SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED
Annual financial Statements
for the year ended 31 March 2006

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2006

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SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

CORPORATE GOVERNANCE STATEMENT
for the year ended 31 March 2006

The Directors of Swaziland Development Finance Corporation Limited confirm their commitment to the principles of openness, integrity and accountability as advocated in the King II Code on Corporate Governance. Through this process, shareholders and other stakeholders may derive assurance that the Corporation is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. Monitoring the Corporation's compliance with the King Code on Corporate Governance forms part of the mandate of the Corporation's executive committee.

Board of directors

The Board has two committees the Main Board and the Executive Committee. Both the Main Board and the Executive committee meet quarterly, but special Board meetings are convened when necessary. The Main Board monitors management and ensures that material matters are subject to Board approval such as the approval of loans. The Executive Committee's main functions are to review the Corporation's financial statements, management accounts, operational matters, staff matters and then advise the Main Board.

The Board comprises 9 directors of whom only one serves in an executive capacity. The board is balanced so that no individual or Corporation can dominate decision-making. The directors of the Corporation are listed on page 6. Roles of chairperson and chief executive do not vest in the same person and the chairperson is a non-executive. The non-executive directors comprise individuals with diverse backgrounds and expertise. The chairperson and managing director provide leadership and guidance to the Corporation's Board and encourage deliberation of all matters requiring the Boards attention, and obtain sufficient input from the other board members. The chairperson and directors are elected on a three-year basis.

Risk Management

Effective risk management is essential to the Corporation's objective of consistently adding value to the business objectives. The Corporation's management is continuously developing and enhancing its risk and control procedures to improve the means for identifying and monitoring risks.

Operating risk is the potential for loss to occur through a breakdown in control information, business processes and compliance systems. Key policies and procedures are in place to manage operating risk involving segregation of duties, transaction authorisation, supervision, monitoring and financial and managerial reporting.

Financial risk management is disclosed in the notes to the financial statements.

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITY
for the year ended 31 March 2006

The directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and the related information. The auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Swaziland Companies Act as amended.

The directors are also responsible for the Corporation's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the Corporation will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the Corporation.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers, which was given unrestricted access to all financial records and related data, including minutes of the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate. PricewaterhouseCoopers' audit report is presented on page 3.

The annual financial statements which appear on pages 8 to 39 have been approved by the board of directors on 07 July 2006 and are signed on its behalf by:

CHAIRMAN

MANAGING DIRECTOR

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
MTN Office Park
Karl Grant Street
Mbabane, Swaziland
P O Box 569
Mbabane H100
Swaziland
Telephone +268 404 2861/3
or 404 3143
Facsimile +268 404 5015
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REPORT OF THE INDEPENDENT AUDITORS FOR THE YEAR ENDED 31 MARCH 2006 TO THE MEMBERS OF SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

We have audited the financial statements of Swaziland Development Finance Corporation Limited for the year ended 31 March 2006 set out on pages 8 to 39. These financial statements are the responsibility of the company's directors. Our responsibility is to report on these financial statements.

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

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

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

Audit opinion
In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 31 March 2006, and the results of its operations and cash flows for the year then ended in accordance with Swaziland and International Financial Reporting Standards and in the manner required by the Swaziland Companies Act 1912, as amended.

07 July 2006
DATE

PricewaterhouseCoopers
PRICEWATERHOUSECOOPERS
CHARTERED ACCOUNTANTS
(SWAZILAND)

Partner in charge J P E Lewis
Resident partners T Mason, M Fakudze

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

DIRECTORS' REPORT
for the year ended 31 March 2006

The directors have pleasure in submitting their report, which forms part of the financial statements of the Corporation for year ended 31 March 2006.

1. Nature of Business

The Corporation is incorporated in Swaziland and operates as a lending institution to qualifying individuals and businesses.

2. Financial Results

Swaziland Development Finance Corporation Limited has experienced a number of developments during this financial year. Some of these are highlighted below:

Financial performance
Income
This year we have seen improved financial results in comparison to the previous year. Interest earned from our loan portfolio is E32 million. This represents a 52% increase from the previous year and is due to an increase in our loan portfolio. The loan portfolio has increased from last years gross value of E126 million to E221 million as at year end.

Operating expenses
Our operating expenses have increased by 22%. This, however, is in line with the increase in the level of operations which has even necessitated that we move offices from Asakhe house to Dlanubeka building.

Interest Expense
This year's interest expense has increased significantly. This is due to extra funding obtained during the year. E14.8 million was received from the African Development Bank (ADB), E20 million from the Central Bank of Swaziland, USD3 million (E18 447 000) from the OPEC fund and E0.5 million from Tibiyo TakaNgwane.

Provisions
To comply with the requirements of International Accounting Standard 39, Financial Instruments an impairment of loans and advances of E11.9 million had to be recognised in the income statement. The requirement of the standard is that the impairment be calculated as the difference between carrying amount and the recoverable amount of the loans.

Profit
The net profit has increased significantly from the previous year. This is largely due to the increase in the interest income which has been highlighted above.

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

DIRECTORS' REPORT (continued)
for the year ended 31 March 2006

Loan portfolio
Our loan portfolio has also increased significantly from the previous year. This increase has been funded by additional loans of E14.8 million from the African Development Bank (ADB), E20 million from the Central Bank of Swaziland, USD3 million from the OPEC fund and E0.5 million from Tibiyo TakaNgwane as already mentioned. The extra funding has been necessitated by the increase in the demand for business loans by the public which results from the Job Creation initiative. A summary of the loans approved during the year is given below:

Loan Type	**Value of Loans Approved**	**Disbursed**	**Number of Loans Approved**
	E	E	E
Other agriculture loans	22 291 585	14 721 892	189
General business	59 334 026	49 705 685	681
Sugar cane seasonal loans	60 879 309	45 241 975	83
Consumer loans	66 370 259	65 688 331	6995
Kobwa Scheme (business)	5 100	5 100	1
	208 880 279	**175 362 983**	**7 949**

Leases and fixed asset
During the year the Corporation acquired ten new motor vehicles in replacement of old vehicles. Our loan portfolio had increased and to improve monitoring of the loans it became necessary for the Corporation to change its fleet.

Special projects

Swaziland Dairy Board
The initial seed capital of E1.5 Million for the Dairy Fund has been fully committed during the year. Progress of the already financed projects is being monitored very closely in order to establish the sustainability of the fund. Most of the farmers are still at the early stages of their business cycle and would only start making repayments at the end of 2006.

Swaziland Ex-Miners Voluntary Deferred Pay Credit Guarantee Fund
The loan fund of E2.5 Million under Ex-miners Voluntary Deferred Pay Fund has also been fully committed. The Voluntary Deferred Pay Board is due to meet FINCORP at the beginning of the next year in order to review performance results of the fund over the past one full year.

DIRECTORS' REPORT (continued)
for the year ended 31 March 2006

ADB Loan Fund
As at the end of the year under review, a total sum of E44 million had been received from government under the E75 Million ADB Loan Fund. The amount received from the loan fund has been fully utilised towards financing seasonal loans. However new developments or expansions have been suspended pending the completion of the ongoing consultations regarding the future of the sugar industry in Swaziland.

3. Share Capital

The authorised share capital is 10 000 ordinary shares at E1 each of which 1 000 ordinary shares have been issued at a premium of E84 224.07 per share, and remained unchanged during one year.

4. Dividends

The directors do not recommend that a dividend be paid in respect of the period under review.

5. Directors

The directors who acted during the period are:

Vincent Mhlanga	Managing Director
Resigned as Chairman and reappointed as a Member on 08 September 2005	
Leonard Sithebe	Representing Tibiyo TakaNgwane
Resigned and reappointed as Members on 08 September 2005:	
Musa Mdluli	Representing Tibiyo TakaNgwane
Simanga Simelane	Representing Tibiyo TakaNgwane
Resigned on 28 February 2006	
Christabel Motsa	Representing Swaziland Government
Musa Sibandze	Representing Swaziland Government
Indvuna Mlobokazana Fakudze	Representing Swaziland Government
Bertram Stewart	Representing Swaziland Government
Mbuso Simelane	Representing Swaziland Government
Mduduzi Zwane	Representing Swaziland Government
New board members appointed on 24 May 2006:	
Almon Mbingo	Chairman, Representing Swaziland Government
Mandla Mavuso	Representing Swaziland Government
Nomsa Tibane	Representing Swaziland Government
Musa Sibandze	Representing Swaziland Government
Mduduzi Zwane	Representing Swaziland Government

6. Secretary

The Secretary of the Corporation is: Mr Dumisani Msibi.

7. Bankers

The Bankers of the Corporation are:

First National Bank Swaziland Limited
P O Box 261
Eveni.
Swaziland

8. Business and postal address of the Corporation

Business address:	Postal address:
7th floor, Dlanubeka Building	P O Box 6099
Corner of Mdada and Lalufadlana Streets	Mbabane
Mbabane	Swaziland

9. Auditors

The auditors of the Corporation are:

PricewaterhouseCoopers Swaziland
P O Box 569
Mbabane
Swaziland

10. Subsequent events

A new board of directors was appointed on 24 May 2006.

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

INCOME STATEMENT
for the year ended 31 March 2006

	Notes	2006 E	2005 E
Interest income	1	32 027 038	21 067 466
Interest expenditure	2	(5 935 735)	(1 521 705)
Net interest income before impairment of loans and advances		26 091 303	19 545 761
Impairment of loans and advances	10	(11 888 737)	(9 408 766)
Net interest income after impairment of loans and advances		14 202 566	10 136 995
Non-interest income	3	1 535 435	754 087
Total income from operations		15 738 001	10 891 082
Operating expenditure	4	(12 033 979)	(9 901 943)
Income from operation before taxation		3 704 022	989 139
Taxation	6	(955 506)	(296 741)
Profit for the period		2 748 516	692 398

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

BALANCE SHEET
at 31 March 2006

	Notes	2006	2005
		E	E
ASSETS			
Non-current assets			
Property, plant and equipment	8	3 173 839	1 025 780
Loans and advances	9	108 762 782	76 211 412
Financial assets - Available for sale	11	1 522 500	1 522 500
Deferred tax	7	295 621	214 030
		113 754 742	78 973 722
Current assets			
Loans and advances	9	87 170 972	37 192 904
Receivables and prepayments	12	9 800 572	6 260 795
Cash and cash equivalents	13	3 332 266	7 025 800
		100 303 810	50 479 499
Total assets		214 058 552	129 453 221
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	14	1 000	1 000
Share premium	14	84 224 069	84 224 069
General Risk Reserve	15	3 918 675	2 268 086
Retained Income		2 818 278	1 720 351
		90 962 022	88 213 506
Non-current liabilities			
Borrowings	16	90 291 779	35 000 000
Current liabilities			
Borrowings	16	4 783 728	-
Trade and Accounts payable	17	6 843 882	4 247 618
Bank overdraft	13	15 189 370	-
Derivative financial instruments	20	2 650 000	-
Taxation	18	2 230 761	1 193 664
Provisions	19	1 107 010	798 433
Total current liabilities		32 804 751	6 239 715
Equity and liabilities		214 058 552	129 453 221

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2006

	Share Capital E	Share Premium E	General Risk Reserve E	Retained Income E	Total E
Opening balance 1 April 2005	1 000	84 224 069	2 268 086	1 720 351	88 213 506
Profit for the period	-	-	-	2 748 516	2 748 516
Transfer to General Risk Reserve	-	-	1 650 589	(1 650 589)	-
Balance at 31 March 2006	1 000	84 224 069	3 918 675	2 818 278	90 962 022
Opening balance: 1 April 2004	1 000	84 224 069	1 798 909	1 497 130	87 521 108
Profit for the year	-	-	-	692 398	692 398
Transfer to General Risk Reserve	-	-	469 177	(469 177)	-
Balance at 31 March 2005	1 000	84 224 069	2 268 086	1 720 351	88 213 506

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

CASH FLOW STATEMENT
for the year ended 31 March 2006

	Notes	2006 E	2005 E
Cash flow from operating activities			
Cash utilised from operating activities	23	(77 706 785)	(18 933 827)
Cash flow from investing activities			
Purchase of property, plant and equipment		(674 353)	(24 695)
Proceeds from sale equipment		61 321	-
Net cash utilised from investing activities		(613 032)	(24 695)
Cash flow from financing activities			
Increase in long term loan		59 577 244	25 000 000
Finance lease principal payments		(140 331)	-
Net cash inflows from financing activities		59 436 913	25 000 000
Movement in cash and cash equivalents			
At start of period		7 025 800	984 322
Net (decrease)/increase in cash and cash equivalents		(18 882 904)	6 041 478
At end of year	13	(11 857 104)	7 025 800

SUMMARY OF ACCOUNTING POLICIES
for the year ended 31 March 2006

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A Basis of preparation

The financial statements have been prepared on the historical cost basis in accordance with International Financial Reporting Standards, using the historical cost convention as modified by the revaluation of available for sale financial assets and financial assets and liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

B Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of the entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Emalangeni, which is the Corporation's functional and presentation currency.

(*2) Transactions and balances*

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses which are recognised in the income statement.

C Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use. After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on the straight line method to write off the cost or revalued amount of the asset to their residual value over their estimated useful lives as follows:

Property, plant and equipment and Depreciation (Continued)

The principal annual rates used for this purpose are:-

Computer Equipment	33⅓%
Furniture and fittings	10%
Office furniture	10%
Motor vehicle	20%

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in operating profit. When revalued assets are sold, the amounts included in fair value reserves are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing assets will flow to the Corporation. Major renovations are depreciated over the remaining useful life of the related assets.

D Impairment of long lived assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

E Loans and advances

All loans and advances are recognised when cash is advanced to borrowers. These are carried at original amounts advanced less provisions made for impairment. A provision for impairment is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the loan. The amount of the provision is determined by following the Corporation's provisioning policy.

F Loans and advance impairment

The Corporation creates a specific provision for impairment in respect of non-performing advances when there is objective evidence that it will not be able to collect all amounts due. The impairment is calculated as the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate at inception of the advance.

Loans and advance impairment (Continued)

The Corporation creates a further portfolio impairments in respect of non-performing advances where there is objective evidence that components of the loan portfolio contain probable losses at the balance sheet date. When an advance is un-collectable, it is written off against the related impairments. Subsequent recoveries are credited to income.

The Corporation writes off advances once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

The Corporation further creates a general provision calculated at 2% of the net loan book. This amount is accounted for through the statement of changes in equity under "General Risk Reserve" and does not affect the income statement.

The Corporation reverses impairments through the income statement, if the amount of the impairment subsequently decreases due to an event occurring after the write-down.

G Leased assets

Leases of property, plant and equipment where the Corporation has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. In all significant leasing arrangements in place during the year, the Corporation acted as a lessee.

H Financial assets

The Corporation classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. During the year, the Corporation did not hold any investments in this category.

4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or cannot be classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade date, the date on which the Corporation commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction cost for all financial assets not carried at fair value through profit or loss.

H Financial assets (continued)

4) Available-for-sale financial assets (continued)

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Corporation establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Corporation assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Corporation commits to purchase or sell the asset. Cost of purchase includes transaction costs.

H Financial assets (continued)

4) Available-for-sale financial assets (continued)

Financial assets at fair value through profit and loss, and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and available-for-sale investments are included in the income statement in the period in which they arise.

The fair values of investments are based on stock exchange quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

5) Offset of financial assets and liabilities

Financial assets and financial liabilities are offset in the amount represented in the balance sheet when the Corporation has a legally enforceable right to set off the recognised amount, and intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously.

I Revenue recognition

Revenue comprises of interest income accounted in the income statement on the accrual method. Revenue from rendering of services is recognised by reference to the completion of the specific transaction assessed as the basis of the actual service provided as a proportion of the total services provided when it is probable that the economic benefits associated with a transaction will flow to the Corporation and the amount of revenue, and associated costs incurred or to be incurred can be measured reliably.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Corporation reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost–recovery basis as conditions warrant.

From an operational perspective, it suspends the accrual of interest on a loan when its recovery is considered doubtful. However, in terms of IAS 39 interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount.

Service fees and commission income
The Corporation recognises service fee and commission income on an accrual basis when the service is rendered.

J General Risk Reserve

General provisions which are calculated at 2% of the net loans, equities and finance leases after specific provisions are dealt with within the statement of changes in equity as appropriation of retained earnings. This treatment is in accordance with IAS 39.

K Financial Instruments

Financial instruments carried in the balance sheet include cash and bank balances, investments, receivables, trade creditors, leases and borrowings and derivatives. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial risk factors

The Corporation's activities expose it to a variety of financial risks. The Corporation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Corporation. Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in close co-operation with the Corporation operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and investing excess liquidity.

(i) Interest rate risk

The Corporation's income and operating cash flows are substantially independent of changes in market interest rates. The Corporation has significant interest-bearing assets. The Corporation has no policies in place to hedge against fluctuating interest rate.

(ii) Credit risk

The Corporation has exposure to credit risk, which is the risk that a counterpart will be unable to pay amounts in full when due. Key areas where the Corporation is exposed to credit risk are:

- loans and advances,
- receivables and prepayements,

The Corporation structures the levels of credit risk it accepts by placing limits on its exposure to a single counterpart, or groups of counterparties. Such risks are subject to an annual or more frequent review.

Financial Instruments (Continued)

(ii) Credit risk (continued)
The major concentration of credit risk arises from the Corporation's receivables and investment securities in relation to the nature of customers and issuers. No collateral is required in respect of financial assets. Reputable financial institutions are used for investing and cash handling purposes.

Mechanisms are in place to monitor the risk of default by individual loanholders. Exposures to individual loanholders and group of loanholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual loanholders, or homogenous group of loanholders, a financial analysis carried out by the Corporation.

Quality control and risk department makes regular reviews to assess the degree of compliance with the Corporation procedures on credit and the overall control environment.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

(iii) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Corporation maintains sufficient cash and near cash assets to meet its liquidity commitments. Due to the dynamic nature of the underlying businesses, the Corporation aims at maintaining flexibility in funding by keeping committed credit lines available.

Derivative financial instruments and hedging
Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of the effective portions of derivatives that are designed and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability.

Certain derivative transactions, while providing economic hedges under the risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

Derivative financial instruments and hedging (continued)
On the date a derivative is entered into, the Corporation designates certain derivates as either:

i) a hedge of the fair value of a recognised asset or liability ("fair value hedge"), or
ii) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment ("cash flow hedge").

L Taxation

Deferred income taxes
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax liabilities and deferred tax assets are recognised for all temporary difference arising from the following differences:

i) The excess of book values of fixed assets over their written down values for tax purposes;
ii) The excess of book values of finance leases over their written down values for tax purposes;
iii) Income and expenditure in the financial statements of the current year dealt with in other years for tax purposes.

Current Tax
The charge for the current tax is the amount of income taxes payable in respect of the taxable profits for the current period. It is calculated using tax rate that have been enacted or substantially enacted by the balance sheet date.

M Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Corporation expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Corporation recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Corporation becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Corporation are not provided in advance.

N Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, other short term high liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

O Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

P Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred, when they become party to the contractual provisions. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between the proceed (net of transaction value) and the redemption value is recognised in the income statement over the period of the borrowings.

Q Employee benefits

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

Pension Obligations
The Corporation operates a defined contribution plan. The Corporation pays contributions to a privately administered pension plan on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Corporation has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

Q Employee benefits (continued)

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Performance bonus

A liability for employee benefits in the form of performance bonus is recognised in current provisions when there is no alternative but to settle the liability, and at least one of the following conditions is met;

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
- past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Statutory obligations

Provision is not made for statutory termination obligations in terms of the Employment Act, 1980. It is considered that the Corporation's contribution to the Pension Fund which can be recovered against such statutory obligations, at present, exceed any such liability.

R Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2006

		2006	**2005**
1	Interest income	**E**	**E**
	Revenue consists of the aggregate of interest income received and accrued as follows:		
	Business loans	4 317 701	1 738 827
	Consumer loans	12 988 704	5 471 726
	Agriculture loans	1 618 613	987 512
	Sugar cane loans	13 102 020	12 869 401
		32 027 038	21 067 466
2	Interest expenditure		
	Interest expense:		
	Bank borrowings	500 815	-
	Finance leases	82 875	-
	Interest payable on long term loans	5 352 045	1 521 705
		5 935 735	1 521 705
3	Non-interest income		
	Application fee	775 550	190 450
	Loan Monitoring fee	375 208	321 312
	Management fee	29 544	-
	Investment income – dividends	232 622	139 288
	Interest on staff loans	91 766	95 737
	Other non-interest income	30 745	7 300
		1 535 435	754 087

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2006

		2006 E	2005 E
4	Operating expenditure		
	Auditors remuneration - audit fees	165 000	103 200
	- fee for other services	77 578	-
	Depreciation on fixed assets		
	- Property, plant and equipment	90 393	271 954
	- Leased assets under finance lease	198 723	-
	Staff costs (note 5)	5 180 296	4 102 304
	Loss on disposal	215 095	-
	Repairs and maintenance	22 086	19 034
	Operating lease rentals	588 410	235 529
	Bad debts	60 609	2 918 400
	Foreign exchange loss - net	1 249 358	-
	Other operating costs	4 186 431	2 251 522
	Total operating expenditure	12 033 979	9 901 943
5	Staff costs		
	Salaries	4 308 174	3 202 013
	Provident Corporation Contributions	11 731	6 495
	Pension costs (defined contribution plan)	211 150	224 783
	Other benefits and costs	649 241	669 013
		5 180 296	4 102 304

The average number of persons employed by the Corporation during the year was 27 (2005:20).

		2006 E	2005 E
6	Taxation		
	Swaziland normal Corporation taxation (refer note 18)		
	- Current tax	1 037 097	420 481
	- Deferred tax (refer note 7)	(81 591)	(123 740)
		955 506	296 741

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

		2006	2005
		E	E
6	Taxation (continued)		
	Taxation rate reconciliation:		
	Standard taxation rate	30.00%	30.00%
	Income not subject to tax	(4.00%)	(1.00%)
	Effective taxation rate	26.00%	29.00%

Taxation has been computed in accordance with the Swaziland Income Tax Order of 1975 as amended.

7 Deferred tax

Deferred income taxes are calculated in full on temporal differences under the liability method using a principal tax rate of 30% (2005:30%). Deferred tax arises from the following item:

The movement on the deferred income tax account is as follows:

	2006	2005
	E	E
At the beginning of the year	214 030	90 290
Income statement charge (refer note 6)	81 591	123 740
At end of the year	295 621	214 030

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:-

31 March 2006	**Opening balance**	**Charged to net profit**	**Closing balance**
	E	**E**	**E**
Deferred tax assets			
Provisions	214 030	64 073	278 103
Capitalised finance lease assets	-	17 518	17 518
At end of the year	214 030	81 591	295 621
31 March 2005			
Deferred tax assets			
Provisions	90 290	123 740	214 030

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

8 Property, plant and equipment

	Computer Equipment	Furniture & fittings	Office Equipment	Motor Vehicles	Leased Motor Vehicles	Total
	E	E	E	E	E	E
Period ended 31 March 2006						
Opening balance	86 697	145 353	110 645	683 085	-	1 025 780
Additions	266 149	360 680	47 524	-	2 039 238	2 713 591
Disposals	(10 200)	-	(29 568)	(236 648)	-	(276 416)
Review of residual value	-	-	-	159 494	36 335	195 829
Depreciation	(91 078)	(36 177)	(10 283)	(112 349)	(235 058)	(484 945)
Closing net book amount	251 568	469 856	118 318	493 582	1 840 515	3 173 839
At 31 March 2006						
Cost	571 171	569 644	168 153	981 339	2 039 239	4 329 545
Accumulated depreciation	(319 603)	(99 788)	(49 835)	(487 757)	(198 723)	(1 155 706)
Net book amount	251 568	469 856	118 318	493 582	1 840 515	3 173 839
Year ended 31 March 2005						
Opening Balance	102 263	161 504	122 941	886 331	-	1 273 039
Additions	24 695	-	-	-	-	24 695
Depreciation	(40 261)	(16 151)	(12 296)	(203 246)	-	(271 954)
Closing net book amount	86 697	145 353	110 645	683 085	-	1 025 780
At 31 March 2005						
Cost	147 815	172 108	129 646	1 030 480	-	1 480 049
Accumulated depreciation	(61 118)	(26 755)	(19 001)	(347 395)	-	(454 269)
Net book amount	86 697	145 353	110 645	683 085	-	1 025 780

Leased motor vehicles comprised of 10 motor vehicles, which were acquired during the year under finance leases (where the Corporation is the lessee).

9 Loans and advances

	2006	**2005**
	E	**E**
Business and other loans	171 488 270	102 283 838
Consumer loans	49 921 342	24 235 359
Gross advances	221 409 612	126 519 197
Current Portion	(87 170 972)	(37 192 904)
Less: Impairment	(25 475 858)	(13 114 881)
- sugar cane loans	(15 229 550)	(7 582 149)
- other loans	(10 246 308)	(5 532 732)
Non- current loans and advances	108 762 782	76 211 412

The maturity of loans and advance is as follows:

Not later than 1 year	87 170 972	37 192 904
Later than 1 year and not later than 2 years	31 971 531	16 043 746
Later than 3 years	102 267 109	73 282 547
	221 409 612	126 519 197

The nominal interest rates on receivables (current and non-current) were as follow:

	2006	**2005**
	E	**E**
	%	**%**
Business and other loans	15.5	19
Consumer loans	36	36

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

		2006	2005
9	Loans and advances (continued)	**E**	**E**
	Sector analysis		
	Micro loans	49 921 342	24 235 359
	Dressmaking/tailoring & knitting	3 124 306	902 978
	Fruits and vegetables	3 600 907	618 340
	Grocery and retailing	2 011 057	1 288 438
	Handicraft	49 143	530 404
	Hawking	484 086	55 514
	Heavy Haulage	13 453 865	1 070 970
	Maize and other cereal	4 057 363	173 947
	Other Agricultural activities	6 984 582	4 745 687
	General business	32 757 784	4 641 750
	Poultry	1 733 213	245 822
	Sugar cane farming	98 896 794	87 049 097
	Transport services	4 335 170	960 891
		221 409 612	126 519 197
	Impairment of loans and advances	(25 475 858)	(13 114 881)
		195 933 754	113 404 316
10	Impairment of loans and advances		
	Present value adjustment relating to IAS39	(12 360 577)	(9 978 963)
	Bad debts recovered	471 840	570 197
		(11 888 737)	(9 408 766)
11	Investments – available for sale		
	These are Swaziland Building Society permanent shares.	1 522 500	1 522 500

The investment has been pledged as security in respect of staff housing loans with Swaziland Building Society (refer note 21).

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

		2006 E	2005 E
12	Receivables and prepayments		
	Interest accrued	7 207 197	5 198 632
	Staff loans	2 547 828	920 445
	Prepayments	30 037	127 688
	Sundry deposits	15 510	14 030
		9 800 572	6 260 795

13 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalent comprise the following:

	2006 E	2005 E
Bank balances and short-term bank deposits	3 332 266	7 025 800
Bank overdraft	(15 189 370)	-
Cash and cash equivalents	(11 857 104)	7 025 800

The bank overdraft is secured by a negative pledge of assets. Interest rate is charged at prime rate per annum.

14 Share capital

The share capital of the Corporation consists of the following:

	2006 E	2005 E
Authorised		
10 000 ordinary shares at E1 each	10 000	10 000
Issued		
1 000 ordinary shares	1 000	1 000
Premium on issue of shares	84 224 069	84 224 069

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

15 General risk reserve

The general risk reserve arises from the disclosure requirement of IAS 39 regarding the treatment of general provisions. General provisions are accounted for through the statement of changes in equity in general risk reserve.

	2006 E	2005 E
Opening balance	2 268 086	1 798 909
General provisions raised during the period	1 650 589	469 177
Closing balance	3 918 675	2 268 086

16 Borrowings

		2006 E	2005 E
Swaziland Government	(a)	30 000 000	10 000 000
African Development Bank	(b)	44 229 600	25 000 000
OPEC Fund	(c)	18 447 000	-
Tibiyo TakaNgwane	(d)	500 000	-
Finance lease liabilities	(e)	1 898 907	-
Total borrowings		95 075 507	35 000 000
Current			
African Development Bank	(b)	4 422 960	-
Finance lease liabilities	(e)	360 768	-
Total current borrowing		4 783 728	-
Total non current borrowings		90 291 779	35 000 000

a) The loan with the Swaziland Government (E 10 million) is for a 10 year period at 8% interest per annum payable semi annually on 30 June and 31 December. The capital amount is payable in two instalments of E5m on 30 June 2008 and 30 June 2013.
Furthermore, a loan amounting E 20 Million was obtained form the Central Bank of Swaziland. The Corporation is to lend the money to deserving and potential and existing entrepreneurs. Interest is payable at a fixed rate of 6.5% and paid half yearly whilst the capital shall be repaid in five annual instalments of E 4 Million from 6 March 2008.

16 Borrowings (continued)

b) The African Development Bank (ADB) in terms of which the bank will lend and advance E150 million to the Government for the purposes of financing agricultural activities on the Komati Downstream Development Project. For this purpose, the Swaziland Government shall advance E75 million to Swaziland Development Finance Corporation. The loan shall be repaid over a period of 10 years. Interest payment at 10.5% shall commence on 31 December 2005 whereas the payment of the principal shall commence on 31 December 2006.

c) The OPEC is a line of credit amounting to US $ 3 Million to Swaziland Development Finance Corporation. Interest accrues from day to day and is pro rated on the basis of 360 days at the Margin plus LIBOR. Repayment of the capital shall be made on the second anniversary of the first disbursement (07/11/2007) to 7 November 2012.

d) Tibiyo TakaNgwane loan facility amounts to E 10 Million. The loan is repayable over 9 years, and interest shall be calculated annually at a variable prime lending rate charged by Standard Bank, and shall the prime increase to 15%, anything above 15% the parties shall negotiate in good faith. Security shall be of a notorial bond over all the borrowers' present and future debtors. Total repayment shall not exceed E 15 Million.

e) During the year, the Corporation increased its level of borrowing to finance the acquisition of 10 motor vehicles through a finance lease facility. The lease liabilities are effectively secured as the rights to leased assets revert to the lessor in the event of default.

	2006	**2005**
	E	**E**
Total finance lease liabilities	1 898 907	-
Current portion	(360 768)	-
Total non-current portion	1 538 139	-

Reconciliation of minimum lease repayments to the present value of the finance lease liabilities:

	Minimum Lease Payments	**Finance Cost**	**Present Value**
	E	E	E
Not later than 1 year	545 660	(184 892)	360 768
Later than 1 year and not later than 5 years	1 827 912	(289 773)	1 538 139
	2 373 572	(474 665)	1 898 907

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

16 Borrowings (continued)

The carrying amounts and fair value of the non current borrowings are as follow:

	Carrying Amount	**Fair Values**
	E	E
Swaziland Government	30 000 000	31 403 565
African Development Bank	44 229 600	49 306 618
OPEC Fund	18 447 000	18 399 936
Tibiyo TakaNgwane	500 000	537 928
Finance leases	1 898 907	1 898 907
	95 075 507	101 546 954

The fair values are based on discounted cash flows using a discounted rate based upon the borrowing rate that the directors expect would be available to the Corporation at balance sheet date.

The maturity of the non-current borrowing are as follows:

	2006	**2005**
	E	**E**
Between 1 and 2 years	17 839 707	4 422 960
Between 2 and 5 years	34 520 959	13 268 880
Over 5 year	37 931 113	17 308 160
Non current portion	90 291 779	35 000 000

17 Trade and other payables

Trade payables	1 891 011	2 668 674
Accruals	321 417	101 244
Interest payable	4 631 454	1 477 700
	6 843 882	4 247 618

		2006	**2005**
		E	**E**
18	Taxation		
	Opening balance	1 193 664	773 183
	Current year tax (refer note 6)	1 037 097	420 481
		2 230 761	1 193 664

19	Provisions	**Performance bonus**	**Audit fees**	**Leave pay**	**Total**
	31 March 2006	**E**	**E**	**E**	**E**
	At 1 April 2005	-	85 000	713 433	798 433
	Additional provision	272 885	180 000	654 125	1 107 010
	Utilised during the year	-	(85 000)	(713 433)	(798 433)
	At year-end	272 885	180 000	654 125	1 107 010

	Audit fees	**Leave pay**	**Total**
31 March 2005	**E**	**E**	**E**
At 1 April 2004	110 000	300 698	410 698
Additional provision	85 000	713 433	798 433
Utilised during the year	(110 000)	(300 698)	(410 698)
At year-end	85 000	713 433	798 433

Leave pay provision

The leave pay provision related to vested leave pay to which employees are entitled. The provision arises as employees render services that increases their entitlement to future compensated leave. The provision is utilised when employees, who are entitled to leave pay, leave the employment of the Corporation or when accrued entitlement is utilised.

This provision in respect of staff and employees calculated on the number of days that the employees have not taken in respect of their leave entitlement. The anticipated utilisation of the amount provided is in the near future.

Performance bonus

Provision is made for payments in accordance with a bonus plan for the year ended 31 March 2006. The bonus provision consists of a performance based bonus, which is determined by reference to the overall Corporation performance with regard to a set of pre-determined key performance area. The cash flow is expected to occur in 2006/2007 financial year when the results have been approved.

20 Derivative financial instruments

During the year, the Corporation entered into a cross currency swap arrangement with Rand Merchant Bank (RMB) to hedge against foreign exchange risk on its foreign currency based commitment with the OPEC Fund for International Development.

The net fair value of derivative financial instruments at the balance sheet date and designated as fair value hedge were:

	2006	**2005**
	E	**E**
Cross currency swap	2 650 000	-

Cross Currency Swap
Cross currency swap agreement was entered into to manage exposure to fluctuations in foreign currency exchange rate on the based commitment with the OPEC Fund for International Development. The Corporation's credit risk represents the potential cost to replace the swap contracts if counter parties fail to perform their obligation.

At 31 March 2006, Borrowings included an amount of E 20 010 000 in respect of a long term loan due in foreign currency, which has been hedged using the forward exchange contract stipulated above.

21 Contingencies

Contingent liabilities
At 31 March 2006 the Corporation had contingent liabilities in respect of a bank guarantee arising out in the ordinary course of business from which it is anticipated that no material liabilities will arise as the liability will not crystallise. In the ordinary course of business, the Corporation has given guarantees amounting to E1 522 500 (2005: E 1 522 500) to Swaziland Building Society in respect of staff housing loans.

22 Commitments

Capital Commitments
Loan amounts contracted and approved for at the balance sheet date but not recognised in the financial statements are as follows:

	2006 E	2005 E
Loan amounts approved but not disbursed	38 122 312	19 416 268

Current and future cash resources will fund the above loan amounts.

Operating lease commitments –where the Corporation is the lessee.

The future aggregate minimum lease payments under non-cancellable operating lease are as follows:

	2006 E	2005 E
Not later than 1 year	378 000	235 530
Later than 1 year and not later than 5 years	1 994 543	-
Later than 5 years	2 372 542	-
	4 745 085	235 530

During the year, May 2005, the Corporation entered into an operating lease agreement with Swaziland National Provident Fund Properties. Operating rentals amounts to E 30 000 per month with an annual fixed escalation rate of 6%.

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

		2006	2005
		E	E
23	Cash utilised by operations		
	Cash flows from operating activities:		
	Profit for the period before taxation	3 704 022	692 398
	Adjustment for non-cash items:		
	Impairment of loans and advances	10 954 192	9 978 963
	Depreciation	289 116	271 954
	Provisions	393 575	412 465
	Fair value loss	1 249 358	-
	Loss on sale of fixed assets	215 095	-
		16 805 358	11 355 780
	Decrease in working capital	(94 512 143)	(30 289 607)
	Increase in loans and advances	(93 483 630)	(34 960 330)
	(Increase)/decrease in other current assets	(3 539 777)	1 267 671
	Increase in current liabilities	2 511 264	3 403 052
	Net cash outflows from operating activities	(77 706 785)	(18 933 827)

24 Related party transactions

The Corporation is controlled by the Swaziland Government, which own 70% of the Corporation shares. The remaining 30% of the shares are held by Tibiyo TakaNgwane, in trust for the Swazi Nation.

The following transactions were carried out with related parties.

		2006	2005
(i)	**Loan from related parties:**		
	Swaziland Government	30 000 000	10 000 000
	Tibiyo TakaNgwane	500 000	-
		30 500 000	10 000 000

24 Related party transactions (continued)

The provision of funds to the Corporation by the Government of Swaziland is based on long term agreement that enable Swaziland Development Finance Corporation Limited to obtain financing below the normal market interest rate (prime lending rate). The Swaziland Government offer financing with interest rate ranging between 6.5% and 8%, which is below the prime lending rate of 10.5%. Funding obtained from Tibiyo TakaNgwane by the Corporation was at prime lending rate.

(ii) Loan to the Managing Director:	**2006 E**	**2005 E**
Balance at beginning of the year	66 994	229 363
Capital adjustments	319 291	-
Interest accrued during the year	10 985	14 866
Loan repayments during the year	(50 160)	(177 235)
Balance at the end of the Period	347 110	66 994

The loan was advanced to the Managing Director as a property loan, repayable over 17 years, interest rate is based on the Swaziland Building Society mortgage rate, which is currently 9.5%. The loan has been secured by a first mortgage bond over the property in favour of the Corporation.

(iii) Loan to Shangase Investment

Shangase Investment is a Corporation owned by the Managing Director. A loan amount of E1.2 million was approved during 2005 by the Board of Directors for the Corporation to acquire a property. The following amount was advanced during the year:

Amount advanced	-	97 902

The loan was payable within six months from date of disbursement. The loan has been fully repaid and the bond cancelled.

(iv) Doubtful debts

There is no provision for doubtful debts, nor any bad debt written off during the year, that relates to related parties.

25 Financial guarantees

		2006 E	2005 E
National Maize Corporation	(a)	248 162	248 163
Swaziland Dairy Board	(b)	1 572 596	1 572 596
Voluntary Deferred Pay Guarantee Fund	(c)	2 703 512	2 609 491
Komati Basin Water Authority	(d)	500 000	500 000
Shewula Account	(e)	30 547	-
Customer Deposit Account	(f)	101 764	-
Balance at the end of the Period		5 156 581	4 930 250

(a) **National Maize Corporation Guarantee**

Swaziland Development Finance Corporation Limited has agreed to administer loans to local maize farmers. NMC will pay 8% of the total amount loaned by the Corporation as management fee at the end of each season. NMC has agreed to provide up to E2 million as guarantee against these loans. The funds are kept in a separate bank account called NMC Credit Guarantee Fund with interest accruing to the NMC Fund.

(b) **Swaziland Dairy Board**

Swaziland Development Finance Corporation Limited has agreed to administer loans to smallholder dairy farmers. SDB will pay 10% of the total amount loaned by the Corporation as management fee at the end of each season. SDB has agreed to provide up to E1.5 million as guarantee against these loans. The funds are kept in a separate bank account called SDB Credit Guarantee Fund with interest accruing to the SDB fund. Swaziland Development Finance Corporation acts as signatories to this account.

(c) **Voluntary Deferred Pay Special Fund**

In terms of a 5 year contract with VDPSF, Swaziland Development Finance Corporation Limited has agreed to administer loans to qualifying ex-miners in order to enable them to engage in meaningful income generating activities. VDPSF will pay 8% of the total amount loaned by the Corporation as management fee at the end of each season. VDPSF agreed to provide E2.5 million as guarantee against these loans. The funds are kept in a separate bank account called Voluntary Deferred Pay Guarantee Fund with interest accruing to the VDPS fund.

25 Financial guarantes (continued)

(d) **Komati Basin Water Authority (KOBWA)**

Swaziland Development Finance Corporation Limited has agreed to administer loans to communities in the Peri Reservoir Area around the Maguga Dam in an effort to promote entrepreneurial development thus strengthening the small enterprise sector. KOBWA will pay 10% of the total amount loaned by the Corporation as management fee on a quarterly basis from the date of disbursement of the first loan. KOBWA agreed to provide up to E0.5 million as guarantee against these loans. The funds are kept in a separate bank account called KOBWA Scheme account with interest accruing to the KOBWA fund. Swaziland Development Finance Corporation acts as signatories to this account.

(e) **Shewula Account**

The values reflected as Shewula funds in the Trial Balance refers to funds that were left by volunteers from Italy to FINCORP on behalf of shewula people. These volunteers from Italy had come to the country to help set up a certain project for the Shewula people. They could not finish this project and there were funds remaining for the project. Realising that they could not give it to anyone there to oversee the completion of the project, they decided to give the money to FINCORP to advance to people seeking to start projects that will develop Shewula. So far no one has come up with a project to be advanced on in that respect.

(f) **Customer deposit Account**

FINCORP sometimes requires that some projects be secured by a deposit. These deposit monies are then banked with Swaziland Building Society in the clients name but with FINCORP holding the deposit book and the withdrawal rights of the funds from Swaziland Building Society. After the client has settled the funds are withdrawn and given to the client with interest. As at year end there were 43 sub-accounts (clients) to the Customer Deposit Account.

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

DETAILED INCOME STATEMENT
for the year ended 31 March 2006

	2006 E	2005 E
INCOME		
Interest receivable	32 351 426	21 302 490
Bad debts recovered	471 840	570 197
Sundry income	1 211 047	519 062
Foreign exchange gain	1 400 642	-
	35 434 955	22 391 749
EXPENSES		
Advertising	660 343	101 281
Audit remuneration	242 578	103 200
Bank charges	206 547	145 207
Bad debts written off	60 609	2 918 400
Board expenses	68 936	80 833
Computer expenses	26 642	57 585
Consulting fees	4 105	-
Depreciation	293 781	271 954
Donations	9 000	-
Fair value adjustment on currency swap	2 650 000	-
Impairment of loans and advances	12 360 577	9 978 963
Insurance	264 007	153 802
Interest expense	5 935 735	1 521 705
Legal fees	54 722	188 961
Loss on disposal of fixed assets	59 765	-
Magazines and subscriptions	135 310	141 935
Motor vehicle expenses	399 467	304 870
Printing and stationery	226 526	73 869
Repairs and maintenance	22 086	19 034
Rent, water and light	558 410	235 529
Salaries and wages	5 453 181	4 102 303
Security	66 652	55 388
Sundry expenses	433 605	60 653
Telephone and postage	487 669	200 492
Training	862 742	58 913
Travelling and entertainment & International conferences	187 938	627 733
Total expenses	31 730 933	21 402 610
Profit before taxation	3 704 022	989 139
Taxation	(955 506)	(296 741)
Profit for the year	2 748 516	692 398

Annexure 2

SWAZILAND DEVELOPMENT FINANCE CORPORATION LIMITED

TAXATION SCHEDULE
for the year ended 31 March 2006

		2006
		E
Profit before tax		3 704 022
Exempt income		
Dividend from Swaziland Building Society shares		(519 000)
Temporary differences		
Add back:	Provision for leave pay 2006	654 125
	Provision for performance bonus 2006	272 885
	Interest on leases	82 875
	Depreciation on leases	198 723
Deduct:	Provision for lease pay 2005	(713 433)
	Lease payments	(223 206)
Taxable income		3 456 991
Taxation at 30%		1 037 097