

*east london idz*  
business streamlined

# ANNUAL REPORT

2015/16



**APPROVAL OF ANNUAL REPORT 2015 / 16**

**RECOMMENDED**

**NAME:** Mr S. N. Kondlo  
**DESIGNATION:** Chief Executive Officer

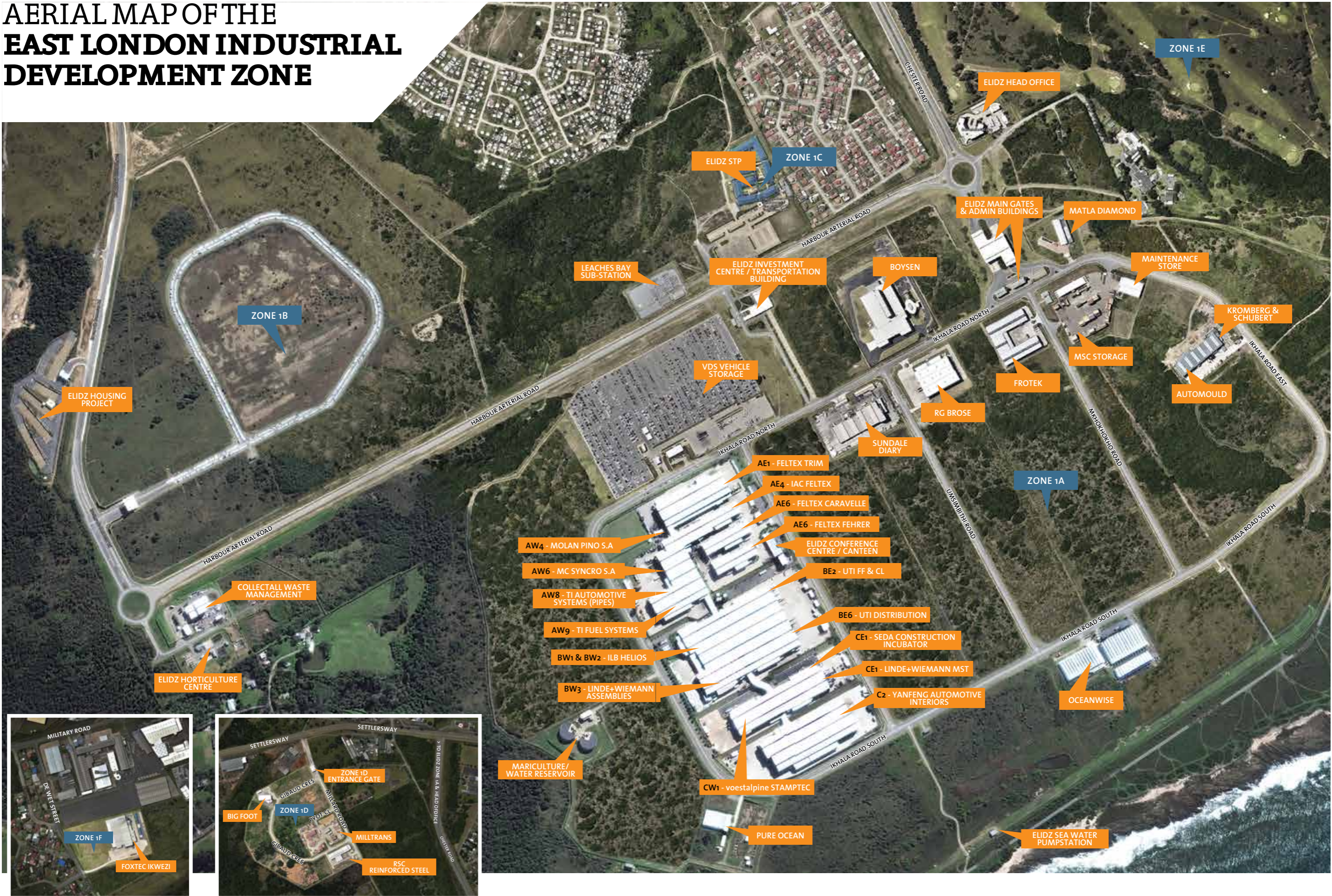
**SUPPORTED**

**NAME:** Mr Ayanda Kanana  
**DESIGNATION:** Chairperson:  
Audit and Risk  
Committee

**APPROVED**

**NAME:** Professor M.W. Makalima  
**DESIGNATION:** Chairperson ELIDZ  
Board of Directors

# AERIAL MAP OF THE EAST LONDON INDUSTRIAL DEVELOPMENT ZONE



# INTERNATIONAL FOOTPRINT & CUSTOMERS



**MC –Synchro**  
The company assembles tyres and rims for supply to Mercedes Benz South Africa



**TI Automotive Fuel Systems**  
Assembly of fuel tanks for Mercedes Benz South Africa.



**Sundale Dairy**  
Established in 1981, Sundale Dairy produces dairy products such as milk, maas, cheese and yoghurt for distribution throughout the Eastern Cape Province.



**Feltex Automotive Trim**  
A leading supplier of a wide range of quality automotive acoustic and trim component which include moulded carpets, sound insulators, sun visors, wheel house liners, boot packages for Original Equipment Manufacturers (OEM).



**UTI**  
Logistics and supply chain management services.



**Reinforcing Steel Contractors**  
RSC provides reinforcing solutions to the building, civil, mining and engineering markets, including the supply, cut, bend, delivery and fixing of reinforcing steel.



**DHL**  
Freight transportation, warehousing, distribution, supply chain solutions and logistics specialist.



**Ocean Wise**  
Land based marine aquaculture operation specialising in FinFish farming and hatchery.



**Feltex Fehrerr**  
Produces seat pads and head rests for Mercedes Benz South Africa.



**Vehicle Delivery Service**  
VDS utilises the East London IDZ state of the art Vehicle Storage Centre. The facility has the capacity to store 2 500 vehicles under cover and a further 1154 in open parking.



**Pure Ocean Aquaculture**  
Finfish farm and hatchery



**Feltex Futuris**  
Manufactures tufted carpets for supply to sister companies, Feltex Trim and Caravelle Carpets, who supply Mercedes Benz South Africa.



**Molan Pino**  
Manufacturers of polypropylene foam components, cold cured polyurethane components and cut foams for OEMs.



**Mediterranean Shipping Company (MSC) Depots (Pty) Ltd**  
Responsible for container handling facilities in Southern Africa. The depot is responsible for the movement and storage of empty and full MSC containers.



**Feltex Caravelle**  
Manufactures loose-lay carpets for supply to OEMs including Mercedes-Benz South Africa, VW and Toyota.



**Milltrans**  
Milltrans is one of the leading competitors in the freight transport industry. The company has a fleet of 28 trucks and 78 trailers.



**RG BROSE**  
German Based company manufacturing door systems for MBSA W205.



**ILB Helios**  
Spanish company producing solar panels units



**Bigfoot Express Freight**  
An independent express distribution company offering distribution and fulfilment solutions to clients throughout the major centres of South Africa.



**BOYSEN**  
Boysen develops and manufactures exhaust manifolds, catalytic converter silencers and exhaust systems.



**Yanfeng Automotive Interiors**  
Produces Cockpits, Overhead Systems and Door panels for the Automotive Industry.



**Matla Diamond Works**  
Diamond cutting and polishing



**Automould (Pty) Ltd**  
AUTOMOULD specialises in high quality technical plastic injection moulding and ancillary operations for the Motor Industry and other OEM's



**TI Brake and Fuel Pipes**  
Assembles brake and fuel pipes for Mercedes Benz South Africa.



**Kromberg & Schubert**  
Manufactures complex wiring systems and plastic parts for the automotive industry.

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# GENERAL INFORMATION

# GENERAL INFORMATION

**REGISTERED NAME:**

East London Industrial Development Zone SOC Ltd

**REGISTRATION NUMBER:**

2003/012647/30

**PHYSICAL ADDRESS:**

Lower Chester Road,  
Sunnyridge,  
East London,  
5201

**POSTAL ADDRESS:**

P.O. Box 5458,  
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**FAX NUMBER:**

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**EMAIL ADDRESS:**

info@elidz.co.za

**WEBSITE ADDRESS:**

www.elidz.co.za

**EXTERNAL AUDITORS:**

Auditor-General South Africa

**BANKERS:**

Standard Bank

**COMPANY SECRETARY:**

Jo-Anne Palmer

# ABBREVIATIONS & ACRONYMS

<b>AGSA</b>	Auditor-General of South Africa
<b>BBBEE</b>	Broad Based Black Economic Empowerment
<b>BCMM</b>	Buffalo City Metropolitan Municipality
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CSI</b>	Corporate Social Investment
<b>DEDEAT</b>	Department of Economic Development, Environmental Affairs and Tourism
<b>DTI</b>	Department of Trade and Industry
<b>ECDC</b>	Eastern Cape Development Corporation
<b>ELIDZ</b>	East London Industrial Development Zone
<b>IDZ</b>	Industrial Development Zone
<b>PFMA</b>	Public Finance Management Act
<b>TR</b>	Treasury Regulations
<b>MBSA</b>	Mercedes-Benz South Africa
<b>MEC</b>	Member of Executive Council
<b>MTEF</b>	Medium Term Expenditure Framework
<b>SEZ</b>	Special Economic Zone
<b>SMME</b>	Small Medium and Micro Enterprises
<b>SCM</b>	Supply Chain Management

# CORE IDEOLOGY

The core ideology of the East London Industrial Development Zone SOC Ltd is:

## VISION

To be a world-class operator of a prestigious industrial complex where highly competitive organisations thrive on streamlined business benefits and stimulate sustainable regional economic growth.

## MISSION

To provide investor solutions and to attract and develop strategic industries that strengthen South Africa's global competitiveness through the development and operation of a thriving, specialized industrial complex.

## VALUES

<b>Customer-Focused</b>	The needs of our customers shape and drive our plans and actions
<b>Solution-Oriented</b>	In every situation we seek out possibilities that will win success for our customers and ourselves
<b>Knowledgeable</b>	We build individual and collective expertise through continuous learning and active knowledge sharing
<b>Synergy</b>	It is our unique skill in being able to combine diverse contributions into synergistic solutions
<b>Efficiency</b>	We respond with speed, and are accurate, capable and responsible in utilisation of resources.

## LEGISLATIVE MANDATE

The ELIDZ is a project implementation originally approved by the Department of Trade and Industry (the dti) in terms of South Africa's Industrial Development Zone (IDZ) programming. The IDZ Programme was established and mandated in terms of Section 10(1) of the Manufacturing and Development Act (Act 187 of 1993).

With effect from February 2016, the basis of zones mandating was superseded by a new legislative framework when the Special Economic Zones Act (Act 16 of 2014) was brought into operation, along with the issue of complementary SEZ Programme regulations. The new legislative framework absorbs Industrial Development Zones, which now operate as one category of an expanded special economic zones initiative.

The SEZ Act outlines the purpose of implementing zones, which are seen to serve as an economic development tool to promote national economic growth and export. SEZs are intended to exploit support measures in order to attract targeted foreign and domestic investments and technology.

The legislated purpose of establishing a Special Economic Zone includes:

- facilitating the creation of an industrial complex, having strategic national economic advantage for targeted investments and industries in the manufacturing sector and tradable services;
- developing infrastructure required to support the development of targeted industrial activities;
- attracting foreign and domestic direct investment;
- providing the location for the establishment of targeted investments;
- enabling the beneficiation of mineral and natural resources;
- taking advantage of existing industrial and technological capacity, promoting integration with local industry and increasing value-added production;
- promoting regional development;
- creating decent work and other economic and social benefits in the region in which it is located, including the broadening of economic participation by promoting small, micro and medium enterprises and co-operatives, and promoting skills and technology transfer; and
- the generation of new and innovative economic activities.

The mandated pursuit of "regional development" is defined to refer to linkages to, or integration with, the host province's growth strategies, local economic development of the host municipality and any other relevant cross-provincial economic initiatives. The SEZ programme's pursuit of "targeted investments" is defined to include investments in support of government's economic and industrial development policies.



# STATEMENT BY THE OUTGOING CHAIRPERSON



*Thirteen years after it was first designated, the East London Industrial Development Zone (ELIDZ) continues to be a game changer in the economy of the Eastern Cape Province.*

*As one of the first operational Industrial Development Zones (IDZs) in South Africa, the ELIDZ has become a national and international benchmark for the effectiveness of the South African IDZ Programme and its successor, the Special Economic Zones (SEZ) Programme.*

Mr Zolile Tini  
Former Board Chairperson

The gazettement of the Final SEZ regulations, along with proclamation of the commencement of the SEZ Act during the 2015/16 financial year, has also seen the ELIDZ becoming a testing ground for the implementation of these new policy tools. This has been, by no means, an easy task. In fact, the changes in the organisation's operational environment have made the 2015/16 financial year one of the most challenging periods in the ELIDZ's existence. This is because the ELIDZ has had to apply a multi-pronged strategy of ensuring that while it remained relevant in the new SEZ dispensation, it also continued to deliver on its set mandate.

## REMAINING CONSTANT IN A CHANGING ENVIRONMENT

Key to the ELIDZ's mandate is its ability to continuously attract strategic investments that will strengthen the region's manufacturing base and grow the economy. This remained a strong focal point in 2015/16 financial year. As such, the board had the responsibility to ensure that the organisation remained focused, and its value proposition to investors' constant, despite the transition into the SEZ Programme.

As the year drew to an end, the ELIDZ board had made some great strides in this area. Not only had it swiftly re-aligned the organisational resources to comply with the requirements of its new operational environment, it had also succeeded in testing the new legislative framework and collaborating with key stakeholders to ensure a uniform interpretation and optimisation of the new policy tools.

One of the highlights in this regard, has been the organisation's meaningful collaboration with its provincial executive authority, the Department of Economic Development, Environmental Affairs and Tourism (DEDEAT) to constitute a multi-stakeholder Provincial SEZ Working Group which has been formulating a provincial position on the interpretation and implementation of the SEZ Act and Regulations.

While there are still a number of milestones that must still be achieved before the SEZ Programme is operationalised and current IDZs are fully transitioned into the new environment, the organisation is encouraged by the visionary leadership of its provincial parent department. It will go a long way in maintaining the existing front-runner advantage for the province's two IDZs.

## DELIVERING ON ITS MANDATE

One of the continued pressures being faced by state entities especially in the current economic climate, is their ability to maximise resources and increase revenue generation capabilities.

In line with this, the biggest challenges faced by the ELIDZ in the period under review was the extent to which it would be able to grow its own revenue base without deviating from its mandate of developing and maintaining a world class industrial park.

For the period under review, the ELIDZ has succeeded in growing revenue from rentals, sales and provision of services by 27% compared to the 2014/15 financial year. This was mainly attributable to growth in the zone's investor community and increased productivity from existing tenants. As a board, we see this as a key indicator of the positive shareholder value being created by the organisation.

The ELIDZ board, however, is also aware that, increased revenue generation is not the ultimate indicator of the fulfilment of its mandate. After all, the main motivation for the programme is its ability to be a catalyst for new investment, increased industrialisation, employment creation and technology advancement.

As such, one of the highlights of 2015/16 was the signing of 5 new investment agreements despite a challenging economic environment. As the period ended, the ELIDZ had been shortlisted by two OEMs, as one of the top two investment locations in South Africa. As a board, we believe that these achievements would not have been possible without the drive, passion and dedication of our skilled team and the continued commitment by our funders and government, in general, to create a conducive operational environment for strategic investments to thrive.

As a tool for economic growth and industrialisation, the ELIDZ's role has extended to beyond than just attracting investment into the zone. Part of the organisation's contribution to the economy has included the packaging of strategic catalytic industrial projects that would build and strengthen sectoral value chains, while growing the economy. The zone's automotive sector offering is a successful illustration of this role.

The ELIDZ continues to utilise this model in its bid to change the economic landscape of the region. This is evident in its long term plans to implement catalytic projects such as the Multi-Model OEM facility and the Agro-Industrial Park. It must be noted, however, that one of the key success factors for such projects is the organisation's ability to develop and deliver catalytic enabling infrastructure to kick-start these project. The new funding conditions for the SEZ programme, to some extent limit this functionality. The ELIDZ, however, continues to investigate various possible alternatives in resolving these challenges.

## CREATING SHAREHOLDER VALUE.

The ELIDZ's board of directors exist to ensure that the organisation creates maximum shareholder value and meet the expectations of its funders. The period under review has seen vigorous engagement with shareholders both in terms of the implementation of short-term business growth strategies and the refinement of the organisation's long-term business strategy.

As part of this engagement and forward planning, the ELIDZ board as the Accounting Authority, in consultation with the Executive Authority, continue to augment the skills base of the Board of Directors. To this end, the period under review has seen the introduction of new board members and as a result, the diversification of the skills and expertise of the board.

## A PROUD FAREWELL

This overview marks my last overview as the Chairperson of the ELIDZ Board of Directors. The 12-year journey with the ELIDZ team has indeed been a fulfilling one. In these twelve years, we have watched the team transform virgin agricultural land to a thriving industrial park. We have seen the zone gradually populate with facilities that have created employment for thousands of our region's residents.

As I hand over the baton to my very capable successor, Professor Mlungisi Makalima, I stand proud of not only the organisation's achievements to date, but also of the commitment and the support received from both the board and management during my tenure.

Mr Zolile Tini  
Former Board Chairperson



# STATEMENT BY THE BOARD CHAIRPERSON

*Globally, Special Economic Zones (SEZ) have become successful tools for transforming under developed economies through the growth of exports, attraction of foreign direct investment, increased industrialisation and mitigation of high unemployment.*



Prof M.W. Makalima  
Board Chairperson

## LAYING A SOLID FOUNDATION FOR ECONOMIC GROWTH

Globally, Special Economic Zones (SEZ) have become successful tools for transforming under developed economies through the growth of exports, attraction of foreign direct investment, increased industrialisation and mitigation of high unemployment.

As the ELIDZ migrates towards the new SEZ dispensation, this is the mandate that it has to deliver on. Having said that, global SEZs are also synonymous with specialised industrial platforms, tax incentives, reduced costs of doing business and streamlined logistics solutions. One of the biggest responsibilities of the ELIDZ board, going forward, will be to advocate and enable the creation and operationalisation of similar benefits for our own zone.

While the new SEZ legislation lays the foundation for such conditions, a need still exists for the development of clear guidelines and conditions for the admission of businesses into the IDZ and their participation in the new SEZ incentives. This will potentially be a critical game changer in the organisation's efforts to attract strategic investments into the region. The clarification of these conditions, will, therefore, be a critical priority for the ELIDZ going into the 2016/17 financial year as it will not only pave the way for the attraction of new investments, but will also improve the zone's competitiveness.

Similarly, the existence of suitable regional infrastructure is a major decision driver for any global manufacturer that is considering a new investment location. While, there has been great investment in the in-zone infrastructure by government, a need exists for the improvement of supporting regional infrastructure such as transport and logistics networks. This challenge requires collaboration, advocacy and resources from both the public and the private sector. The ELIDZ will continue to be a front-runner advocate for such development.

## PRIORITISING SUSTAINABILITY

As the first 12 months of the current five-year strategic cycle come to an end, self-sustainability and financial viability continue to be on the ELIDZ's top list of priorities. The improvement of operational efficiencies and maximisation of our asset base are key in this regard. We are encouraged by the extent to which we have been able to continuously grow our own revenue base as a percentage of our operating costs. While we are not yet in a position to generate sufficient revenue to fund all our operating cost, we are confident

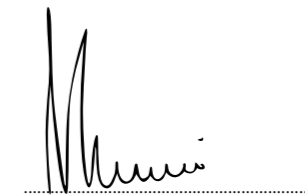
that this will be achievable before the end of the current five year cycle. To ensure the achievement of this target, the next year will see the organisation expand its service offering to its clientele.

In line with these strategic priorities, the ELIDZ has already begun the process to position its organisational resources to respond to this strategic imperative. It continues to be confident of its ability to deliver value for shareholders while continuing on its mission of building an industrial legacy for future generations.

## CONTRIBUTING TO THE LEGACY

The milestones achieved by the ELIDZ since its inception are as a result of a solid foundation and visionary leadership provided by the organisation's board and management since 2003. While it has been a team effort, the ELIDZ board would like to acknowledge and pay homage to one of the key figures who have been instrumental in the zone's progress through his role as a Chairperson of the ELIDZ Board of Directors from 2004 until 2015. Zolile Tini's wealth of experience in the business sector, his passion for development and his ability to garner and guide teams towards the achievement of a unified vision have been instrumental in the success of the ELIDZ. The board will continue to build on the legacy that Mr Tini and his predecessor, Desmond Halley started and work towards the transformation of the economic landscape of our region and empowering local communities.

The following sections of this Annual report demonstrate the ELIDZ's commitments and progress in delivering on its mandate. It illustrates the zone's continuing efforts to grow its global footprint and extend its socio-economic impact. This Annual Report represents the fruits of shareholder buy-in, government leadership and support, stakeholder collaboration and management determination. The publication stands as an acknowledgement that the continued success of the ELIDZ is only possible through the support and active contribution of our stakeholders.

  
Prof M.W. Makalima  
Board Chairperson



# CHIEF EXECUTIVE OFFICER'S OVERVIEW

*Long-running processes of intergovernmental collaboration to forge a new regulatory regime for the South African zones programme finally bore fruit in late 2015/16 when government announced the formal commencement of the Special Economic Zones (SEZ) Act as the new legislative framework to govern zones delivery in SA.*



Mr. Simphiwe Kondlo  
Chief Executive Officer

## NEW PROGRAMMING DISPENSATION FOR SA'S ZONES SECTOR

Long-running processes of intergovernmental collaboration to forge a new regulatory regime for the South African zones programme finally bore fruit in late 2015/16 when government announced the formal commencement of the Special Economic Zones (SEZ) Act as the new legislative framework to govern zones delivery in SA.

The enabling legislation had earlier been passed by Parliament in 2014 (as Act 16 of 2014) but could not be brought into operation until further work to develop a package of complementary SEZ regulations was completed. These regulations were finalised and promulgated by the Department of Trade and Industry (dti) on 9 February 2016, following a protracted phase of consultative engagement with various stakeholders, including the existing IDZ operators and their provincial government authorities. The finalisation of the regulations signalled the simultaneous commencement of the SEZ Act.

The legislative developments have the effect of absorbing the former Industrial Development Zone (IDZ) programming and legislation into a refined and expanded SEZ programme. The changes have been welcomed by existing IDZs as a promising move to bolster the South African zones initiative through stepped-up national programming capacitation, including a move to activate SEZ-specific tax incentives and other complementary support measures, such as a one-stop-shop government services facility.

Improvements to the programme's support measures are being pursued to address identified shortcomings of the former IDZ programme and could assist IDZs/SEZs to perform better. The degree to which this is possible depends, however, on how quickly the incentives package will be operationalised and on the particular terms and conditions that will be imposed to govern incentive eligibility and access. In addition, incentivisation efforts have the inherent limitation that their benefits are time-bound and can only be reckoned to provide a programme stimulus while government retains the desire and level of resources to sustain the incentive.

## OVERVIEW OF FISCAL ENVIRONMENT

Unfolding SEZ sector legislative and programming changes served to herald potentially significant long-term shifts in the underlying resourcing landscape for zone development and operations execution. In particular, the changes have called into question the reliability and level of future public sector financial commitment to the funding of the total lifecycle costs of IDZ/SEZ project execution and operations delivery.

The SEZ legislation promotes and envisages greater private sector engagement and active funding participation and risk sharing in zones implementation (on the strength of improved incentives) – but it is not yet known how effective this drive will prove to be or whether it will resonate positively with potential private sector partners.

At the same time, government partners at national and provincial levels have signalled unease over growing fiscal constraints in the public purse and a consequent deteriorating level of affordability to maintain IDZ funding injections at the levels provided under the former IDZ programming dispensation.

A resulting squeeze on the 2015/16 funding capability (and the longer-term outlook) emerged on two principal fronts through the following developments:

- Application of new rules of conditionality on the provision of national programme funding support to programme participants (following the institution of the SEZ Fund and the implementation of its funding rules, which seek to impose new funding requirements and limitations);
- Growing pressure on the Provincial Treasury to act to reformulate government programming and activity in a bid to contain rising annual costs and long-term funding liabilities in relation to the operation of provincial departments and their entities.

The SEZ Fund, which was activated ahead of the finalisation of the SEZ Act and Regulations, operates on rules which prioritise the funding of core enabling infrastructure (while expecting that the provincial host authority and/or the private sector will step up to assume responsibility to carry the financial burden for other zone implementation costs, including the annual operational budgets of implementing entities and the provision of development funding for land improvements, such as the construction of tenant manufacturing facilities).

In addition, the Fund moved to institute a co-funding contribution mechanism on the extension of its funding for IDZ infrastructure (and certain permitted superstructure) projects. Unfortunately, this was not well orchestrated with provincial government counterparts and entities like the ELIDZ found that they could not proceed with certain matured investment projects in 2015/16 due to a lack of availability of disposable provincial provisioning for the provincial co-funding element of the dti-approved projects.

A funding crisis emerged for a number of projects and urgent representations were made to the two spheres of government to seek alleviation. Some measure of relief was found in interim arrangements to suspend the co-funding contribution – which was obtained in December 2015 – but ELIDZ is not at comfort that the matter has been dealt with conclusively. Difficulties could foreseeably emerge again in future trading periods.

In addition, it has been signalled that the SEZ Fund will operate for subscription applications for and while it's voted funding resources are available. It is not clear if there may be a break in funding availability if the SEZ Fund is depleted within the course of a financial period.

The emerging resourcing situation left the ELIDZ with restricted financial manoeuvrability to respond to its market potential in an agile and intentional manner in 2015/16. This also effectively curtailed the intended rate of growth in own revenue generated per annum (which, in turn, is crucial for the entity's trajectory towards financial self-sufficiency).

Particularly susceptible to these developments is the momentum and eventual realisation of high-impact investment projects, such as the ELIDZ's proposed development of a multi-model OEM automotive (MMOEM) manufacturing complex. This project has been a strong focus within the ELIDZ business development efforts in recent financial periods but has been placed into jeopardy by the fact that its go-ahead hinges critically on the securing of sufficient funding commitment across the spheres of government. The scale of the project has meant that such commitment typically overwhelms the funding capacity of the current SEZ Fund resources and is also problematic in relation to the proposed funding co-contribution that may be sought from provincial treasury sources.

In combination, the national and provincial resourcing climate has fuelled growing concerns by shareholders and their entities over the sustainability of zones implementation. It remains to be demonstrated whether the SEZ's value proposition will be sufficiently expansive and potent enough to

incite greatly increased private sector funding of Zones and their facilities and services (to offset any contraction in the public funding of catalytic zone improvements, such as tenant facility construction).

## INVESTMENT ATTRACTION AND MAINTENANCE OF POSITIVE INVESTOR SENTIMENT

ELIDZ's ability to attract and retain industrial investment is impacted by a wide range of factors beyond the direct influence of the IDZ Operator -- factors which collectively serve to either advance or impede the IDZ's concerted efforts to build and maintain positive investor sentiment towards the ELIDZ project and location.

In 2015/16, investor sentiment continued to be buffeted by a global economic environment that remained under significant pressure and that continued to be seen as frustratingly sluggish and fragile.

The economic outlook for the Euro area was characterised by elevated risks of persistent recession and prospects of deflation as global policymakers struggled to arrest the economic woes within their economies. Meanwhile, China's economic growth continued in a protracted but gradual downward shift.

Emerging economies were also destabilised due to tightening global monetary policy and falling commodity prices. The latter renders the emerging economies vulnerable, particularly if their export basket comprises largely commodities.

The global economic weakness and its associated sharp manufacturing downturn has come on the back of a deep, financial sector consumer credit crisis. This is undoubtedly having an impact on global consumption demands for manufactured goods and services, which proved to be unfavourable for ELIDZ's investment attraction efforts in 2015/16. Furthermore, the investment climate can be expected to be a negative factor for the short-to-medium term outlook for industrial expansion by both domestic industrialists and potential foreign direct investors.

For South Africa and its industrial attraction programmes, the situation was further exacerbated by the energy crunch which exerted a constraining influence on investor sentiment (along with concerns over currency volatility). In addition, the perceived implications of the influence of the labour movement on the economy continues to raise concerns from some international investors.

The industrial expansion potential is, however, tempered by structural challenges such as infrastructure bottlenecks which, among other effects, continue to hamper recovery in private investment.

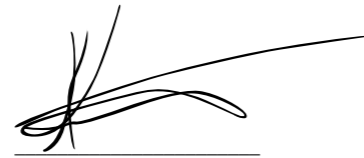
The East London harbour serves as a critical factor in the locational value proposition and provides general cargo handling services to its hinterland. The harbour's constraints to expansion, the limited rail and road infrastructure to the hinterland and the growth of the new port at Ngqura as a transshipment hub could suggest that the East London Port may see limited growth over a 30-year planning horizon.

Logistic limitations impact on the perceived competitiveness of the ELIDZ as a preferred location for investors and undermine the benefits that the location can reap from investment attraction efforts -- undertaken both at national programme and at local project level -- to market the SA zones value proposition.

On the positive front, the impact of climate change and the demand for niche "organic" products and food security continues to position South Africa as a potentially desirable agro-processing location. The

agricultural potential of the Eastern Cape region can provide the ELIDZ a competitive advantage if competitive agro-industrial business is exploited in a timely manner -- and especially if linked to growing regional opportunities in Africa.

The national SEZ Policy recognises that an eco-systemic approach needs to be taken to unlock long-term industrialisation potential and that efforts need to consider and address a range of inter-related factors in a systemic manner. This includes actions to develop regional markets and strengthen trade access and the commitment of investment into the improvement of logistics capabilities and skills development. These intentions bode well for the SA zones programme provided that government is able to back its positive policy intents with an appropriate level of resourcing and implementation urgency.



**Mr. Simphiwe Kondlo**  
Chief Executive Officer



# STATEMENT OF RESPONSIBILITY & CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

To the best of my knowledge, I confirm the following:

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor-General South Africa.

The annual report is complete, accurate and is free from any material omissions.

The annual report has been prepared in accordance with the Guidelines on the Annual Report as issued by National Treasury.

The Annual Financial Statements have been prepared in accordance with the South African GAAP standards applicable to the public entity.

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.

The accounting authority is responsible for establishing and implementing a system of internal control, to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.

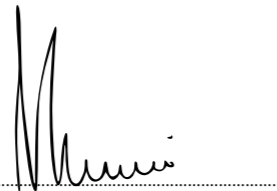
In our opinion, the annual report fairly reflects, in all material respects, the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2016.

Yours faithfully



**Simphiwe Kondlo**  
Chief Executive Officer

Date:



**Professor M.W. Makalima**  
Chairperson of the Board

Date:

# STATEMENT BY COMPANY SECRETARY

In terms of Section 88 (2) (e) of the Companies Act 71 of 2008, I certify that the company has filed with the Companies and Intellectual Property Commission all such returns and notices in terms of the Act, and all such returns appear to be true, correct and up to date.



**Mrs Jo-Anne Palmer**  
Company Secretary

# REPORT OF THE AUDITOR-GENERAL

## Report of the auditor-general to the Eastern Cape Provincial Legislature on the East London Industrial Development Zone SOC Ltd

### Report on the financial statements

#### Introduction

1. I have audited the financial statements of the East London Industrial Development Zone SOC Ltd set out on pages 79 to 119, which comprise the statement of financial position as at 31 March 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

#### Accounting authority's responsibility for the financial statements

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice prescribed by the Accounting Standards Board (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the East London Industrial Development Zone SOC Ltd as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Statements of GAAP and the requirements of the PFMA and the Companies Act.

#### Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### Irregular expenditure

8. As disclosed in note 31 to the financial statements, the public entity incurred irregular expenditure of R3,2 million during the year ended 31 March 2016, due to non compliance with contract management requirements.

#### Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### Other reports required by the Companies Act

10. As part of my audit of the financial statements for the year ended 31 March 2015, I have read the directors' report, audit committee's report and company secretary's certificate to identify whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, I have not identified material inconsistencies between the reports and the audited financial statements in respect of which I have expressed my opinion. I have not audited the reports and, accordingly, I do not express an opinion thereon.

#### Unaudited supplementary schedules

11. The supplementary information set out on pages 120 to 121 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

#### Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

#### Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the public entity for the year ended 31 March 2016:
  - Programme 1: zone development on pages 46 to 47
  - Programme 2: zone operations on page 48
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information.
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected programmes.

#### Additional matters

17. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected programmes, I draw attention to the following matters:

#### Achievement of planned targets

18. Refer to the annual performance report on pages 45 to 53 for information on the achievement of the planned targets for the year.

#### Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for programme 1: zone development and programme 2: zone operations. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## Unaudited supplementary schedules

20. The supplementary information set out on pages 120 to 121 does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

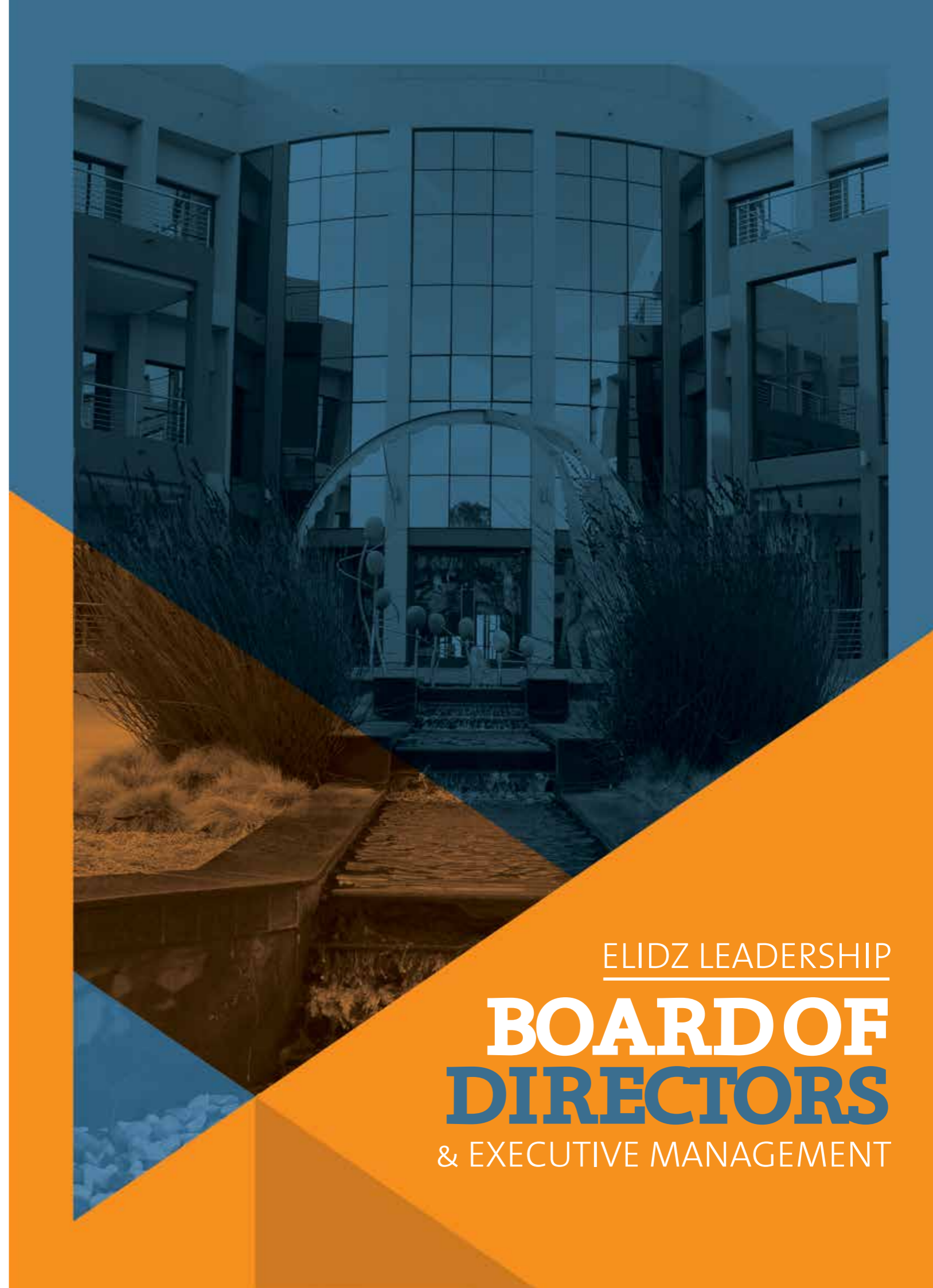
21. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

## **Internal control**

22. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

*Auditor General*

East London  
29 July 2015



ELIDZ LEADERSHIP

**BOARD OF  
DIRECTORS**  
& EXECUTIVE MANAGEMENT



**Professor M.W. Makalima**

Chairperson of the ELIDZ Board and Chairperson of the Executive Committee of the Board

**Current employment:**  
Private Academic Research

**Skills:**  
Academic, Public Administration, Social and Economic Development, International Relations, Leadership and Project Management

**Affiliations:**  
None



**Ms V. Sikwebu**

Member of the Audit and Risk Committee, Member of the Investment Services Committee, Member of the Finance and Tender Committee and Member of the Board

**Current employment:**  
Pinnacle Africa

**Skills:**  
IT Governance and Strategy, Business Management

**Affiliations:**  
IoDSA, BWA, Board of Governors for Merrifield Preparatory School and College



**Ms P. Mzazi-Geja**

Member of the Investment Services Committee and Member of the Board

**Current employment:**  
Senior Manager: Biodiversity Conservation & Coastal Zone Management at the Eastern Cape Department of Economic Development, Environmental Affairs and Tourism

**Skills:**  
Environmental Management and Conservation

**Affiliations:**  
None



**Mr A. Kanana**

Chairperson of the Audit and Risk Committee, Member of the Executive Committee and Member of the Board

**Current employment:**  
Director for Governance Reporting at the City of Johannesburg Metropolitan Council

**Skills:**  
Audit, Finance and Public Sector Governance

**Affiliations:**  
SAICA, Shareholder Representative in the 11 Board of Directors for the City of Johannesburg Metropolitan Council, Institute of Directors of South Africa (IoDSA)



**Councillor S. Caga**

Chairperson of the Investment Services Committee, Member of the Executive Committee and Member of the Board.

**Current employment:**  
Councillor at Buffalo City Metropolitan Municipality

**Skills:**  
Leadership and Project Management

**Affiliations:**  
Chairperson of Social Facilitation Committee, Member of Development Planning and Management Portfolio Committee



**Councillor P. Nazo**

Acting Chairperson of the Finance and Tender Committee, Member of the Executive Committee and Member of the Board

**Current employment:**  
Portfolio Head for Local Economic Development: Buffalo City Metropolitan Municipality

**Skills:**  
Local Economic Development, Community Relations, Development Communications, Public Relations, Project Management and Local Government Management.

**Affiliations:**  
Eastern Cape Geographical Name Change Committee, Metro Growth Development Strategy 2030 Chair.



**Mr E. Jooste**

Member of the Audit and Risk Committee, Member of the Finance and Tender Committee and Member of the Board

**Current employment:**  
Director - EVJ Consulting (Pty) Ltd  
Support Chief Financial Officer – SAICA/DHET Project

**Skills:**  
Supply Chain Management, Public Sector Governance and Finance

**Affiliations:**  
South African Institute of Professional Accountants (SAIPA), Institute of Directors South Africa (IoDSA), Board member Amatola Water, Chairperson of the Audit & Risk Committee and Member of the Finance Committee of Amatola Water, Chairperson of the Audit and Risk Committee of the Cacadu Development Agency.



**Mr S. Kondlo**

Executive Director - Ex Officio

**Current employment:**  
Chief Executive Officer of the ELIDZ

**Skills:**  
Engineering and Business Management

**Affiliations:**  
SAIAE, WISA, Member BCDA.

## RETIRED MEMBERS OF THE BOARD



### Mr. Z. Tini

Chairperson of the ELIDZ Board and Chairperson of the Executive Committee of the Board

#### Current employment:

Managing Director of INCA Masonry Products

#### Skills:

Business and Leadership

#### Affiliations:

Past President and Executive Member of the Border-Kei Chamber of Business, Director at Own Haven Housing Association, Director at Eastern Cape Socio-Economic Consultative Council, Member of Concrete Manufacturing Association



### Ms. N. I. Meinie-Anderson

Chairperson of the Audit and Risk Committee, Member of the Executive Committee of the Board, Member of the Board

#### Current employment:

Regional Financial Manager – Southern Region of ESKOM

#### Skills:

Finance: Chartered Accountant (SA)

#### Affiliations:

Independent Regulatory Board of Auditors (IRBA), South African Institute of Chartered Accountants (SAICA), The Association for the advancement of Black Accountants SA (ABASA), Institute of Directors South Africa (IoDSA)

The Board of the ELIDZ recognises the need to conduct the affairs of the company with integrity, in accordance with generally accepted corporate practices, and is committed to upholding the governance principles incorporated in the Code of Corporate Practices and Conduct, set out in the King III Report.

# EXECUTIVE MANAGEMENT



### TEMBELA ATWELL ZWENI

Mr Tembela Zweni is the Executive Manager: Zone Development. He is a seasoned business professional with a strong business management and economics background. His working career spans a wide variety of public and private institutions such as Corporate Banker at Standard Corporate and Merchant Bank; Asset Finance at Wesbank and CEO of the Uitenhage- Dispatch Development Initiative. As a CEO of UDDI he oversaw development and implementation of the mega projects such as the Automotive Logistics Park, the Science Park and various Agricultural and Manufacturing projects in Nelson Mandela Metropolitan Municipality.

He is one of the first black professionals to be involved in the electrification of townships directly by Eskom in the early 1990s. Zweni holds a Honours degree in Economics, Master's degree in Business Administration and has vast experience in various sectors including Pharmaceuticals, Tourism, Leather, Timber and Automotive.

His current responsibilities at the ELIDZ include the management of the organisation's infrastructure development programme, property, investment promotion, investor settlement and post settlement after-care.

### AMANDA PATEKA MAGWENTSHU

Ms Amanda Magwentshu is currently the Executive Manager: Corporate Affairs. She has, through her lifelong learning, received extensive training in the field of humanities, boasting several qualifications. These include a B.A. in Social Work from the University of Fort Hare, B.A. (Honours) from the University of Transkei and Masters in Public and Development Management from Wits University. She has also received additional training in countries such as Sweden and the Netherlands. Magwentshu has a combined 30 years' experience in the Finance, Social Work, Support Services, Corporate Services, Human Resource, Labour Relations, Strategic and Project Management fields having spent a bigger part of her life working at the Buffalo City Metropolitan Municipality.

Her current responsibilities at the ELIDZ include managing the strategic and operational human resource function, facilitating efficient and effective management of the legal function, operationalising excellence of the Information Communication and Technology function, corporate communication, administration of record keeping and strong operational excellence of the organisation's research function.







### GIFT HAPPYMORE MATENGAMBIRI

Mr Gift Matengambiri, a Chartered Accountant (South Africa) acted as Chief Financial Officer for the financial year. He has vast experience spanning close to a decade working within the auditing, financial accounting, taxation and financial management fields. Accompanying his depth of experience in finance are his notable tertiary qualifications. He holds a B. Compt (Honours), Certificate in Theory of Accounting (CTA), and Chartered Accountant (South Africa). He has applied his trade and shared his experiences with various organisations such as Auditor-General South Africa, AMG Global Chartered Accountants and Morar Chartered Accountants as a Director responsible for the Polokwane Branch. He has been instrumental in helping the organisation strengthen its financial management control and reporting.

### JOHAN BURGER

Mr Johan Burger is currently the Executive Manager: Zone Operations. He qualified with a BSc degree from the University of the Witwatersrand and has worked for various major private and public companies in the built environment, operating in the property development and property management arena, as well as Maintenance and Facilities Management. He has a well-grounded background in the "built environment arena" having spent the earlier years of his career in the general building, civil engineering and construction industry before migrating across to the project management and construction project management environment.



He joined the ELIDZ in 2002 as a Technical Services Manager and was at the forefront of developing over 400 hectares of greenfield land into prime industrial property. He was later given the responsibility of heading the Zone Operations and Maintenance Unit at the ELIDZ. This unit is charged with the responsibility of managing the zone facilities, undertaking planned and preventative maintenance, managing the Safety, Security, Health and Environment Management portfolio and developing and maintaining critical shared services for the ELIDZ's Investor Community. Burger's experience in strategic and tactical facilities management have allowed him to obtain an Accredited Facilities Professional accreditation and become one of a new breed of Accredited Facilities Professionals in the country. He has also been extensively involved with, as well as being chairman of the East London Chapter of SAFMA, being appointed as the Regional Chairman and having been involved with the local and National bodies of the South African Property Owners Association (SAPOA).



# ORGANISATIONAL STAFF COMPLEMENT

## CHIEF EXECUTIVE OFFICER

### EXECUTIVE MANAGER: OFFICE OF THE CEO

OFFICE OF THE CHIEF EXECUTIVE OFFICER					
Functional Area	EM	MG	SP	AS	T
Office of the CEO	1	-	-	1	2
Company Secretarial Support	-	-	1	-	1
Corporate Strategy and Planning	-	-	1	-	1
Project Portfolio Management	-	1	-	1	2
Enterprise Quality Management	-	-	1	-	1
<b>Total Filled Positions</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>7</b>
Office of the CEO	1	-	-	-	1
Project Portfolio Management	-	-	-	1	1
Enterprise Risk Management	-	-	1	-	1
<b>Total Vacant Positions</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>3</b>
<b>Total Positions</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>3</b>	<b>10</b>

### SPECIAL PROJECTS

Functional Area	EM	MG	SP	AS	T
Science & Technology Park	-	1	1	1	3
<b>Total Positions</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>3</b>

### EXECUTIVE MANAGER: ZONE DEVELOPMENT

ZONE DEVELOPMENT					
Functional Area	EM	MG	SP	AS	T
Project Management & Coordination	1	-	-	1	2
Investment Analysis	-	-	1	-	1
Property Portfolio Management	-	2	-	1	3
Project Support Office	-	-	1	-	1
Sector Development	-	-	5	-	5
<b>Total Filled Positions</b>	<b>1</b>	<b>2</b>	<b>7</b>	<b>2</b>	<b>12</b>
Project Support Office	-	2	1	-	3
Sector Development	-	-	1	-	1
<b>Total Vacant Positions</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>4</b>
<b>Total Positions</b>	<b>1</b>	<b>4</b>	<b>9</b>	<b>2</b>	<b>16</b>

### EXECUTIVE MANAGER: FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT					
Functional Area	EM	MG	SP	AS	T
Financial Management	-	-	-	1	1
Financial Control & Reporting	-	-	1	-	1
Financial Management, Reporting & Administration	-	1	1	4	6
Management & Cost Accounting	-	1	-	-	1
Supply Chain Management	-	1	2	-	3
<b>Total Filled Positions</b>	<b>-</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>12</b>
Financial Management	1	-	-	-	1
Financial Management, Reporting & Administration	-	-	1	-	1
Management & Cost Accounting	-	1	-	-	1
Supply Chain Management	-	1	2	-	3
<b>Total Vacant Positions</b>	<b>1</b>	<b>-</b>	<b>3</b>	<b>1</b>	<b>5</b>
<b>Total Positions</b>	<b>1</b>	<b>3</b>	<b>7</b>	<b>6</b>	<b>17</b>

### EXECUTIVE MANAGER: ZONE OPERATIONS

ZONE OPERATIONS					
Functional Area	EM	MG	SP	AS	T
Zone Operations	1	-	-	1	2
Maintenance & Facilities Management	-	1	2	2	5
Investor Support Services Management (Help Desk/Zone labour)	-	1	-	9	10
Safety, Health & Environmental Management	-	1	2	1	4
<b>Total Filled Positions</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>13</b>	<b>21</b>
Zone Operations	-	-	1	-	1
Maintenance & Facilities Management	-	-	1	-	1
<b>Total Vacant Positions</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>Total Positions</b>	<b>1</b>	<b>3</b>	<b>6</b>	<b>13</b>	<b>23</b>

### EXECUTIVE MANAGER: CORPORATE AFFAIRS

CORPORATE AFFAIRS					
Functional Area	EM	MG	SP	AS	T
Corporate Affairs	1	-	-	1	2
Legal & Contracts Management	-	-	1	1	2
Corporate Communications	-	1	1	2	4
Human Resources Management	-	-	1	3	4
Information Communication & Technology Management	-	1	5	-	6
Records Management	-	1	-	1	2
<b>Total Filled Positions</b>	<b>1</b>	<b>3</b>	<b>8</b>	<b>8</b>	<b>20</b>
Corporate Communications	-	-	2	-	2
Human Resources Management	-	1	1	-	2
<b>Total Vacant Positions</b>	<b>-</b>	<b>1</b>	<b>3</b>	<b>-</b>	<b>4</b>
<b>Total Positions</b>	<b>1</b>	<b>4</b>	<b>11</b>	<b>8</b>	<b>24</b>

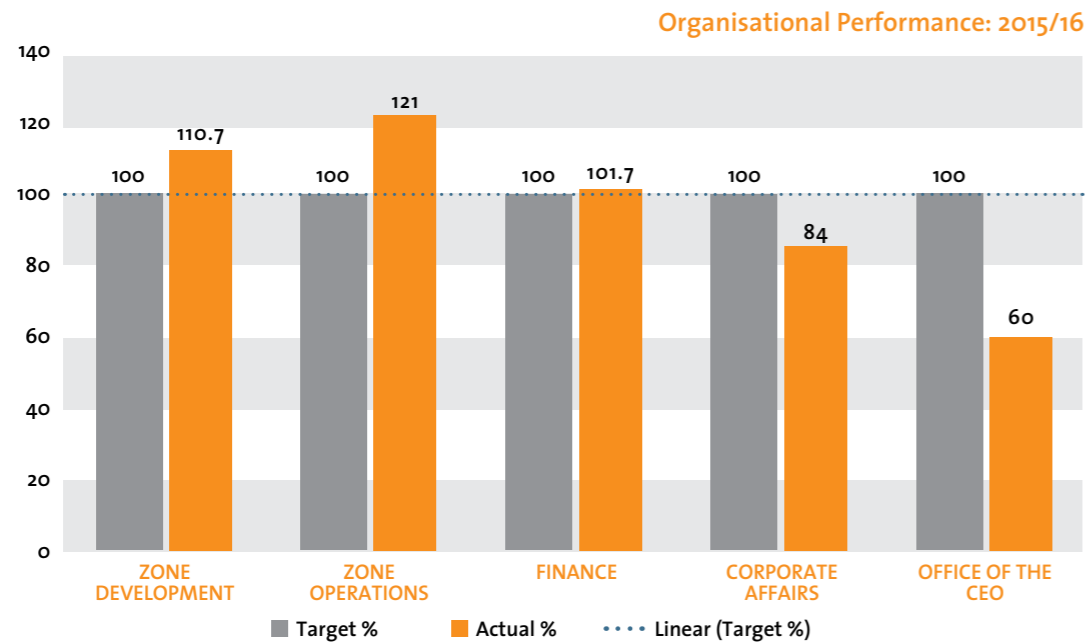
EM: EXECUTIVE MANAGER  
 MG: MANAGEMENT  
 SP: SPECIALIST  
 AS: ADMIN / SUPPORT  
 T: TOTAL



# PERFORMANCE INFORMATION

# ORGANISATIONAL PERFORMANCE

## KEY STRATEGIC OBJECTIVE ACHIEVEMENTS



Despite the challenging economic environment and legislative changes facing the ELIDZ, the organization was able to exceed the majority of its provincially mandated performance targets. The above graph demonstrates the performance of ELIDZ. The organization yielded an overall score of 3.3 for its achievements against its predetermined objectives. This is an improvement on the score of 3.1 from the 2014/15 financial year.

The ELIDZ has entered into a renewed 5-year Strategic Plan for the period 2015/16-2019/20 which saw new objectives and revised targets being determined. The organization set out to achieve these with fervor as evidenced from the performance.

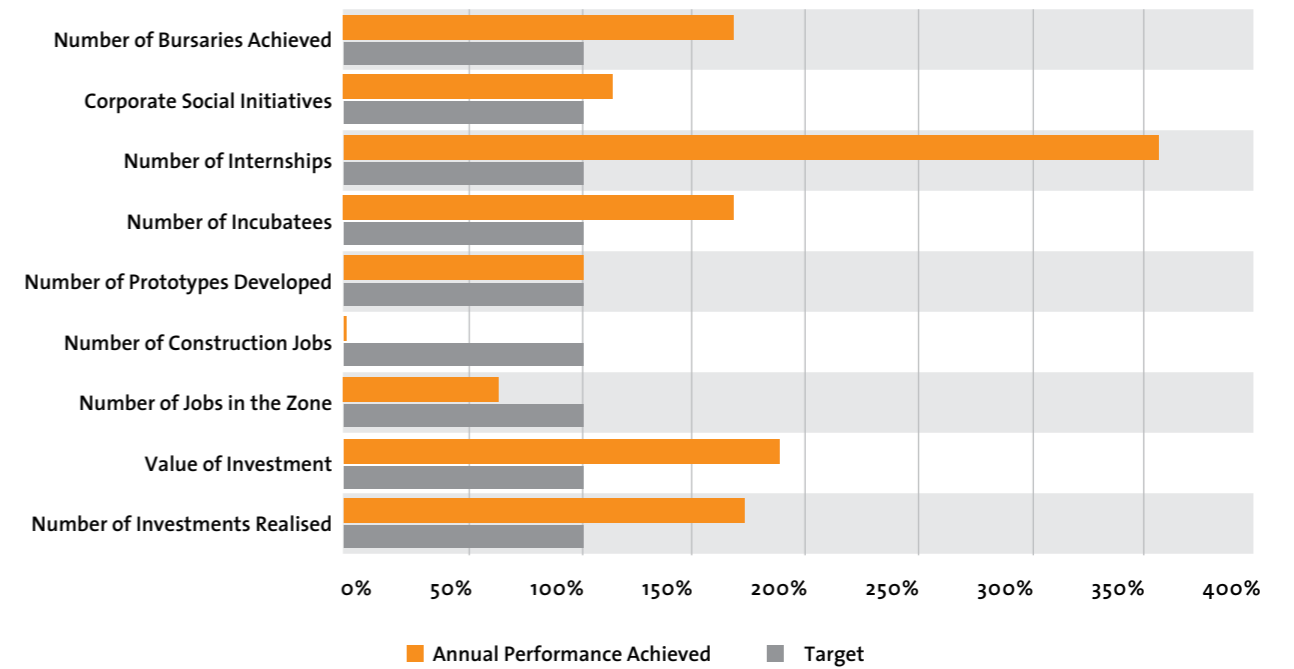
Particularly noteworthy performances were achieved in the following areas:

- Skills development – the target for number of internships of 12 was exceeded by 31 for a total of 43 interns during the period;
- Investments – the targeted number of Investors for the year was not only met but exceeded. The ELIDZ team has managed to secure 5 investors during the year;
- Investment Value – the significant value of the investments realized for the year of R828m exceeds the targeted R450m. With a steady stream of potential investors in the pipeline, the ELIDZ looks forward to continuing in this vein by converting from business plans on paper into realized business operations in the zone.

There are various factors which influenced the positive results. These include the following:

- Ability to convert investment pipeline into secured investors (the ELIDZ secured 5 investment projects against a target of 4).
- Ability to secure long-term leases with investors and tenants.
- Success in the development of new sector technology and incubation of related prototypes

## Annual Performance Overview (Provincial Mandate)



As can be determined from the graph above, there are also areas where performance achieved was below the set targets. The particular areas of underperformance are evident in the job statistics for the zone. While the number of construction jobs created for the year has been zero (0), the 5 investments realized during the 2015-16 financial year has the potential to create a number of jobs that will see this figure significantly improve during the upcoming 2016-17 financial year.

Another job related KPI, Number of Jobs in the Zone, was also not met during the year with 281 jobs reported against a targeted 3808. The economic environment has put pressure on companies to save costs which impacts on the number of employees that can be employed.

A more detailed breakdown of the performance against the individual indicators under the respective programmes is contained in the programme performance overview sections of this report.



# OVERVIEW OF SERVICE DELIVERY ENVIRONMENT 2015/16

The service delivery environment and broader climate for the execution of the ELIDZ project faced a phase characterised by uncertainty and continuing processes of change, which persisted across a number of fronts in the course of the 2015/16 performance period. The nature and effects of these change conditions are reviewed below.

## EMERGENCE OF NEW PROGRAMMING DISPENSATION FOR SA'S ZONES SECTOR

The programme development is intended to generate more solid economic impact from the SEZ Programme than has been possible under the IDZ regime. The SA zones programme now stands to receive some distinctive benefits to arm it in its efforts to attract and retain needed inward investment by foreign industries as well as domestic investment into industrial expansion, upgrading and concomitant job creation. Eyed incentive improvements -- for qualifying applicants -- include:

- A lowered corporate tax rate of 15% to selected, qualifying SEZs;
- An entry-wage level employment incentive (applicable in relation to Zone employment of job candidates earning below R60 000 p.a.);
- Extension of an accelerated depreciation allowance to incentivise private sector tenant facility construction, with depreciation of improvement value at 20% p.a.
- Continued provision of the current import duty and VAT suspension for approved and registered Customs Controlled Area Enterprises (CCA);
- Continued provision of the current Section 12i tax concessions for investment for qualifying capital expenditure;
- Stepped up support to streamline authorisation and permitting processes through the setting up of 'one-stop-shop' inter-governmental services facilities.

With the resolution of the legislative environment in February 2016, IDZs began operating as one form of SEZ (alongside other categories of zones which will be accommodated in the national zones programme in order to respond to the diverse industrial development needs of different locations across South Africa's provinces).

The dti is proceeding to process applications from aspirant new zones locations and the successful approval and graduation of the new SEZ sites is expected to see accelerated expansion of the presence of operational zones into new provincial locales. This stands to increase the visibility and stature of the zones programme nationally and internationally. However, it also accentuates the competition between host provinces to win the interest and commitment of prospective investors. In addition, an element of increased competitiveness is created for the access of IDZ/SEZ project sites to limited national funds for IDZ/SEZ implementation.

## TRANSITION OF EXISTING IDZS INTO SEZ PROGRAMME

In terms of the transitional provisions of the SEZ Act, both the ELIDZ's existing designation under the former IDZ Programme and the Operator Permit it obtained as an IDZ remain in force and effect under the new SEZ legislation. The latter recognizes the need for the operation of a three-year transitional phase to permit IDZs to re-orientate and attune their projects fully to the new regulatory requirements of the Act and its attendant programme regulations (along with other supportive regulatory instruments, such as programme guidelines).

The shareholders, governing boards and executive management of the existing IDZs have been anxiously awaiting the activation of the Act and the resolution of the regulatory regime in order to ascertain how their short- medium- and long-term strategic and operational planning for IDZ/SEZ delivery should be affirmed (or alternatively modified) moving into the new programme dispensation.

The SEZ regulations have assisted in clarifying the sector regulatory regime to some degree, but have unfortunately not dealt comprehensively with various matters of fundamental concern, some of which had been raised in the intergovernmental consultative processes leading up to the development of the SEZ Act and Regulations over the course of several recent financial periods. In addition, there are outstanding instruments such as SEZ guidelines and enablement procedures residing in complementary legislations that must yet be issued and understood.

Consequently, the ELIDZ (and other existing IDZ operators) ended the 2015/16 with continuing queries and concerns over a range of important legislative interpretive matters. ELIDZ is continuing to actively seek engagement with provincial and national government authorities to resolve areas where there appear to be differing perspectives and interpretations on the application of the Act and regulations (and/or on the consequential implications for institutional changes to be effected by SEZ participant entities).

Fundamental among these is a requirement that the existing IDZs must evaluate how compliant their current institutions and operations are with the new SEZ legislative framework (and take steps to rectify any shortcomings). Clear insight is needed in order to proceed to develop a formal transition plan to commit shareholders and their entities to actions that will be taken to render IDZ projects fully compliant with the SEZ framework by the close of the three-year transitional term allowed by the Act (by February 2019).

The SEZ Regulations guide that such a plan should address various prescribed aspects now set out in the legislation, including matters relating to:

- Governance and management obligations;
- SEZ reporting obligations;
- Compliance with obligations to procure and appoint an operator;
- Compliance with the regulated functions to be performed by the operator; and
- Compliance of the businesses located in the industrial development zone with regulated requirements.

The envisaged transition plan must be formulated and lodged with the dti within 12 months of the Act's commencement (by February 2017) and indicate specific milestone outcomes to be attained by the close of the three-year transitional period (by February 2019).

Formulation of the transition plan will be influenced by the clarification of the outstanding legal interpretive matters so that the boards (and their political principals/shareholders) of the Eastern Cape's IDZs can adopt appropriate decisions. This includes the resolution of questions that existing IDZs have posed in relation to practical institutional change options open to the IDZs in seeking to become SEZ-compliant on the governance and management requirements envisaged in the Act. Among these is an option to operate under a public-private-partnership (PPP) model of ownership and it is possible that existing IDZs may be able to transition into this option if a PPP is warranted.

ELIDZ is proceeding to engage both the national programme and its provincial executive authority to seek further advice from the legislative authors of the SEZ Act to better understand government's legislative and policy intentions and to ascertain the viability of the potential operational decision-making options open for the consideration of the IDZ entities.

At the close of the 2015/16 period, various high-level channels of engagement were being utilised to promote this dialogue with urgency. This includes discussions proceeding directly with the national SEZ programme within the dti's SEZ CEO's Forum as well as through complementary initiatives such as the advocacy efforts of a multi-stakeholder Provincial SEZ Technical Working Group, convened and led by the Eastern Cape's Department of Economic Development, Environmental Affairs and Tourism (DEDEAT).

## SELECTION OF APPROPRIATE BUSINESS MODEL FOR THE FUTURE SEZ DISPENSATION

The historic ability of IDZ public operator entities to fund such tenant facilities has formed a cornerstone of the ELIDZ's capability to develop tailored industrial location solutions for strategic industries (taking account of the particular production and logistical needs of each of its targeted industrial sectors).

If the entity moves into an SEZ programming phase where it no longer has access to the financial resources to continue developing such solutions (and is also precluded from institutional borrowing to fund income-generating property improvements) its property value offering to prospective investors can be expected to be substantially diminished. This will particularly be the case if private sector capital cannot be attracted to maintain the momentum of delivery for the construction of superstructure delivery.

A sensitivity of provincial Treasury towards the sale of land by IDZ operators that emerged in the course of 2014/15 has also continued to overshadow the ELIDZ's capacity and flexibility to invoke land sale as a form of transaction to spur the rate of annual land take-up by those investors -- notably foreign multinationals -- which retain both the capacity and desire to fund their own superstructure construction.

Treasury authorities have called for additional approval procedures to be instituted for land sale deals. In the course of 2015/16 this led to the convening of an adjudication committee to consider motivations for ELIDZ's proposed land sale deals. The committee includes representation of Provincial Treasury, DEDEAT, Department of Public Works, ELIDZ and the Office of the Premier. Approval to proceed with motivated transactions requires the issue of a recommendation to the MEC to sanction the application.

The introduction of the new protocol adds a delay to the finalisation of potentially affected land take up transactions and fuels IDZ operator concerns over the risk of the loss of land sale deals due to expiry of investor interest in the event that an overly lengthy (or overly onerous) approval procedure may transpire.

A combined consequence of the changing funding and resourcing landscape is that Zone Operators may be obligated to reconsider and revise their long-term business model and business development programming and it is becoming crucial that existing and future investments into zones delivery take place on the basis of a more soundly considered and well-constructed business sustainability model.

With limited financial scope to construct and deliver top-structures for lease clientele and a prospect of the delay (or disallowance) to effect land sales to sale clientele, IDZ entities are left to construct their long-term business planning on transactions that may default largely to the lease of serviced (but undeveloped) land. This produces a much lower income potential for the business and effectively narrows its target market for investor clientele.

Collectively, these factors can be expected to impair the annual rates at which attendant socio economic impacts (like investment values and jobs) can be expected to be generated into the future (relative to what has been accomplished in the project execution under the IDZ programme dispensation). This may also affect the revenue outlook for the entity and limits its capacity to drive revenue-linked activities in a number of areas. This includes its allocation of resources to drive long-term developmental and transformative industrial outcomes (as typically envisaged under the National Development Plan (NDP), the national SEZ Policy statement and in the intents of the Provincial Industrial Development Strategy (PIDS)).

The geo-location of the ELIDZ in the Eastern part of the Eastern Cape -- acknowledged to be one of the poorer locations in South Africa -- stimulates provincial stakeholder expectations that local and regional developmental challenges should be addressed through IDZ programmes and activity. Most prominent among these developmental objectives are those that seek to link industrial development to poverty reduction, through establishment of job intensive industries, facilitating increased participation of SMME entrant industries in the IDZ and facilitating skills development and technology diffusion into the local economy.

These developmental objectives are indeed central to government's agenda of economic development and it is important that the ELIDZ strives to realise these intents (within the ambit of its capability, resourcing and mandate). However, this introduces a direct dichotomy in programme intent which diverges from the primary national government intention of raising the global competitiveness of the country through the promotion of export-oriented industrialisation and the attraction of foreign direct investment (FDI) industries.

Global players that are likely to locate to an IDZ/SEZ to benefit from the current suite of SEZ tax incentives and support measures are most likely to be market- and efficiency-seeking and, as such, may be more technology driven than job intensive.

It is of continuing concern that the national SEZ Programme has not yet finalised a national strategy for the sector. It has also not yet defined the basis of a robust business sustainability model for the reconstituted IDZ/SEZ operating entities that the SEZ Act now establishes and empowers to deliver IDZ/SEZ projects into the future -- and IDZ operators have urged that the national programme should give this attention.

Business modelling should anticipate the quite radical shifts in the legislated programming environment and cater to factors that have not been at play in the operational environment of the SA zones sector to date. This includes a legislatively prescribed separation of the roles of the somewhat loosely defined future SEZ "management entity" and its future SEZ "operator" arrangements as foreseen by the SEZ Act. Under the former IDZ implementation regime these two roles comprise complementary elements of a single business entity, operating under a unified business model, and this will need to be reconsidered after the IDZ-SEZ transitional phase.

Provinces that have been active front-runner participants within the SA Zones programme, like the Eastern Cape, face particularly acute and immediate exposure to business outlook uncertainties arising over business level reservations concerning the sustainability of the SEZ institutions and operational delivery model that are implied and inherent to the changes introduced by the new legislation.

ELIDZ has, in particular, urged that thorough modelling of business potentials should be undertaken and that this should confirm a business model that demonstrates the viability, practicality and merits of legislative changes which prescribe that:

- Existing IDZ projects should take steps to discontinue the current practice of reliance on publicly-managed Zone operations (and instead take steps to procure their operational capability from the marketplace); and that
- New SEZs and transitioning IDZ projects managed in this way should constitute themselves to perform as fully fledged "government business enterprises" (as defined under the Public Finance Management Act), with expectation of little or no financial dependency on the State.

As part of its stakeholder interactions during 2015/16, the ELIDZ lobbied both its provincial and national principals (DEDEAT and dti) to support a proposal that the national SEZ programme should approve, resource and facilitate a thorough study to investigate and define the basis for an optimum sustainability model for SEZ implementation (or an adaptable suite of operating and resourcing models that will be suited to differing implementation contexts).

ELIDZ prepared a research concept proposal and has offered that the ELIDZ project could serve as a test site that is most typical of future green-field SEZ project implementations. The year terminated with the proposal remaining under consideration within the dti.



# REVENUE & EXPENDITURE

## ORGANISATIONAL OPERATING BUDGET VERSUS EXPENDITURE

DEPARTMENT	INCOME					EXPENDITURE					VARIANCE		
	Budget DEDEAT 2015 /2016	Budget Dti 2015 /2016	Trading and Finance Income	Prior Year Surplus	Budget 2015 /2016	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	TOTAL	Budget Year-to-Date	Variance	% Variance
CEO's Office	12,434	0	0	-	12,434	2,716	2,772	3,108	3,677	12,273	12,434	161	1%
Science & Technology	6,352	0	1,713	-	8,065	968	2,728	829	3,258	7,783	8,065	282	3%
Corporate Affairs - Admin	2,635	0	0	-	2,635	530	524	684	834	2,572	2,635	63	2%
Corporate Affairs - Records Management	1,549	-	-	-	1,549	317	310	360	490	1,477	1,549	72	5%
Corporate Affairs - Legal	2,169	-	-	-	2,169	341	498	466	825	2,130	2,169	39	2%
Human Resource Management	7,462	-	-	-	7,462	1,527	1,516	2,429	1,562	7,034	7,462	428	6%
Information & Communication Technology	23,101	-	1,064	-	24,165	4,157	3,412	5,041	10,609	23,219	24,165	946	4%
Corporate Communications	4,911	-	-	-	4,911	697	1,114	1,010	1,829	4,650	4,911	261	5%
Financial Management	14,759	0	0	0	14,759	3,986	2,874	4,874	2,821	14,555	14,759	204	1%
Zone Development	6,209	0	22,467	-	28,676	6,692	3,947	3,918	13,701	28,258	28,676	418	1%
Zone Operations	1,693	0	67,229	18,317	87,239	15,068	26,051	20,716	22,471	84,306	87,239	2,933	3%
<b>Total Vat exclusive</b>	<b>83,274</b>	<b>0</b>	<b>92,473</b>	<b>18,317</b>	<b>194,064</b>	<b>36,999</b>	<b>45,746</b>	<b>43,435</b>	<b>62,077</b>	<b>188,257</b>	<b>194,064</b>	<b>5,807</b>	<b>3%</b>
<b>Output Vat Required</b>	<b>11,658</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,658</b>								
<b>Total Vat inclusive</b>	<b>94,932</b>	<b>0</b>	<b>92,473</b>	<b>-</b>	<b>205,722</b>								

## ORGANISATIONAL EXPENDITURE FROM DEDEAT FUNDS

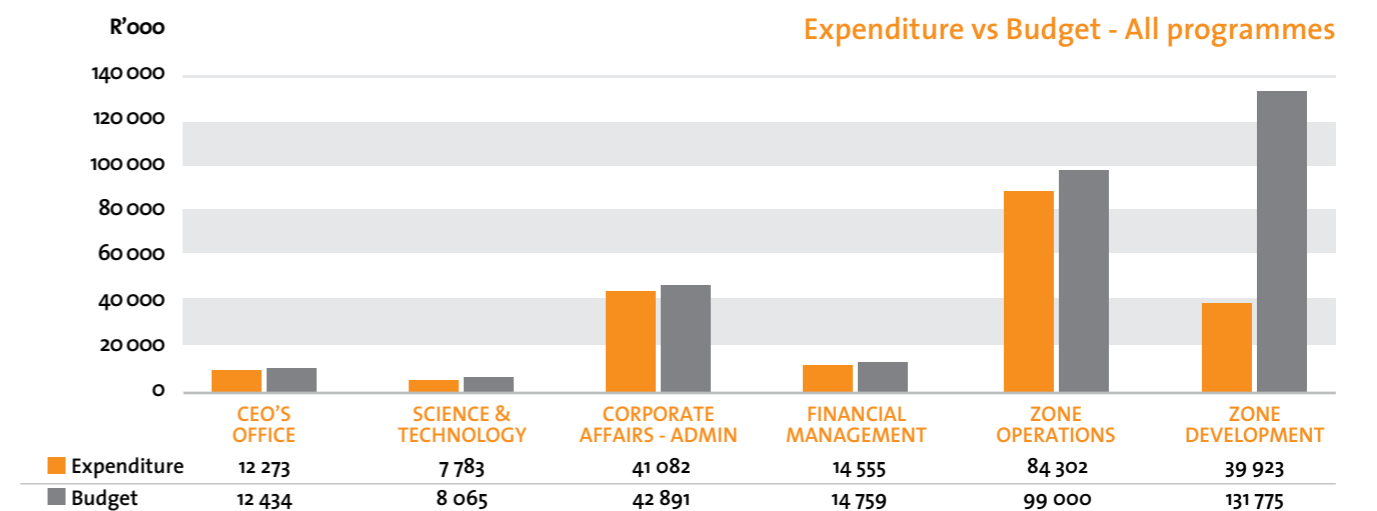
The operational budget for the 2015/16 financial year, for all programs added up to R205 million. The budget was to be funded through grant funding from DEDEAT to the amount of R83 million and ELIDZ revenue to the amount of R103 million, as well as a surplus from previous financial year of R18 million. The operating budget had to be adjusted downwards by R11 million during the adjustment budget process in October 2015, due to the fact that there was a moratorium placed on the sale of assets by the EC Provincial Treasury, and R11 million of projected revenue was budgeted for land sale transactions. The entity's operating budget was therefore reduced to R194 million in October 2015. This was achieved through the introduction of various austerity measures to curb spending in line with the funding availability.

The Operating budget vs Expenditure variance for the financial year 2015/16 was a favourable 3% or R5.8million.

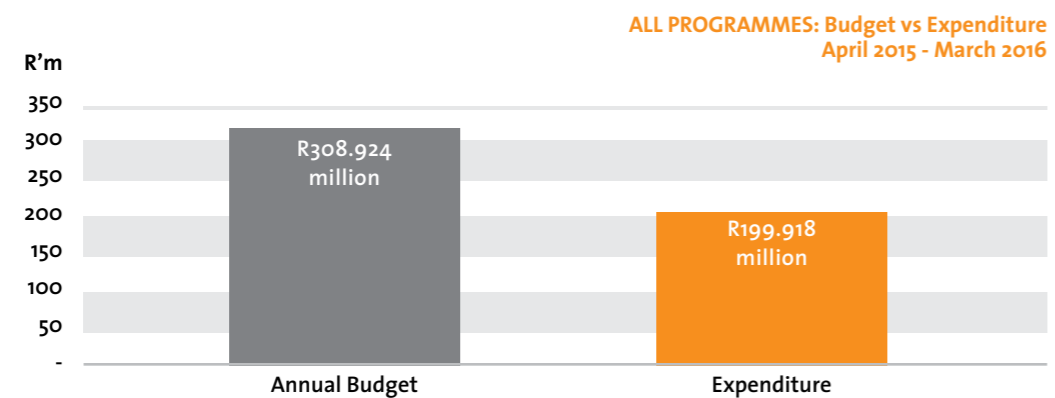
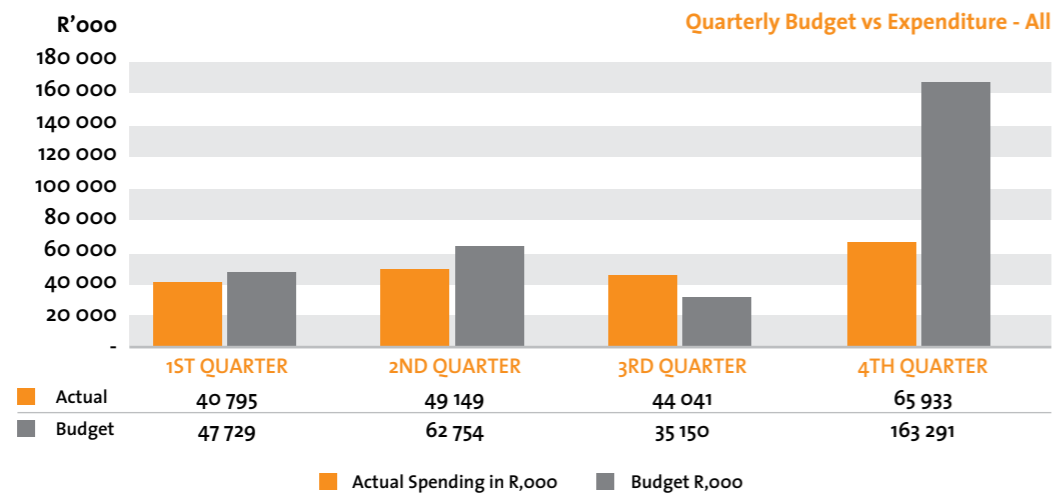
## OPERATING BUDGET AND INFRASTRUCTURE BUDGET VERSUS EXPENDITURE

DEPARTMENT	INCOME						EXPENDITURE					VARIANCE		
	Budget DEDEAT 2015 /2016	Budget Dti 2015 /2016	Trading and Finance Income	Project Rollover Funds 2015 /2016	Prior Year Surplus	Budget 2015 /2016	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	TOTAL	Budget Year-to-Date	Variance	% Variance
CEO's Office	12,434	0	0	-	-	12,434	2,716	2,772	3,108	3,677	12,273	12,434	161	1%
Science & Technology	6,352	0	1,713	-	-	8,065	968	2,728	829	3,258	7,783	8,065	282	3%
Corporate Affairs	41,827	0	1,064	0	0	42,891	7,569	7,374	9,990	16,149	41,082	42,891	1,809	4%
Financial Management	14,759	0	0	-	0	14,759	3,986	2,874	4,874	2,821	14,555	14,759	204	1%
Zone Development	6,209	19,349	22,467	76,787	6,963	131,775	10,488	7,350	4,524	17,561	39,923	131,775	91,852	70%
Zone Operations	1,693	0	67,229	11,761	18,317	99,000	15,068	26,051	20,716	22,467	84,302	99,000	14,698	15%
<b>Total Vat exclusive</b>	<b>83,274</b>	<b>19,349</b>	<b>92,473</b>	<b>88,548</b>	<b>25,280</b>	<b>308,924</b>	<b>40,795</b>	<b>49,149</b>	<b>44,041</b>	<b>65,933</b>	<b>199,918</b>	<b>308,924</b>	<b>109,006</b>	<b>35%</b>
<b>Output Vat Required</b>	<b>11,658</b>	<b>2,709</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,367</b>								
<b>Total Vat inclusive</b>	<b>94,932</b>	<b>22,058</b>	<b>92,473</b>	<b>-</b>	<b>-</b>	<b>323,291</b>								

## EXPENDITURE TRENDS



The graph above reflects the budget vs. expenditure for all programmes



The graph above reflects the quarterly expenditure performance of all programmes against the budget forecast.

The infrastructure underspending has contributed to the 35% favourable variance, largely because some projects are yet to be completed. The majority of both superstructure and infrastructure projects undertaken by ELIDZ are multi-year projects spanning 2 - 3 financial years and as such, the requisite application for roll-over of funds have been duly submitted to the Eastern Cape Provincial Treasury and Planning.

## SUMMARY OF ELIDZ REVENUE

The revenue projections for the ELIDZ for 2015/2016 were approved at R103.7 million, which was adjusted in October 2015 to R92.4 million, due to the moratorium on land sale transactions. The overall revenue generated during the year was well above the target at R110.889 million. This was due to much higher-than-expected revenues on utilities, which was driven by increased usage by tenants. Rental revenue was 2% above forecasted revenue and revenue on Zone Levies and Other Income 8% and 13% below forecast, respectively. The overall revenue for services for the 2015/16 financial year was 20% above the projected revenue for the period under review. The year-on-year increase in total revenue from 2014/15 to 2015/16 was 22.9%, from R90.2 million to R110.9 million. The budgeted and actual revenue figures for the 2015/16 financial year are summarised in the table below:

Revenue Items	Annual Forecast	Actual
Rentals	50 834 998	51 853 947
Zone Levies	728 511	667 918
Sale of Land	0	0
Utilities Income	35 572 299	53 705 818
Other Income	5 337 000	4 661 558
<b>Totals</b>	<b>92 472 808</b>	<b>110 889 240</b>

# PROGRAMME PERFORMANCE

& TREND REPORTS

# PROGRAMME 1: ZONE DEVELOPMENT

## PROGRAMME PURPOSE:

The main purpose of the Zone Development Programme is the attraction of targeted investors and investments, development and provision of the infrastructure and customised superstructure solutions to those targeted investors. Key industry clusters have been identified and specific business strategies are in place to secure targeted investors and support them with the necessary infrastructure. The direct impact will be the development of an Industrial Development Zone with world class infrastructure and the creation of employment opportunities as well as the stimulation of economic growth in the region.

Functions co-ordinated under this programme include:

- Project Management and Co-ordination;
- Investment Analysis;
- Investment Facilitation;
- Sector Development;
- After-care Services Management;
- Infrastructure Development; and
- Property Portfolio Management.

## PROGRAMME PERFORMANCE

STRATEGIC GOAL: GOAL 1: MOBILISE STRATEGIC INDUSTRIAL DEVELOPMENT AND INNOVATION				
STRATEGIC OBJECTIVES: 1.1 TRANSACT ELIDZ'S LAND ASSETS TO LOCATE TARGETED MANUFACTURING AND SERVICES INDUSTRY INVESTMENTS OCCUPYING 169HA OF THE ELIDZ'S NET TRADABLE LAND EXTENT BY 2019/20				
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
1.1.1 Number of investment agreements (FDI and Domestic) signed between ELIDZ and the approved investors per annum	3	5	+66.6%	A total of 5 agreements were concluded, enabling the ELIDZ to exceed the annual target.
1.1.2 Periodic value of investments (FDI and Domestic) signed between IDZ operator and IDZ tenant enterprises per annum, as pledged by approved investors at the time of agreement-signing	R450m	R840.2m	+86.7%	The annual target was exceeded due to investment value pledged by investors being higher than anticipated.
1.1.3 Hectares of land taken up for economic activity by targeted manufacturing and services industries	5Ha	12.1855Ha	+143.7%	The higher number of investments achieved during the financial period resulted in a larger uptake of land and the target being exceeded by 143%.
1.1.4 Percentage of operational, non-automotive industrial investments represented in ELIDZ	0.95:1	0.61:1	-35%	The ratio of non-automotive to automotive investors is expected to improve as more non-automotive investors are signed up.

STRATEGIC GOAL: GOAL 1: MOBILISE STRATEGIC INDUSTRIAL DEVELOPMENT AND INNOVATION				
STRATEGIC OBJECTIVES: 1.2 PROMOTE INVESTMENT BY DOMESTIC AND FOREIGN INVESTORS TO INCREASE LEVELS OF DIRECT EMPLOYMENT BY ZONE ENTERPRISES TO 5900 BY END OF 2019/20				
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
1.2.1 Cumulative number of reported Manufacturing and Services industries permanent jobs in existence as at financial year-end by the IDZ Investors, IDZ Operator and its service providers	3808	2811	-26.2%	Underperformance of 26.2% is owing to lack of new investments during the financial year which would create jobs. Some tenants are refusing to submit details of manufacturing jobs created. Efforts are underway to address this.
1.2.2 Cumulative number of reported construction jobs attributable to annual construction activity	1792	0	-100%	No construction jobs were created as rollout of infrastructure projects is to begin only in the next financial year, resulting in -100% unfavourable variance in performance.

STRATEGIC GOAL: GOAL 1: MOBILISE STRATEGIC INDUSTRIAL DEVELOPMENT AND INNOVATION				
STRATEGIC OBJECTIVES: 1.3 OPTIMISE THE RETURNS OF ELIDZ PROPERTY PORTFOLIO TO GENERATE TOTAL PROPERTY (SALE AND LEASE) INCOME OF R350M FOR THE PERIOD 2015/16-2019/20				
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
1.3.1 Average vacancy rate per annum in IDZ-constructed operational tenant facilities	3%	1.6%	+45.5%	A favourable variance in the vacancy rate has been achieved through concerted property marketing efforts and tenants renewing leases.
1.3.2 Average duration of lease terms (in months) for annually signed IDZ lease investors' tenancy commitments	94 months	110.4 months	+17.5%	The average duration of lease terms for the financial year is 110.4 months which exceeds the target of 94 months. Sale of land equates to 240 months which assists in realising this target.
1.3.3 Average Annual Property Portfolio Yield (property lease transactions)	3%	10.3%	+243%	The yield of 10.3 exceeds the targeted yield of 3%.
1.3.4 Value of annual capital reinvestment provision as a percentage of total IDZ complex fixed investment value as at financial year-end	2%	0.8%	-60%	The unfavourable variance is attributable to the lack of infrastructure projects carried out during the financial period.

STRATEGIC GOAL: GOAL 3: BUILD ORGANISATIONAL CAPABILITY, RESILIENCE AND EXCELLENCE				
STRATEGIC OBJECTIVES: 3.2 OPTIMISE THE ELIDZ'S ASSESSED BBBEE STATUS TO ATTAIN A LEVEL 2 CONTRIBUTION LEVEL BY 2017/18 AND LEVEL 1 CONTRIBUTION BY 2019/20				
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
3.2.8 Number of intern / learnership contract opportunities offered per annum within the operations of IDZ-appointed service provider organisations (including construction contractors)	5	0	100%	There were no construction projects undertaken during the year. This is largely due to uncertainties on structure funding.



# PROGRAMME 2: ZONE OPERATIONS

## PROGRAMME PURPOSE:

To operate a commercially viable, effective, attractive and sustainable, specialized industrial destination through the pursuit of value-adding strategies, sound Safety, Health & Environmental (SHE) Management of operational and other activities, effective planned preventative maintenance, facilities management, as well as planned expansions and alterations to existing infrastructure and factories in the zone. We are looking to develop and implement extensive after-care programmes in order to retain existing customers. To further augment ELIDZ sustainability, we strive to increase the range of centralized service offerings to our current and future investors and to decrease the cost of doing business. In addition, Zone Operations ensures the retention of the existing ISO 14001 and ISO 18001 SHE Management systems accreditation, through effective monitoring and control of SHE risks, as well as compliance to applicable SHE legal and other requirements in the Zone. Functions to co-ordinate the Zone Operations programme include:

- Customer Relations Management;
- Help Desk;
- Maintenance, Facilities & Operations Management;
- Investor Support Services Management;
- Safety, Health, Environmental & Security Management;
- GIS and Data Administration.

## PROGRAMME PERFORMANCE

STRATEGIC GOAL:		GOAL 2: DELIVER AN INDUSTRIAL COMPLEX OFFERING STRATEGIC ECONOMIC ADVANTAGE		
STRATEGIC OBJECTIVES:		2.1 OPERATE/MANAGE THE DELIVERY OF QUALITY SERVICES TO ACHIEVE AND SUSTAIN THE LEVEL OF CUSTOMER SATISFACTION OF ZONE ENTERPRISES AT 75% BY 2019/20		
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
2.1.1 Services Average Availability rate of IDZ electricity services	98%	99.34	+1.4%	The favourable variance can be attributed to planned maintenance initiatives.
2.1.2 Surveyed level of customer satisfaction with ELIDZ products and services quality levels	75%	0%	100%	Customer Satisfaction Survey was not concluded during the year under review.

STRATEGIC GOAL:		GOAL 2: DELIVER AN INDUSTRIAL COMPLEX OFFERING STRATEGIC ECONOMIC ADVANTAGE		
STRATEGIC OBJECTIVES:		2.2 OPTIMISE THE EFFICIENCY OF ORGANISATIONAL SYSTEMS AND MANAGEMENT PROCESSES TO ACHIEVE 95% ANNUAL COMPLIANCE WITH ISSUED SAFETY, HEALTH AND ENVIRONMENTAL PERMITS/AUTHORISATIONS		
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
2.2.1 Disabling Injury Frequency Rate (DIFR)	0.5	0.3	+40%	The DIFR is being maintained at a level of 0.3 which is below the accepted target of 0.5. A lower DIFR is preferable.
2.2.2 Citations for significant environmental non-conformances	95%	97%	+2%	Favourable variance attributed to sound internal environmental management controls and collaboration with relevant DEDEAT officials.
2.2.3 Notices of breach for Health and Safety non-conformances	<3	0	100%	There were no notices of breaches received for the year.

# PROGRAMME 3: OFFICE OF CHIEF EXECUTIVE OFFICER

## PROGRAMME PURPOSE:

The Office of the Chief Executive Officer (OCEO) provides strategic direction and leadership to the executive management of the organisation and serves as a principal interface between the Board and the ELIDZ business units for enterprise governance and the deliberation and resolution of strategic matters. A company secretarial function is co-ordinated from within the office to support this activity and also directs the programme of the ELIDZ activity in Corporate Social Investment (CSI). In addition, the OCEO plays a vital role in directing and shaping the organisation's relationships with key strategic principals and business partners, in support of the realisation of the ELIDZ's vision and mission.

As a functional component, the OCEO component guides several enterprise-wide strategic management disciplines under the direction of an Executive Manager in the OCEO. These are

- Company Secretarial support;
- Corporate Strategy and Planning;
- Enterprise Risk Management;
- Project Portfolio Management
- Enterprise Quality Management; and
- Executive coordination and support of ELIDZ Special Projects (which are provincially enabled development programme initiatives housed with the ELIDZ as start-up ventures, but operating as distinctly resourced initiatives).

Currently active special projects supported by the ELIDZ include:

- Eastern Cape Innovation Initiative; and
- Science and Technology Park Project.

## SUB-PROGRAMME: SPECIAL PROJECTS

### STRATEGIC OBJECTIVE

The Office of the CEO is currently driving the development of a pilot Science and Technology Park (STP) within the ELIDZ.

This project has a distinct industrial networking and programme advocacy mandate and is recognised for its broad and long-term merits in mobilising and promoting the industrial potential and competitiveness of the city and region, in conjunction with the IDZ Operator and other stakeholders. In doing so, the project resonates with the ELIDZ's strategic objective of the stimulation of innovation, productivity and industrial competitiveness, which is a focus area of activity supportive of the corporate strategic intents to generate positive economic value and returns from the IDZ's industrial activities.

## PROJECT: SCIENCE AND TECHNOLOGY PARK

### PROJECT PURPOSE:

Contribute toward the growing of the regional economy through the:

- Establishment of an internationally recognized science and technology park to provide both the physical infrastructure and services to support high growth and technology-based businesses, and
- Facilitation of purposeful interactions of the region's universities, businesses, and government development and funding agencies to strengthen industrial innovation and competitiveness.

## PROGRAMME PERFORMANCE

STRATEGIC GOAL: GOAL 1: MOBILISE STRATEGIC INDUSTRIAL DEVELOPMENT AND INNOVATION				
STRATEGIC OBJECTIVES: 1.4 QUALIFY 15 STRATEGIC INDUSTRIAL DEVELOPMENT AND INNOVATION OPPORTUNITIES FOR MARKET EXPLOITATION IN THE PERIOD 2015/16 TO 2019/20				
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
1.4.1 Number of prototypes produced in the Science and Technology Pilot Park (STP)	2	2	0%	KPI achieved successfully.
1.4.2 Number of industrial innovation solutions generated per annum from issued innovation challenges	2	0	100%	Budgetary constraints during the financial year resulted in delays. The significance of innovation projects are understood and will be addressed in the new financial year.
1.4.3 Number of hosted incubation facilities capable of generating targeted number of incubates (entrepreneurs)	2 Incubators 80 Entrepreneurs	2 Incubators 129 Entrepreneurs	+61.3%	The positive variance of 61.3% is indicative of the incubator's efficiencies in the Science and Technology Park.



# PROGRAMME 4: CORPORATE AFFAIRS

## PROGRAMME PURPOSE:

The activities that are combined within this programme relate to the management and direction of the corporate affairs of the ELIDZ in support of the core business of the organisation.

Functions co-ordinated under this programme include:

- Legal and Contracts Management;
- Corporate Marketing and Research;
- Corporate Communications;
- Records Management;
- Human Resources Management; and
- Information, Communication and Technology Management.

## PROGRAMME PERFORMANCE

STRATEGIC GOAL: GOAL 3: BUILD ORGANISATIONAL CAPABILITY, RESILIENCE AND EXCELLENCE				
STRATEGIC OBJECTIVES: 3.2 OPTIMISE THE ELIDZ'S ASSESSED BBBEE STATUS TO ATTAIN A LEVEL 2 CONTRIBUTION LEVEL BY 2017/18 AND LEVEL 1 CONTRIBUTION BY 2019/20				
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
3.2.1 Percentage of employment-related expenditure spent on targeted training initiatives to develop identified organisational core competency areas	3%	3.63%	+21%	A favourable variance of 21% was achieved due to a variety of formal training programmes that were conducted during this period.
3.2.2 Number of active bursaries in ELIDZ Bursary Award Programme	6	10	+66%	The favourable variance is attributable to the fact that some of the bursaries from the previous financial year are still active within the reporting period.
3.2.3 Cumulative number of Corporate Social Investment (CSI) projects administered in ELIDZ CSI programme	8	10	+25%	KPI exceeded.
3.2.5 Annual assessed measure of Management Control	13pts	16pts	+23%	KPI successfully achieved.
3.2.6 Annual assessed measure of Employment Equity	13pts	13.6pts	+0.5%	ELIDZ ability to attract and recruit suitable candidates from designated groups.
3.2.7 Annual assessed measure of Enterprise Development	13pts	15pts	+15%	KPI successfully achieved.
3.2.9 Number of intern / learnership contract opportunities offered per annum within the operations of the ELIDZ organisation	12	43	+258%	The high favourable variance is attributable to the overlap of active internship contracts from the previous financial year as well as external funding received for internship.

STRATEGIC GOAL:		GOAL 3: BUILD ORGANISATIONAL CAPABILITY, RESILIENCE AND EXCELLENCE		
STRATEGIC OBJECTIVES:		3.3 IMPLEMENT SKILLS RETENTION AND EMPLOYEE MOTIVATION INITIATIVES TO MAINTAIN A STABLE PRODUCTIVE WORKFORCE WITH AN ANNUAL EMPLOYEE TURNOVER OF LESS THAN 8% BY THE END OF 2019/20		
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
3.3.1 Rate of staff turnover per annum (%)	8%	20%	-150%	The unfavourable variance is due to a high number of resignations during the year.
3.3.2 Surveyed level of staff satisfaction	80%	60.7%	-24%	Uncertainty with funding ELIDZ operations, SEZ changes and restructuring. Initiatives to improve staff satisfaction levels have been identified and will be implemented during the next financial year.



# PROGRAMME 5: FINANCIAL MANAGEMENT

## PROGRAMME PURPOSE:

- To enhance the ELIDZ financial administration and reporting capability ;
- To develop and expand ELIDZ's sources of funding and incrementally improve annual revenue generation in line with business planning forecast;
- To ensure compliance of the ELIDZ with corporate governance best practices, the Public Finance Management Act, Companies Act and accounting standards; and
- To adapt and transform ELIDZ business practices to improve organisation's contribution to BEE and SMMEs empowerment.

Functions co-ordinated under this programme include:

- Investments and Acquisitions Management;
- Financial Management, Reporting and Administration;
- Management and Cost Accounting; and
- Supply Chain Management.

## PROGRAMME PERFORMANCE

STRATEGIC GOAL:		GOAL 3: BUILD ORGANISATIONAL CAPABILITY, RESILIENCE AND EXCELLENCE		
STRATEGIC OBJECTIVES:		3.1 ATTAIN FINANCIAL SELF-SUSTAINABILITY FOR ELIDZ PROGRAMMES TO OPERATE WITHOUT OPERATIONAL BUDGET PUBLIC GRANT FUNDING INJECTIONS BY 2019/20		
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
3.1.1 Year-on-year percentage growth in total revenue income attributable to core IDZ operations (property sale and lease transactions)	22.5	26.9	+19.5%	A favourable variance of 19,5% has been achieved due to the property transactions during the financial year.
3.1.2 Annual improvement in Gross Income from all Zone Services billed per annum target	R2.1m	R1.774m	-15.5%	The actual performance fell short by 15,5% of the target as there were no new settled investments or leases to significantly alter the gross income for the entity.
3.1.3 Actual receipting of monthly debtors income within the reporting period as ratio to billed debtor's income	95%	96.25%	+1.3%	The Finance unit continues to apply stringent collection policies and defaulting debtors are handed over to Legal. This has resulted in a favourable variance of 1.3%.
3.1.4 Average collection period in days for collection and receipting of monthly debtor's income	30 days	23.4 days	+22%	A favourable variance of 22% achieved indicating that debtors are paying in less than 30 days.

STRATEGIC GOAL:		GOAL 3: BUILD ORGANISATIONAL CAPABILITY, RESILIENCE AND EXCELLENCE		
STRATEGIC OBJECTIVES:		3.2 OPTIMISE THE ELIDZ'S ASSESSED BBBEE STATUS TO ATTAIN A LEVEL 2 CONTRIBUTION LEVEL BY 2017/18 AND LEVEL 1 CONTRIBUTION BY 2019/20		
Key Performance Indicator	Performance Trends			Reason for Variance
	Target (2015/16)	Actual (2015/16)	Variance %	
3.2.4 Annual assessed measure of Target Preferential procurement	18pts	18pts	+0%	Strong focus on empowering EMEs and QSEs resulted in exceeding target.



# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

## INTRODUCTION

Corporate governance embodies processes and systems by which public entities are directed, controlled and held to account. It defines the distribution of rights and responsibilities among the different stakeholders and participants in the organisation, it determines the rules and procedures for making decisions on corporate affairs (including the process through which the organisation's objectives are set) and provides the means of attaining those objectives and monitoring performance. Importantly it defines where accountability lies throughout the organisation.

In addition to legislative requirements based upon the ELIDZ's enabling legislation and the Companies Act of 2008, corporate governance is applied through the prescripts of the Public Finance Management Act of 1999 (PFMA) and in accordance with the principles contained in the King III Report on Corporate Governance and the Protocol on Corporate Governance, 2002.

The ELIDZ is committed to upholding the highest standards of corporate governance by complying with legislation applicable to it as well as aligning itself to non-binding rules, codes and standards such as the King report and governance protocol. Parliament, the Executive and the Board of the ELIDZ are responsible for corporate governance.

## PORTFOLIO COMMITTEE

Parliament exercises its role through evaluating the performance of the ELIDZ. It does this by interrogating the annual financial statements and other relevant documents which have to be tabled as well as any other documents tabled from time to time.

The Standing Committee on Public Accounts (SCOPA) reviews the annual financial statements and the audit reports of the external auditor, which in the case of the ELIDZ, is the Auditor-General South Africa (AGSA).

The Portfolio Committee exercises oversight over the service delivery performance of the ELIDZ and as such reviews the non-financial information contained in its annual report. The committee is concerned with service delivery and enhancing economic growth.

The ELIDZ met with the Portfolio Committee on 14 May 2015, 18 August 2015 and 12 November 2015. Some key issues raised by the Portfolio Committee at the meetings were:

- Whether the ELIDZ benefits from bi-national co-operation and provincial twinning agreements – The ELIDZ confirmed that it was collaborating with DEDEAT in pursuing an Energy Village project with Lower Saxony (a province in Germany) that has a twinning agreement with the Eastern Cape Province. The ELIDZ was also actively working with the City of Oldenburg in Germany, which BCMM have twinned with, on the same project.
- The plans that ELIDZ had in place to ensure that it remained relevant to surrounding communities in BCMM – The ELIDZ outlined the framework that its relationship with the surrounding community was based upon, which comprised of community relations, corporate social investment and a database for registration for employment.
- Whether the ELIDZ had plans to enter into renewable energy generation – The ELIDZ confirmed that it had property that was earmarked for the development of a Renewable Energy Cluster which had an investment pipeline of over R3 billion.

## EXECUTIVE AUTHORITY

The Executive Authority is authorised in terms of the provisions of the PFMA to exercise oversight over the ELIDZ.

The Executive Authority has the power to appoint Board members and is also responsible for ensuring that the members of the Board have the skills and experience necessary to perform the functions and fulfil the duties of directors.

## THE BOARD OF DIRECTORS

The Board of Directors is the accounting authority of the ELIDZ and constitutes a fundamental base for the application of corporate governance principles. The ELIDZ is directed and controlled by a Board, which comprises of an appropriate mix of non-executive directors who have the necessary skills and experience to strategically guide the company.

The role and function of the Board of the ELIDZ is as follows:

- To act as the focal point for and custodian of corporate governance;
- To inform and approve the strategy of the company;
- To provide effective leadership based on an ethical foundation;
- To ensure that the company is and is seen to be a responsible corporate citizen;
- To ensure that the company's ethics are managed effectively;
- To ensure that the company has an effective and independent audit committee;
- To be responsible for the governance of risk;
- To be responsible for information technology governance;
- To ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards;
- To ensure that there is an effective risk-based internal audit;
- To appreciate that stakeholders' perceptions affect the company's reputation;
- To ensure the integrity of the company's annual report;
- To report on the effectiveness of the company's system of internal controls;
- To act in the best interests of the company;
- To appoint the CEO and establish a framework for the delegation of authority. The Board shall ensure that a succession plan is in place for the CEO and other members of executive management.

## BOARD CHARTER

The Board of the ELIDZ has a charter setting out its role and responsibilities. The charter was drafted in accordance with the provisions of the Companies Act of 2008, the PFMA, the principles contained in the King Code and the Memorandum of Incorporation of the company.

The Board Charter of the ELIDZ confirms:

- The role and function of the Board
- The appointment and terms of office of Board members
- The process for termination of office of Board members
- The structure and function of Board committees
- The roles and responsibilities of the Chairperson of the Board, the CEO and the Company Secretary
- The process for performance evaluations of the Board and its directors
- The procedure for meetings of the Board
- The rules regarding remuneration of directors

The Charter furthermore confirms that the Board is responsible for:

- Corporate governance
- Determining the ELIDZ's strategic direction
- Control of the company
- Ensuring that management cultivates a culture of ethical conduct
- Determining the values to which the company will adhere and incorporating these values into a code of conduct
- Ensuring that integrity permeates all aspects of the ELIDZ's operations and that the company's vision, mission and objectives are ethically sound
- Aligning its conduct and the conduct of management with the values that drive the company's business
- Considering the legitimate interests and expectations of the company's stakeholders in its deliberations, decisions and actions

The documents which inform the Board Charter form part of the Board induction process and training program. Compliance with the charter is also monitored by way of the work plans of the Board and its committees.

## COMPOSITION OF THE BOARD

The Board of the ELIDZ comprises of 7 non-executive directors as at 31 March 2016. The CEO is an ex officio member of the Board. The Executive Authority is responsible for appointing members and the Chairman of the Board, and also determines the conditions of their service. The directors are drawn from diverse backgrounds and bring a wide range of experience and professional skills to the Board and its sub-committees.

The evaluation of the Board, its committees and the individual directors is performed on an annual basis.

The Board met several times during the financial year in order to discharge its responsibilities. The following schedule contains a list of meetings attended by each director:

Name	Designation	Date appointed	Date retired	Area of expertise	No. of Board meetings attended	No. of committee meetings attended
<b>Professor M.W. Makalima</b>	Chairperson of the Board and Chairperson of the Executive Committee	26/01/2016	N/A	Public sector	1/7	1/3 EXCO
<b>Clr Pumla Nazo</b>	Acting Chairperson of the Finance and Tender Committee and member of the Executive Committee	26/10/2011	N/A	Municipal sector	6/7	3/3 EXCO meetings. 6/6 FNT meetings. 3 Ad Hoc meetings
<b>Clr Sakhumzi Caga</b>	Chairperson of the Investment Services Committee and member of the Executive Committee	24/10/2012	N/A	Municipal sector	5/7	2/3 EXCO meetings. 4/4 ISC meetings. 2 Ad Hoc meetings.
<b>Phumla Mzazi-Geja</b>	Member of the Investment Services Committee	24/10/2012	N/A	Public sector	0/7	3/4 ISC meetings. 1 Ad Hoc meeting.
<b>Vuyo Sikwebu</b>	Member of the Audit and Risk Committee, the Investment Services Committee and the Finance and Tender Committee	01/11/2013	N/A	Private business	7/7	8/8 ARC meetings. 4/4 ISC meetings 4/6 FNT meetings. 4 Ad Hoc meetings
<b>Ayanda Kanana</b>	Chairperson of the Audit and Risk Committee and member of the Executive Committee	24/10/2012	N/A	Finance and public sector governance	6/7	7/8 ARC meetings. 1/3 EXCO meetings. 1 Ad Hoc meeting.
<b>Eugene Vincent Jooste</b>	Member of the Audit and Risk Committee and the Finance and Tender Committee	01/11/2013	N/A	Finance and public sector governance	7/7	7/8 ARC meetings. 5/6 FNT meetings. 4 Ad Hoc meetings.
<b>Zolile Milton Tini</b>	Former Chairperson of the Board and the Executive Committee	29/01/2004	26/01/2016	Private business	7/7	3/3 EXCO Meetings. 5 Ad Hoc meetings.
<b>Natasha Irene Meinie-Anderson</b>	Former Chairperson of the Audit and Risk Committee and member of the Executive Committee	29/11/2006	26/01/2016	Finance and public sector governance	4/7	7/8 ARC meetings. 2/3 EXCO meetings. 1 Ad hoc meeting.

## CHANGES IN THE BOARD COMPOSITION IN 2015/16

Mr Z. Tini and Ms N.I. Meinie-Anderson were retired as Board members and Professor M.W. Makalima was appointed as a Board member at the Annual General Meeting held on 26 January 2016.

## COMMITTEES

The Board has the authority to delegate its power to executive structures and board committees. A delegation of authority framework is in place to facilitate this delegation. The Board has accordingly established the following sub-committees for the purposes as outlined below:

- The Executive Committee;
- The Audit and Risk Committee;
- The Finance and Tender Committee;
- The Investment Services Committee.

### EXECUTIVE COMMITTEE (EXCO)

This committee consists of four non-executive board members. The Committee is responsible for:

- Monitoring execution of the company's strategic plans;
- Performing the functions of a governance committee;
- Performing the functions of a nominations and remuneration committee;
- Performing the functions of a social and ethics committee in terms of the Companies Act of 2008;
- Drawing matters within its mandate to the attention of the Board as the occasion requires;
- Reporting, through one of its members, to the Shareholders at the company's annual general meeting on matters within its mandate;
- Reporting on a quarterly basis, through the Chairperson of the Committee, to the Board of Directors, on all matters submitted to the Committee for consideration and the outcome of each deliberation.

### AUDIT AND RISK COMMITTEE (ARC)

The Audit and Risk Committee is tasked by the Board to carry out its statutory duties in terms of Section 77 of the PFMA, Treasury Regulation 27.1 and Section 94(7) of the Companies Act of 2008, as well as all other duties assigned to it by the Board.

The ARC is comprised of three non-executive directors. The chief executive officer, chief financial officer, internal auditors and external auditors are standing invitees to the meetings.

The main objective of this committee is to provide the board with assurance that the internal controls are appropriate and effective and to monitor the component parts of the audit and compliance process. The specific role of the audit and risk committee is to assist the Board in discharging its responsibilities and to, amongst other things:

- Safeguard assets;
- Maintain adequate accounting records;
- Develop and maintain effective systems of internal control;
- Promote the independence of both the external auditors and internal audit function;
- Review the scope and outcome of audits;
- Enquire into the process of risk identification and the measures in place to contain these risks;
- Ensure that the board and the Executive Committee make informed decisions and are aware of the implications of such decisions regarding accounting policies, practices and disclosures;
- Provide as much assistance and information as possible to the Board to enable it to discharge its responsibilities appropriately.

### FINANCE AND TENDER COMMITTEE (F&T)

The committee is comprised of three non-executive directors and is responsible for:

- Reviewing policies and strategies relating to financial activities including the application for and utilisation of grants;
- Deliberating on issues relating to the financial budget of the company including the preparation of annual operating and revenue budgets and periodic budget reviews;
- Awarding of tenders in accordance with the provisions of the company's procurement policy and the delegation of authority matrix of the Board;
- Reviewing the implementation of procurement procedures;
- Determining and monitoring procurement targets.

## INVESTMENT SERVICES COMMITTEE (ISC)

The committee is comprised of three non-executive directors and is responsible for:

- Deliberating on issues relating to business development and in particular the attraction and placement of investment;
- Reviewing and recommending to the Board revisions to business plans and targets as a result of investment trends;
- Reviewing and recommending to the Board investor after-care strategies aimed at retaining and expanding investment in the company and the provision of appropriate resources;
- Reviewing and recommending to the Board strategies aimed at developing small medium and micro enterprises (SMMEs) aimed at improving local participation in manufacturing;
- Reviewing and recommending to the Board strategies aimed at developing streamlined business services support to investors;
- Reviewing and recommending to the Board strategies aimed at facilitating customer satisfaction;
- Reviewing and evaluating all investment proposals;
- Considering national and international developments in the fields of trade and investment;
- Considering local, provincial and national legislative policy developments in the field of investment promotion and facilities;
- Considering potential risks associated with an investment;
- Monitoring and evaluating all programmes and policies aimed at meeting the objectives and targets for development and operations of the zone.

Committee	No. of meetings held	No. of members	Name of members
<b>Executive Committee</b>	3	4	Professor M W Makalima (Chair) Cllr P Nazo Cllr S Caga Mr A Kanana
<b>Audit and Risk Committee</b>	6	3	Mr A Kanana (Chair) Mr E Jooste Ms V Sikwebu
<b>Finance and Tender Committee</b>	6	3	Cllr P Nazo (Chair) Mr E Jooste Ms V Sikwebu
<b>Investment Services Committee</b>	4	3	Cllr S Caga (Chair) Ms P Mzazi-Geja Ms V Sikwebu

## REMUNERATION OF BOARD MEMBERS

Board members are remunerated in terms of a non-executive director remuneration policy. The rates of remuneration are in accordance with the National Treasury Guidelines issued on 24 May 2013. Board members that are employed by the Executive Authority are not remunerated for their services as directors.

Board members are remunerated according to the following rates:

- Chairperson of the Board – R12 500 per sitting of the Board
- Member of the Board – R7 500 per sitting of the Board
- Statutory Committee chairs (ARC and EXCO) – R9 500 per sitting of the committee
- Statutory Committee members (ARC and EXCO) – R6 375 per sitting of the committee
- Chairperson of committee (other than ARC and EXCO) – R8 500 per sitting of the committee
- Member of committee (other than ARC and EXCO) – R6 375 per sitting of the committee
- Attendance of Board workshops, meetings with the Auditor-General, the MEC and the Portfolio Committee, adhoc meetings with the chairman and special approved requests for board members to work on certain matters – R2 800 per hour for the Chairperson of the Board, R1 667 per hour for statutory committee chairs (EXCO and ARC), R1 250 per hour for other members of the Board or Committee
- Attendance at external stakeholder workshops and presentations – R705 per hour for the Chairperson of the Board, R606 per hour for the Board and committee members
- Members of the Board furthermore receive a monthly contribution towards their airtime at the rate of R319 for the Chairperson of the Board and R213 for the members of the Board
- Members of the Board that travel from out of town receive an out of town travel allowance of R1 277 per round trip
- Members of the Board are reimbursed for fuel used to attend ELIDZ commitments at the published AA rate.

Name	Remuneration	Other allowance	Other re-Imbursements	Total
<b>Professor MW Makalima</b>	R33 280	R368	None	R33 648
<b>Cllr Pumla Nazo</b>	R125 540	R2 769	None	R128 309
<b>Cllr Sakhumzi Caga</b>	R101 693	R2 769	None	R104 462
<b>Phumla Mzazi-Geja</b>				Not remunerated
<b>Vuyo Sikwebu</b>	R180 757	R2 556	None	R183 313
<b>Ayanda Kanana</b>	R157 934	R32 387	None	R190 321
<b>Eugene Vincent Jooste</b>	R208 688	R2 769	None	R211 457
<b>Zolile Milton Tini</b>	R175 952	R3 190	None	R179 142
<b>Natasha Irene Meinie-Anderson</b>	R165 092	R2 130	None	R167 222
<b>Total Board Fees 2015/16</b>				<b>R1 197 874</b>

## COMPLIANCE WITH LAWS AND REGULATIONS

The ELIDZ has a legal register comprising of all laws and regulations that are applicable to it. The legal register comprises of general legislation as well as occupational, safety, health and environmental legislation. Compliance with the latter legislation is independently audited and verified on an annual basis.

## COMPANY SECRETARY

The duties of the Company Secretary are as prescribed in the Companies Act and include, but are not limited to:

- providing the directors of the Board, collectively and individually, with guidance as to their duties, responsibilities and powers
- making the directors aware of any law relevant to or affecting the Company
- reporting to the Board, any failure on the part of the company or a director to comply with the Memorandum of Incorporation or rules of the company or the Companies Act
- ensuring that minutes of all shareholder meetings, board meetings and committee meetings are recorded in accordance with the Companies Act
- certifying in the company's annual financial statements whether the company has filed the required returns and notices in terms of the Companies Act and whether all such returns and notices appear to be true, correct and up to date
- ensuring that a copy of the company's annual financial statements is sent to every person entitled to it, in terms of the Companies Act
- carrying out the functions of a person designated in terms of Section 33(3) of the Companies Act in relation to the filing of the annual return of the company.



# REPORT OF THE AUDIT & RISK COMMITTEE (ARC)

The ARC is pleased to present its report for the financial year ended 31 March 2016.

## AUDIT AND RISK COMMITTEE MEMBERS AND ATTENDANCE

The ARC consists of the members listed hereunder and has met as reflected below.

Name of the members	Number of meetings attended
Mrs N.I. Meinie-Anderson (Former Chairperson – retired 26/01/2016)	7 of 8
Mr E. Jooste (Member)	7 of 8
Ms V. Sikwebu (Member)	8 of 8
Mr A. Kanana (Chairperson – appointed 26/01/2016)	7 of 8

Separate closed meetings were held with Auditor-General South Africa (AGSA) and management during the year under review. The ARC also had closed meetings with the CEO.

## AUDIT COMMITTEE RESPONSIBILITY:

The ARC reports that it has adopted an appropriate formal terms of reference as its Audit and Risk Committee Charter, that it has regulated its affairs in compliance with this charter and that it has discharged all of its responsibilities contained therein. The ARC further reports that it has conducted its affairs in line with the requirements of the Public Finance Management Act, 1 of 1999 and Treasury Regulation 3.1.13.

The ARC has an oversight function with regards to:

- Financial management and other reporting practices;
- Internal controls and management of risks;
- Compliance with laws and regulation;
- The external audit and;
- The internal audit function.

In the conduct of its oversight duties, the ARC has, inter alia, reviewed the following:

- Finance functions;
- The expertise, resources and experience of the finance function;
- Internal control, management of risks and compliance with legal and regulatory provisions;
- The effectiveness of the internal control systems;
- The effectiveness of the system and process of risk management, including the following specific risks: financial controls; fraud risks relating to financial reporting; information technology risks relating to financial reporting; and effectiveness of the entity's compliance with legal and regulatory provisions;
- Financial and sustainability information provided; and
- The adequacy, reliability and accuracy of financial information provided by management.

## EFFECTIVENESS OF INTERNAL CONTROL:

The ARC is satisfied:

- That the internal audit function is operating effectively and that it is addressing the risks pertinent to the company in its audits;
- Of the independence and objectivity of the external auditors; and
- That accounting and auditing concerns are identified as a result of internal and external audits, including reportable irregularities in line with the principles of combined assurance, as outlined in the King III report on corporate governance.

The following internal audit work was completed during the year under review:

- Quarterly review of financial statements;
- Performance information review;
- Annual Financial Statements review;
- Financial controls review;
- Governance and ethics review;
- Policy review (key policies);
- Business continuity plan;
- Human resource management;
- Compliance review;
- Supply chain management;
- Asset management;
- Contract management review;
- IT reviews;
- Follow up reviews (all audits).

The ARC is of the opinion, based on the explanations given by management and information gathered by the committee through its extended oversight programme as well as internal audit reports, that:

- The systems and process of risk management and compliance processes are adequate, effective, efficient and transparent;
- The internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements and accountability for assets and liabilities is maintained; and
- Having considered the matters set out in section 94(8) of the Companies Act No. 71 of 2008, that it is satisfied with the independence and objectivity of the external auditors.

The ELIDZ has submitted monthly and quarterly reports to the Executive Authority.

## EVALUATION OF FINANCIAL STATEMENTS:

The ARC has evaluated and discussed the annual financial statements of the East London Industrial Zone SOC Ltd for the year ended 31 March 2016 and, based on the information provided to it, considers that the statements comply, in all material respects, with the requirements of the Companies Act No. 71 of 2008 and the Public Finance Management Act No. 1 of 1999. The ARC concurs with the Board of Directors and management that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

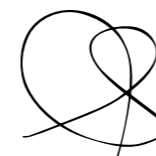
The ARC has therefore, at its special meeting held on 24 May 2016, recommended the adoption of the financial statements by the Board of Directors.

The ARC concurs with and accepts the AGSA's report on the annual financial statements, and is of the opinion that the annual financial statements should be accepted and read together with the report of the AGSA.

## AUDITOR-GENERAL:

The ARC has met with the AGSA to ensure that issues raised are being resolved by management.

On behalf of the Committee:



**Mr A. Kanana**  
Chairperson: Audit and Risk Committee



# CORPORATE SOCIAL RESPONSIBILITY

## 1. INTRODUCTION

As part of its commitment to good corporate citizenship and sustainable economic development – the ELIDZ continues to work with direct and indirect stakeholders and role players to improve the quality of life of surrounding communities and society at large through the implementation of its Corporate Social Responsibility policy.

To the ELIDZ, Corporate Social Responsibility (CSR) represents the strategic intentions, statements and actions of the organization designed to position itself as a good corporate citizen in relation to responsible corporate, social and environmental management to the benefit of the immediate communities and the greater Eastern Cape Province.

Key to the ELIDZ's CSR priorities is its ability to:

- Conduct its business in a socially-responsible and ethical manner
- Engage, learn from, respect and support the communities and society in which we operate
- Develop mutually beneficial relationship and partnerships with our stakeholders
- Develop our employees and helping them to develop others
- Protect the environment
- Protect human rights
- Continually improving our CSR approach.

The ELIDZ's approach to CSR is that of a syncretic stewardship model which recognizes both direct and indirect relationships between CSR and the organizational core mandate. It combines an approach in which the organization adopts CSR initiatives regarding specific social issues for non-economic reasons, and CSR initiatives that are assessed in an economic manner and pursued due to a clear link to the ELIDZ's core business.

This report therefore outlines the ELIDZ's progress in responding to the key priority areas identified in the ELIDZ's Corporate Social Responsibility agenda and business directive.



## 2. CORPORATE CITIZENSHIP

### 2.1 PROMOTION OF EQUITY & PREVENTION OF UNFAIR DISCRIMINATION

An effective recruitment, selection and placement policy is in place that provides a framework for promoting good practice and adopts a positive approach to equality issues. We appoint employees on the basis of suitability that is based on objective criteria for skills, experience, qualifications and competencies. The recruitment policy is aligned to and compliant with relevant labour legislation and the application and use of assessment tools.

A number of compliance reviews and internal audits are conducted to assess the status of control measures in the various units. When necessary, internal investigations are carried out to determine whether there have been any violations of policies, procedures or laws. If violations are found to have taken place, appropriate disciplinary and other actions are taken.

As part of its commitment to ensuring that the ELIDZ conducts its business in an open, honest and ethical manner, the board has developed and endorsed various tools to support this initiative. To this end, the following interventions were implemented in the 2015/16 financial year:

- Code of conduct for the organisation: Each year, all ELIDZ employees are required to ensure compliance with the Code of Conduct, to confirm their commitment to ethical conduct and are made aware of any changes in this regard.
- Any breach of the Code of Conduct is treated with utmost exception and leads to the implementation of appropriate disciplinary action against employees.
- Assurance of performance and practices: ELIDZ strives to maintain the highest standard of integrity in all its operations. In this regard, the ELIDZ in the period under review, went through the assessment of various independent auditors and assessors to ensure compliance and continued improvement with regards to the following:
  - Legal and regulatory financial management provisions;
  - Legal and regulatory governance provisions;
  - Legal and regulatory operational provisions.

### 2.2 CONTRIBUTION TO DEVELOPMENT OF COMMUNITIES

The ELIDZ is committed to being a responsible corporate citizen and we take seriously our growing stature and responsibilities within the Buffalo City and wider Eastern Cape communities. This commitment to our feeder communities extends beyond our core mandate of facilitating growth and job creation. However, the ELIDZ welcomes our burgeoning involvement in fostering opportunity and development and is committed to ensure that we have a demonstrably positive impact on the community in which we operate. This is the premise of our Corporate Social Investment (CSI) initiatives. CSI is the support by the ELIDZ, either financially or otherwise, in identified developmental areas, to organisations and projects that seek to address the social needs of communities and society-at-large in a positive and sustainable way.

The ELIDZ CSI programme seeks to make a meaningful contribution to the promotion of community / society transformation and development firstly in its immediate community and, secondly, in the greater Eastern Cape. Within the ELIDZ context CSI is achieved through the facilitating and creating platforms for social upliftment; the formulation of broad-based partnerships for development and Innovative and sustainable solutions for local, provincial and national developmental priorities. In the period under review the ELIDZ supported 10 projects in education support, social and community development. These included:

- Sponsorship of mobile libraries to two schools in the Queenstown area,
- Donation of office space to serve as a Crime Reporting Centre,
- Donation of office space for a Victim Empowerment Centre,
- Implementation of an education support bursary programme aimed at giving financial assistance to matric learners in Maths, Science and Technology related fields. 10 students have benefitted from the scheme in the period under review.

### 2.3 SPONSORSHIPS, DONATIONS AND CHARITABLE GIVING

The ELIDZ is committed to continued investment in community initiatives benefiting charitable organisations in the fields of education, welfare and health.

### 2.4 SKILLS DEVELOPMENT

Increasing the skills profile of the local population as a prerequisite for economic growth is a key element of the philosophy underpinning the ELIDZ. Eleven artisans graduated from the Tooling Initiative by ELIDZ and the Manufacturing, Engineering and Related Services Sector Education and Training Authority (merSETA) – an initiative that seeks to deal with the tooling shortage, taking advantage of our proximity to automotive and component manufacturers. In the period under review, 20 renewable energy artisans graduated following an intensive 24 month training as solateurs as part of our initiative to build the necessary technical skills database to support our efforts of attracting investments in this sector.

The ELIDZ has a robust internship programme, and in the period under review recruited and placed 43 interns in all of the following fields: Human Resource Management, Finance, Procurement, ICT, Safety, Health and Environment, PR and Communication, Marketing, Research, Engineering, Agriculture and Property Development.

Ultimately, the ELIDZ's overarching imperative continues to be building a credible organization – one that fully and optimally utilises the skills sets and knowledge base of our employees to best serve our customers and our stakeholders.

## 2.5 EMPLOYEE ENGAGEMENT AND LABOUR RELATIONS

One of the ELIDZ's core strategic assets is its human and intellectual capital. During the period under review, the organisation solidified and strengthened its human resource policies, and significantly enhanced the many programmes already in place.

The organisation's wellness programmes prioritise individual and collective development and growth, while general HR policies – closely aligned with prevalent best practice models – stress the creation of an innovative, creative and efficient workforce. The ELIDZ continues to prioritise national legislation around Employment Equity. As such, the period under review saw the continued functioning of an Employment Equity Committee and the implementation of an Employment Equity Plan.

As part of its wellness programme the ELIDZ implemented various health promotion programmes aimed creating awareness and coping strategies for illnesses such as diabetes, cholesterol, high blood pressure, and HIV and Aids. Industrial relations remain strong – no industrial action took place within the ELIDZ during the period under review, and no injuries on duty were reported.

## 3. CUSTOMER RELATIONS

### 3.1 STAKEHOLDER ENGAGEMENT

As part of delivering on its mandate, it is critical that the ELIDZ builds a strong and reputable brand amongst its stakeholders. As such, one of the key focuses of the ELIDZ board and management is the monitoring of organisation's engagement with all identified stakeholders and the impact of this on the total organisational brand equity.

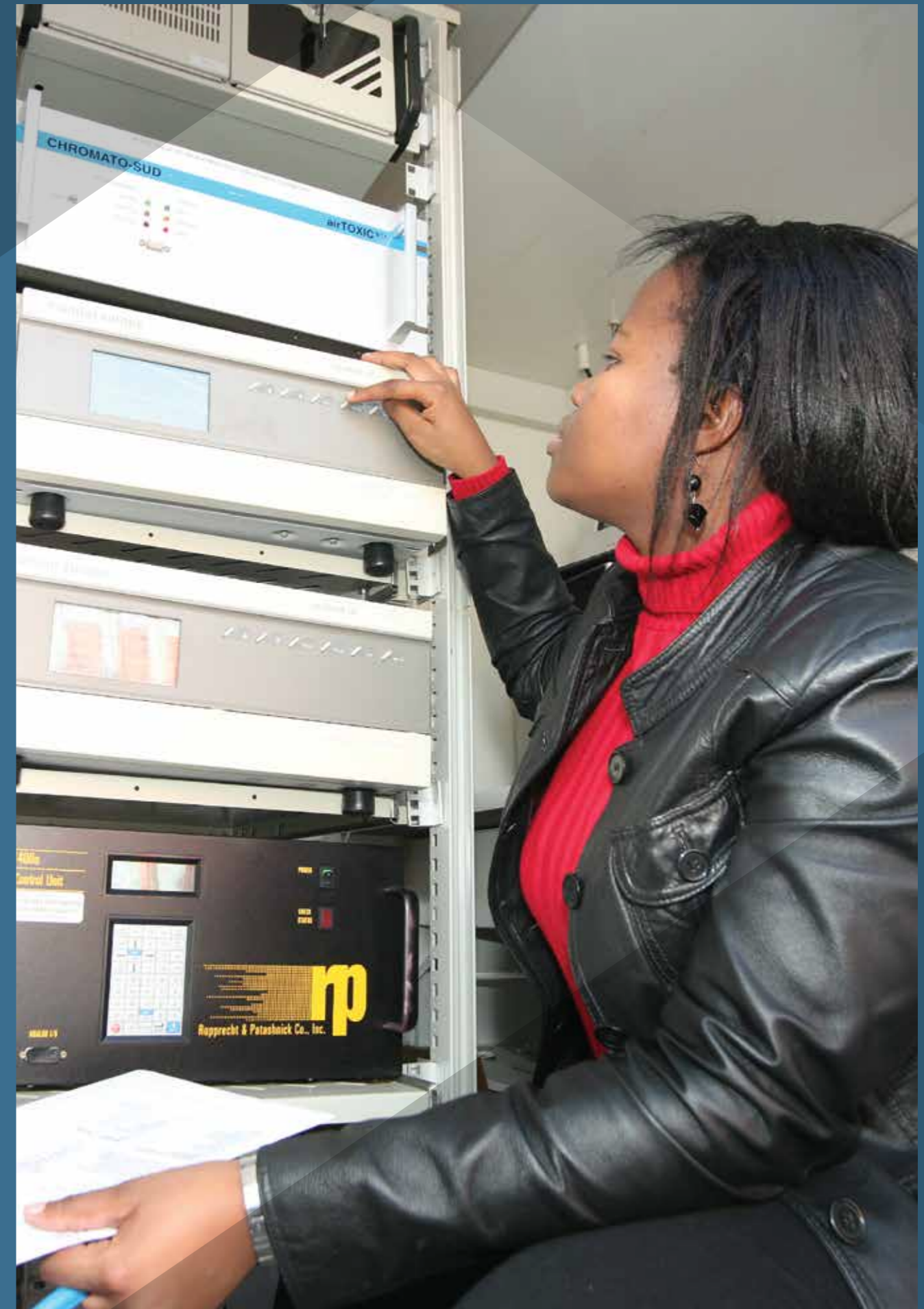
### 3.2 ENVIRONMENTAL MANAGEMENT & PROTECTION

The ELIDZ is committed to environmental sustainability as well as Occupational Health & Safety and recognises that it is critical to achieving sustainable industrial development. To this end the ELIDZ has invested in strategic human and financial resources dedicated to ensuring that SHE sustainability management best practices, like compliance to legal and other requirements, are implemented and maintained.

SHE sustainability targets and objectives are achieved through the implementation and maintaining of a myriad of key success and control factors. These mitigate and proactively address SHE aspects and impacts. To this end, the ELIDZ currently maintains the following:

SHE Policies that outline the scope of the ELIDZ SHE Management System:

- ISO 14001: 2004 Environmental Management system &
- OHSAS 1800: 2007 Occupational Health & Safety Management system.
- An Environmental Management Framework that outlines the scope of ELIDZ Environmental considerations in relation to the ELIDZ mandate to develop and operate an Industrial Estate.
- Certification for the internationally accredited and adopted SHE (ISO 14001: 2004 & OHSAS 1800: 2007).
- Successful implementation and maintenance of the system ensures continual improvement of implemented SHE best practices. Recertification audit in this regard successfully navigated in February 2016. Accredited Certification Validity expires 14th September 2018 for ISO 14001: 2004 & 12 May 2019 for OHSAS 1800: 2007.
- Comprehensive SHE Aspects and Impacts Risk Management.
- SHE monitoring programs to monitor for impacts of ELIDZ operational and other activities
- Vegetation Management programs.
- Periodic SHE Legal Compliance verification, monitoring program and SHE Legal updates.
- An Integrated Waste Management Plan.
- Environmental Due Diligence Assessments to identify and ensure mitigation of Environmental Impacts.
- Organisational representation in local as well as national SHE forums.
- Provision to outsource specialised SHE related support on an ad-hoc basis.
- Emergency preparedness protocol to ensure limited SHE impact of an incident.
- Recourses dedicated to development of a Renewable Energy Sector.



# HUMAN RESOURCE MANAGEMENT

## HUMAN RESOURCE OVERSIGHT STATISTICS

### EXPENDITURE

#### EXPENDITURE: Personnel Costs By Programme: 2015/16

Programme	Number of posts filled	Expenditure (R'000) Total	Personnel cost per employee (R'000) Average
Office of the CEO	10	12 276 144	1 227 614
Corporate Affairs (Admin, Legal, Research, Records, Communications, ICT & HR)	20	15 208 014	760 401
Finance	12	6 627 611	552 301
Zone Development	12	12 288 726	1 024 061
Zone Operations	21	10 454 125	497 815
<b>TOTAL</b>	<b>75</b>	<b>56 854 621</b>	<b>4 062 192</b>

#### EXPENDITURE: Personnel Costs By Salary Bands: 2015/16

Programme	Number of posts filled	Expenditure (R'000) Total	Personnel cost per employee (R'000) Average
Top management	1	3 121 121	3 121 121
Senior management	3	7 195 102	2 398 367
Professionally qualified and experienced specialists and mid-management	22	23 928 706	1 087 668
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	24	15 425 076	642 711
Semi-skilled and discretionary decision making	16	4 536 210	283 513
Unskilled and defined decision making	9	2 648 407	294 267
<b>TOTAL</b>	<b>75</b>	<b>56 854 621</b>	<b>7 827 649</b>

#### Salaries, overtime, home-owners allowance and medical assistance by programme

The ELIDZ does not pay a homeowners allowance

R 31 046.18 in overtime was paid during the Financial Year ended 31 March 2016

#### Number of employees whose salary positions were upgraded due to their posts being upgraded

None during the year under review

#### Employees whose salary level exceed the grade determined by job evaluation

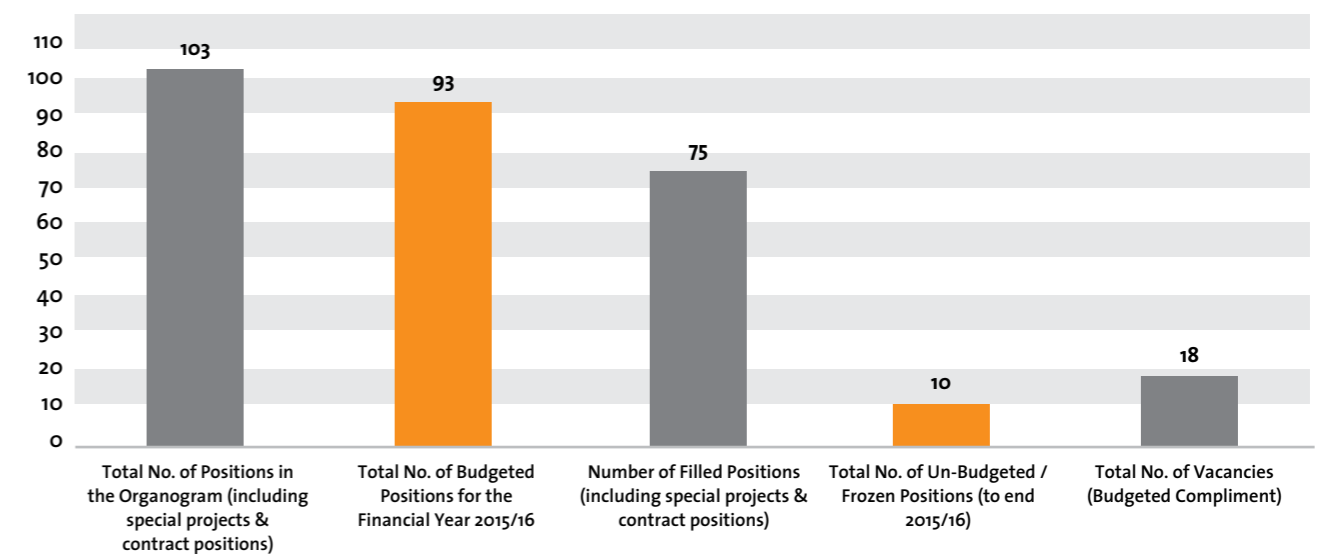
None during the year under review

## EMPLOYMENT AND VACANCIES

### ELIDZ ORGANISATIONAL ESTABLISHMENT (AS AT 31 MARCH 2015)

CRITICAL OCCUPATIONS	Total No. of Positions in the Organogram (Including Special Projects & Contract Positions)	Total No. of Budgeted Positions for the Financial Year 2015/16	Number of Filled Positions (Including Special Projects & Contract Positions)	Total No. of Un-Budgeted / Frozen Positions to end 2015/16	Total No. of Vacancies (Budgeted Compliment)	Vacancy Rate for the Period Under Review %
Top management	1	1	1	-	-	0.00%
Senior management	4	5	3	1	2	40.00%
Professionally qualified and experienced specialists and mid-management	32	31	22	3	8	25.81%
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	35	29	24	2	6	20.69%
Semi-skilled and discretionary decision making	22	18	16	4	2	11.11%
Unskilled and defined decision making	9	9	9	-	-	0.00%
<b>TOTAL PERMANENT</b>	<b>103</b>	<b>93</b>	<b>75</b>	<b>10</b>	<b>18</b>	<b>24.00%</b>
Temporary employees	-	-	-	-	-	0%
<b>GRAND TOTAL</b>	<b>103</b>	<b>93</b>	<b>75</b>	<b>10</b>	<b>18</b>	<b>24.00%</b>

## GRAPHICAL REPRESENTATION OF EMPLOYMENT AND VACANCIES



## JOB EVALUATION

JOB EVALUATION: 01 APRIL 2015 TO 31 MARCH 2016							
Salary band	Number of jobs evaluated	% of posts evaluated by salary bands	Posts upgraded		Posts downgraded		
			No.	% of posts evaluated	No.	% of posts evaluated	
Top management	1	-	-	-	-	-	
Senior management	3	-	-	-	-	-	
Professionally qualified and experienced specialists and mid-management	22	-	-	-	-	-	
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	24	-	-	-	-	-	
Semi-skilled and discretionary decision making	16	-	-	-	-	-	
Unskilled and defined decision making	9	-	-	-	-	-	
<b>Total Permanent</b>	<b>75</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Temporary employees	-	-	-	-	-	-	
<b>GRAND TOTAL</b>	<b>75</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

## EMPLOYMENT CHANGES

EMPLOYMENT CHANGES: ANNUAL TURNOVER RATES BY SALARY BAND & CRITICAL OCCUPATION FOR THE PERIOD 01 APRIL 2015 TO 31 MARCH 2016			
Salary band	Number of employees per band as on 31 March 2015	Appointments	Terminations
Top management	1	-	-
Senior management	3	-	2
Professionally qualified and experienced specialists and mid-management	22	2	4
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	24	-	7
Semi-skilled and discretionary decision making	16	-	2
Unskilled and defined decision making	9	-	-
<b>Total Permanent</b>	<b>75</b>	<b>2</b>	<b>15</b>
Temporary employees	-	-	-
<b>GRAND TOTAL</b>	<b>75</b>	<b>2</b>	<b>15</b>

## EMPLOYMENT CHANGES: REASONS WHY STAFF ARE LEAVING

Termination Type	Number	% of total
Death	-	-
Resignation	14	18.66%
Expiry of contract	-	-
Dismissal – operational changes	-	-
Dismissal – misconduct	1	1.33%
Dismissal – inefficiency	-	-
Discharged due to ill-health	-	-
Retirement	-	-
Transfers to other public service departments	-	-
Other	-	-
<b>Total</b>	<b>15</b>	<b>20%</b>
<b>Total number of employees who left as a % of the total employment</b>	<b>15</b>	<b>20%</b>

## Promotions by Critical Occupation

The ELIDZ has adopted a practice of advertising all vacant positions and if there are employees internally that qualify, they are appointed to those senior positions

## Promotions by Salary Band

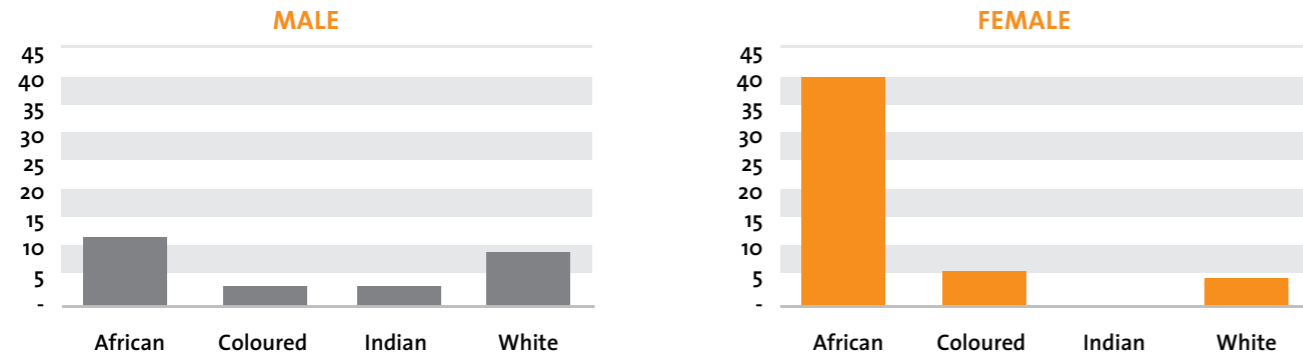
The ELIDZ has adopted a practice of advertising all vacant positions and if there are employees internally that qualify, they are appointed to those senior positions

## EMPLOYMENT EQUITY

EMPLOYMENT EQUITY ANALYSIS (as at 31 March 2015)												
OCCUPATIONAL BANDS	MALE					Sub Total	FEMALE					Grand Total
	African	Coloured	Indian	White	African		Coloured	Indian	White	Sub Total		
Top management	1	-	-	-	1	-	-	-	-	-	1	
Senior management	1	-	-	1	2	1	-	-	-	1	3	
Professionally qualified and experienced specialists and mid-management	7	2	2	3	14	5	1	-	2	8	22	
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	-	-	1	5	6	15	1	-	2	18	24	
Semi-skilled and discretionary decision making	1	1	-	-	2	11	3	-	-	14	16	
Unskilled and defined decision making	1	-	-	-	1	8	-	-	-	8	9	
<b>Total permanent</b>	<b>11</b>	<b>3</b>	<b>3</b>	<b>9</b>	<b>26</b>	<b>40</b>	<b>5</b>	<b>-</b>	<b>4</b>	<b>49</b>	<b>75</b>	
Temporary employees	-	-	-	-	-	-	-	-	-	-	-	
<b>Grand total</b>	<b>11</b>	<b>3</b>	<b>3</b>	<b>9</b>	<b>26</b>	<b>40</b>	<b>5</b>	<b>-</b>	<b>4</b>	<b>49</b>	<b>75</b>	

**NOTE:** We have one (1) white disabled male under the Skilled Technical & Academically Qualified Workers, Junior Management, Supervisors, Foremen & Superintendents category

## GRAPHIC REPRESENTATION OF EMPLOYMENT EQUITY



## PERFORMANCE REWARDS

### PERFORMANCE REWARDS

During the year under review, the organization did not pay any performance bonuses to employees

## FOREIGN WORKERS

### FOREIGN WORKERS

No foreign workers were appointed during the year under review

## LEAVE UTILISATION

### LEAVE UTILISATION: 01 APRIL 2014 TO 31 MARCH 2015 SICK LEAVE

Salary Band	Total Number of Employees as at 31 March 2016	Total Number of Sick Leave Days Taken	Number of Employees using sick leave	% of total employees using sick leave	Average days per employee
Top management	1	-	-	0%	-
Senior management	3	8	3	100%	2.67
Professionally qualified and experienced specialists and mid-management	22	81	17	77%	4.76
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	24	103	19	79%	5.42
Semi-skilled and discretionary decision making	16	133	12	75%	11.08
Unskilled and defined decision making	9	46	8	89%	5.75
<b>GRAND TOTAL</b>	<b>75</b>	<b>371</b>	<b>59</b>	<b>79%</b>	<b>6.29</b>

### DISABILITY LEAVE (TEMPORARY AND PERMANENT) APRIL 2015 TO MARCH 2016

No employee was involved in a disabling accident and as such, no Disability Leave was applied for or granted

### CAPPED LEAVE APRIL 2015 TO MARCH 2016

Capped leave does not apply to the ELIDZ

### LEAVE UTILISATION: 01 APRIL 2014 TO 31 MARCH 2015 ANNUAL LEAVE

Salary Band	Total Number of Employees as at 31 March 2016	Total Number of Annual Leave Days Taken	Number of Employees using annual leave	% of total employees using annual leave	Average days per employee
Top management	1	26	1	0%	26.00
Senior management	3	100	3	100%	33.33
Professionally qualified and experienced specialists and mid-management	22	589	22	100%	26.77
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	24	564	24	100%	23.50
Semi-skilled and discretionary decision making	16	335	16	100%	20.94
Unskilled and defined decision making	9	173	9	100%	19.22
<b>GRAND TOTAL</b>	<b>75</b>	<b>1 787</b>	<b>75</b>	<b>100%</b>	<b>23.83</b>

### LEAVE PAY-OUTS FOR THE PERIOD: APRIL 2015 TO MARCH 2016

REASON	Total Amount (R'ooo)	Number of Employees	Average payment per employee (R'ooo)
Leave pay-out for 2014/2015 due to non-utilization of leave for the previous cycle	-	-	-
Capped leave pay-outs on termination of service for 2014/2015	-	-	-
Current leave pay-outs on termination of service for 2015/2016	582 214	12	48 518
<b>Total</b>	<b>582 214</b>	<b>12</b>	<b>48 518</b>

## HIV AND AIDS & HEALTH PROMOTION PROGRAMMES

### HIV AND AIDS & HEALTH PROMOTION PROGRAMMES

HIV AND AIDS: Steps taken to reduce the risk of occupational exposure

Units / categories of employees identified to be at high risk of contracting HIV & related diseases (if any) - Key steps taken to reduce the risk

### HIV AND AIDS: DETAILS OF HEALTH PROMOTION AND HIV AND AIDS PROGRAMMES (TICK THE APPLICABLE BOXES AND PROVIDE REQUIRED INFORMATION)

Question	Yes	No	Details, if yes
Has the entity designated a member of the management to implement the policy?	Yes	-	The HR Manager is responsible for the Management
Does the entity have a dedicated unit or has it designated specific staff members to promote the health and well-being of your employees? If so, indicate the number of employees who are involved in this task and the annual budget that is available for this purpose	Yes	-	1 Staff Member Budget: R 230 000
Has the entity introduced an employee assistance or health promotion program for your employees? If so, indicate the key elements / services of this program	Yes	-	Annual Employee Wellness Program, Vitality Program and Medical GAP Cover Assistance Program

**HIV AND AIDS: DETAILS OF HEALTH PROMOTION AND HIV AND AIDS PROGRAMMES (TICK THE APPLICABLE BOXES AND PROVIDE REQUIRED INFORMATION)**

Question	Yes	No	Details, if yes
Has the department established (a) committee(s) as contemplated in Part VI E.5 (e) of Chapter 1 of the Public Service Regulations, 2001? If so, please provide the names of the members of the committee and the stakeholder(s) that they represent	Yes	-	We are not a Public Service Department although we have a unit dealing with issues of wellness
Has the entity reviewed its employment policies and practices to ensure that these do not unfairly discriminate against employees based on their HIV status? If so, list the employment policies / practices so reviewed	Yes	-	<ul style="list-style-type: none"> <li>Recruitment Policy</li> <li>Human Resource Development Policy</li> <li>Leave of Absence Policy</li> <li>Integrated Performance Management Policy</li> <li>Relocation Policy</li> <li>Deviation Policy</li> <li>Retention and Attraction Policy</li> </ul> <p>All the above listed policies do not unfairly discriminate</p>
Has the entity introduced measures to protect HIV-positive employees or those perceived to be HIV positive from discrimination? If so, list the key elements of these measures	Yes	-	Awareness Programs, The HIV and Aids Policy are part of our Integrated Employee Health Policy. On recruitment, applicants are not subjected to health inspection
Does the entity encourage its employees to undergo voluntary counselling and testing? If so, list the results that you have you achieved	Yes	-	Out of 89 employees, about 79 went through the voluntary testing and none of them has been found to be HIV positive. The tests were done by professional nurses through Discovery Medical Aid
Has the entity developed measures / indicators to monitor & evaluate the impact of its health promotion program? If so, list these measures / indicators	Yes	-	<p>During the Wellness Day employees get to be checked on various elements of health such as:</p> <ul style="list-style-type: none"> <li>Diabetes</li> <li>Cholesterol</li> <li>High Blood Pressure</li> <li>Body Mass Index</li> <li>HIV AIDS</li> <li>Healthy Eating Patterns</li> </ul> <p>After the assessments have been done, each employee receives a report which will indicate the areas of improvement. This has led to employees becoming frequent members of gyms to maintain their health status. The eating habits o employees also change as a result</p>

**LABOUR RELATIONS**

**CASE MANAGEMENT**

**PRECAUTIONARY SUSPENSIONS:**

One (1) employee was suspended during the year under review.

**LABOUR DISPUTES:**

Two (2) Labour disputes for the year under review.

**DISCIPLINARY CASES:**

One (1) Disciplinary Case. The outcome was dismissal.

**STRIKE ACTIONS:**

No industrial action took place within the EL IDZ during the year under review

**SKILLS DEVELOPMENT**

HUMAN RESOURCE DEVELOPMENT AS AT 31 MARCH 2015										
CATEGORY: PIVOTAL / FORMAL TRAINING										
OCCUPATIONAL BAND & STUDIES ENROLLED	AFRICAN	COLOURED	INDIAN	WHITE	AFRICAN	COLOURED	INDIAN	WHITE	TOTAL	
	MALE				FEMALE					
PROFESSIONALLY QUALIFIED AND EXPERIENCED SPECIALISTS AND MID-MANAGEMENT										
Masters In Leading Innovation Change	-	-	-	-	1	-	-	-	-	1
MPhil In Development Finance	1	-	-	-	-	-	-	-	-	1
MBA	1	-	-	-	-	-	-	-	-	1
MBL	1	-	-	-	1	-	-	-	-	2
MS Projects	5	-	1	-	1	1	-	-	-	8
Diploma In Safety Management	-	-	1	-	-	-	-	-	-	1
SKILLED TECHNICAL AND ACADEMICALLY QUALIFIED WORKERS, JUNIOR MANAGEMENT, SUPERVISORS, FOREMEN, AND SUPERINTENDENTS										
MBA	-	-	1	-	-	-	1	-	-	2
National Diploma In Payroll Administration	-	-	-	-	-	1	-	-	-	1
Diploma In Law: Paralegal Studies	-	-	-	-	1	-	-	-	-	1
Introduction To Samtrac	-	-	-	-	1	-	-	-	-	1
201341 : Core Solutions of Microsoft Exchange Server 2013	-	-	-	-	1	-	-	-	-	1
201695 : Deploying Windows Devices and Enterprise Apps	-	-	-	-	1	-	-	-	-	1
Managing Enterprise Devices And Apps Using System Centre Configuration Manager	-	-	-	-	1	-	-	-	-	1
20413 : Designing and Implementing a Server Infrastructure	-	-	-	-	1	-	-	-	-	1
20414 : Implementing Advanced Server Infrastructure	-	-	-	-	1	-	-	-	-	1
Records Management Programme	-	-	-	-	1	-	-	-	-	1
MS Projects	-	-	-	-	5	-	-	-	-	5
MBA	-	-	-	-	1	-	-	-	-	1
Postgraduate In Monitoring And Evaluation	-	-	-	-	1	-	-	-	-	1
National Diploma In Real Estate	-	-	-	-	1	-	-	-	-	1
SEMI-SKILLED AND DISCRETIONARY DECISION MAKING										
National Diploma In Office Management & Technology	-	-	-	-	1	-	-	-	-	1
BTech Human Resource Management	-	-	-	-	1	-	-	-	-	1
Higher Certificate In Economics And Management Science	1	-	-	-	-	-	-	-	-	1
MS Projects	-	-	-	-	2	2	-	-	-	4
BTech In Business Administration	-	-	-	-	1	-	-	-	-	1
National Diploma In Business Management	-	-	-	-	-	1	-	-	-	1
UNSKILLED AND DEFINED DECISION MAKING										
Matric	1	-	-	-	-	-	-	-	-	1

## INTERNSHIP (WORKPLACE EXPERIENCE)

Category: Internships (Workplace Experience) as at 31 March 2015										
Area of exposure	AM	CM	IM	WM		AF	CF	IF	WF	Total
Human Resources	2	-	-	-		2	-	-	-	4
Records Management	-	-	-	-		4	-	-	-	4
Corporate Communication	2	-	-	-		-	-	-	-	2
Marketing	-	-	-	-		1	-	-	-	1
Finance	6	-	-	-		4	-	-	-	10
Agro – Processing	-	-	-	-		1	-	-	-	1
Project Management	2	-	-	-		-	-	-	-	2
Supply Chain Management	2	-	-	-		2	-	-	-	4
Quality Management	-	-	-	-		1	-	-	-	1
Investment Analysis	-	-	-	-		-	-	-	-	-
Safety, Health & Environment	1	-	-	-		1	-	-	-	2
Automotive Sector	1	-	-	-		-	-	-	-	1
ICT	-	-	-	-		1	1	-	-	2
Property Portfolio Management	1	-	-	-		1	-	-	-	2
Science & Technology Park	1	-	-	-		2	-	-	-	3
Administration	-	-	-	-		4	-	-	-	4
<b>Total no.</b>										<b>43</b>
<b>A M:</b> African Male;		<b>C M:</b> Coloured Male;		<b>I M:</b> Indian Male;		<b>W M:</b> White Male				
<b>A F:</b> African Female;		<b>C F:</b> Coloured Female;		<b>I F:</b> Indian Female		<b>W F:</b> White Female				

## INJURY ON DUTY

### INJURY ON DUTY:

Two (2) injuries on duty were reported during the year under review.

## UTILISATION OF CONSULTANTS

### SERVICE DELIVERY: CONSULTATION ARRANGEMENTS

Type of arrangement	Actual customers	Stakeholders	Actual achievements
Developed Human Resource Policies	Management and all Staff	ELIDZ Board	No use of consultants
Human Resource Planning	Management and all Staff	ELIDZ Board	No use of consultants
Organizational Development	Management and all Staff	ELIDZ Board	No use of consultants
Labour Relations	Management and all Staff	Department of Labour and ELIDZ Board	No use of consultants
Human resource Development	Management and all Staff	ELIDZ Board	No use of consultants
Development of Human Resource Administrative Systems	Management and all Staff	ELIDZ Board	No use of consultants

## SERVICE DELIVERY

### SERVICE DELIVERY: ACCESS STRATEGY

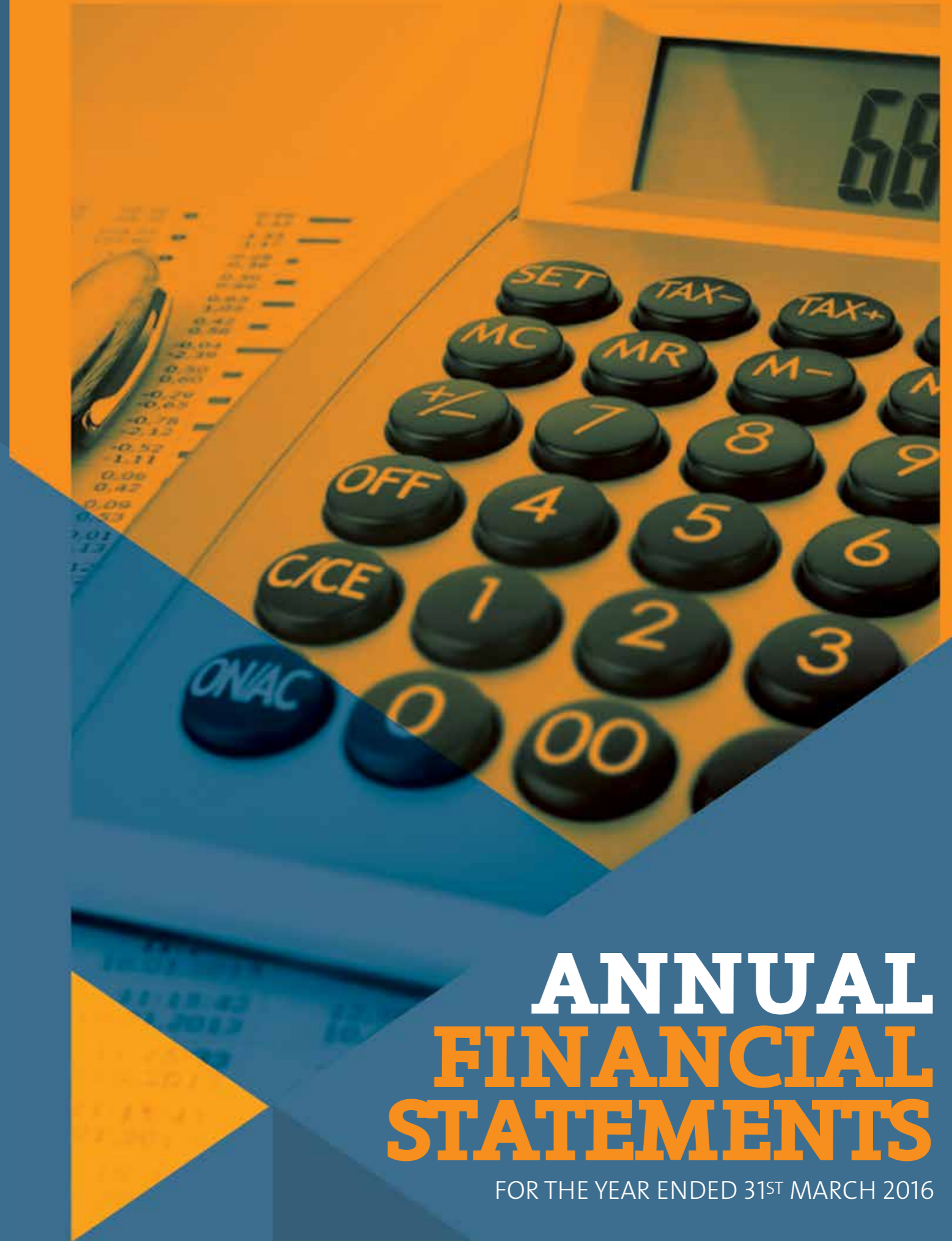
Policies placed on the network common drive	100%
Employees and management work-shopped on the policies	100%
Consultation and advice on a one-on-one basis	100%

### SERVICE DELIVERY: SERVICE INFORMATION TOOL

Types of information tool	Actual achievements
Network common drive	100%
Workshops	100%
One-on-ones	100%

### SERVICE DELIVERY: COMPLAINTS MECHANISM

Mechanism	Actual achievements
Grievance Procedure embodied in the Labour Relations Policy	100%



# ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2016



# GENERAL INFORMATION

<b>Country of incorporation and domicile</b>	South Africa
<b>Nature of business and principal activities</b>	The development of an industrial development zone in East London
<b>Directors</b>	MW Makalima (Chairperson) SW Caga EV Jooste A Kanana S Kondlo (Ex-officio) P Mzazi-Geja P Nazo V Sikwebu
<b>Registered office</b>	Acacia House Palm Square Bonza Bay Road Beacon Bay 5241
<b>Business address</b>	Lower Chester Road Sunnyridge East London 5201
<b>Postal address</b>	P.O. Box 5458 Greenfields East London 5208
<b>Bankers</b>	Standard Bank
<b>Auditors</b>	Auditor-General of South Africa
<b>Secretary</b>	Jo-Anne Palmer
<b>Preparer</b>	The Annual Financial Statements were internally compiled by: Gift Matengambiri CA (SA) Chief Financial Officer

# INDEX

The reports and statements set out below comprise the annual financial statements presented to the shareholder:

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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# DIRECTOR'S RESPONSIBILITIES & APPROVAL

The directors are required in terms of the Companies Act, No 71 of 2008 (Companies Act) and the Public Finance Management Act, No 1 of 1999 (PFMA) to maintain adequate accounting records and are responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is their responsibility to ensure that the Annual Financial Statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice (SA GAAP). SA GAAP was withdrawn by the Accounting Practice Board as from 1 December 2012. However, Treasury instructed East London Industrial Development Zone SOC Ltd (ELIDZ) to continue using SA GAAP until a more appropriate accounting framework is identified. ELIDZ has therefore continued to use SA GAAP for the 2015/16 financial year.

The Annual Financial Statements are prepared in accordance with SA GAAP and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While

operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 March 2017 and, in light of this review and the current financial position, they are satisfied that the company has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's Annual Financial Statements. The Annual Financial Statements set out on pages 79 to 119, which have been prepared on the going concern basis, were approved by the board of directors on 31 July 2016, however, the board still has the power to amend the financial statements after issue. The financial statements were signed on their behalf by:



**Professor MW Makalima**  
Board chairperson

# DIRECTOR'S REPORT

The directors have pleasure in submitting their report on the Annual Financial Statements of ELIDZ for the year ended 31 March 2016.

## 1. Nature of business

The company is engaged in the development of East London's industrial development zone and investment management. It operates in South Africa.

## 2. Review of financial results and activities

The Annual Financial Statements have been prepared in accordance with SA GAAP and the requirements of the Companies Act, No 71 of 2008 and the PFMA. The accounting policies have been applied consistently between current and prior year.

The full details of the financial position, results of operations and cash flows of the company are set out in these Annual Financial Statements.

## 3. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

## 4. Dividends

The company did not declare dividends for 2015/2016 financial year.

## 5. Directorate

The directors in office at the date of this report are as follows:

Directors	Nationality	Designation	Changes
MW Makalima	South African	Non-executive	Appointed 26 January 2016
NI Anderson	South African	Non-executive	Retired 26 January 2016
SW Caga	South African	Non-executive	
EV Jooste	South African	Non-executive	
A Kanana	South African	Non-executive	
S Kondlo (Ex-officio)	South African	Executive/ Ex officio	
P Mzazi-Geja	South African	Non-executive	
P Nazo	South African	Non-executive	
V Sikwebu	South African	Non-executive	
ZM Tini	South African	Non-executive	Retired 26 January 2016

*Professor MW Makalima was appointed on 26 January 2016 to succeed Mr ZM Tini as Chairperson of the Board.*

## 6. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

## 7. Going concern

The assets of the company are more than the liabilities by R 347 820 522 (2015: R 239 277 470) and company has been making profits for the previous three years.

The directors are satisfied that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the Annual Financial Statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient own generated revenue and grants to meet its foreseeable cash requirements.

The Department of Economic Development, Environmental Affairs and Tourism (DEDEAT) has committed to meet the ELIDZ's operational needs for the next three years to augment own generated revenue. The own generated revenue contribution to the operating budget has been increasing year on year.

In addition, ELIDZ has been engaging with Department of Trade and Industry (DTI) to secure 100% funding for capital projects that qualify under the Special Economic Zone (SEZ) funding mechanisms. At the end of the financial year the company had adequate capital funds in its bank accounts to complete projects that were at different stages of construction.

The Special Economic Zones Act, Act 16 of 2014, and the Regulations made in terms thereof, came into operation on 9 February 2016. In terms of the Act and its Regulations, a period of 3 years has been provided for the entity to become compliant with the legislation and a period of 12 months has been provided for the entity to provide a plan showing how it intends to be fully compliant. Both these periods are taken from 9 February 2016. As a result, a compliance plan is required by 8 February 2017 and full compliance is required by 8 February 2019. The act changes the institutional structure of the company and also the funding modelling of the entity.

ELIDZ is engaging the provincial departments and national departments in an effort to obtain better understanding and assess the impact of the changes to the future modelling and structure of ELIDZ.

## 8. Litigation statement

The company is involved from time to time in various claims and lawsuits incidental to the ordinary course of business. The company is currently involved in lawsuits which are before the courts and ELIDZ is not able to assess the impact of the effects of the cases as at the end of the financial year. ELIDZ is managing the effects of the lawsuits.

## 9. Auditors

The Auditor-General of South Africa are the auditors of the organisation.

## 10. Secretary

The company secretary is Ms Jo-Anne Palmer.

## 11. Date of authorisation for issue of financial statements

The Annual Financial Statements have been authorised for issue by the directors on 31 July 2016, however the directors still have the power to amend the annual financial statements after the date of issue.

# STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

	Note(s)	2016 R	2015 R
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Investment property	3	1 386 645 100	1 329 176 600
Property, plant and equipment	4	452 173 335	470 226 514
Intangible assets	5	9 199 900	7 330 076
Other financial assets	6	20 272 839	29 898 587
		<b>1 868 291 174</b>	<b>1 836 631 777</b>
<b>Current Assets</b>			
Trade and other receivables	7	41 289 958	34 717 043
Other financial assets	6	4 644 226	1 596 596
Cash and cash equivalents	8	142 718 443	149 539 523
		<b>188 652 627</b>	<b>185 853 162</b>
<b>Total Assets</b>		<b>2 056 943 801</b>	<b>2 022 484 939</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	9	1 000	1 000
Reserves	10	8 306 368	8 306 368
Retained income		339 513 154	230 970 102
		<b>347 820 522</b>	<b>239 277 470</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Deferred income	11	1 476 750 139	1 545 701 473
<b>Current Liabilities</b>			
Trade and other payables	12	24 507 008	60 725 111
Deferred income	11	201 290 734	176 295 866
Provisions	14	6 575 398	485 019
		<b>232 373 140</b>	<b>237 505 996</b>
<b>Total Liabilities</b>		<b>1 709 123 279</b>	<b>1 783 207 469</b>
<b>Total Equity and Liabilities</b>		<b>2 056 943 801</b>	<b>2 022 484 939</b>

# STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

	Note(s)	2016 R	2015 R
Revenue	15	110 459 637	91 675 855
Cost of sales	16	(57 107 729)	(46 372 074)
<b>Gross profit</b>		<b>53 351 908</b>	<b>45 303 781</b>
Other income	17	175 983 289	221 035 594
Operating expenses	18	(156 202 351)	(165 108 601)
<b>Operating profit</b>	<b>18</b>	<b>73 132 846</b>	<b>101 230 774</b>
Finance Income	21	63 349	101 500
Fair value adjustments	22	46 437 103	(14 781 170)
Finance costs	23	(11 090 246)	(7 809 522)
<b>Profit for the year</b>		<b>108 543 052</b>	<b>78 741 582</b>
<b>Profit attributable to:</b>			
Owners of the parent		80 321 858	58 268 771
Non-controlling interest		28 221 194	20 472 811
		<b>108 543 052</b>	<b>78 741 582</b>

# STATEMENT OF CHANGES IN EQUITY

	Share capital R	Other NDR R	Retained income R	Total equity R
<b>Balance at 01 April 2014</b>	1 000	8 306 368	152 228 520	160 535 888
Profit for the year	-	-	78 741 582	78 741 582
<b>Balance at 01 April 2014</b>	1 000	8 306 368	230 970 102	239 277 470
Profit for the year	-	-	108 543 052	108 543 052
<b>Balance at 31 March 2015</b>	1 000	8 306 368	339 513 154	347 820 522
Notes	9	10		

# STATEMENT OF CASH FLOWS

	Note(s)	2015 R	2014 R
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	29 887 123	131 670 861
Interest income	21	63 349	101 500
Finance costs	23	(11 090 246)	(7 809 522)
<b>Net cash from operating activities</b>		<b>18 860 226</b>	<b>123 962 839</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(9 234 888)	(25 110 716)
Sale of property, plant and equipment	4	-	4 143
Completion of investment property	3	(11 031 397)	(66 037 587)
Sale of investment property	3	-	1 255 540
Purchase of other intangible assets	5	(5 415 023)	(4 480 688)
<b>Net cash from investing activities</b>		<b>(25 681 308)</b>	<b>(94 369 308)</b>
<b>Total cash movement for the year</b>			
		<b>(6 821 082)</b>	<b>29 593 531</b>
Cash at the beginning of the year		149 539 523	119 945 992
<b>Total cash at end of the year</b>	8	<b>142 718 441</b>	<b>149 539 523</b>

# ACCOUNTING POLICIES

## 1. Presentation of annual financial statements

The Annual Financial Statements have been prepared in accordance with SA GAAP, and the Companies Act, No 71 of 2008 and the PFMA. SA GAAP was withdrawn by the Accounting Practice Board as from 1 December 2012. However, Treasury instructed ELIDZ to continue using SA GAAP until a more appropriate accounting framework was identified.

The Annual Financial Statements have been prepared on the historical cost basis, except for the measurement of investment properties and certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

The Annual Financial Statements are presented in South African Rands and the accounting policies are consistent with previous period.

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements. Significant judgements include:

#### Trade receivables, Held to maturity investments and Loans and receivables

The company assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on an individual debtor basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the specific debtor.

#### Impairment testing

The recoverable amounts of individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the current market conditions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount

may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including entity specific variables together with economic factors such as economic factors such as inflation and interest rates.

#### Provisions

Provisions were raised and management determined an estimate based on the information available.

#### Expected manner of realisation for deferred tax

Deferred tax is provided for on the fair value adjustments of investment properties based on the expected manner of recovery, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability.

#### Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

## 1.2 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the company, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

# Accounting Policies [continued]

## 1.2 Investment property [continued]

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises. There are no property interests held under operating leases which are recognised as investment property.

Investment property is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an investment property is included in profit or loss when the item is derecognised. Any gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## 1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets, where appropriate.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	10 years
IT equipment	Straight line	3 years
Infrastructure (including buildings)	Straight line	25 years
Laboratory equipment & other	Straight line	5 years
Land	Straight line	Indefinite
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
Plant and machinery	Straight line	5 to 25 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. Any gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## 1.4 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the

## Accounting Policies [continued]

### 1.4 Intangible assets [continued]

period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

### 1.5 Financial instruments

#### Classification

The company classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through profit or loss - held for trading

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Financial assets classified as at fair value through profit or loss which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

#### Initial recognition and measurement

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments.

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Regular way purchases of financial assets are accounted for at trade date.

#### Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends received on available-for-sale equity instruments are recognised in profit or loss as part of other income when the company's right to receive payment is established.

#### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

#### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is

## Accounting Policies [continued]

### 1.5 Financial instruments [continued]

uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

#### Trade and other payables

Trade payables and other payables are carried at fair value of the consideration to be paid in future for goods or services that have been received or supplied and invoiced or formally agreed with the supplier and are subsequently measured at amortised costs, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derivatives are classified as financial assets at fair value through profit or loss - held for trading.

#### Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed

what the amortised cost would have been had the impairment not been recognised.

Financial assets that the company has the positive intention and ability to hold to maturity are classified as held to maturity.

### 1.6 Tax

#### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

## Accounting Policies [continued]

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

#### Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in profit or loss.

#### Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

### 1.8 Impairment of assets

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

### 1.9 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

### 1.10 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

## Accounting Policies [continued]

### 1.11 Provisions and contingencies

Provisions are recognised when:

- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A contingent liability is a possible obligation dependent upon an uncertain future event, or a present obligation where payment is not probable or the amount cannot be reliably measured.

A contingent asset is a possible asset that arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised but are disclosed.

### 1.12 Government grants

#### Government grants for core operations

Government grants are recognised when there is reasonable assurance that:

- the company will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

Government grants relating to investment property shall be released from deferred income systematically over the useful life using the income method, whereas government grants relating to property, plant and equipment shall be released to profit and loss systematically over the useful life using the straight line depreciation method.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving

immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants related to income are presented as a credit in the profit or loss (separately).

Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

#### Government grants for special projects

Government grants received for special projects which are not part of the normal trading activities of the company are regarded as "grants for special projects". The income and expenditure relating to these grants are netted off and reported as other grants in trade and other payables.

### 1.13 Revenue

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

## Accounting Policies [continued]

### 1.14 Cost of sales

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

### 1.15 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including

- a) PFMA, or
- b) the State Tender Board Act, No. 86 of 1968, or any regulations made in terms of the Act; or
- c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law.

Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Act or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was incurred in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements. The entity preparing its financial statements is referred to as the "reporting entity" in terms of SA GAAP.

When deciding whether entities should be required to disclose a relationship as a related party relationship, the starting point of IAS 24 is the ability or perceived ability to influence transactions and/or actions of the entity, or the ability or perceived ability to compel an entity to complete a transaction it otherwise would not have completed.

## Accounting Policies [continued]

### 1.18 Related Parties [continued]

Key management is defined as the individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from executive management up to Board of Directors are regarded as key management. Close family members of key management are considered to be those family members who may be expected to influence, or be influenced by key management individuals or other parties related to the entity.

### 1.19 Events after reporting period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the reporting date and the date on which the financial statements are authorised for issue. Two types of events can be identified;

- a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date) and
- b) Those that are indicative of conditions that arose after reporting date (non adjusting events after reporting date)

The entity will adjust the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date once the event has occurred. The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the annual financial statements.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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## 2. New Standards and Interpretations

There were no new standards or interpretations that were issued, effective or adopted in the current financial year.

## 3. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	1 386 645 100	-	1 386 645 100	1 329 176 600	-	1 329 176 600

### Reconciliation of investment property - 2016

	Opening Balance	Additions - subsequent expenditure capitalised	Fair value adjustments	Total
Investment property	1 329 176 600	11 031 397	46 437 103	1 386 645 100

### Reconciliation of investment property - 2015

	Opening balance	Additions - subsequent expenditure capitalised	Disposals	Fair value adjustments	Total
Investment property	1 280 060 308	66 037 587	(2 140 125)	(14 781 170)	1 329 176 600

The investment property values include market values as per the 31 March 2016 valuation and initial costs of additions as reflected by the above reconciliation. All the above additions are arising from new construction in the current year.

### Pledged as security

The entity does not have any investment property that has been pledged as security.

### Details of property

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company. The company appoints an external, independent property valuer once in each three year cycle. For the remaining two years of the three year cycle, property valuations are performed by an in-house valuer.

### Details of valuation

The effective date of the revaluations was 31 March 2016. Revaluations were performed by an in-house registered valuer, Letlaka Ndamase, Reg. No. 5435/7. Mr Letlaka Ndamase is an employee of EL IDZ and has recent experience in location and category of the investment property being valued.

The methods used by the company to revalue the investment property are;

- The income capitalisation method - for income generating properties.
- The direct comparable sales method - for all vacant industrial land and agriculturally zoned farms
- The cost method - investment property which is under construction

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 3. Investment property [continued]

Prevailing open market rental values have been used for the income capitalization methodology with the appropriate capitalization rate as determined by the valuer with guidance from sources such as the Independent Property Databank (IPD), Rode and Associates and the South African Property Owners Association (SAPOA).

For the cost method, the prevailing construction costs as derived from interaction with architects, quantity surveyors, Davis Langdon and to some degree Rode and Associates and SAPOA was used.

For the direct comparable sales method the prices of similar properties which have been recently sold in the same area as the investment property were used after adjusting for unusual prices and the presence or absence of characteristics which are likely to influence prices.

There has been no change to the valuation techniques during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

There have been no transfers between Levels 1, 2 or 3 during the year with regards to the fair value hierarchy as detailed in note 33.

Residual land was not taken into account in some properties because of the areas that the properties are situated in.

### Amounts recognised in profit and loss for the year

Rental income from investment property	54 979 727	45 089 300
Direct operating expenses from rental generating property	(13 078 364)	(10 306 134)
Direct operating expenses from non-rental generating property	(1 892 573)	(4 896 854)
	40 008 790	29 886 312

## 4. Property, plant and equipment

	2016			2015		
	Cost or revaluation	Accumulated depreciation & impairment	Carrying value	Cost or revaluation	Accumulated depreciation & impairment	Carrying value
Furniture and fixtures	4 894 294	(2 626 131)	2 268 163	4 840 094	(2 182 412)	2 657 682
Infrastructure: work in progress	46 358 422	-	46 358 422	47 507 640	-	47 507 640
Infrastructure including Buildings	466 259 717	(134 792 903)	331 466 814	464 102 509	(116 153 773)	347 948 736
IT equipment	26 789 372	(17 397 559)	9 391 813	23 682 288	(12 286 675)	11 395 613
Laboratory equipment and other	3 593 452	(2 514 982)	1 078 470	3 593 452	(1 970 375)	1 623 077
Land	3 821 361	-	3 821 361	3 821 361	-	3 821 361
Motor vehicles	1 513 146	(980 570)	532 576	1 513 146	(912 218)	600 928
Office equipment	645 248	(560 100)	85 148	640 064	(479 397)	160 667
Plant and machinery	61 805 033	(4 634 465)	57 170 568	56 758 230	(2 247 420)	54 510 810
<b>Total</b>	<b>615 680 045</b>	<b>(163 506 710)</b>	<b>452 173 335</b>	<b>606 458 784</b>	<b>(136 232 270)</b>	<b>470 226 514</b>

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 4. Property, plant and equipment [continued]

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Furniture and fixtures	2 657 682	54 200	-	-	(443 719)	2 268 163
Infrastructure including buildings	347 948 736	180 839	-	1 976 368	(18 639 129)	331 466 814
Infrastructure: work in progress	47 507 640	827 150	-	(1 976 368)	-	46 358 422
IT equipment	11 395 613	3 120 712	(1 363)	-	(5 123 149)	9 391 813
laboratory equipment and other	1 623 077	-	-	-	(544 607)	1 078 470
Land	3 821 361	-	-	-	-	3 821 361
Motor vehicles	600 928	-	-	-	(68 352)	532 576
Office equipment	160 667	5 184	-	-	(80 703)	85 148
Plant and machinery	54 510 810	5 046 803	-	-	(2 387 045)	57 170 568
	470 226 514	9 234 888	(1 363)	-	(27 286 704)	452 173 335

#### Reconciliation of property, plant and equipment - 2015

	Opening Balance	Additions	Disposals	Transfers	Depreciation	Impairment Loss	Total
Land	3 821 361	-	-	-	-	-	3 821 361
Infrastructure including buildings	366 512 837	-	-	-	(18 564 101)	-	347 948 736
Infrastructure - work in progress	83 017 038	23 795 046	-	(56 371 872)	-	(2 932 572)	47 507 640
Plant and machinery	31 972	-	-	56 371 872	(1 891 824)	(1 210)	54 510 810
Furniture and fixtures	2 851 813	247 666	-	-	(441 797)	-	2 657 682
Motor vehicles	669 280	-	-	-	(68 352)	-	600 928
Office equipment	189 816	61 614	-	-	(90 763)	-	160 667
IT equipment	16 409 047	1 006 390	(43 066)	-	(5 976 758)	-	11 395 613
Laboratory equipment and other	2 167 685	-	-	-	(544 608)	-	1 623 077
	475 670 849	25 110 716	(43 066)	-	(27 578 203)	(2 933 782)	470 226 514

#### Property, plant and equipment encumbered as security

There are no assets that are encumbered or held as security for a debt that are included in property, plant and equipment.

#### Detail of Property, plant and equipment

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 5. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	20 108 129	(11 620 689)	8 487 440	16 143 250	(8 813 174)	7 330 076
Other intangible assets	712 460	-	712 460	-	-	-
<b>Total</b>	<b>20 820 589</b>	<b>(11 620 689)</b>	<b>9 199 900</b>	<b>16 143 250</b>	<b>(8 813 174)</b>	<b>7 330 076</b>

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	7 330 076	4 702 563	(3 545 199)	8 487 440
Work in progress	-	712 460	-	712 460
	7 330 076	5 415 023	(3 545 199)	9 199 900

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	2 981 118	4 480 688	(131 730)	7 330 076

#### Details of intangible assets

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the Company.

None of the above intangible assets were internally generated, encumbered or pledged as security.

### 6. Other financial assets

	2016 R	2015 R
<b>Non-current assets</b>		
Long term financial assets	31 575 789	40 211 106
Impairment on other financial assets	-	(4 907 882)
Reversal of impairment	4 907 882	-
Time value of money	(16 210 832)	(5 404 637)
	<b>20 272 839</b>	<b>29 898 587</b>
<b>Current assets</b>		
Short term financial assets	3 880 226	2 360 596
Impairment on other financial assets	-	(764 000)
Reversal of impairment	764 000	-
	<b>4 644 226</b>	<b>1 596 596</b>

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 6. Other financial assets [continued]

#### Reconciliation of provision for impairment of other financial assets

##### Other financial assets - non-current portion

Opening balance	4 907 882	-
Provision for impairment	-	4 907 882
impairments amounts reversed	(4 907 882)	-
	<b>-</b>	<b>4 907 882</b>

##### Other financial assets - current portion

Opening balance	764 000	-
Provision for impairment	-	764 000
impairments amounts reversed	(764 000)	-
	<b>-</b>	<b>764 000</b>

The first category of the other financial assets was a debt restructuring that was done to a tenant that was in financial distress. The company was restructured and is showing signs of recovery and has started paying its current debt in full plus a portion of the debt. The debt conversion is interest free and is payable over 5 years. The arrangement was part of the business rescue program. The original debt was R16 748 405 and was negotiated on 25 March 2015. The yearly payments were renegotiated in the current year resulting in the original term reducing by 1.5 years.

The second category of the other financial assets is a leasehold improvement which was done on premises that are occupied by one of our tenants. The improvements were done according to the instructions of the tenant. The tenant has agreed to reimburse the amount that was spent on the tenants request over a period of 20 years and the amount owing will be escalating at a rate of 5.5% per year. The original amount to be reimbursed by the tenant was R25 741 495.

### 7. Trade and other receivables

Trade receivables	29 068 680	19 328 798
Allowance for impairment	(22 757 339)	(13 475 504)
Rental receivables (smoothing adjustment)	23 321 664	20 195 884
Prepayments	1 014 498	4 421 675
Other receivables	395 547	4 151 058
Accrued expenses	5 375 496	-
Receivables adjustment (time value of money)	(50 702)	(45 452)
Rebates from related parties/amounts receivable from related parties	4 021 021	140 584
VAT receivables	901 093	-
	<b>41 289 958</b>	<b>34 717 043</b>

#### Reconciliation of allowance for impairment of trade and other receivables

Opening balance	(13 475 504)	(22 480 074)
Contribution to allowance	(9 281 835)	9 004 570
	<b>(22 757 339)</b>	<b>(13 475 504)</b>

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 638	977
Bank balances	11 723 485	50 639 679
Short-term deposits	130 993 320	98 898 867
	<b>142 718 443</b>	<b>149 539 523</b>

Short term deposits yielded an average interest of 6.5% (2015: 4.5%).

Of the R 130 993 320 held in short term deposits, R 109 529 691 (2015: R 90 039 185) is ring fenced for infrastructure projects funded by Department of Trade and Industry (DTI). These funds will be utilised for capital projects.

### 9. Share capital

#### Authorised

1 000 000 Ordinary shares of R0.01 each or par value of 1 cent

10 000	10 000
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#### Reconciliation of number of shares issued:

Reported as at 31 March 2016

100 000	100 000
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#### Issued

Ordinary

1 000	1 000
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### 10. Reserves other NDR

Balance at the beginning of the year

8 306 368	8 306 368
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One of the main provision of awarding an operators permit to East London Industrial Development Zone Corporation was that the company be a private company. Therefore to ensure sustainability of the company, an entity entitled the East London Industrial Development Zone (Proprietary) Limited was formed.

On 1 April 2004 all the assets and liabilities of the company were sold to Industrial Development Zone (Proprietary) Limited as a going concern. From that date the company no longer operated as an East London Industrial Development Zone Corporation and ceased operations. The net assets and liabilities taken over were treated as non-distributable reserves.

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
<b>11. DEFERRED INCOME</b>		
Balance at the beginning of the year - properties	1 721 997 339	1 686 683 905
<b>Grants received and to be received</b>		
Department of Economic Development Environmental Affairs and Tourism (DEDEAT)	94 932 000	117 792 000
Development Bank of South Africa (DBSA)	-	38 830 175
DTI	22 057 427	125 359 508
Interest on grant funding	6 056 256	2 789 414
South African Revenue Services - output VAT on grants	(14 367 123)	(29 860 711)
DBSA Grant funded assets capitalised in current year	6 528 786	-
BCMM annual rates rebate	13 264 093	-
	<b>1 850 468 778</b>	<b>1 941 594 291</b>
Released to income - operations and property, plant and equipment	(101 117 107)	(161 050 597)
Released to income - rebates	(12 322 991)	-
Investment property - grants amortisation	(58 987 807)	(58 546 551)
	<b>(172 427 905)</b>	<b>(219 597 148)</b>
Balance at the end of year - properties	1 670 820 653	1 721 997 339
Balance at the end of year - plant and machinery	6 279 117	-
Balance at the end of the year - BCMM rebates	941 102	-
	<b>1 678 040 872</b>	<b>1 721 997 339</b>
Non-current liabilities	1 476 750 139	1 545 701 473
Current liabilities	201 290 734	176 295 866
	<b>1 678 040 873</b>	<b>1 721 997 339</b>

The entity receives grants from the DTI for infrastructure development i.e. investment property and other owner occupied infrastructure. If the projects do not commence, the funds are returned to DTI. The company has submitted a request to Provincial Treasury to rollover all the capital projects funds that were not utilised during the current year.

In addition, the entity receives grants from DEDEAT for operating expenses and the acquisition of property, plant and equipment.

## 12. Trade and other payables

Trade payables	14 741 925	22 514 876
Other grants (Note 13)	5 000 926	27 550 253
VAT	-	3 217 667
Leave pay accrual	2 336 269	3 724 050
Bonus accrual	73 834	78 002
Operating lease smoothing	19 327	-
Deposits received	2 026 947	1 915 493
Other payables	366 627	1 995 421
Payables - Time value of money	(58 847)	(270 651)
	<b>24 507 008</b>	<b>60 725 111</b>

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
<b>13. Other grants</b>		
<b>Department of Environmental Affairs (DEA)</b>		
Opening balance	833 233	4 284 807
Additional grant received	6 874 278	4 965 000
Revenue generated during the year	93 531	-
Expenditure for the year	(7 172 356)	(8 416 574)
	<b>628 686</b>	<b>833 233</b>
<b>Manufacturing, Engineering and Related Services Education and Training Authority (MERSETA)</b>		
Opening balance	710 405	61 088
Additional grant received	-	1 365 862
Utilised during the year	(710 405)	(716 545)
	<b>-</b>	<b>710 405</b>
<b>DBSA - Renewable energy project</b>		
Opening Balance	10 123 021	-
Additional grant received	-	10 153 798
Interest capitalised	468 625	86 350
Expenditure for the year	(7 741 292)	(117 127)
	<b>2 850 354</b>	<b>10 123 021</b>
<b>DEDEAT - Stem cell project</b>		
Closing Balance	1 078 482	1 078 482
<b>Wild Coast SEZ</b>		
Opening balance	14 805 112	4 605 263
Additional grant received	-	11 080 988
Transfer to Coega IDZ	(14 361 709)	(881 139)
	<b>443 403</b>	<b>14 805 112</b>
Total other grants	5 000 926	27 550 253

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 13. Other grants [continued]

#### Department of Environmental Affairs (DEA)

DEA partnered with EL IDZ in doing an environmental greening project where EL IDZ acts as project manager and also a conduit of funds for the project. The project will be handed over to Buffalo City Metropolitan Municipality (BCMM) upon completion.

#### MERSETA

EL IDZ was given a grant by MERSETA to train artisans in renewable energy retooling project.

#### Renewable Energy

EL IDZ was granted funds by the DBSA to implement a renewable energy school that will train artisans in renewable energy.

#### Stem Cell project

The company received additional funding from DEDEAT for a pilot project of Stem Cell in partnership with the Eastern Cape Department of Health. The project started in prior years and is still ongoing. ELIDZ is waiting for an approval from Health Council of South Africa in order to carry on with the project.

#### Wild Coast SEZ

DTI is considering having another SEZ in the Eastern Cape and ELIDZ was assisting in setting it up and was doing the administration of funds, however the project operations have been transferred to Coega IDZ as at the beginning of the financial year. Remaining unspent funds included in the closing balance relates to outstanding accrued expenditure pending payment.

### 14. Provisions

#### Reconciliation of provisions - 2016

	Opening balance	Additions	Utilised during the year	Reversal of prior year time value of money adjustment	Total
Retentions	485 019	688 698	(340 000)	28 139	861 856
Performance bonus provision	-	5 713 542	-	-	5 713 542
	<b>485 019</b>	<b>6 402 240</b>	<b>(340 000)</b>	<b>28 139</b>	<b>6 575 398</b>

#### Reconciliation of provisions - 2015

	Opening balance	Utilised during the year	Time value of money adjustment	Reversal of prior year time value of money adjustment	Total
Retentions	628 855	(153 665)	(28 139)	37 968	485 019

Retentions relate to project amounts withheld by the company that are paid back to contractors when there are no latent defects to project work. These amounts are claimable after the completion of the project.

### 15. Revenue

Rendering of services (providing utilities)	55 479 910	47 272 447
Revenue (time value of money)	-	(685 892)
Rental income (smoothing adjustment)	3 125 780	6 353 212
Rental income (revenue)	51 853 947	38 736 088
	<b>110 459 637</b>	<b>91 675 855</b>

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 16. Cost of sales

#### Rendering of services

Services and utilities	51 685 740	44 670 339
Analytical lab	3 976 940	428 322
Conference facility	918 113	818 768
Telephone services	526 936	454 645
	<b>57 107 729</b>	<b>46 372 074</b>

### 17. Other income

Rebate received	12 322 991	-
Government grants - released to income	101 117 107	161 050 597
Grants released - investment property	58 987 807	58 546 551
Other income	3 555 384	1 438 446
	<b>175 983 289</b>	<b>221 035 594</b>

### 18. Operating profit

Operating profit for the year is stated after accounting for the following:

#### Remuneration, other than to employees, for:

Auditors remuneration	2 318 461	2 482 428
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#### Operating lease charges

Equipment		
• Contractual amounts	1 303 834	1 165 908

Loss on sale of property, plant and equipment	1 363	38 923
Loss on sale of investment property	-	884 585
Bad debts written off*	234 053	42 948
Impairment of trade receivables movement	9 420 777	(9 004 570)
Impairment on property, plant and equipment	-	2 932 782
Impairment on other financial assets	-	5 671 883
Reversal of impairment on other financial assets	(5 671 883)	-
Amortisation on intangible assets	3 545 199	131 730
Depreciation on property, plant and equipment	27 286 703	27 578 203
Employee costs	63 900 231	69 147 929

\* All debts written off were in terms of the Company's approved debt management policies.

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
<b>19. Employee cost</b>		
The following items are included within employee costs expense:		
<b>Employee costs</b>		
Salaries and wages	43 817 046	47 963 339
Defined contribution plan	5 390 437	5 957 934
Medical aid contributions	1 771 869	1 738 120
Performance bonus provision/paid	5 713 542	7 147 225
13th cheque	3 446 309	3 900 913
Long service awards	70 000	75 000
UIF	473 449	435 905
SDL	1 371 660	636 962
Internships	1 680 894	1 559 217
Temporary staff	-	608 609
Leave pay accrual	165 025	(875 295)
	<b>63 900 231</b>	<b>69 147 929</b>
	58 509 794	63 189 995
Direct employee costs	5 390 437	5 957 934
Indirect employee costs	<b>63 900 231</b>	<b>69 147 929</b>

### Average number of persons employed during the year was:

Permanent Staff	66	69
Contract staff	9	20
Interns	26	21
Temps	-	1
	<b>101</b>	<b>111</b>

## 20. Depreciation, amortisation and impairments

The following items are included within depreciation, amortisation and impairments:

<b>Depreciation</b>		
Property, plant and equipment	27 286 703	27 578 203
<b>Amortisation</b>		
Intangible assets	3 545 199	131 730
<b>Impairments</b>		
Property, plant and equipment	-	2 932 572
Other financial assets	(5 671 883)	5 671 883
	<b>(5 671 883)</b>	<b>8 604 455</b>

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
<b>20. Depreciation, amortisation and impairments [continued]</b>		
<b>Total depreciation, amortisation and impairments</b>		
Depreciation	27 286 703	27 578 203
Amortisation	3 545 199	131 730
Impairments	(5 671 883)	8 604 455
	<b>25 160 019</b>	<b>36 314 388</b>
<b>21. Finance income</b>		
Interest received	63 349	101 500
<b>22. Fair value adjustments</b>		
Investment property (Fair value model)	46 437 103	(14 781 170)
Refer to note 3 for the details of the valuation of investment properties.		
<b>23. Finance costs</b>		
Interest paid	11 090 246	7 809 522
<b>24. Auditors remuneration</b>		
Fees	2 318 461	2 482 428
<b>25. Cash generated from operations</b>		
Profit before taxation	108 543 052	78 741 582
<b>Adjustments for:</b>		
Depreciation and amortisation	30 831 902	27 709 933
Net loss on disposal of property, plant and equipment	1 363	923 508
Finance income	(63 349)	(101 500)
Finance costs	11 090 246	7 809 522
Fair value adjustments	(46 437 103)	14 781 170
Impairment (reversal) loss	(5 671 883)	2 933 781
Movements in provisions	6 090 379	(143 836)
<b>Changes in working capital:</b>		
Increase in Trade and other receivables	(6 572 915)	(7 877 995)
Increase/(decrease) in Other financial assets	12 250 000	(30 836 597)
Increase/(decrease) in Trade and other payables	(36 218 103)	2 417 859
(Increase)/decrease in Deferred income	(43 956 466)	35 313 434
	<b>29 887 123</b>	<b>131 670 861</b>

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
<b>26. Taxation</b>		
<b>Major components of the tax expense</b>		
<b>Reconciliation of the tax expense</b>		
<b>Taxable Income for the year</b>		
Profit before tax	108 543 052	78 741 582
Permanent differences	(74 324 789)	(77 813 425)
Temporary differences	(33 539 896)	3 386 756
Capital gain	-	835 944
Unused tax losses from previous year not recognised/(utilised)	(678 367)	(5 150 857)
	-	-
<b>Assessed loss carried forward</b>		
Assessed loss brought forward	(70 670 094)	(75 820 951)
Taxable Income for the year	678 367	5 150 857
	<b>(69 991 727)</b>	<b>(70 670 094)</b>
Reconciliation between applicable tax rate and average effective tax rate.		
Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 28%.Deferred tax on investment property has been calculated at 20% (2015:18.6%)		
Applicable tax rate	28,00%	28,00%
<b>Permanent differences</b>		
Made up as follows:	<b>(19,00)%</b>	<b>(27,00)%</b>
Expenses not deductible for tax purposes	27,80%	49,00%
Grant income not taxable	(44,50)%	(78,00)%
Portion of investment property fair value gains	(2,30)%	2,00%
<b>Temporary differences</b>		
Made up as follows:	(8,80)%	1,00%
Portion of investment property fair value gains not taxable	(9,70)%	3,80%
Operating lease smoothing	(0,80)%	(2,30)%
Depreciation and wear and tear adjustment	(0,10)%	1,00%
Provision for bad debts - Other financial assets	(1,10)%	1,50%
Provision for bad debts - general	1,80%	(2,40)%
Provision for leave pay	(0,40)%	(0,60)%
Provision for performance bonus	1,50%	-%
<b>Assessed loss from previous years utilised</b>		
	<b>(0,20)%</b>	<b>(2,00)%</b>
	-%	-%

No provision for tax has been made in 2016 financial year as the company has no taxable income. There was no deferred tax asset recognised in the current year as EL IDZ is not expected to generate taxable profit and taxable temporary differences in the future that are sufficient to be utilised against the deferred tax asset.

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
<b>27. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Contract work in progress</b>		
• Property, plant and equipment	40 923 989	42 952 393
• Investment property	105 198 241	7 608 766
	<b>146 122 230</b>	<b>50 561 159</b>
The committed expenditure relates to investment property and property, plant and equipment contracts that will be finished in the coming years. The commitments will be financed by grants from the DTI as well as DEDEAT.		
The commitment amounts are exclusive of VAT.		
<b>Operating leases – as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	907 200	84 955
- in second to fifth year inclusive	1 252 884	-
	<b>2 160 084</b>	<b>84 955</b>
Leasing arrangements		
Operating leases relate to the lease of equipment with a lease term of 3 years. The company does not have an option to purchase the leased equipment at the expiry of the lease periods.		
<b>Operating leases – as lessor (income)</b>		
<b>Minimum lease receipts due</b>		
- within one year	44 739 158	39 245 275
- in second to fifth year inclusive	175 303 056	131 752 882
- later than five years	46 600 479	45 713 893
	<b>266 642 693</b>	<b>216 712 050</b>
Leasing arrangements		
Operating leases relate to the investment property owned by the company with lease terms of between 1 to 10 years, with an option to extend for a further 10 years in some instances. All operating lease contracts contain market review clauses in the event that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. The operating leases include escalation clause.		
Rental income earned by the company from its investment properties and direct operating expenses arising on the investment properties for the year are set out in note 3.		
The company owns a metal surface treatment plant that is leased to a lessee for seven years with an option to extend. The lessee does not have an option to purchase the property at the expiry of the lease period.		
Contingent rentals are based on the number of units produced for PPE that is leased out and percentage of revenue generated for investment property that is leased out.		

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
<b>28. Related parties</b>		
Relationships		
Holding company (Controlling interest - 74%)	DEDEAT	
Shareholder (Significant Influence - 26%)	Buffalo City Metropolitan Municipality (BCMM)	
(BCMM) Members of key management - Executive Management	Chief Executive Officer: Mr S Kondlo  Executive Manager (Zone Development): Mr T Zweni  Executive Manager (Zone Operations): Mr J Burger  Executive Manager (Corporate Affairs): Ms A Magwentshu  Chief Financial Officer: Mr G Matengambiri (new)  Chief Financial Officer: Mrs B Magongwa  Executive Manager (Office of the CEO): Mr T Gwintsa (resigned: prior year)	
Non-executive directors	Refer to Note 5 per the Directors Report	
<b>Related party balances</b>		
<b>Amounts included in trade receivables</b>		
BCMM (trade)	55 980	182 695
BCMM (rebates)	3 477 917	-
BCMM (prepayments)	317 963	-
<b>Amounts included in trade payables</b>		
BCMM	(18 196)	(12 026 403)
<b>Related party transactions</b>		
<b>BCMM</b>		
Expenditure: Rates and taxes	13 078 364	10 306 134
Expenditure: Electricity	39 888 944	34 555 306
Expenditure: Water	1 908 929	1 613 148
Expenditure: Sewerage	1 489 321	1 436 107
Income: Rates and taxes rebate	(12 322 991)	-
Income: Grass cutting expense recovery	(340 033)	(140 584)
Income: Rentals and utilities	(280 251)	(120 909)

The above related party transactions were conducted under the following terms:

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R			
<b>28. Related parties [continued]</b>					
<b>Rates</b>					
All vacant land was valued and rated as agricultural land.					
New developments and developments that did not benefit in the past benefits offered to EL IDZ under memorandum of agreement qualify for a phased in rebates on rates applicable as follows:					
Year 1 - 50%					
Year 2 - 40%					
Year 3 - 30%					
Year 4 - 20%					
Year 5 - 10%					
R50 million minimum value benchmark for properties to qualify for rebate did not apply to properties within the zone.					
<b>Water</b>					
A 15% special rate was offered on bulk purchases by BCMM					
<b>Electricity</b>					
EL IDZ obtains its electricity at the Eskom rate plus a 2.5% wheeling charge.					
<b>Sewerage</b>					
Sewerage charges are at normal arms length rates.					
All other services are also at arms length					
<b>DEDEAT</b>					
Total grants received for the year	94 932 000	117 792 000			
<b>Compensation to directors and other key management</b>					
Key management remuneration - executive	10 817 990	13 829 582			
Remuneration - non executive	1 197 874	1 238 025			
<b>29. Directors and Executive managements' emoluments</b>					
<b>Executive</b>					
<b>2016</b>	<b>Basic salary</b>	<b>Allowances</b>	<b>Employer contribution to funds</b>	<b>Acting allowances</b>	<b>Total</b>
S Kondlo	1 819 434	942 029	359 658	-	3 121 121
J Burger	1 105 511	572 389	196 659	-	1 874 559
T Zweni	1 284 654	665 142	258 309	-	2 208 105
A Magwentshu	1 079 471	558 906	224 285	-	1 862 662
B Magongwa	318 392	182 137	62 578	-	563 107
G Matengambiri	564 842	285 286	123 017	215 291	1 188 436
	<b>6 172 304</b>	<b>3 205 889</b>	<b>1 224 506</b>	<b>215 291</b>	<b>10 817 990</b>
A provision for performance bonuses of R5 713 542 (2015: R0) has been raised as disclosed in note 14. R 856 718 (2015: R0) of this provision relates to provisional performance bonuses for executive management.					



## Notes to the Annual Financial Statements [continued]

			2016 R	2015 R	
<b>29. Directors and Executive managements' emoluments [continued]</b>					
<b>2015</b>	<b>Basic salary</b>	<b>Allowances</b>	<b>Employer contribution to funds</b>	<b>Acting allowances</b>	<b>Total</b>
S Kondlo	1 719 306	902 183	345 968	456 239	3 423 696
T Zweni	1 213 957	637 007	246 424	317 922	2 415 310
J Burger	1 044 673	548 178	188 340	243 834	2 025 025
A Magwentshu	1 020 065	535 266	218 424	257 223	2 030 978
B Magongwa	392 372	221 794	76 203	-	690 369
G Matengambiri (acting)	363 254	378 315	94 467	152 771	988 807
T Gwintsa	1 124 990	583 923	233 622	312 862	2 255 397
	<b>6 878 617</b>	<b>3 806 666</b>	<b>1 403 448</b>	<b>1 740 851</b>	<b>13 829 582</b>

### Non-executive

#### 2016

	Directors' fees	Allowances	Total
MW Makalima	33 280	368	33 648
A Kanana	157 934	32 387	190 321
EV Jooste	208 688	2 769	211 457
NI Anderson	165 092	2 130	167 222
P Nazo	125 540	2 769	128 309
S Caga	101 693	2 769	104 462
V Sikwebu	180 757	2 556	183 313
ZM Tini	175 952	3 190	179 142
	<b>1 148 936</b>	<b>48 938</b>	<b>1 197 874</b>

#### 2015

	Directors' fees	Allowances	Total
ZM Tini	187 623	10 097	197 720
A Kanana	117 916	55 322	173 238
EV Jooste	166 320	4 021	170 341
NI Anderson	193 645	4 085	197 730
S Mteto	70 375	35 911	106 286
P Nazo	100 343	3 185	103 528
SW Caga	111 400	4 059	115 459
V Sikwebu	168 589	5 134	173 723
	<b>1 116 211</b>	<b>121 814</b>	<b>1 238 025</b>

### 30. Fruitless and wasteful expenditure

Current year fruitless and wasteful expenditure	132 748	474 753
Fruitless and wasteful expenditure written-off	(132 748)	(474 753)
	-	-

The company incurred interest on the late payment of Workmen's compensation to the Department of Labour. This was due to the delayed receipt of the prior year assessment by the Department. This amounted to R3 316. In addition, interest on late payment of TV licence fees amounted to R503.

An existing service provider and a newly appointed service provider both invoiced for the same service for April 2015. This was due to the existing service provider's contract stating that one month notice period was required before termination of the contract. This amounted to R550.

VAT penalties incurred as a result of a SARS audit amounted to R128 379. This penalty has been appealed.

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
<b>31. Irregular expenditure</b>		
Opening balance	-	-
Current year irregular expenditure	3 210 551	3 263 198
Irregular expenditure condoned	(3 210 551)	(3 263 198)
	-	-

Current year irregular expenditure (R3 210 551) was due to a variation order expense being incurred without the appropriate approvals. This was due to the fast track nature of a project and DTI's request of a sample for confirmation of the investor technology incentive.

This expenditure has been paid and recorded in the relevant expenditure accounts. The above expenditure is not fruitless and wasteful expenditure as it was incurred to further the interest of the entity. As the expenditure was incurred on the request by our tenant, EL IDZ is going to receive a reimbursement.

The cost of the variation order is amortised in terms of the tenants lease agreement and will be recovered over a 20 year period.

### 32. Risk management

The Board has overall responsibility for the establishment and oversight of the company risk management framework.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Company Audit and Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

#### Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern while maximising the return to stakeholders through the optimisation of the assets and the equity balance. The Company's overall strategy remains unchanged. The Company is not subject to any externally imposed capital requirements.

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed grants allocated and own generated revenue. The entity manages liquidity risk by continuously monitoring forecast and actual cash flows. Liquidity risk is the risk that the entity may fail to meet its payment obligations as they fall due, the consequences of which may be the failure to meet the obligations to creditors. The company identifies this risk through periodic liquidity gap analysis and the maturity profile of the assets and liabilities. Where after gaps, action is taken in advance to close or minimise the gaps.

The Company's exposure to liquidity risk is reduced as it is partly funded by DEDEAT and the DTI. The annual budgets are approved at the beginning of each fiscal year and funding agreements concluded between the parties. Cash flows are monitored monthly against budgets and adjustments are made where necessary. Risk management assessments are conducted to assist with identifying any possible cash flow, liquidity or other risks. In addition, the entity is exploring opportunities for raising more own revenue to ensure the sustainability of the organisation in case the grant is reduced or cut back.

A maturity analysis of ELIDZ's financial instruments as at 31 March 2016 is as follows:

## Notes to the Annual Financial Statements [continued]

	2016 R			2015 R
<b>32. Risk management [continued]</b>				
<b>At 31 March 2016</b>				
	<b>On demand and less than one month</b>	<b>1 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
<b>Assets</b>				
Other financial assets - short term	-	4 644 226	-	4 644 226
Other financial assets - long term	-	-	20 272 840	20 272 840
Trade and other receivables	6 260 639	27 842 383	-	34 103 022
Cash and cash equivalents	142 718 443	-	-	142 718 443
	<b>148 979 082</b>	<b>32 486 609</b>	<b>20 272 840</b>	<b>201 738 531</b>
<b>Liabilities</b>				<b>Total</b>
Trade and other payables	(14 756 911)	(9 750 096)	-	(24 507 007)
				<b>Total</b>
Liquidity gap	134 222 171	22 736 513	20 272 840	177 231 524
<b>At 31 March 2015</b>				
	<b>On demand and less than one month</b>	<b>1 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
<b>Assets</b>				
Other financial assets - short term	161 803	1 434 794	-	1 596 597
Other financial assets - long term	-	-	29 923 018	29 923 018
Trade and other receivables	5 808 841	28 908 203	-	34 717 044
Cash and cash equivalents	149 539 523	-	-	149 539 523
Total assets	155 510 167	30 342 997	29 923 018	215 776 182
<b>Liabilities</b>				
Trade and other payables	(27 457 315)	(33 267 798)	-	(60 725 113)
	<b>128 052 852</b>	<b>(2 924 801)</b>	<b>29 923 018</b>	<b>155 051 069</b>

The cash and cash equivalents above include a ringfenced amount of R109 529 691 (2015: R 90 039 185).

### Interest rate risk

The Company's interest bearing assets are included under cash and cash equivalents. The Company's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with the South African prime rate. The Company's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus/deficit.

Interest charged on trade debtors in arrears is linked to the South African prime rate. Interest rate sensitivity analysis.

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the potential change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows reasonable expected changes in the interest rate, either an increase or decrease in the interest percentage. The equal but opposite percentage adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below. The disclosure only indicates the effect of the change in interest rate on surplus.

## Notes to the Annual Financial Statements [continued]

	2016 R		2015 R
<b>32. Risk management [continued]</b>			
<b>Estimated increase in rates</b>			
Estimated increase in basis points		100	100
Effect on accumulated profit/ (loss)		1 427 184	1 495 395
<b>Credit risk</b>			
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.			
Trade receivables comprise mainly of amounts owing from tenants. Management evaluated credit risk relating to tenants before they were incorporated into the zone.			
Credit risk consists mainly of cash deposits, cash equivalents, trade debtors and other financial assets.			
The Company only deposits cash with major banks with high quality credit standing and limits exposure to any particular counterparty.			
The carrying amounts of financial assets, represent the entity's maximum exposure to credit risk in relation to these assets. The Company's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.			
There has been no significant change during the financial year, or since the end of the financial year, to the company's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing the risk. The carrying amount of financial assets recorded in the financial statements, which is gross of impairment losses, represents the company's maximum exposure to credit risk.			
Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge a contract. Credit risk arises from cash equivalents, financial instruments and deposits with banks and financial institutions, as well as credit exposures to members, including outstanding receivables and committed transactions. For banks and financial institutions, only well-established institutions with sound financial positions are used. Credit exposures are closely monitored for indications of impairment.			
EL IDZ tenants pay deposits at the beginning of their lease terms. At 31 March 2016 EL IDZ holds deposits from tenants amounting to R 2 026 947 (2015: R 1 915 493) as security for tenants' lease obligations.			
The amounts below are before impairment.			
<b>The entity's exposure to credit risk by class of financial asset is as follows:</b>			
Trade and other receivables (excluding non-financial instruments)		56 860 361	43 770 872
Cash and cash equivalents		142 718 443	149 539 523
Other financial assets		24 917 065	42 571 702
		<b>224 495 869</b>	<b>235 882 097</b>
<b>Analysis by credit quality of financial assets is as follows:</b>			
<b>Neither past due nor impaired</b>			
- Cash and cash equivalent		142 718 443	149 539 523
- Trade and other receivables		30 579 087	27 686 382
- Other financial assets		11 578 890	25 741 595
<b>Past due and not impaired</b>			
- Trade and other receivables		3 328 728	2 491 068
- Other financial assets		13 338 176	81 803
<b>Past due and impaired</b>			
- Trade and other receivables		22 952 547	13 593 422
- Other financial assets		-	16 748 405

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 33. Fair value information

At 31 March 2016 the carrying amount of bank balances and cash deposits, trade and other receivables, trade and other payables and contracts in progress approximated their fair values due to the short term maturities of these assets and liabilities.

Basis for determining fair values

#### Trade and other receivables and Trade and other payables

The fair value of trade and other receivables and trade and other payables is calculated based on the present value of future cashflows, discounted at the prime rate +2 at the reporting date.

#### Investment property

The fair value of investment properties is determined by in-house property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The valuer provides the fair value of the company's investment property annually.

#### Fair value hierarchy

The table below analyses assets and liabilities carried at fair value, by valuation method. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the company can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable data (unobservable inputs).

#### Levels of fair value measurements

##### Level 2

#### Recurring fair value measurements

Assets	Note(s)		
<b>Loans and receivables</b>	6		
Other financial assets		24 917 065	31 495 181
<b>Total</b>		<b>24 917 065</b>	<b>31 495 181</b>

##### Level 3

#### Recurring fair value measurements

Assets	Note(s)		
<b>Investment property</b>	3		
Other financial assets		1 386 645 100	1 329 176 600
<b>Total</b>		<b>1 386 645 100</b>	<b>1 329 176 600</b>

For investment properties categorised into Level 3 of the fair value hierarchy, the following information is relevant:

## Notes to the Annual Financial Statements [continued]

	2016 R	2015 R
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### 33. Fair value information [continued]

	Valuation Technique	Significant unobservable inputs	Sensitivity
Investment property	Income capitalisation method	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	A slight increase in the capitalisation rate used would result in a significant decrease in fair value and vice versa.
		Monthly market rent, taking into account the differences in location and individual factors such as frontage and size between the comparable and the property.	A slight increase in the market rent used would result in a significant increase in fair value and vice versa.

### 34. Categories of financial instruments

#### Categories of financial instruments - 2016

	Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
<b>Assets</b>							
<b>Non-Current Assets</b>							
Investment property	3	-	-	-	-	1 386 645 100	1 386 645 100
Property, plant and equipment	4	-	-	-	-	452 173 335	452 173 335
Goodwill		-	-	-	-	-	-
Intangible assets	5	-	-	-	-	9 199 900	9 199 900
Other financial assets	6	-	20 272 839	-	-	-	20 272 839
		-	<b>20 272 839</b>	-	-	<b>1 848 018 335</b>	<b>1 868 291 174</b>
<b>Current Assets</b>							
Other financial assets	6	-	4 644 226	-	-	-	4 644 226
Trade and other receivables	7	-	41 289 958	-	-	-	41 289 958
Cash and cash equivalents	8	-	142 718 443	-	-	-	142 718 443
		-	<b>188 652 627</b>	-	-	-	<b>188 652 627</b>
<b>Total Assets</b>		-	<b>208 925 466</b>	-	-	<b>1 848 018 335</b>	<b>2 056 943 801</b>
<b>Equity and Liabilities</b>							
<b>Equity</b>							
Equity Attributable to Equity Holders of Parent							
Share capital	9	-	-	-	-	1 000	1 000
Reserves	9	-	-	-	-	8 306 368	8 306 368
Retained income	9	-	-	-	-	339 513 154	339 513 154
		-	-	-	-	<b>347 820 522</b>	<b>347 820 522</b>
<b>Total Equity</b>		-	-	-	-	<b>347 820 522</b>	<b>347 820 522</b>

## Notes to the Annual Financial Statements [continued]

					2016 R	2015 R
<b>34. Categories of financial instruments [continued]</b>						
Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
<b>Liabilities</b>						
<b>Non-Current Liabilities</b>						
Deferred income	11	-	-	-	1 476 750 139	1 476 750 139
<b>Current Liabilities</b>						
Trade and other payables	12	-	-	24 507 010	-	24 507 010
Deferred income	11	-	-	-	201 290 734	201 290 734
Provisions	14	-	-	-	6 575 398	6 575 398
		-	-	-	<b>24 507 010</b>	<b>207 866 132</b>
<b>Total Liabilities</b>		-	-	-	<b>24 507 010</b>	<b>1 684 616 271</b>
<b>Total Equity and Liabilities</b>		-	-	-	<b>24 507 010</b>	<b>2 056 943 803</b>

### Categories of financial instruments - 2015

#### Assets

##### Non-Current Assets

Investment property	3	-	-	-	1 329 176 600	1 329 176 600
Property, plant and equipment	4	-	-	-	470 226 514	470 226 514
Intangible assets	5	-	-	-	7 330 076	7 330 076
Other financial assets	6	-	29 898 587	-	-	29 898 587
		-	<b>29 898 587</b>	-	<b>1 806 733 190</b>	<b>1 836 631 777</b>

##### Current Assets

Other financial assets	6	1 596 596	-	-	-	1 596 596
Trade and other receivables	7	-	30 295 368	-	4 421 675	34 717 043
Cash and cash equivalents	8	-	149 539 523	-	-	149 539 523
		<b>1 596 596</b>	<b>179 834 891</b>	-	<b>4 421 675</b>	<b>185 853 162</b>
<b>Total Assets</b>		<b>1 596 596</b>	<b>209 733 478</b>	-	<b>1 811 154 865</b>	<b>2 022 484 939</b>

#### Equity and Liabilities

##### Equity

Equity Attributable to Equity Holders of Parent:						
Share capital	9	-	-	-	1 000	1 000
Reserves	9	-	-	-	8 306 368	8 306 368
Retained income	9	-	-	-	230 970 102	230 970 102
		-	-	-	<b>239 277 470</b>	<b>239 277 470</b>
<b>Total Equity</b>		-	-	-	<b>239 277 470</b>	<b>239 277 470</b>

## Notes to the Annual Financial Statements [continued]

					2016 R	2015 R
<b>34. Categories of financial instruments [continued]</b>						
Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
<b>Liabilities</b>						
<b>Non-Current Liabilities</b>						
Deferred income	11	-	-	-	1 545 701 473	1 545 701 473
<b>Current Liabilities</b>						
Trade and other payables	12	-	-	60 725 113	-	60 725 113
Deferred income	11	-	-	-	176 295 866	176 295 866
Provisions	14	-	-	-	485 019	485 019
		-	-	-	<b>60 725 113</b>	<b>176 780 885</b>
<b>Total Liabilities</b>		-	-	-	<b>60 725 113</b>	<b>1 722 482 358</b>
<b>Total Equity and Liabilities</b>		-	-	-	<b>60 725 113</b>	<b>1 961 759 828</b>

# DETAILED INCOME STATEMENT

	Note(s)	2016 R	2015 R
<b>Revenue</b>			
Rendering of services		55 479 910	47 272 447
Rental income (smoothing adjustment)		3 125 780	6 353 212
Rental income (revenue)		51 853 947	38 736 088
Time value of money adjustment		-	(685 892)
	15	<b>110 459 637</b>	<b>91 675 855</b>
<b>Cost of sales</b>			
Service rendering costs		(57 107 729)	(46 372 074)
		<b>53 351 908</b>	<b>45 303 781</b>
<b>Gross profit</b>			
<b>Other income</b>			
Rebates received		12 322 991	-
Government grants		101 117 107	161 050 597
Grants released - investment property		58 987 807	58 546 551
Sundry income		3 555 384	1 438 446
Interest received	21	63 349	101 500
Fair value adjustments	22	46 437 103	-
		<b>222 483 741</b>	<b>221 137 094</b>
<b>Expenses (Refer to page 51)</b>			
		<b>(156 202 351)</b>	<b>(165 108 601)</b>
<b>Operating profit</b>	18	<b>119 633 298</b>	<b>101 332 274</b>
Finance costs	23	(11 090 246)	(7 809 522)
Fair value adjustments	22	-	(14 781 170)
		<b>(11 090 246)</b>	<b>(22 590 692)</b>
<b>Profit for the year</b>		<b>108 543 052</b>	<b>78 741 582</b>

The supplementary information presented does not form part of the annual financial statements and is unaudited.

# DETAILED INCOME STATEMENT

	Note(s)	2016 R	2015 R
<b>Operating expenses</b>			
Advertising		(508 060)	(1 619 535)
Auditors remuneration	24	(2 318 461)	(2 482 428)
Bad debts provision movement		(9 281 836)	9 004 571
Bad debts written off		(234 053)	(42 948)
Bank charges		(109 140)	(90 263)
Board fees		(1 197 873)	(1 238 025)
Cellular phone fees		(998 885)	(944 641)
Cleaning		(551 686)	(279 417)
Computer expenses		(1 182 213)	(88 349)
Consulting and professional fees		(4 575 943)	(5 502 459)
Depreciation, amortisation and impairments		(25 160 019)	(30 642 505)
Donations		(652 324)	(291 730)
Employee costs		(63 900 231)	(69 147 929)
Entertainment		(139 058)	(206 141)
Fines and penalties		(90 151)	(263 076)
IT expenses		(421 897)	(188 222)
Impairment - other financial assets		-	(5 671 883)
Insurance		(2 412 049)	(2 043 579)
Internal audit		(395 701)	(586 958)
Lease rentals on operating lease		(1 303 834)	(1 165 908)
Legal expenses		(654 694)	(115 499)
Marketing and brand management		(566 811)	(1 025 903)
Marketing and communications		-	(98 933)
Motor vehicle expenses		(71 756)	(140 759)
Miscellaneous expenses		(279 294)	(170 618)
Non-capitalised minor assets		(231 592)	(185 509)
Placement fees		(4 348)	(249 225)
Postage		(52 108)	(24 424)
Printing and stationery		7 129	(160 711)
Profit and loss on sale of assets and liabilities		(1 363)	(923 508)
Project expenses		(7 215 005)	(16 247 316)
Repairs and maintenance		(16 742 154)	(18 072 004)
Security		(6 506 980)	(6 046 713)
Software expenses		(1 696 783)	(1 182 280)
Staff welfare		(90 159)	-
Subscriptions		(555 231)	(625 452)
Telephone and fax		(54 828)	(401 601)
Training		(607 319)	(1 490 932)
Travel - local		(765 823)	(1 012 115)
Travel - overseas		-	(103 800)
Utilities operating costs		(4 679 818)	(3 339 874)
		<b>(156 202 351)</b>	<b>(165 108 601)</b>





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