regulated by the Shareholders Agreement. The Board retains full effective control over the company, provides its strategic direction, determines the company's purpose and values. It ensures compliance with sound codes of business practice.

The Board also has unrestricted right of access to all company records, information, documents and property and independent legal advice when required.

The directors recognise that they are responsible for the company's system of financial and internal controls, whilst the Executive Director is responsible for identifying, analysing, reporting and managing the company's risk as part of his everyday functions.

EXECUTIVE COMMITTEE

This committee is authorised to make decisions to the extent mandated to it by the main Board. Essentially this entails implementing decisions flowing out of the approved strategic business plan. Its members are comprised of the following:

- Chairperson of the Board
- Managing Director
- A representative Board member from each of the two participating Banks with the largest property portfolios currently administered by Servcon.
- A Government representative Board member from each of the two most closely linked government departments viz. Department of Housing and National Treasury.

A quorum at such meetings is the Chairman and at least one representative from the two Banks and one from the two Government departments.

This executive sub-committee meets monthly except during those months that the full Board meets. It also receives reports from a number of committees on which it is mandated to make decisions.

These committees include:-

- The Human Resource Committee
- The Management Committee
- The Interbank Committee
- The Consultative Employment Committee



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
CORPORATE GOVERNANCE AND ACCOUNTABILITY (CONTINUED)

31 MARCH 2005

ROLE AND FUNCTION OF THE BOARD AND COMMITTEES (CONTINUED)

The Remuneration and Finance Committee

- This is a sub committee of the main Board which meets at least once a year. The committee comprises the Chairperson of the main Board, plus representatives from ABSA, Nedcor, the Department of Housing and National Treasury. The Managing Director attends the committee meetings in an advisory capacity.
- A quorum at such meetings is the Chairman and a representative each from the Banks and Government.
- The committee's primary objective is to ensure that the right calibre of executive, senior management and staff is attracted, retained, motivated, and appropriately rewarded for individual performance and contribution to the performance of the company. It also ensures cordial relations are maintained with the relevant trade unions.

The Audit Committee

This is a sub-committee of the Board, which meets at least twice a year. The committee comprises the following directors: -

- Chairperson of the Board
- Managing Director
- Directors from Absa and Nedcor Banks
- A Director representing the Department of National Housing
- A Director representing Treasury

Also in attendance are members of senior management responsible for operational risk, finance, technology, internal audit, and compliance. Representatives of the respective firm of external auditors are in attendance at all meetings.

This committee's primary objective is to provide the Board with additional assurance regarding the efficacy and reliability of the financial and risk information supplied to the directors. The committee has to satisfy the board that adequate and appropriate financial, operational, standards of governance, reporting and compliance controls are in operation.

RECORD OF ATTENDANCE AT MEETINGS

Name	First Names	Position	Board	Excom	Audit	Remuneration
EXECUTIVE						
Moroka	Manye Richard	M Director	75.00%	85.71%	50.00%	100.00%
NON-EXECUTIVE						
Anderson	Douglas Haig	Chairman	100.00%	100.00%	100.00%	100.00%
Moraka	Dimakatso Elizabeth	Director	50.00%	n/a	n/a	n/a

31 MARCH 2005

ROLE AND FUNCTION OF THE BOARD AND COMMITTEES (CONTINUED)

Record of attendance at meetings (continued)

Name	First Names	Position	Board	Excom	Audit	Remuneration
GOVERNMENT DEPARTMENTS						
<i>Department of Housing</i>						
Chauke	Phillip	Director	25.00%	57.14%	0.00%	0.00%
<i>Gauteng Provincial Housing</i>						
Botha	Louis	Director	50.00%	83.33%	50.00%	n/a
Raboroko	Ezekiel	Alternate	0.00%	0.00%	0.00%	n/a
<i>Western Cape Provincial Housing</i>						
Austin	John Hamilton	Director	25.00%	n/a	n/a	n/a
<i>National Treasury</i>						
Lewis	Sharon	Director	50.00%	28.57%	50.00%	0.00%
<i>Department of Justice</i>						
Adv						
Ratshibvumo	Nndanganeni JJ	Director	00.00%	n/a	n/a	n/a
<i>Department of Safety & Security</i>						
Mbambo	David Malebese	Director	00.00%	n/a	n/a	n/a
Gibson	Stanford Frans	Director	00.00%	n/a	n/a	n/a
Day	Vernon	Alternate	50.00%	n/a	n/a	n/a
PARTICIPATING BANKS						
ABSA						
Clinton	Kelly Francis	Director	100.00%	85.71%	100.00%	100.00%
Garde	John Spencer	Alternate	n/a	100.00%	n/a	n/a
FNB						
Marais	Marius	Director	25.00%	n/a	n/a	n/a
Swartz	Andre	Alternate	75.00%	n/a	n/a	n/a
NEDBANK						
Drotskie	Eugene	Director	50.00%	00.00%	50.00%	00.00%
Kathan	Verakasrie Harris T.	Director	100.00%	n/a	n/a	00.00%
Le Roux	Peter	Alternate	100.00%	100.00%	100.00%	100.00%
STANDARD						
Greene	Harry J	Director	75.00%	n/a	n/a	n/a
Sorour	Owen	Alternate	00.00%	n/a	n/a	n/a



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
CORPORATE GOVERNANCE AND ACCOUNTABILITY (CONTINUED)

31 MARCH 2005

ROLE AND FUNCTION OF THE BOARD AND COMMITTEES (CONTINUED)

RISK MANAGEMENT

A risk management assessment was undertaken and audited, and will be continually assessed in conjunction with the internal audit function and Compliance Officer. The effectiveness of the controls in place will be regularly assessed and the Board informed as to the state of the risk management via the Executive Committee. The management and control of risk is an ongoing matter and will be subjected to frequent reviews.

COMPLIANCE

A separate and independent compliance function is operational, and is responsible for managing the company's regulatory and reputational risk. The company is compliant where practicable in relation to its structure.

EMPLOYMENT EQUITY AND STAFF DEVELOPMENT

The company continues to promote a culture of self development for all employees. Various staff forums and committees are in place to promote employee participation.

The company supports the objectives of the Employment Equity Act and has ensured that its employment practices provide equal opportunities without discrimination to all employees.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED

Tel: +27 (0)11 806 5200
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www.deloitte.com

Introduction

We have audited the financial statements of Servcon Housing Solutions (Proprietary) Limited set out on pages 11 to 29 for the year ended 31 March 2005. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these annual financial statements, based on our audit.

Scope

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

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

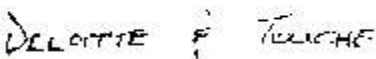
We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the annual financial statements fairly present, in all material respects, the financial position of the company at 31 March 2005 and the results of its operations, changes in equity and cash flows 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.

Going concern

Without qualifying our opinion above we draw your attention to the paragraph discussing going concern in the director's report.



Registered Accountants and Auditors
Chartered Accountants (SA)
Johannesburg
29 June 2005

Audit. Tax. Consulting. Financial Advisory.

National Executive Partners: V Naidoo Chief Executive RMW Dunne Chief Operating Officer
TJ Brown Audit DL Kennedy Tax GG Gelink Consulting MG Crisp Financial Advisory IRM Law
NT Mtoba Deputy Chairman of the Board J Rhynes Deputy Chairman of the Board

A full list of partners is available on request

A member firm of
Deloitte Touche Tohmatsu

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Annual
Report
2005



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
REPORT OF THE DIRECTORS

31 MARCH 2005

The Directors have pleasure in presenting their report on the activities of the company for the year ended 31 March 2005.

GENERAL REVIEW

Mandate

Servcon derives its mandate from the agreements between the Department of Housing, representing the Government, on the one hand and the Banking Association, representing the banks on the other.

Servcon was initially established in 1995 as a result of the "Record Of Understanding" having been signed in October 1994.

Servcon was given a renewed mandate in 1998 when the parties signed the "Heads of Agreement on the Termination of the Record of Understanding" dated 25 March 1998. This is captured in a formal agreement between the Government, the Banking Association, Servcon and Mortgage Indemnity Fund signed on 12 October 1999.

Mission statement

Servcon's mission is to be an effective, business orientated service company in implementing the payment normalisation programme of the Government through the Department of Housing and the Banks through the Banking Association.

In doing so Servcon will strive to:

- play a leading role in normalising the housing environment;
- restore or maintain home ownership in the medium to long term;
- offer alternative options to those who cannot afford their present accommodation;
- improve the viability of the present non-performing housing portfolio; and
- to implement the above within a stable and lawful environment in which contractual rights and obligations are respected and enforceable.

Performance

The principle responsibility of Servcon is to dispose of the portfolio over an 8-year period.

To date and during the year Servcon has achieved against the benchmark performance, determined by the shareholders, as follows:

	OBJECTIVE		ACHIEVED	
Current Year				
Value	17.5%	R 224 Million	6.3%	R 81 Million
SDO's	17.5%	5,842 SDO's	6.5%	2,172 SDO's
Accumulated				
Value	82.5%	R 1,055 Million	67.9%	R869 Million
SDO's	82.5%	27,543 SDO's	65.7%	21,952 SDO's

Reasons for the shortfall in achievement are contained in the reports of the Chairman and Managing Director.

31 MARCH 2005

GENERAL REVIEW (CONTINUED)

Application of resources

The approved expense budget for the year amounted to R32 180 338. Actual net expenditure amounted to R 27 844 693 or 13,5% below budget. 98 staff members were employed as at the year-end versus 120 in the approved budget. In the opinion of the board the resources of the company have been effectively utilised.

Funding

The cost of funding of the programme by the Department of Housing amounted to R44 647 348. This amount was transferred directly, or indirectly via Servcon, to the participating banks during the year or as owing to participating banks at the year end. R24.2 million thereof was in respect of a 50% contribution to direct property expenses including Servcon overheads, R18.7 million was in respect of interest payable on guarantees as per the contract and R1.7 million was a 50% contribution on losses on the sale of properties.

Going concern

The existing mandate terminates in March 2006 or at such later date of the disposal of the last designated property. The going concern of the company for the foreseeable future is not presently certain as negotiations are currently underway in an attempt to secure future business for the company after the mandate is terminated. The directors feel that it is still appropriate to prepare the accounts on the going concern basis.

If operations were to be terminated on 31 March 2006, staff retrenchment and retainer bonus costs as well as lease cancellation fees would be incurred. As at 31 March 2005, the exact costs associated with the future retrenchment of staff cannot be reliably measured. If the accounts were prepared on break-up basis, the assets may also not realise the values at which they are currently stated at in the financial statements.

Shareholding

The shareholding as stipulated in the Heads of Agreement is as follows:

50% Department of Housing
50% Banking Association

Internal controls

An outsourced internal audit process has been in place since 1999. Currently the outsourced internal audit provides a review function of the in-house internal audit process.

Public Entity

The Department of Housing unilaterally listed Servcon as a Public Entity under Schedule 3A of the Public Finance Management Act ("PFMA") on 1 April 2001. No reference was made to the interest of the other shareholders. We are presently negotiating exemption from certain sections of the PFMA that are not considered to be applicable to the Servcon operation.



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
REPORT OF THE DIRECTORS

31 MARCH 2005

GENERAL REVIEW (CONTINUED)

Financial position and results

The results of the company and its financial position are apparent from the attached annual financial statements.

Post balance sheet events

No material events have occurred subsequent to 31 March 2005.

DIRECTORS AND SECRETARY

Details of directors in office during the year and up to the date of this report are as follows:

Name	Date of Appointment	Date of Resignation
EXECUTIVE		
Representing Servcon		
Moroka M.R. (CEO)	30 October 2002	
NON-EXECUTIVE		
Representing Servcon		
Anderson D.H. (Chairman)	29 April 1998	
Representing Government		
Moraka D.E.	22 June 1995	
Representing Department of Housing		
Chauke M.P.	31 March 2004	
Representing Department of Safety and Security		
Day V. (alternate)	27 February 2002	
Mbambo D.M.	27 February 2002	30 March 2005
Gibson S.F.	30 March 2005	
Representing Department of Justice		
Ratshibvumo N.J	28 November 2001	

31 MARCH 2005

DIRECTORS AND SECRETARY (CONTINUED)

Name	Date of Appointment	Date of Resignation
Representing National Treasury		
Lewis S.	30 October 2002	
Representing Gauteng Housing		
Raboroko E. (alternate)	2 May 2002	
Botha L.J.	30 June 2004	
Representing Western Cape Provincial Housing		
Austin J.H.	24 June 1998	
Representing Participating Banks		
ABSA		
Clinton K.	2 May 2002	
Garde J.S.	26 November 2003	
FNB		
Marias M.G.	30 June 2004	
Swart D.L.	25 June 2003	30 June 2004
Swartz A. (alternate)	28 November 2001	
Nedcor		
Drotskie E.N.	30 January 2002	30 March 2005
Kathan V.H.T	30 March 2005	
Le Roux P.D. (alternate)	30 January 2002	
Standard		
Greene H.J.	26 July 2000	
Sorour O.N. (alternate)	28 April 2004	



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
REPORT OF THE DIRECTORS (CONTINUED)

31 MARCH 2005

DIRECTORS AND SECRETARY (CONTINUED)

Name	Date of Appointment
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SECRETARY

Collins F.E.	1 April 2001
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Business address	Postal address
------------------	----------------

6th Floor, Kuyasa House 26 Loveday Street Marshalltown Johannesburg 2001	PO Box 61608 Marshalltown 2107
--	--------------------------------------

Registered office

6th Floor, Kuyasa House
26 Loveday Street
Marshalltown
Johannesburg
2001

APPOINTED AUDITOR

Deloitte & Touche

Business address	Postal address
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Deloitte Deloitte Place The Woodlands Building 8, Ground Floor, FIST 20 Woodlands Drive Woodmead	Private Bag X6 Gallo Manor 2052
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SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
BALANCE SHEET

AT 31 MARCH 2005

	Notes	2005	2004
		R	R
ASSETS			
Non-current assets			
Equipment	2	399 307	1 385 503
Current assets			
Trade and other receivables	4	5 359 058	7 474 239
Bank balances and cash		225 087 758	14 235 579
		230 446 816	21 709 818
TOTAL ASSETS		230 846 123	23 095 321
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	5	100	100
Non-distributable reserves	6	71 500	71 500
Accumulated profit		319 850	28 338
		391 450	99 938
Non-current liabilities			
Shareholders loans	7	429 000	429 000
Current liabilities			
Trade and other payables	8	230 025 673	22 566 383
TOTAL EQUITY AND LIABILITIES		230 846 123	23 095 321

*Refer to note B of the cash flow statement for details of the bank balances and cash.



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
 INCOME STATEMENT
 FOR THE YEAR ENDED
 31 MARCH 2005

	Notes	2005 R	2004 R
Revenue		27 844 693	29 722 882
Other income		760 502	505 765
Operating income		28 605 195	30 228 647
Interest received		641 112	146 476
Interest paid		(619 443)	(7 130)
Operating income after finance costs		28 626 864	30 367 993
Operating expenses		(6 840 318)	(7 738 937)
Staff expenses		(20 423 556)	(21 246 797)
Depreciation expense		(1 071 478)	(1 297 829)
Net income before taxation	9	291 512	84 430
Taxation	3	-	-
Net income after tax		291 512	84 430

SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED

31 MARCH 2005

	Ordinary share capital	Accumulated profit/(loss)	Non distributable reserves	Total
	R	R	R	R
Balance at 31 March 2003	100	(56 092)	71 500	15 508
Net income for the year	-	84 430	-	84 430
Balance at 31 March 2004	100	28 338	71 500	99 938
Net income for the year	-	291 512	-	291 512
Balance at 31 March 2005	100	319 850	71 500	391 450



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
 CASH FLOW STATEMENT
 FOR THE YEAR ENDED
 31 MARCH 2005

	Notes	2005 R	2004 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		33 926 535	33 229 928
Cash paid to suppliers and employees		(31 070 469)	(32 780 176)
Net payments to Department of Housing		(12 479 471)	2 064 408
Advances to transfer properties		220 512 337	-
Cash generated from/(utilised by) operations	A	210 888 932	(1 614 656)
Interest received		641 112	146 476
Interest paid		(619 443)	(7 130)
Net cash inflow/(outflow) from operating activities		210 910 601	(1 475 310)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to equipment		(101 900)	(474 412)
Proceeds on sale of equipment		43 478	47 456
Net cash outflow from investing activities		(58 422)	(426 956)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		210 852 179	(1 902 266)
Cash and cash equivalents at the beginning of the year		14 235 579	16 137 845
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	B	225 087 758	14 235 579

31 MARCH 2005

	2005	2004
	R	R
A. RECONCILIATION OF NET INCOME BEFORE TAXATION TO CASH GENERATED FROM/ (UTILISED BY) OPERATIONS		
Net income before taxation	291 512	84 430
Adjust for:		
Interest paid	619 443	7 130
Interest received	(641 112)	(146 476)
Depreciation	1 071 478	1 297 829
Gain on sale of equipment	(26 860)	(13 954)
Increase/(decrease) in provisions	83 630	(40 531)
Operating income before working capital changes	1 398 091	1 188 428
Decrease/(increase) in trade and other receivables	2 115 181	(997 489)
Increase/(decrease) in trade and other payables	207 375 660	(1 805 595)
Cash generated from/(utilised by) operations	210 888 932	(1 614 656)
B. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Bank balances	113 244 523	13 963 693
Cash	17 990	16 590
Cash on call	111 825 245	255 296
	225 087 758	14 235 579

Included in the bank balances above is an amount for R50 400, which is held by the bank as security over an operating lease.

An amount of R220 512 337 of the total of the cash balances held is cash received from Provincial Departments that is payable to the participating banks for the settlement of outstanding Bonds for properties to be transferred for the *in situ* programme. An equivalent amount owing to the banks is reflected in Trade and Other Payables.



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 MARCH 2005

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, on the historical cost basis, and incorporate the following principal accounting policies, which have been consistently applied in all material respects, unless otherwise indicated.

1.1 Revenue recognition

Revenue comprises of services provided to customers and is recognised on the accrual basis in accordance with the substance of the relevant agreements. Revenue excludes indirect taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

1.2 Equipment and depreciation

Furniture and fittings, office equipment, computer equipment, software and motor vehicles are stated at cost less accumulated depreciation. Depreciation is calculated on cost using the straight-line method over the respective useful lives, using the following rates:

Office equipment	20%
Computer software	50%
Computer equipment	33,33%
Motor vehicles	20%
Furniture and fittings	16,67%

The recorded value of these depreciated assets is periodically compared to the anticipated recoverable amount if the asset were to be sold. Where an asset's recoverable amount has declined below the recorded value, and the decline is expected to be of a permanent nature, the decline is recognised as an expense.

1.3 Taxation

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

Deferred taxation is provided on the comprehensive basis using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using tax rates enacted at the balance sheet date.

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

31 MARCH 2005

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Leased assets

Obligations incurred under operating leases are charged to the income statement in equal instalments over the period of the lease, except when an alternative method is more representative of the time pattern from which benefits are derived.

1.5 Provisions

Provisions are recognised when the company 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.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 MARCH 2005

2. EQUIPMENT

	Office equipment	Furniture & fittings	Computer equipment	Computer software	Motor vehicles	Total
	R	R	R	R	R	R
2005						
Owned assets - cost						
Beginning of year	132 563	362 024	1 311 458	2 252 308	57 900	4 116 253
Additions	3 164	-	67 301	31 435	-	101 900
Disposals	(21 541)	(42 821)	(201 349)	(3 179)	-	(268 890)
End of year	114 186	(319 203)	1 177 410	2 280 564	57 900	3 949 263
Owned assets						
Accumulated depreciation						
Beginning of year	120 213	299 243	829 034	1 429 761	52 499	2 730 750
Depreciation	3 658	23 542	259 891	778 986	5 401	1 071 478
Disposals	(21 253)	(39 095)	(188 744)	(3 180)	-	(252 272)
End of year	102 618	283 690	900 181	2 205 567	57 900	3 549 956
Owned assets						
Carrying amount	11 568	35 513	277 229	74 997	-	399 307
	Office equipment	Furniture & fittings	Computer equipment	Computer software	Motor vehicles	Total
	R	R	R	R	R	R
2004						
Owned assets - cost						
Beginning of year	153 934	357 067	1 017 824	2 139 690	57 900	3 726 415
Transfers	(21 580)	-	21 580	-	-	-
Additions	2 600	5 328	353 266	113 218	-	474 412
Disposals	(2 391)	(371)	(81 212)	(600)	-	(84 574)
End of year	132 563	362 024	1 311 458	2 252 308	57 900	4 116 253
Owned assets						
Accumulated depreciation						
Beginning of year	114 890	264 698	613 304	450 182	40 919	1 483 993
Depreciation	7 240	34 915	263 915	980 179	11 580	1 297 829
Disposals	(1 917)	(370)	(48 185)	(600)	-	(51 072)
End of year	120 213	299 243	829 034	1 429 761	52 499	2 730 750
Owned assets						
Carrying amount	12 350	62 781	482 424	822 547	5 401	1 385 503

31 MARCH 2005

3. TAXATION

South African normal taxation

No provision for taxation was made in the current year as the tax loss brought forward from the prior year exceeds the estimated taxable income for the year.

	2005		2004	
Tax rate reconciliation:	R	%	R	%
Tax at standard rate	87 454	30	25 329	30
Tax loss utilised	(87 454)	(30)	(25 329)	(30)
Effective rate	-	-	-	-

At the balance sheet date the company has estimated unused tax losses of R1 331 709 (2004: R1 753 549) available for offset against future taxable income. No deferred tax asset has been recognised in respect of this tax loss due to the fact that the company does not operate for profit and a large future taxable income is not anticipated.



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 MARCH 2005

	2005	2004
	R	R
4. TRADE AND OTHER RECEIVABLES		
Amounts due for administering properties	5 144 698	7 071 099
Other receivables	214 360	403 140
	5 359 058	7 474 239
5. SHARE CAPITAL		
Authorised 1000 ordinary shares of R1 each	1 000	1 000
Issued 100 ordinary shares of R1 each	100	100
In terms of a resolution of members, the remaining unissued ordinary shares are under the unrestricted control of the directors until the forthcoming Annual General Meeting.		
6. NON-DISTRIBUTABLE RESERVES		
Balance at the beginning and end of the year	71 500	71 500

Comprising:

Shareholder's loan of R71 500 from the Department of Housing transferred to non-distributable reserves as the Department of Housing has indicated that repayment of the loan is not required.

31 MARCH 2005

	2005	2004
	R	R
7. SHAREHOLDERS' LOANS		
ABSA Bank Limited	71 500	71 500
First National Bank of Southern Africa Limited	71 500	71 500
NBS Bank Limited	71 500	71 500
Nedcor Bank Limited	71 500	71 500
Saambou Bank Limited	71 500	71 500
Standard Bank of South Africa Limited	71 500	71 500
	429 000	429 000
The loans are unsecured, interest free and no fixed terms of repayment have been set.		
8. TRADE AND OTHER PAYABLES		
Advance to transfer properties	220 512 337	-
Advance payments for administering properties	5 412 128	5 412 128
Amounts due to participating banks	-	12 479 471
Other payables	2 984 449	3 641 655
	228 908 914	21 533 254
Provisions:		
Opening balance	1 033 129	1 073 660
Charge/(release) to income statement	83 630	(40 531)
Closing balance	1 116 759	1 033 129
	230 025 673	22 566 383



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS
 (CONTINUED)
 31 MARCH 2005

	2005	2004
	R	R
9. NET INCOME BEFORE TAXATION		
The net income before taxation is arrived at after taking the following items into account:		
Auditors' remuneration:		
External audit fees	290 500	208 000
Prior year over-accrual	-	(5 995)
Audit expenses	11 955	10 890
Internal audit fee	137 627	265 416
	440 082	478 311
Operating lease payments:		
Land and buildings	1 034 811	1 022 262
Equipment	402 745	315 789
Computer software	-	32 202
	1 437 556	1 370 253
Fees for services:		
Technical	263 618	275 340
Depreciation	1 071 478	1 297 829
Gain on sale of equipment	26 860	13 954
Research and development costs	-	576
Finance costs:		
Interest paid	570 625	905 683
Legal fees	570 625	905 683

31 MARCH 2005

	2005	2004
	R	R
10. DIRECTORS' EMOLUMENTS		
Executive directors		
M Moroka CEO		
For services as director	934 000	738 525
	934 000	738 525

11. RELATED PARTY INFORMATION

The Banking Association and Department of Housing each hold a 50% interest in the company.

The company has entered into financial services transactions with the Participating Banks as the ultimate shareholders of the Banking Association. These transactions were in the ordinary course of business at market related terms and conditions similar to those arranged with third parties.

Director related transactions

There were no material transactions with directors other than emoluments as disclosed in note 10.

12. RETIREMENT BENEFITS

Defined contribution plan

The company operates a defined contribution retirement benefit plan for all its employees. The assets are held separately from the company under an insured fund.

The costs charged to income represent contributions payable to the scheme by the company at rates specified in the rules of the scheme. The total contributions charged to income for the year were R1 901 682 (2004: R2 000 445).



SERVCON HOUSING SOLUTIONS (PROPRIETARY) LIMITED
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS
 (CONTINUED)
 31 MARCH 2005

13. OPERATING LEASES

The company leases photocopying machines from Nashua Central for a period of 4 years commencing. The lease payment is fixed at R36 845 per month with no contingent rent payments.

The properties occupied by the company for the purpose of conducting its business activities are leased from various lessors and include the properties occupied by the different branches and the head office operations.

The lease agreements are not renewable at the end of the lease term and the company does not have an option to purchase these assets. The lease agreements do not impose any restrictions. There are two office leases which extend past 31 March 2006.

Future minimum lease payments

	Up to one year R	One to Two years R
Email facility	403 082	101 984
Photostating machines	442 140	-
Properties	1 011 938	241 733
	1 857 160	343 717

14. CONTINGENT LIABILITIES

The existing shareholders agreement between the Banking Association, the Government and Servcon, which governs the company's operations, expires in March 2006 or at such later date of the disposal of the last designated property. Should this contract not be re-negotiated before then and if the decision is taken to wind up operations, then staff still in Servcon's employ would have to be retrenched. The exact cost associated with the future retrenchment of staff cannot at present be reliably measured.

15. FINANCIAL INSTRUMENTS

Credit risk

Credit risk may arise from the inability or unwillingness of a counterparty to a financial instrument to meet its contractual obligations or where debtors default on payments. The company is exposed to a negligible amount of credit risk.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The company has sufficient liquid resources to meet current commitments.

Fair values

The carrying amounts of cash investments, receivables and payables approximate their fair values.

