



east london idz
business streamlined



2018

EAST LONDON INDUSTRIAL
DEVELOPMENT ZONE SOC LTD

ANNUAL REPORT



..... APPROVAL OF ANNUAL REPORT 2018 / 19

PREPARED BY
NAME: Ms A. Ramncwana
DESIGNATION: Manager: Office of the CEO

ENDORSED BY
NAME: Mr G. Matengambiri
DESIGNATION: Chief Financial Officer

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

SUPPORTED
NAME: Mr A. Kanana
DESIGNATION: Chairperson:
Audit Committee

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

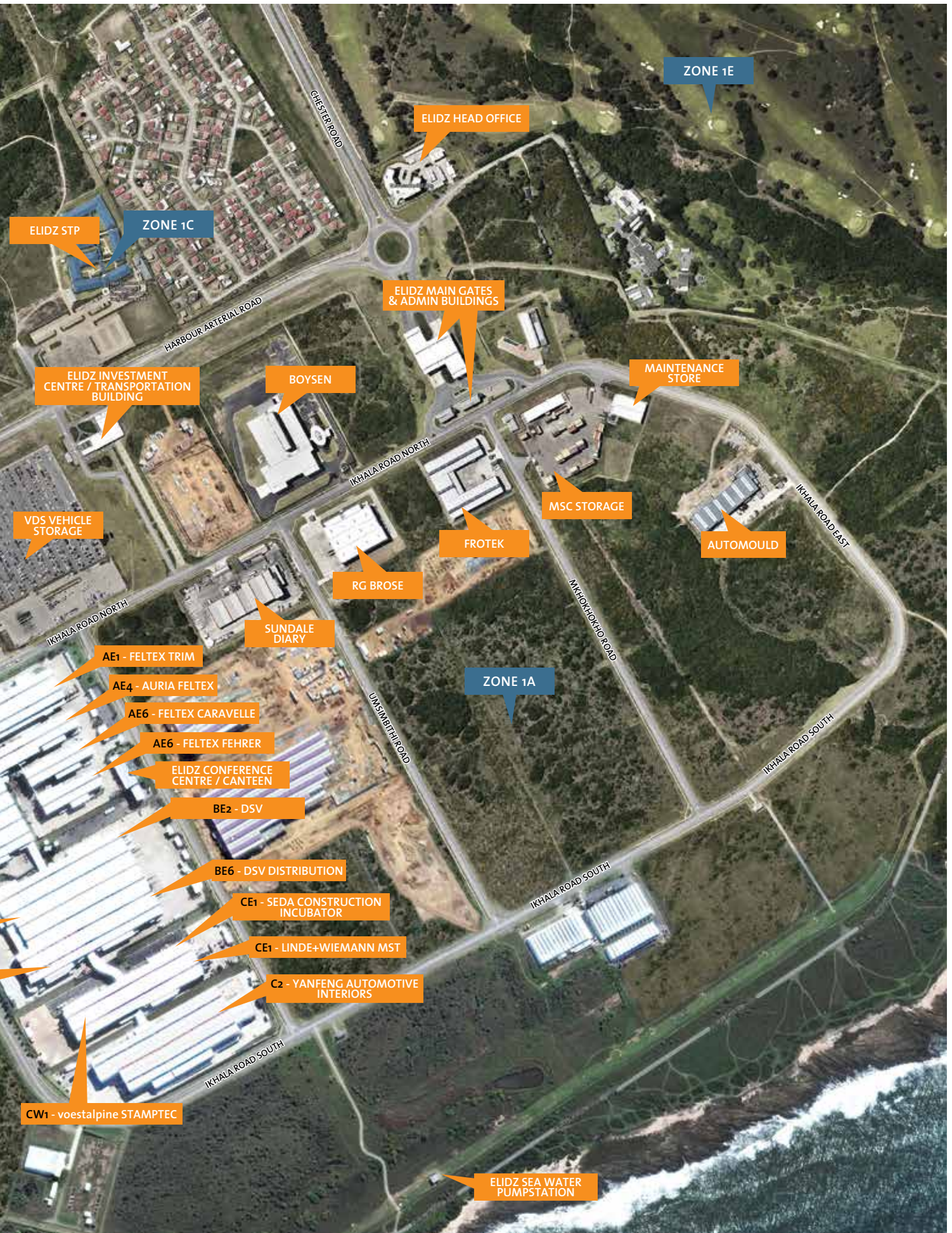


CONTENTS

PART A: GENERAL INFORMATION	7
1.1 ELIDZ General Information	8
1.2 List of Acronyms/Abbreviations	9
1.3 Foreword by Chairperson	10
1.4 Chief Executive Officer's Overview	14
1.5 Statement of responsibility and confirmation of the accuracy of the annual report	18
1.6 Strategic Overview	19
1.7 Legislative Mandate	21
1.8 Organisational Structure	22
PART B: PERFORMANCE INFORMATION	23
2.1 Auditor-General's Report:	24
2.2 Situational Analysis	28
2.3 Strategic Outcome Oriented Goals	32
2.4 Performance information by Programme	34
2.5 Revenue Collection	40
2.6 Capital Investment	41
PART C: CORPORATE GOVERNANCE	42
3.1 Introduction	43
3.2 Portfolio Committees	43
3.3 Executive Authority	43
3.4 The Board of Directors	44
3.5 Risk Management	51
3.6 Company Secretary	52
3.7 ELIDZ Social and Ethical Responsibility	53
3.8 Audit Committee Report	60
PART D: HUMAN RESOURCE MANAGEMENT	62
4.1 Introduction	63
4.2 Human Resources Oversight Statistics	63
PART E: FINANCIAL INFORMATION	69

AERIAL MAP OF THE ***EAST LONDON INDUSTRIAL DEVELOPMENT ZONE***





INTERNATIONAL FOOTPRINT AND CUSTOMERS



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



voestalpine
Manufacture cold-formed structural parts and assemblies for the automotive industry.



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



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).



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



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



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



ZF Lemförder SA
Manufacturers of axle sets for the automotive industry



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



Auria Feltex
Manufactures tufted carpets for supply to sister companies, Feltex Trim and Caravelle Carpets, who supply 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.



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



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



ILB Helios
Spanish company producing solar panels units.



Bigfoot Express Freight
An independent express distribution company offering distribution & fulfillment solutions to clients throughout South Africa.



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



Clariter
Converts plastic waste into high-grade chemical liquids of outstanding purity.



DSV
Logistics and supply chain management services.



Foxtec-Ikhwezi
Supplies high volume Forged non-ferrous products for automotive and engineering industries.



Yekani
Produces kit assemblies, along with complete component procurement, CKD and SKD production within the ICT sector.



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



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



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



Frotek
Manufacturing of plastic products for the automotive and ICT sectors.



Linde+Wiemann
Manufacture and supply seat frames, seat slides, height adjusters, recliner mechanisms, as well as metal surface treatment in the automotive sector.



Nulatex SA
Manufacturing of latex products (condoms) for the pharmaceutical sector.



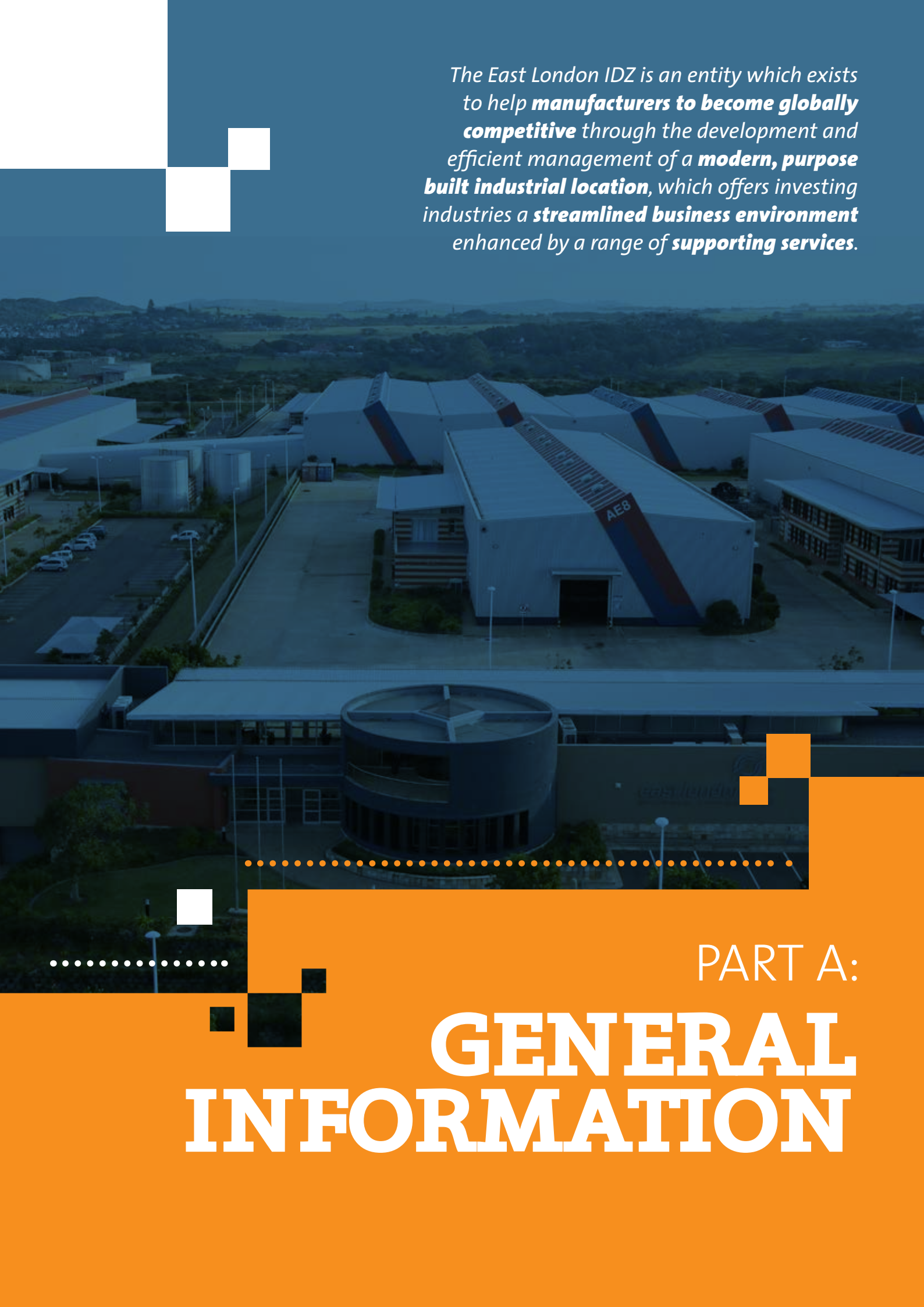
Reinforcing Steel Contractors
RSC provides reinforcing solutions to the building, civil, mining and engineering markets, including the supply, cut, bend, delivery and fixing of reinforcing steel.



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



Meek Mines SA
Cuts and polishes diamonds mined in Africa for supply to both the domestic and foreign markets.



The East London IDZ is an entity which exists to help **manufacturers to become globally competitive** through the development and efficient management of a **modern, purpose built industrial location**, which offers investing industries a **streamlined business environment** enhanced by a range of **supporting services**.

PART A:

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,
Greenfields,
East London,
5208,

TELEPHONE NUMBER/S: +27 43 702 8200

FAX NUMBER: +27 43 702 8251

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

LIST OF ACRONYMS ***/ABBREVIATIONS***

BBEE	Broad-Based Black Economic Empowerment
BCMM	Buffalo City Metropolitan Municipality
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSI	Corporate Social Investment
DEDEAT	Department of Economic Development, Environmental Affairs and Tourism
DTI	Department of Trade and Industry
ELIDZ	East London Industrial Development Zone
GAAP	Generally Accepted Accounting Practice
IDZ	Industrial Development Zone
PFMA	Public Finance Management Act
TR	Treasury Regulations
MBSA	Mercedes-Benz South Africa
MEC	Member of Executive Council
MTEF	Medium Term Expenditure Framework
SEZ	Special Economic Zone
SMME	Small, Medium and Micro Enterprises
SCM	Supply Chain Management

FOREWORD BY BOARD CHAIR- PERSON

The preparation of the Annual Performance Report provides the ELIDZ with an instrument by which it is able to draw the attention of its diverse stakeholder constituency to those factors that the entity considers to have affected its performance results, as well as outline the outlook for the project's sustainability and its long-term impact.



Professor M.W. Makalima
ELIDZ Board Chairperson

The ELIDZ has, as a matter of practice, used this reporting tool to discuss, in some detail, the influence of a range of perceived shortcomings in areas such as the policy and legislative foundations of the Special Economic Zones (SEZ) programme, including economic and other factors impacting the operating environment of the business.

In the financial period 2018/19 many of these factors remained of concern. However, it is essential to also signal that there has been positive movement to share on a number of these factors, despite some of the constraints being deeply ingrained within the South African dispensation for economic zones delivery.

The beginning of the 2018/19 financial year marked the start of the third year in the ELIDZ's SEZ transition period as provided for in the SEZ Act No 16 of 2014. While progress to bed down the SEZ transitional arrangements had initially been slow and uncertain, the ELIDZ notes with satisfaction the completion of a National Treasury process to formally gazette the existing IDZs.

ACTIVATION OF SEZ SUPPORT MEASURES

Coupled with the confirmation of the designation that ELIDZ and other operational zones received to formalise their SEZ status, the gazetting also signalled the long-awaited operationalisation of the SEZ suite of incentives. These include the attractive corporate tax reduction from 28% to 15% (for qualifying industrial enterprises) which is intended to enhance the attractiveness of SEZ locations to domestic and foreign direct investors alike.

Engagements have taken place between the ELIDZ and SARS to resolve various tax-related matters attendant to the roll-out of the SEZ incentives. The ELIDZ seeks clarification of the processes and procedures for the application and administration of these incentives. The organization has also used these engagements to resolve historical concerns on the part of ELIDZ's automotive investors pertaining to applicable SARS incentives. While the ELIDZ is not yet confident that the matter of incentives has been fully addressed, it is anticipated that the SEZ programme will henceforth move into a season where the design and efficacy of South Africa's incentive offerings can finally be market-tested with SEZ-targeted industries.

By their very nature and design, SEZ's serve as enabling infrastructural platforms for stimulating industrial development on the basis of the strength of what SEZ enabling legislation terms; "special arrangements and support systems, including incentives". Ultimately, the performance results of each SEZ's targeted industry will serve to determine the suitability, efficacy and alignment of the support measures and benefits selected by that SEZ.

The growing population of investors, both foreign and domestic, in the ELIDZ as an investment site can be read as a positive reflection by the investor community. However, it bears noting that a number of international zones offer benefit packages that far exceed what the South African National Treasury has made available. SEZ entities must therefore proceed with caution as they assess market response, to ensure accelerated and sustained industrial growth.

STABILISATION OF INSTITUTIONAL ARRANGEMENTS

In a similar vein, the long-standing concerns over the legal efficacy of the existing institutional configuration of former IDZ entities were substantially alleviated during the year under review when, on 3 August 2018, the dti released its draft amendment regulations to the SEZ Act for public comment. These regulations are intended to “remedy complexities in the administration and implementation of the SEZ Act” that were highlighted to the dti. The draft regulations have brought comfort by proposing a regulated procedure in which the affected entities may issue a declaration of intent on their institutional configuration.

Provincial and National Government delegations met on 1 October 2018 to discuss the Eastern Cape’s perspective on the new regulations. The meeting heard from the dti that it did not foresee that post-transitional compliance would present a challenge for the former IDZ entities. The dti is of the view that the amendment regulations should provide an effective mechanism for assuring the legitimacy of the SEZ entities until such time as more substantive amendments to the SEZ Act become feasible, within the Parliamentary calendar.

Following the submission of public comments from the various stakeholders, including the dti’s state law advisers, the dti noted similarities and overlaps in the issues raised regarding the perceived legal compliance of the regulations, as initially drafted. The proposed regulations have subsequently been sent back to the legal drafters together with the issues raised by the various stakeholders.



The ELIDZ now awaits the reformulation and eventual passage of the Amendment Regulations, which would pave the way towards a declaration of intent being issued by the ELIDZ Board to confirm the continuation of the ELIDZ as an SEZ management-and-operator entity, within the framework of the Act.

Throughout the reporting period, the ELIDZ’s advocacy efforts were aimed at supporting direct and frank engagement between the two spheres of government on all issues pertaining to the legal status and policy stability issues for SEZ implementation. In the course of these exchanges, motivations were submitted to the national Minister for consideration of a formal extension in the SEZ transitional term, regarding compliance with the SEZ legal framework.

The ELIDZ continues to engage with and monitor dti processes in respect of the crafting and amendment of the SEZ Act so as to address the gaps and inconsistencies that were identified in the core legislation.

SEZ implementing entities have noted with satisfaction the positive developments that have taken place, but remain ‘apprehensive’ in respect to how far and how quickly these processes will be concluded, resulting in SEZ value offerings that enhance investor appetite and consequently stimulate a greater inflow of investments.

ANTICIPATING THE NEW STRATEGIC TERM

As the 2018/19 period drew to a close, the ELIDZ began to position itself for the commencement of the next five-year strategic cycle, which will run from 1 April 2020 to 31 March 2025.


The closing year of a five-year strategic term typically challenges entities to be deliberate in their assessment of plans and strategies that have worked and served the organisation well. Entities are also challenged to set new plans and adopt new directions, in the interest of enhancing organizational performance. In the light of these considerations, the ELIDZ Board, the executive management and staff have begun a review process of its past performance and imagining of the future, in terms of the next 5-year cycle. In this endeavour, the ELIDZ team draws inspiration from Jean-Jacques Rousseau’s insightful observation that “*The world of reality has its limits; the world of imagination is boundless.*” In doing so, the ELIDZ aspires to transition from the present “reality”, which limits our creativity, toward a ‘boundless world of imagination’ in order to refine the organization’s vision and strategy.

The present report (2018/19 period) does not attempt to exhaust the details of the new strategic intents. However, the following key themes have been taken into consideration:

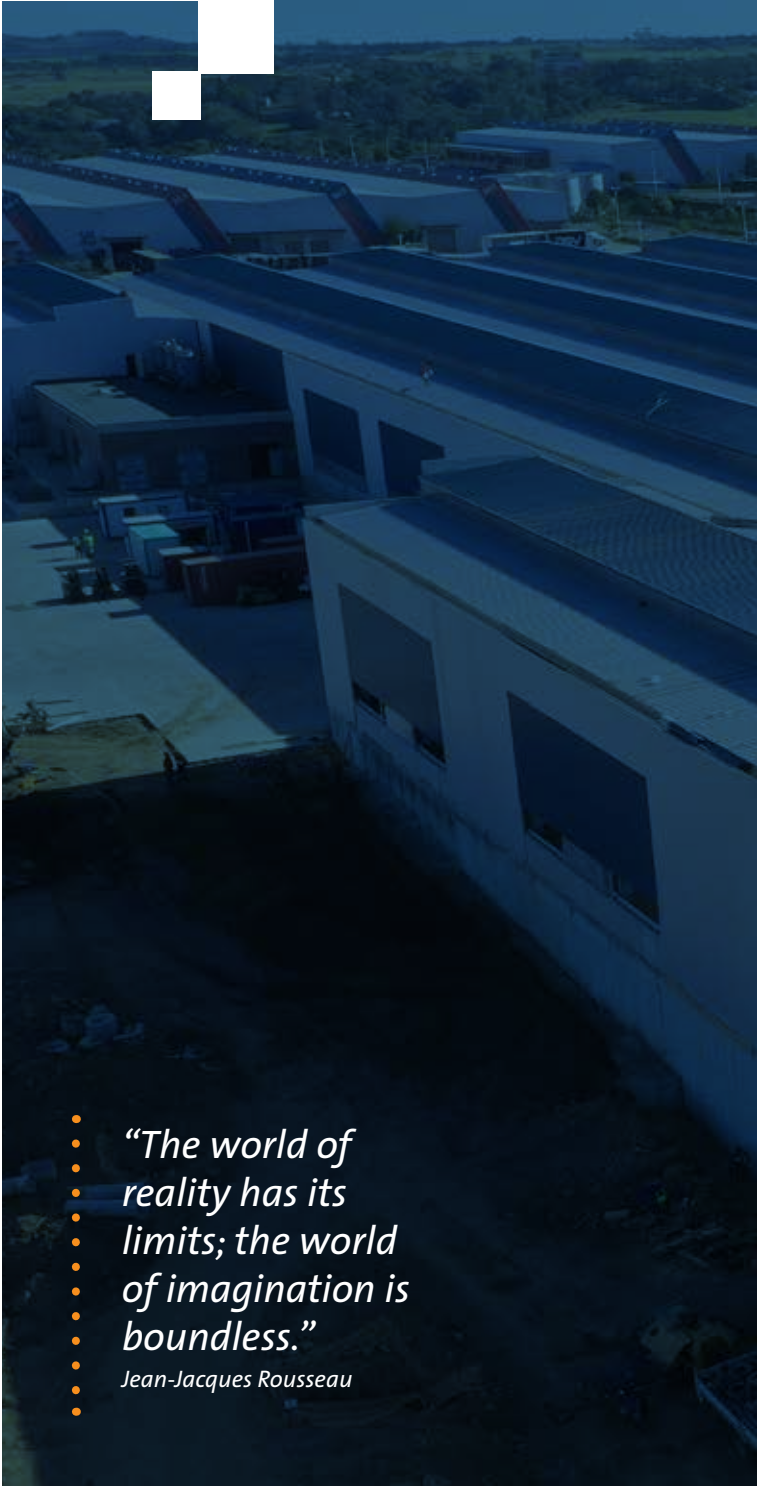
- Our best prospects of achieving continued progress towards the SEZ mandate lies in procuring and sustaining strong collective efforts and competitive synergies – across the disciplines represented within the organisation as well as in collaborative activity across the institutional ecosystem.
- On reflection, significant effort was undertaken by the organization in order to address and resolve inter-stakeholder and legislative issues. These efforts have enabled an environment that supports the implementation of organizational strategic intents, going forward. Further to this, the organization will capitalise on the rapport established within the ELIDZ as well as that established with our institutional ecosystem.
- A key interest is to build a “universally” shared understanding of the SEZ’s current and future performance potentials. This should be located within the overarching governmental priorities and imperatives; acting in concert with and unlocking private sector potential;
- It is critical for the ELIDZ to explore opportunities to flex its operations and extend its outcomes and impacts and finding the right balance between:
 - maintaining strategic focus;
 - agility; and
 - exploring new opportunities.

Considerable work must still be undertaken in the remainder of financial period 2019/20 to define the strategic agenda for the upcoming five-year term. It is evident already that there will be a pronounced need for the entity to invest itself into broadening and deepening its relationships – across government and with targeted industries.

In delivering its developmental and transformation agenda, the ELIDZ must become more knowledgeable about the industries it is pursuing and embrace the technological and other trends that are shaping tomorrow’s industries and economies.



Prof M.W. Makalima
Board Chairperson





OVERVIEW BY CHIEF EXECUTIVE OFFICER

The East London Industrial Development Zone is a Schedule 3D entity. As a 3D entity, the ELIDZ is funded through part government funding (infrastructure and a portion of operations) and part own revenue funding (operations).

Simphiwe Kondlo
ELIDZ CEO

1.4.1. Financial Overview of the ELIDZ

The East London Industrial Development Zone is a Schedule 3D entity. As a 3D entity, the ELIDZ is funded through part government funding (infrastructure and a portion of operations) and part own revenue funding (operations).

1.4.1.1 Funding Trends

At the beginning of the 2018/19 financial year, grant income of R98.6 million was allocated by the Department of Economic Development, Environment Affairs and Tourism (DEDEAT). This, combined with projected income generated from Operations for the 2018/19 financial year of R147.5 million resulted in a total operating budget of R246.1 million.

1.4.1.2 Expenditure Trends

By the end of the period under review, the ELIDZ had a 2% under-expenditure variance when comparing the company's budget and expenditure trends. These expenditure trends act as an illustration of the ELIDZ ability to optimise all financial resources at the organisation's disposal.

1.4.1.3 Own-generated Revenue

It is also clear from the above-articulated sources of revenue that there is a notable improvement in the ELIDZ's ability to cover a significant portion of its operating costs from its own generated revenue. For the period under review – the ELIDZ was able to fund 60% of its annual operations from own generated revenue (non-grant funding) and there has been

a steady improvement in the ELIDZ's own generated revenue since the beginning of the current five year cycle.

It must be noted, however, that while the ELIDZ continues to grow the cover of its operational costs by own generated revenue – this is also dependent on the growth of its investment property portfolio, which in turn is influenced by a number of factors including the competitiveness of the ELIDZ locational value offering and the availability of funding for superstructure development.

The Special Economic Zones Fund, which has been set up by the dti as the main infrastructure and superstructure funding mechanism of the SEZ Programme, continues to be the key source of funding for a majority of the ELIDZ's Capital Expenditure Initiatives. In just the period under review the dti approved an application for funding to the value of R1.7 billion for the construction of new automotive and general manufacturing facilities for investors.

1.4.2. Capacity Constraints and Challenges facing the institution

It is satisfying to report that the ELIDZ has been advised that the dti intends amending the legislation to cure it of its inconsistencies and other deficiencies. This will be vital to bring the policy clarity and institutional stability that is so crucial for a developmental and an investment attraction programme of this nature.

ELIDZ IMPACT IN NUMBERS

TOTAL PRIVATE INVESTMENT
R4.40
ATTRACTED SINCE INCEPTION **BILLION**

R3.4 **BILLION**
PUBLIC INVESTMENT
WORTH OF
SUPERSTRUCTURE
FUNDING
BY THE DEPARTMENT OF TRADE & INDUSTRY SINCE INCEPTION

4666
NUMBER OF **MANUFACTURING AND
SERVICES JOBS** CREATED TO DATE

32 **OPERATIONAL
INVESTORS
SINCE
INCEPTION**

65% GROWTH ON
REPORTED
**MANUFACTURING AND SERVICES
JOBS** SINCE 2015/16

19 **NEW INVESTORS**
SIGNED SINCE THE
BEGINNING OF THE
FIVE-YEAR CYCLE

85% GROWTH IN
THE VALUE OF
**EXPORT
ORIENTED
PRODUCTION**
(R2.1 BILLION IN 2015 TO
R3.9 BILLION IN 2018)

Initially it had been signalled and anticipated that the SEZ Act amendments would be readied to bring into the National Legislative process during February 2019. This has, however, not yet taken place. Moreover, there is a concern over a substantial backlog of legislation that is pending attention by national government which may result in lengthier delays than originally intimated.

1.4.2.1 Funding Constraints

The ELIDZ's business model makes a number of assumptions on both Operating and Capital Funding available to the ELIDZ for future years and these give an estimated break-even point for the organisation. There remains a sense of uncertainty around the availability of funding from the dti going forward while this has not been the case during the current financial period, the ELIDZ does compete for funding with other SEZs.

1.4.3. Changes in the ELIDZ Mandate (Discontinuing Activities)

ELIDZ has been active in advocating for the SEZ Act to be amended as soon as possible by the national dti to remedy gaps and inconsistencies that have been observed in the legislation. The organisation (along with other affected SEZ Operators) remains anxious that full legal clarity be established conclusively in respect to both transitional and post-transitional arrangements, notwithstanding recent positive developments in which the dti has acknowledged that the legislation is in need of attention and has committed to address this.

The desired process of amendment to the Act and its regulations will hopefully assure SEZ entities of a normalisation of a range of institutionally significant matters which had been subjected to uncertainty in the wake of the commencement of the SEZA, including:

- Final and conclusive legal pronouncement on acceptable institutional roles (and that this occurs to the satisfaction of ELIDZ's principals operating at the municipal, provincial and national spheres);
- SEZ programme endorsement of the existing configuration of the ELIDZ's business delivery model together with its resourcing and enabling requirements (as originated in the former IDZ programme dispensation); and
- Sanctioning of existing operational practices of the former IDZ entities along with the condonement of new or extended practices that an expanded special economic zone programme and policy proffers.

1.4.4. Financial Management and Compliance

Requests for roll over of funds

As at 31 March 2018, some contracts and projects to the value of about R552 million were still in progress. A request for rollover of funds was submitted to the EC Provincial Treasury for approval. The ELIDZ received approval for the rollover of this amount which was then included in the ELIDZ budget for the 2018/19 financial year. As at 31 March 2019, some contracts and projects to the value of R1.15 billion were still in progress. A request for the rollover of funds was submitted to the EC Provincial Treasury for approval at the end of the FY.

Supply chain management

As at the end the 4th quarter of financial year 2018/2019, ELIDZ awarded thirty four (34) contracts to the value of R845 103 978,40. Bulk of the contracts awarded were initiated by the Operations Department. These contracts were awarded in accordance with ELIDZ SCM policy and applicable National Treasury regulations.

Unsolicited bid proposals for 2018/19

The ELIDZ's supply chain management policy makes provision for the unsolicited bids but in the current year, there were no unsolicited bids that were received.

SCM processes and systems

The entity has a fully functional supply chain management unit that has sound systems and polices. The internal audit and the external auditors audited the systems and there were not any major break down in the process and systems.

Challenges experienced and how they will be resolved

There were no challenges that were experienced during the current year.

Audit report matters in the previous year and how they would be addressed.

There were no major issues that were noted by the auditors last year

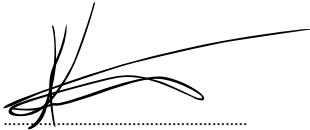
Outlook/ Plans for the future to address financial challenges

The ELIDZ continues to attract investors and plans to build infrastructure for the investors. The increased asset base of the organisation will increase own generated revenue through increased rentals that are charged along with revenue generated from value-added services offered to investors.

Economic Viability

While ELIDZ continues to grow in covering its operational costs with own generated revenue – this is also dependent on the growth of its investment property portfolio, which in turn is influenced by the availability of funding for superstructure development.

The organisation will continue growing its own generated revenue from year to year and implementing the cost containment measures without compromising on the service delivery.



Simphiwe Kondlo

Chief Executive Officer



1.5 STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF THE ACCURACY OF THE ANNUAL REPORT

To the best of my knowledge and belief, 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 (AFS) have been prepared in accordance with SA GRAP, and the Companies Act, No 71 of 2008 and the PFMA.

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 has been designed 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 2019.

Yours faithfully



Simphiwe Kondlo
Chief Executive Officer



Professor M.W. Makalima
Chairperson of the Board

1.6 STRATEGIC OVERVIEW

Establishment and Purpose

The East London Industrial Development Zone (ELIDZ) was established in 2002 through the South African Industrial Development Zones (IDZ) Programme, which was at the time operated as an initiative of the Manufacturing Development Act no. 187 of 1993. The entity was created to develop, operate and maintain a complex of modern industrial infrastructure and support services at the East London industrial development zone in order to attract strategic investments to the region.

The programming foundation for the implementation of South Africa's economic zones projects was broadened with the development of its own enabling legislation, which culminated in the promulgation of the Special Economic Zones (SEZ) Act in 2014. The commencement of the SEZ Act was delayed to allow for the issuing of its enabling regulations, which was finalised some two years later in February 2016.

SEZ legislation defines a special economic zone as “an economic development tool” and identifies the primary objectives of the SEZ programme as the promotion of “national economic growth and export by using support measures in order to attract targeted foreign and domestic investments and technology”.

Institutional and Project Authorisations

The East London industrial development zone is operated by the ELIDZ SOC Limited under authorisation of a Zone operating permit issued by national government. Its original Operator Permit was issued under the former IDZ Programme and was awarded on 4 July 2007 under the joint authorisation of the national Manufacturing Development Board (MDB) and the then Minister of Trade and Industry.

Long-standing concerns over the legal acceptability of the existing institutional configuration of former IDZ entities were substantially alleviated when the dti released draft amendment regulations to the SEZ Act for public comment on 3 August 2018. The regulations are intended to “remedy complexities in the administration and implementation of the SEZ Act” that had come to the dti's attention. The new draft regulations have brought comfort by proposing a regulated procedure in which the affected entities may issue a declaration of intent on their institutional configuration.

Provincial and national government delegations met on 1 October 2018 to discuss the Eastern Cape's position on the new regulations. The meeting heard from the dti that it did not foresee that post-transitional compliance would be problematic for the former IDZ entities. DTI believes that the amendment regulations would prove a sufficient means of assuring the legality of the SEZ entities until such time as more substantive amendments to the SEZ Act were feasible.

As per the above highlights, ELIDZ advocacy efforts have culminated in direct and frank engagement between the two spheres of government. Stakeholder engagement will now adopt a stance of co-operating and monitoring to see how the following may be resolved over a period of time:

Organisational Status

The East London Industrial Development Zone SOC Ltd (ELIDZ) is a state-owned company as defined in the Companies Act 71 of 2008. Its shareholders comprise of the Eastern Cape DEDEAT and the Buffalo City

Metropolitan Municipality (BCMM), which hold the shareholding in the proportions of 74% and 26% respectively.

ELIDZ is a provincial public entity listed under schedule 3D of the Public Finance Management Act (PFMA) and this characterises it as a government business enterprise.

The entity's operational programmes and capital expenditure activities are currently funded through a combination of national and provincial funding support. The principal sources of funding are from the dti (SEZ Fund – Capital Projects) and from the DEDEAT.

As a maturing and expanding business enterprise, the ELIDZ also generates its own income streams from the utilisation of the IDZ's property assets and associated zone services under its management control. Own generated income has been growing since the ELIDZ became operationally active and the entity is seeking to continue on this course as part of a process to mature the project to a state of financial sustainability.

1.6.1 Vision, Mission and Programmes

As a public organisation, the ELIDZ adopts its strategic direction and constructs its guiding statements of organisational Vision and Mission from two principal points of reference:

- An appreciation of the strategic industrialisation needs and latent potentials of the host region in which the economic zone is being established. This is read in conjunction with national, provincial and local government's directives issued within applicable policies, strategies and programmes that seek to respond to current and future industrialisation opportunities; and
- An understanding of the legislative and regulatory regime and the effective mandate parameters that are imposed by virtue of pursuing these strategic industrial development outcomes through the programming and institutional arrangements that are provisioned within South Africa's Special Economic Zones (SEZ) programme and its various enabling and resourcing instruments.

The Special Economic Zones Act (Act No 16 of 2014) sets out a statement of purpose for the establishment and operation of an SEZ. Chapter 2, Section 4 of the Act recognises that an SEZ implementation may configure and apply its SEZ development tool in a variety of ways (and towards the attainment of a variety of valid intended outcomes). The legislation cites nine aspects of developmental purpose that may be pursued under the scope of the SEZ legislation and programming.

These mandated purposes are defined as:

- facilitate the creation of an industrial complex, having strategic national economic advantage for targeted investments and industries in the manufacturing sector and tradable services;
- develop infrastructure required to support the development of targeted industrial activities;
- attract foreign and domestic direct investment;
- provide the location for the establishment of targeted investments;
- enable the beneficiation of mineral and natural resources;

- take advantage of existing industrial and technological capacity, promoting integration with local industry and increasing value-added production;
- promote regional development;
- create 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
- generate new and innovative economic activities.

Based on these aspirations of government, the ELIDZ pursues the following as the Vision and Mission guiding the programmes and activities of the entity:

VISION

World class Operator of a **prestigious industrial complex** where highly competitive organisations thrive on **streamlined business benefits** and stimulate sustainable regional **economic growth**.

With the transition from IDZ to SEZ programming, the ELIDZ has revisited its strategic intents to confirm alignment to the SEZ programming and its objectives, as set out in the national programme’s SEZ policy statement. In addition, the ELIDZ vision and mission are also considered well aligned to government’s broader industrial development priorities as encapsulated in the National Industrial Policy Framework (NIPF) and in the Industrial Policy Action Plan (IPAP).

Furthermore, the ELIDZ pursues its industrial sector focus in relation to strategic intents reflected in provincial economic planning and, notably, within the Provincial Development Plan: Vision 2030.

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.

THE ELIDZ PURSUES ITS MISSION TO CREATE AND DELIVER:

- a suitable **location** for the establishment of strategic investments;
- the **promotion and development** of productive links between domestic and zone-based industries, to optimise use of existing infrastructure, generation of employment and creation of technology transfers; and
- the **enabling of the beneficiation of local resources** by resource-seeking industries.



1.7 LEGISLATIVE MANDATE

- *In terms of the scheduling requirements of the Public Finance Management Act (PFMA) legislation, the ELIDZ is listed as a Schedule 3D provincial public entity. This authorises the entity to operate as a provincial government business enterprise (PGBE) and renders it accountable to the provincial legislature for the performance of its programmes of activity and oversight of its utilisation of public funds.*

ELIDZ's participation in the national dti's Special Economic Zones (SEZ) programme and its utilisation of various resources (including the national programme incentive benefits) proceeds on the basis of two key enabling authorisation instruments.

These are:–

- the conferring of a SEZ Designation approval to the geographic area under ELIDZ's operation as an industrial development zone (IDZ), as required by the SEZ Act; and
- award of an SEZ Operator Permit by the dti, authorising the ELIDZ to undertake the functions and activities of an SEZ operator, as also set out in the legislation.

In view of its dual linkages to policymaker principals in the national and provincial government spheres and its responsiveness to both national and provincial strategic economic development objectives, the ELIDZ enters into formal institutional oversight agreements with both provincial government (through DEDEAT) and with national government (through the dti).

Legislatively, the ELIDZ's public institutional arrangements are governed by the Special Economic Zones Act (Act No. 16 of 2014) and the regulations and guidelines to the Act, as issued by the dti.

The Act caters for the operation of a number of different types of economic zone implementations, including that of Industrial Development Zones (IDZs), and prescribes governance, management, strategic and financial planning and entity reporting obligations that SEZ projects must observe in relation to the national SEZ programme.

IDZ programming had originally been established in terms of programme regulations to the Manufacturing and Development Act (MDA), Act 187 of 1993 which provided the foundational direction for zones initiatives, as an economic intervention of Government. Following an extended phase of policy and legislative development, South Africa introduced the Special Economic Zones (SEZ) Act 16 of 2014 as the new legislative framework for Special Economic Zones, which now includes the Industrial Development Zones projects.

The President of South Africa issued a proclamation (No. R 6 of 2016, dated 9 February 2016), which proclaimed the commencement of the SEZ Act with effect from 9 February 2016. Regulations to the SEZ Act have also been made and published.

Policy Frameworks

In executing the IDZ Programme mandate, and in discharging the interests of its various government shareholders and broader programme stakeholders, the ELIDZ seeks to optimise its industrial development

initiatives through the alignment and co-ordination of activity with economic planning and development policies and planning instruments that span three spheres of government:

- **National** industrial policy goals, priorities and action plans, as formulated and supported by the DTI, specifically through the:
 - Special Economic Zones Policy Statement
 - SEZ Operator Conditions of Permitting;
 - (Future) SEZ Programme Strategy (as provisioned in the SEZ Act, but not yet issued)
 - National Industrial Policy Framework (NIPF) and related strategies; and
 - Industrial Policy Action Plan (IPAP), and ultimately via responsiveness to the:
 - National Development Plan (NDP).
- **Provincial** economic growth and development planning (as directed and administered by the DEDEAT). Specifically, reference is made to policy intents and direction given within:
 - Provincial Development Plan (PDP Vision: 2030);
 - DEDEAT Policy Speech;
 - The Eastern Cape Provincial Industrial Development Strategy (PIDS);
 - Provincial Economic Development Strategy (PEDS) and
- **Local government** integrated development planning initiatives, as directed and administered by Buffalo City Metropolitan Municipality (BCMM) via its:
 - Metro Growth and Development Strategy (MGDS)
 - Integrated Development Plan (IDP).

1.8 ORGANISATIONAL STRUCTURE

CHIEF EXECUTIVE OFFICER					
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	4
Company Secretarial Support	-	-	1	-	1
Corporate Strategy and Planning	-	-	1	-	1
Project Portfolio Management	-	1	1	-	2
Assurance	-	-	1	-	1
Total Filled Positions	1	2	4	2	9
Research	-	-	1	-	1
Total Vacant Positions	-	-	1	-	1
Total Positions	1	2	5	2	10
CHIEF FINANCIAL OFFICER					
FINANCIAL MANAGEMENT					
Functional Area	EM	MG	SP	AS	T
Financial Management	1	-	-	2	3
Financial Control & Reporting	-	-	1	2	3
Financial Management, Reporting & Administration	-	1	1	2	4
Management & Cost Accounting	-	1	-	-	1
Supply Chain Management	-	1	3	-	4
Total Filled Positions	1	3	5	6	15
Total Vacant Positions	-	-	-	-	-
Total Positions	1	3	5	6	15
CHIEF OPERATING OFFICER					
ZONE DEVELOPMENT					
Functional Area	EM	MG	SP	AS	T
Zone Operations	1	-	-	3	4
Sector Development & Investment Promotion	-	3	1	-	4
Project Management & Coordination	-	1	3	-	4
Property Portfolio Management	-	1	-	1	2
Maintenance & Facilities Management	-	1	3	2	6
Investor Support Services Management	-	1	2	2	5
Science & Technology Park	-	1	1	3	5
Laboratory	-	-	4	2	6
Total Filled Positions	1	8	14	13	36
Zone Operations	-	-	1	-	1
Laboratory	-	1	-	-	1
Maintenance & Facilities Management	-	-	1	-	1
Total Vacant Positions	-	1	2	-	3
Total Positions	1	9	16	13	39
EXECUTIVE MANAGER: CORPORATE AFFAIRS					
CORPORATE AFFAIRS					
Functional Area	EM	MG	SP	AS	T
Corporate Affairs	1	-	-	2	3
Human Capital & Legal Services	-	1	4	-	5
Corporate Communications	-	-	3	1	4
Information Communication & Technology Management	-	1	4	-	5
Safety, Health & Environmental Management	-	1	3	1	5
Records Management	-	1	1	1	3
Total Filled Positions	1	4	15	5	25
Corporate Communications	-	1	-	-	1
Total Vacant Positions	-	-	-	-	1
Total Positions	1	5	15	5	26

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



PART B:

PERFORMANCE INFORMATION

2.1 AUDITOR-GENERAL'S REPORT

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the East London Industrial Development Zone SOC Ltd set out on pages 72 to 118, which comprise the statement of financial position as at 31 March 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. 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 2019, and its financial performance and cash flows for the year then ended, in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) 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).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants and parts 1 and 3 of the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

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

Restatement of corresponding figures

7. As disclosed in note 36 to the financial statements, the corresponding figures for 31 March 2018 were restated as a result of an error identified in the financial statements of the entity at, and for the year ended, 31 March 2019.
8. As disclosed in note 37 to the financial statements, the corresponding figures for 31 March 2018 were restated as a result of a change in accounting policy, which was necessary due to the change in reporting framework from the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) to GRAP for the current period in the financial statements of the entity at, and for the year ended, 31 March 2019. The change in reporting framework was applied through Directive 12 issued by the Accounting Standards Board effective from 1 April 2018.

Responsibilities of the accounting authority for the financial statements

9. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the PFMA and the 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.
10. In preparing the financial statements, the accounting authority is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

11. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is

not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

12. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

13. 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 material findings on the reported performance information against predetermined objectives for the selected programme presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
14. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the annual performance report of the entity for the year ended 31 March 2019:

Programme	Pages in the annual performance report
Programme 1: operations	34 - 38

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for programme 1: operations.

Report on the audit of compliance with legislation

Introduction and scope

18. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
19. I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

20. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the financial statements, the auditor's report and the selected programme presented in the annual performance report that has been specifically reported in this auditor's report.
21. My opinion on the financial statements, the reported performance information and compliance with legislation does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
22. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

23. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Auditor General

East London
31 July 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for the selected programme and on the entity’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority
 - conclude on the appropriateness of the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause an entity to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

2.2 SITUATIONAL ANALYSIS

2.2.1 Performance Environment

2.2.1.1 Economic Climate and Outlook for Strategic Industrial Development

The performance and ultimate impact of the ELIDZ as an economic initiative of government depends on a complexity of inter-related factors. Most of these are external to the organisation and arise at various levels, ranging from global to local. Together, the factors come to have a bearing on the success of SEZ zones delivery, as well as on their ongoing operational performance and growth.

Principal among these environmental influences is the global economy's financial state of health (and related, prevailing geo-political climate). These considerations shape the stability and growth prospects of global industries and their value chains, both in terms of rates of investment into production and expansion, as well as in terms of the volumes and business outlook for international import and export trade flows.

A languishing, persistently weak global economy has presented the South African Special Economic Zones (SEZ) programming with a most challenging performance environment, which is not showing strong signs of early correction or abatement. Not only is this climate characterised by lowered demand for industrial sector manufacturing outputs, but also with cautious and reduced investor appetites to commit substantial new investment capital into fixed investments such as manufacturing facilities and plant and equipment.

On the back of these constraints, the global economy – and notably the US as one of its leading components -- has also been moving towards higher levels of protectionism over the domestic retention of production, markets and employment. This also is counter-productive to the mission of lesser developed nation destinations, like South Africa, to attract strategic inward investment from abroad as part of the country's pursuit of higher job creation and exports development.

At the national/country level, South Africa also continues to navigate significant hurdles in its path of seeking to woo foreign direct investment. Prominent among these are the concerns over the country's financial affairs and levels of public sector institutional indebtedness, as reflected in the downward ratings of the country's credit worthiness by agencies within the international arena.

South African industrialisation efforts are also beset by a series of domestic institution-related factors that constrain or slow its progress to build its industrial capabilities and competitiveness. By its own admission, government is concerned over a tendency for the public sector and its institutions to be strong in setting elaborate planning into place -- yet weak in the implementation of such planning.

For SEZ operators, this is felt in the paucity and under-effectiveness of some of the critical policy enablers and institutional instruments that need to be in place – but often aren't – to facilitate steady and systematic movement of the economy (with its various industrial sectors) into new areas of industrial opportunity and competitiveness.

At the ELIDZ, this has translated into stop-start difficulties in establishing and stabilising some of the industrial opportunities that are regarded as

being strategic for the Eastern Cape and for the East London location. Notably this has affected the nature and pace of the SEZ's sector development efforts and programming.

Affected sector activities include renewable energy generation (and other green economy sectors), aquaculture development and biofuels production (and other agro-processing generally) as well as industrial investment opportunities within the ICT/hi-tech manufacturing sectors – all of which are needful of better policy enablers to spur higher levels of investment.

Landing of investment is often impeded by a lack of public sector policy and institutional co-ordination to provide needed support in areas such as providing public sector procurement off-take potential and import substitution measures. Such assistance is vital for certain emerging sectors and is supportive of government's drive for the localisation of industrial production as part of the deepening of industry value chains. It is also supportive of efforts targeting stronger linkages and impact into decentralised areas of the country and with the rural economy.

It is also noteworthy that while the national economic zones programme seeks to explicitly target internationally tradable services (with extensive upside opportunities in the ICT space), the mainstream instruments of current incentive programming (like SARS' corporate tax benefits) emphatically exclude the services sector (and still focus narrowly on manufacturing as the targeted outcome).

Similarly, national SEZ policy endorses and calls for a more strategic, eco-systemic approach to the long-term pursuit of industrialisation to aid South Africa's competitiveness in the global arena. The SEZ policy takes into its view multiple desirable developmental elements of such an industrial ecosystem. This includes the need for integrated and better synchronised state action and support in areas like productivity and skills enhancement, national and regional logistics capability enhancement (and costs containment) and stronger support for industrial technology advancement and innovation.

While these policy objectives are strongly endorsed – even across multiple stakeholder institutional domains, including that of SA's SEZ operators -- they are yet to translate into a commensurately broad and flexible suite of well tested and seamlessly operating enabling instruments.

At implementing site level, SEZ delivery also faces related challenges that have an impact on the rate at which the ELIDZ is able to populate its zone with high-performing, competitive industries. One of the main constraints for the East London location as an investment destination concerns the quality and cost of logistics for the inbound and outbound movement of materials and goods by investor industries.

The limited size of the local South African market is, more broadly, also seen as another key limiting factor that continues to curtail the viability of green-field, direct investment projects. These challenges combine to create significant difficulties and limitations for the location to be competitive in attracting investments into the East London area that are substantial and high-value.

2.1.1.2 Mitigation of Adverse Performance and Service Delivery Factors

The majority of the hurdles that economic zones face in attracting and retaining strategic industries have their genesis in macro-level aspects, where the individual SEZ entities have rather limited scope to effect direct and immediate mitigative responses.

SEZ entities (licensees and their operators) do, however, have an instrumental role to play in driving continued advocacy for policy and legislative review and enhancement. They also have opportunity to actively promote utilisation of the SEZ as a vehicle and delivery platform for more cohesive and effective state support towards the attainment of its industrial development objectives.

While the challenges loom large (and are having an undoubtable curbing effect on investment settlement performances), there is a growing groundswell of collective, positive response by the State to begin to orchestrate and incrementally improve co-ordination and joint implementation of industrial action planning.

The economic mission has been taken up at the highest national political office, with the State President taking a direct and active role in taking South Africa's industrial opportunities into the international stage. These efforts are seeking to also reverse the negative sentiment within the global investment community that credit agency down ratings have precipitated, with signalling by government that it is serious about addressing the institutional governance weaknesses and financial woes of some of its state-owned entities.

Presidential championship is also translating into concrete action, with the political endorsement of an economic stimulus package as a basis for reviving South Africa's economic output and growth. The drive has also galvanised a renewed imperative and visible commitment towards better and more formalised co-ordination of state activities across government portfolios, to bring about more efficient and effective government support.

In respect to SEZ programming this is becoming evident in the proactive steps being taken to underpin working relationships between key role players like the dti and National Treasury (including its revenue services agency, SARS in respect to the roll out of new SEZ corporate tax relief and other fiscal incentives).

The relational climate between such key stakeholders has in the past been under question, but appears now to have moved – or is moving – into a new basis of open and pragmatic engagement, premised on a more cohesive 'whole of government' vision and call to action.

Of great encouragement and comfort, also, is that the positive developments and sentiment have not been isolated to a single sphere of government.

Provincially, there has been a mirrored proactive stance by the Eastern Cape government, led by the MEC who is jointly responsible for the portfolios of economic development (DEDEAT) and Provincial Treasury (ECPT). The support emerging from this is actively seeking to better shape future allocation of government resources into developmental initiatives within the ambit of the economic cluster of government, so that these resources are more supportive of the province's long-term economic development and growth aspirations.

It is also pleasing to note that at municipal government level there is a further push to effect interventions seeking to improve the attractiveness of the city as an industrially competitive location. Much work has to be

done in this area, but the signals of responsiveness bode well for the improvement of the performance environment for the ELIDZ into the medium to longer-term as success in this area will serve to immediately enhance the SEZ's value proposition for investors.

Buffalo City Metropolitan Municipality (BCMM) has intimated that it has processes under way to develop a comprehensive investment promotion strategy for the metro. It has also commenced activity to develop a municipal-based one-stop-shop facility to improve municipal service level responsiveness towards local businesses and industry.

There is an invitation for the ELIDZ and BCMM to work more closely together on both the strategy development level and in practical areas like the consideration of localised incentives. These will form part of the work to position the city to better compete with other investment location options presented to investors by other South African cities and investment locations elsewhere.

The positive developments across the spheres of government are considered to be still in their infancy, in many respects, but are of extreme worth to the long-term promotion of the mission and goals of the ELIDZ and the operations and performance of its special economic zone precinct.

For its part, ELIDZ has been actively pursuing these ends as part of its long-standing stakeholder engagement programming, targeting relating institutions at the local, provincial and national level.

In the current entity planning cycle, this was taken forward into a well-attended and supported stakeholder consultative process which adopted the planning theme: Forging a shared mission for accelerated, strategic industrial development and growth. The consultation proved very helpful in seeking to distil a shared and common purpose and institutional goodwill towards the key outcomes that are envisaged under ELIDZ's vision, mission and goals.

ELIDZ is optimistic that the engagement is creating new possibilities and new momentum on an inter-governmental basis that will enable the state to begin to grapple with some of the structural and systemic weaknesses that have constrained its industrial development programming in the past.

While the current five-year term of government has been battered by the adverse economic conditions nationally and globally, there is a hope that these positive actions will take root and assist to strengthen performance potentials leading into the next five-year planning cycle commencing from 2020/21.

ELIDZ's eager hopes for these outcomes is tempered to a degree by an understanding that the adequacy of financial and other resourcing capabilities (across public institutions) will ultimately determine how decisively (and just how quickly) government is able to act to create and sustain a more conducive performance environment for its SEZs programming and SEZ implementation sites.

2.2.2 Organisational Environment

For the 2018/19 period, ELIDZ was assisted to perform its activities with a staff complement of 90 persons, of which 85 represent permanent fixed employment and five posts as contract-related, as detailed in the Table below.

Employment Type	No. Employed	Status	Total Positions
Permanent	80	5 Vacant positions	85
Contract (Executive Management)	4		4
Contract (2-year fixed term contract)	1	1 contract appointment undertaken in January 2019	1
Total	85	Permanent / contract Combined	90

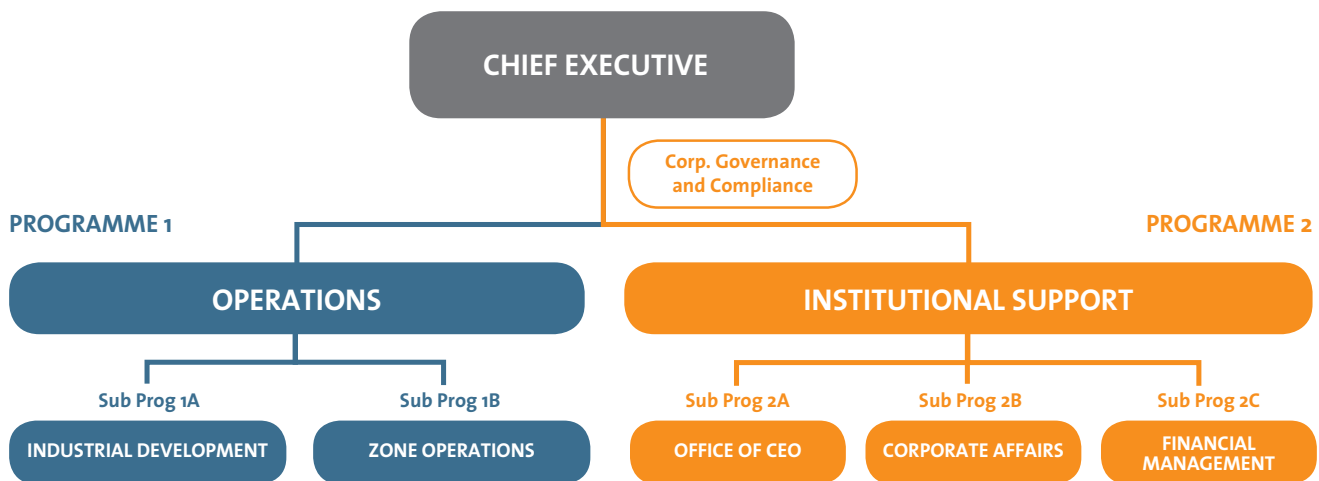
The demographic profiling of the work force as at 2018/19 is indicated in the summary information below:

GENDER ANALYSIS		AGE GROUPING ANALYSIS		
Female	Male	Age: Under 36	Age: 36 - 55	Age: Over 55
58 per cent	42 per cent	36 per cent	57 per cent	7 per cent

The organisation has now been able to fill 95,5 % of the positions in its approved organogram.

The organogram had been refined earlier in the current five-year planning cycle (April 2016), following a restructure exercise. The change sought to best position the entity for changes arising within the SEZ sector legislation and policy environment, as well as to assist the ELIDZ to create better levels of internal synergy and efficiencies operationally.

The organisational development process established two reconstituted programmes of activity – a consolidated Operations programme and a consolidated Institutional Support capability as shown below.



One requirement that ELIDZ human capital planning faces is that elements of ELIDZ’s core business are cyclical in nature (and so require human resource provisioning that is both flexible and adaptable to recurrent phasings of cyclical fluctuation). This is especially felt in relation to the attraction and settlement processes pertaining to automotive sector investments, as much of this is tied to seven-year auto production cycles.

As a consequence, HR planning and organogram management needs to remain abreast of insource/outsource talent strategies that produce the best organisational capability outcomes at the most efficient cost.

Having experienced a measure of earlier human resourcing instability during the period when uncertainties over the SEZ programme and its institutional arrangements were running high, the ELIDZ has now been able to attain HR trends that are more stable -- and also more conducive to an improving business performance outlook -- as indicated in the statistics below.

HUMAN CAPITAL TREND METRIC	2015/16	2016/17	2017/18	2018/19
Number of staff employed	77	88	88	85
Staff Turnover	-	11.54%	7.32%	4.71%
Vacancy Rate	-	17.50%	8.75%	5.56%
Early Turnover (Departures within 1 year)	2	0	2	1
% of employment related expenditure spent on targeted training initiatives	3.63%	4.21%	4.27%	5.20%
Number of Training Interventions	9 Training interventions	6 Training interventions	21 Training interventions	48 Training interventions
Staff Satisfaction	60.7%	64%	73%	76.8%

It is pleasing to note that:

- Staff Turnover rate has improved from 7.32% in 2017/18 to 4.71% at the end 2018/19
- Vacancy rate has improved from 8.75% in 2017/18 to 5.56% at the end of 2018/19
- Five employees have been promoted internally since the restructuring process in 2015/16, in line with ELIDZ's talent retention strategies;
- Granting of work opportunities to interns has resulted in four interns having been absorbed into the organisation since the restructuring process.

STAFF TURNOVER RATE
FOR PERIOD UNDER REVIEW

4.71%

5 **EMPLOYEES PROMOTED INTERNALLY**
SINCE 2015/16

5.56%
VACANCY RATE FOR 2018/19
[IMPROVED FROM 8.75% IN 2017/18]

4 **INTERNS HAVE BEEN ABSORBED INTO ORGANISATION** SINCE RESTRUCTURING PROCESS



2.3 STRATEGIC OUTCOME ORIENTED GOALS

At the commencement of its five-year strategic planning term, the ELIDZ reviews and re-sets the outcome-oriented goals of the institution to serve as the core strategic agenda for the ensuing cycle.

Ordinarily, the Goals and Objectives of the entity should remain largely stable for the duration of the five-year planning term. However, this has not been possible under the current planning climate, which has been characterised by substantial uncertainty concerning unfolding legislative, policy and programming changes affecting SA's economic zones sector.

In light of this, the ELIDZ's Board assented to a revision of the high level goals of the organisation following the October/November 2016 annual strategic planning review. An enhanced set of five High Level Goals were adopted to best focus the strategic management and operations of the organisation for the remainder of the five-year term, 2015/16 –2019/20.

These goals are set out below:

STRATEGIC GOAL 1		DEVELOP A STRATEGIC INDUSTRIAL COMPLEX
Goal Statement	<i>Access land to establish an industrial complex offering strategic economic advantages that enable the attraction and location of targeted industries in the manufacturing and tradable services sectors.</i>	
Justification	<p>The development and operation of a purpose-built and designated area to arm strategically targeted South African industry with a platform of competitive economic advantages exists as a foundational purpose for government's implementation of its Special Economic Zones (SEZ) programming.</p> <p>SEZ policy also promotes optimal integration of SEZ sites and their industries into the local and regional economy, via backward and forward linkages that exploit and grow existing industrial sector activity and the effective utilisation of existing supporting local and regional infrastructures and institutions.</p>	
Supporting Strategies (Strategic Objectives)	<p>1.1 Acquire, designate and appropriately zone strategic parcels of land for the planned future investment and expansion of ELIDZ strategic targeted industries.</p> <p>1.2 Transact ELIDZ's land assets to locate targeted manufacturing and services industry investments occupying an additional 54.4 hectares of the ELIDZ's net tradable land extent by 2019/20.</p>	
STRATEGIC GOAL 2		IMPLEMENT INFRASTRUCTURE DELIVERY
Goal Statement	<i>Implement an integrative industrial infrastructure delivery programme to support development of targeted industrial activities.</i>	
Justification	<p>Deliberate and strategic investment of public funds into industrial infrastructure implementation forms a cornerstone element of the national industrial development policy and action plan initiatives of government. Within the Special Economic Zones (SEZ) Programme infrastructure delivery is seen as a key lever for stimulating foreign and domestic private sector investment that is supportive of South Africa's long-term industrialisation aims and strategies.</p>	
Supporting Strategies (Strategic Objectives)	<p>2.1 Extend the ELIDZ's manufacturing and services capacity and productive output through the construction and delivery of 10 new infrastructure/ superstructure development projects by the end of 2019/20.</p>	

STRATEGIC GOAL 3 ATTRACT STRATEGIC INVESTMENT

Goal Statement *Attract and retain domestic and foreign investments that lift the competitiveness of Eastern Cape economic output and create decent work and other economic and social benefits in the region.*

Justification Securing domestic and foreign fixed investment is a primary outcome imperative of the Special Economic Zones (SEZ) Programme as this promotes and supports the localisation and mastery of desirable industrial capabilities that position targeted sectors and industries for greater competitiveness in global markets. This, in turn, is achieved, among others, through improved access to global markets and value chains and via the introduction of new industrial technologies and through industrial innovation and productivity enhancement.

Supporting Strategies (Strategic Objectives)

- 3.1** Prioritise, target and promote investment by domestic and foreign investors to secure 23 new investors contributing R2.3 billion worth of private sector investment into the zone.
- 3.2** Target and promote investments by domestic and foreign investors that will increase levels of direct employment by zone enterprises to 5 758 by the end of 2019/20.
- 3.3** Attract and nurture strategic investors that increase the levels of export-oriented production to 37% of total zone production and generate other economic benefits for the region by the end of 2019/20.

STRATEGIC GOAL 4 PROVIDE A GLOBALLY COMPETITIVE LOCATION

Goal Statement *Optimise incentive benefits and operate industrial facilities, services and support systems that provide a globally competitive location that stimulates the generation of new and innovative economic activities.*

Justification Participants in the Special Economic Zones (SEZ) programme are expected to combine a range of elements (including State-funded infrastructure, industrial incentive offerings and complementary industrial support measures) to present locating industries with a relevant suite of locational benefits that will underpin their productivity and competitiveness, especially in respect to entering and competing successfully in global markets.

Supporting Strategies (Strategic Objectives)

- 4.1** Enable 75% of ELIDZ zone enterprises to participate in the award of available IDZ/SEZ incentive benefits by the end of 2019/20.
- 4.2** Establish and operate SEZ Facilities, Services and Support Measures to deliver strategic benefits that will ensure 75% customer satisfaction by the end of 2019/20.
- 4.3** Qualify 13 industrial development and innovation opportunities for market exploitation in the period 2015/16 to 2019/20.

STRATEGIC GOAL 5 BUILD ORGANISATIONAL CAPABILITY, RESILIENCE AND EXCELLENCE

Goal Statement *Manage a highly efficient organisation that optimises its assets to ensure organisational resilience, excellence and long term sustainability.*

Justification As an organisation managing and disbursing public funds, it is critical that the ELIDZ takes deliberate action to optimise the management of its activities and the utilisation of its human, property and other assets to achieve maximum possible positive outcomes and returns. Its responsiveness in this regard also correlates with the pressing need for organisations at all spheres of government to improve their efficiency and impact in view of the current financial climate and the significant financial pressures and constraints on the fiscus.

Supporting Strategies (Strategic Objectives)

- 5.1** Grow ELIDZ income from Services and optimise returns on the ELIDZ property portfolio to generate total income of R660m for the period 2015/16 to 2019/20.
- 5.2** Extend the economic transformation impact of the ELIDZ's operations through targeted procurement, enterprise development and social upliftment programmes that produce a Level 1 BBBEE status by 2019/20.
- 5.3** Pursue and retain best practice management systems and policies to support the efficient operation of the ELIDZ.

2.4. PERFORMANCE INFORMATION BY PROGRAMME

2.4.1 Programme 1: Operations

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

To operate a commercially viable, effective, attractive and sustainable, specialized industrial destination through the pursuit of value –

adding strategies, 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 EL IDZ 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. Functions to co-ordinated the 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.

2.4.1.1 Sub-programme 1A: Industrial Development

Programme Purpose:

- Sector Development and Investment Promotion
- Project Management: Industrial Development
- Industrial Innovation and Competitiveness
- Sector Skills Development
- Laboratory Services

Strategic Goal:		Goal 1: Develop a strategic industrial complex					
Programme/Strategic Objective:		1.1 Acquire, designate and appropriately zone strategic parcels of land for the planned future investment and expansion of ELIDZ strategic targeted industries					
Sub-Programme:		1A: Industrial Development					
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
1.1.1 Uncommitted land stock available as a percentage of the total land requirement of pipeline investors at the advanced negotiation stage	New KPI	New KPI	451.87%	120%	948.6%	+640.5%	See Note 1

Strategic Goal:		Goal 1: Develop a strategic industrial complex					
Programme/Strategic Objective:		1.2 Transact ELIDZ's land assets to locate targeted manufacturing and services industry investments occupying an additional 54.4 hectares of the ELIDZ's net tradable land extent by 2019/20					
Sub-Programme:		1A: Industrial Development					
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
1.2.1 Additional hectares of land taken up for economic activity by targeted manufacturing and services industries.	12.19Ha	9.76Ha	32.05Ha	11.4Ha	11.97Ha	+5%	See Note 2

NOTES:

1. The ELIDZ has shown an increase in the percentage of uncommitted land stock over the financial period. This is due to a significant movement of investors in the advanced negotiation stage to the final stage of the ELIDZ investment pipeline. This has had the effect of reducing the demand for land in the advanced negotiation stage thereby increasing the percentage of uncommitted land.
2. The target for hectares of land taken up has been achieved due to successfully transacting 5 investment agreements during the financial year. In relation to the 5 year target, the ELIDZ has now successfully achieved the target of 54.4ha with an actual of 65.97ha as at the end of this financial year.

Strategic Goal:	Goal 2: Implement infrastructure delivery						
Programme/Strategic Objective:	2.1 Extend the ELIDZ's manufacturing and services capacity and productive output through the construction of 10 new infrastructure/superstructure development projects by the end of 2019/20.						
Sub-Programme:	1A: Industrial Development						
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
2.1.1 Number of new superstructure and infrastructure projects implemented.	New KPI	New KPI	2	4	3	-25%	See Note 3
2.1.2 Cumulative Number of reported Construction jobs attributable to annual construction activity	0	75	520	1190	1549	+30.6%	See Note 4

NOTES:

- The ELIDZ was unable to meet the target of 4 completed projects. Delays in the awarding of funds and changes in scope by investors contributed to construction projects not being able to be carried out. The ELIDZ has recognized the impact of this underperformance in relation to the 5 year strategic plan targets and therefore revised the 2019/20 target upwards to make up for this year's underperformance.
- There has been increased construction activity during the financial period and this has resulted in the completion of 3 construction projects and 1549 construction jobs over the financial period.

Strategic Goal:	Goal 3: Attract strategic investment						
Programme/Strategic Objective:	3.1 Prioritise, target and promote investment by domestic and foreign investors to secure 23 new investors contributing R2.3 billion worth of private sector investment into the zone.						
Sub-Programme:	1A: Industrial Development						
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
3.1.1 Number of investment agreements (FDI and Domestic) signed between ELIDZ and the approved investors per Annum	5	4	5	5	5	0%	See Note 5
3.1.2 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.	R840.2m	R1,060m	R1,360m	R320m	R819.5m	+156%	See Note 6

NOTES:

- Efforts by the ELIDZ to have approved investors sign off on lease agreements yielded the desired outcomes. The ELIDZ has successfully achieved the target for number of investment agreements with investors in the Automotive, General Manufacturing and Tourism sectors. This performance is in line with the projected 5 year target of 23 investments and an actual of 19 as at the end of this financial period.
- The ELIDZ has exceeded the target for investment value by securing R819.5m in investment. It is significant to note that 2 of the investors are 100% black owned companies with a combined investment value of R70.5m. The value of investment amount for the period surpasses the targeted amount for the year quite significantly. This is largely due to the nature of automotive sector investments which tend to be highly capital intensive. At this point of the 5 year strategic cycle, the ELIDZ has exceeded the R2.3bn target set.

Strategic Goal:	Goal 3: Attract strategic investment						
Programme/Strategic Objective:	3.2 Target and promote investments by domestic and foreign investors that will increase levels of direct employment by zone enterprises to 5758 by the end of 2019/20.						
Sub-Programme:	1A: Industrial Development						
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
3.2.1 Number of reported direct manufacturing and service jobs in existence as at financial year end by the ELIDZ investors, ELIDZ Operator and its service providers.	2811	2364	4186	4972	4666	-6.15%	See Note 7

NOTES:

- The ELIDZ has failed to achieve the targeted number of manufacturing and services jobs with a slight underperformance of -6.15%. This is due to a lull in the first two years of the 5-year strategic cycle, which saw no building of new tenant facilities. As a result of this no new investors were

operationalised during this two year period which in turn impacted on employment. With an upswing in construction and the successfully establishment of new investors in the zone, there has been a corresponding improvement in the employment figures with significant growth in employment over the previous financial year. Further, there is growth in the ELIDZ's investment pipeline to close the gap in the manufacturing and services jobs by the end of the current 5 year cycle.

Strategic Goal:	Goal 3: Attract strategic investment						
Programme/Strategic Objective:	3.3 Attract and nurture strategic investors that increase the levels of export-oriented production to 37% of total zone production and generate other economic benefits for the region by the end of 2019/20						
Sub-Programme:	1A: Industrial Development						
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
3.3.1 Percentage of IDZ zone enterprises' production that is export bound	New KPI	New KPI	48.72%	30%	59%	+96.7%	See Note 8

Notes:

8. The percentage of export bound production has been calculated at 59% which is higher than what was achieved during the previous financial period by almost 10%. This is largely due to the nature of newly established investors within the zone who are manufacturing for the export market.

Strategic Goal:	Goal 4: Provide a globally competitive location						
Programme/Strategic Objective:	4.1 Enable 75% of ELIDZ zone enterprises to participate in the award of available IDZ/SEZ incentive benefits by the end of 2019/20.						
Sub-Programme:	1A: Industrial Development						
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
4.1.1 Percentage of qualifying operational zone enterprises enabled to benefit from the IDZ/SEZ suite of incentives	New KPI	New KPI	64%	50%	54%	+7%	See Note 9

Notes:

9. The ELIDZ has successfully assisted investors with applications for SEZ incentives resulting in 54% of qualifying investors being awarded incentives relating to corporate tax and employment tax. The incentives applicable are in line with Section 12R of the Income Tax Act which were approved by National Treasury. Designation approvals were also issued in terms of section 6(a)(ii) of the Employment Tax Incentive Act (ETI).

Strategic Goal:	Goal 4: Provide a globally competitive location						
Programme/Strategic Objective:	4.2 Establish and operate SEZ facilities, service and support measures to deliver strategic benefits that will ensure 75% customer satisfaction by the end of 2019/20.						
Sub-Programme:	1A: Industrial Development						
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
4.2.1 Percentage customer satisfaction rating	0	Not evaluated	76.4	75%	75.2%	0.26%	See Note 10

Notes:

10. The Customer Satisfaction survey was carried out by an external service provider to ensure independent evaluation. The score of 75.2% which has been achieved exceeds the target marginally. While the target has been achieved it is disappointing to note that the score is lower than the 76.4% that was achieved in the previous financial period.

Strategic Goal:		Goal 4: Provide a globally competitive location					
Programme/Strategic Objective:		4.3 Qualify 13 industrial development and innovation opportunities for market exploitation in the period 2015/16 to 2019/20					
Sub-Programme:		1A: Industrial Development					
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
4.3.1 Number of prototypes produced in the Science and Technology (STP) pilot park	2	2	2	1	1	0%	See Note 11
4.3.2 Number of industrial innovation solutions generated per annum from issued innovation challenges.	0	0	0	2	0	-100%	See Note 12
4.3.3 Number of hosted incubation facilities	New KPI	New KPI	3	3	3	0%	See Note 13
4.3.4 Number of skills development beneficiaries trained in the Science and Technology Park.	New KPI	New KPI	117	80	87	+8.75%	See Note 14

Notes:

- The ELIDZ was able to achieve the target with one prototype being concluded during the financial period. The prototype is intended for use by public users and medical professionals. During the financial year an additional call for expressions of interest was carried out with 3 developers being awarded approval. This bodes well for further prototypes being concluded in the upcoming financial periods.
- The ELIDZ has failed to achieve the targeted number of innovation solutions. This performance indicator is proving to be difficult as there are challenges which have been issued where there are no solutions offered. Further to this, there are 'challenge' documents that have not been signed off by the 'challenge' owners due to changes in management in their entities.
- The ELIDZ has successfully maintained 3 incubators during the financial period. The incubators are in the Information Technology and Pharmaceutical sectors.
- The ELIDZ has exceeded the number of skills beneficiaries trained for the financial period. The training has been in the areas of renewable energy, ICT and manufacturing. The programmes have potential to be better supported if it were not for the problem of funding shortages from the institutions of higher learning as well as the private delegates experiencing difficulties in funding their own courses. The STP has thus been working hard to source funding assistance from various partners for the programmes that it offers.

Strategic Goal:		Goal 5: Build organisational capability, resilience and excellence					
Programme/Strategic Objective:		5.1 Grow ELIDZ income from Services and optimise returns on the ELIDZ property portfolio to generate total income of R660m for the period 2015/16 to 2019/20.					
Sub-Programme:		1A: Industrial Development					
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
5.1.1 Total revenue income attributable to core IDZ Operations (Lease Transactions)	New KPI	New KPI	R54.41m	R63m	R70m	+12%	See Note 15
5.1.2 Average Annual Property Portfolio Yield (property lease transactions)	10.30%	6.14%	8.15%	4%	7.3%	+82.5%	See Note 16
5.1.3 Average vacancy rate per annum in IDZ-constructed operational Tenant Facilities	1.60%	1.86%	1.90%	2%	2%	0%	See Note 17
5.1.4 Annual increase in gross income from all Zone Services received per annum.	New KPI	New KPI	R72m	R84m	R85m	+1%	See Note 18

Notes:

- The ELIDZ has exceeded its revenue target for the financial period due to the settling of new investors in the zone contributing to the favourable positive variance in rental revenue income.
- Desired yields on lease agreements is greater than 4%. With an actual of 7.3%, the ELIDZ has exceeded the targeted property portfolio yield by ensuring that lease agreements signed provide yields greater than 4%. This bodes well for sustainability of the ELIDZ in that a higher yield improves rental revenue expectations.
- The ELIDZ has achieved the targeted average vacancy rate for the financial period by ensuring that the majority of all lettable property is leased to tenants. A concerted effort to reduce vacancy also contributes to the sustainability of the ELIDZ by ensuring that rental revenue is received on lettable space.
- The ELIDZ has exceeded the targeted income from zone services due to improved revenue from utilities and the conference center. There is continued effort to improve revenue from services offered by the ELIDZ in order to achieve the 5 year strategic target of R660m.

2.4.1.2 Sub-programme 1B: Zone Operations

Programme Purpose:

- Maintenance and Facilities Management
- Investor Support Services
- Property Portfolio Management

2.4.2 Programme 2: Institutional Support

2.4.2.1 Sub-programme 2A: Office of the CEO

Programme Purpose:

- Corporate Governance and Compliance
- Corporate Strategy and Planning
- Research
- Programme Portfolio Management
- Performance Information Management
- Assurance (Risk)

2.4.2.2 Sub-programme 2B: Corporate Affairs

Programme Purpose:

- Legal Services
- Safety, Health, Environmental and Quality Management
- Human Capital and Employee Relations
- Records Management
- Corporate Communications and Marketing
- Information Communication and Technology

Strategic Goal:	Goal 5: Build organisational capability, resilience and excellence						
Programme/Strategic Objective:	5.2 Extend the economic transformation impact of the ELIDZ's operations through targeted procurement, enterprise development and social upliftment programmes that produce a Level 1 BBBEE status by 2019/20						
Sub-Programme:	2A: Institutional Support						
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
5.2.1 Number of active bursaries in ELIDZ Bursary Award Programme	10	10	11	7	11	+57.1%	See Note 19
5.2.2 Cumulative Number of Corporate Social Investment (CSI) projects administered in ELIDZ CSI Programme	10	13	9	8	12	+50%	See Note 20
5.2.3 Percentage of employment-related expenditure spent on targeted training initiatives to develop identified organisational core competency areas.	3.63%	4.21%	4.27%	3%	5.2%	+73.3%	See Note 21
5.2.4 Number of Intern / Learnership contract opportunities offered per annum within the operations of IDZ-appointed Service Provider organisations (including construction contractors).	0	5	5	5	16	+220%	See Note 22
5.2.5 Number of Intern / Learnership contract opportunities offered per annum within the operations of the ELIDZ organisation.	43	39	39	28	45	+60.7%	See Note 23

Notes:

19. The ELIDZ was able to exceed the targeted number of active bursaries for the financial period due to bursaries being carried over from the previous financial year and the awarding of new bursaries to deserving students.
20. The ELIDZ has exceeded the targeted number of CSI projects for the financial year. This has been made possible through leveraging partnerships with community, achieving the projects planned in the CSI programme and employee volunteerism. While only 8 projects were targeted for the year, the efforts of the ELIDZ employees and partnerships resulted in 12 successful projects.

21. The ELIDZ has exceeded the targeted performance for training expenditure for the financial period. This was an active decision in order to improve the organizational B-BBEE rating where budget was made available and an internal target, higher than 3% was set. The favourable variance of 73.3% has contributed to achievement of an improved B-BBEE rating.
22. The ELIDZ exceeded the targeted performance on interns by service providers due to an increase in the amount of construction projects taking place at the ELIDZ where construction service providers are encouraged to employ interns as part of the tender conditions. The favourable variance of 220% is encouraging as it demonstrates the transfer of skills to youth in the construction and engineering sectors.
23. This over-achievement can be explained due to the nature of the internship programme at the ELIDZ which spans over 2 years – 39 internships were recorded during the previous financial year and therefore, many of these were carried through into this financial period. The ELIDZ is highly committed to youth development and skills transfer and this is evident in the performance of this indicator over the 5 year cycle to date.

2.4.2.3 Sub-programme 2C: Financial Management

Programme Purpose:

- Management and Cost Accounting
- Financial Management
- Financial Control and Reporting

Strategic Goal:	Goal 5: Build organisational capability, resilience and excellence						
Programme/Strategic Objective:	5.2 Extend the economic transformation impact of the ELIDZ's operations through targeted procurement, enterprise development and social upliftment programmes that produce a Level 1 BBEE status by 2019/20						
Sub-Programme:	2C: Financial Management						
Performance Indicator	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Actual Achievement 2017/2018	Planned Target 2018/2019	Actual Achievement 2018/2019	Deviation from 2018/2019 Target	Comment on deviations
5.2.6 Annual assessed ELIDZ BBEE status	Level 2	Level 2	Level 5	Level 4	Level 2	Achieved	See Note 24

Notes:

24. After a change to the manner in which the B-BBEE levels were calculated during the last financial year, the ELIDZ was forced to revise the targets in line with the Level 5 rating from 2017/18. Through a concerted effort to improve training and support of SMMEs, the ELIDZ was able to achieve a higher than targeted B-BBEE level.

2.4.3 Strategies to overcome areas of underperformance

The ELIDZ finds itself underperforming in the areas of infrastructure/superstructure development, manufacturing and services jobs and development of innovation solutions.

Regarding the number of infrastructure/superstructure projects, the ELIDZ is actively engaged in the processes of securing funding, sourcing and appointing contractors through the supply chain management process and managing in-progress and upcoming construction projects that will ultimately result in performance against this key performance indicator with new factories and infrastructure in place.

As investment projects are operationalised, employment opportunities become available which once taken up will contribute to the achievement of the manufacturing and services job target that the ELIDZ is actively working toward. The ELIDZ will continue to grow its investment pipeline in order to successfully establish new investors in the zone which in turn will create employment opportunities.

The ELIDZ will continue to actively market the innovation platform in attempts to find solutions to innovation challenges posted. Further to this, the ELIDZ will attempt to leverage the incubator programme participants to issue new challenges and solutions based on their understanding of the market and existing market networks.

2.4.4 Performance linked to budget.

Programme	2017/18			2018/19		
	Budget	Actual Expenditure	(Over)/Under Expenditure	Budget	Actual Expenditure	(Over)/Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Programme 1: Operations	149,704	146,188	3,516	150,232	146,728	3,504
Programme 2: Institutional Support	77,654	75,629	2,025	95,891	95,827	46
Total	227,358	221,817	5,541	246,123	241,995	4,128

2.5 REVENUE COLLECTION

Source of Revenue	2017/18			2018/19		
	Budget	Actual Revenue	Over/(Under Collection)	Budget	Actual Revenue	Over/(Under Collection)
	R'000	R'000	R'000	R'000	R'000	R'000
Rentals	50,801	54,419	3,134	62,915	70,578	7,663
Zone Levies	631	1,700	1,069	1,847	1,596	(251)
Sale of Land	-	-	-	-	-	-
Utilities Income	68,791	64,075	(4,715)	75,670	76,490	820
Other Income	2,100	3,778	1,678	2,700	3,808	1,108
STP Revenue	4,000	2,417	(1,583)	4,400	3,314	(1,086)
Total	126,324	126,391	1,166	147,532	155,786	8,253

The entity exceeded its revenue target by 6% in the year under review. This was mainly attributable to higher than anticipated rental revenue, due to lower than anticipated vacancy rates during the year under review.



2.6 CAPITAL INVESTMENT

Project	Beginning of the year	Expenditure	Transferred from/to	Grant Receipts	Interest Received	Funded through Own Revenue	Closing Balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Mariculture	-0	-406	-	-	-	406	-0
New Factory	872	-80	-	-	-	-	792
Kemba	659	-	-	-	-	-	659
Bulk Electricity Upgrade	7,668	-10,183	-	127,621	-	-	125,106
Wind Farm	11,506	-	-	-	-	-	11,506
MT2 fish cultures	11,750	-1,153	-	-	-	-	10,597
Yanfeng Expansion	2,363	-	-	-	-	-	2,363
Yekani	109,706	-62,920	-	-	-	-	46,786
MBSA	191,969	-120,559	-	151,378	-	-	222,788
D-Fence	82,056	-17,238	-	14,073	-	-	78,891
Nulatex	6,579	-8,177	-	3,043	-	-	1,445
TI Automotive	113,855	-47,921	-	40,985	-	-	106,919
Ebor System	-	-	-	97,252	-	-	97,252
Valeo	-	-	-	163,553	-	-	163,553
Voestalpine	-	-	-	43,364	-	-	43,364
Yanfeng	-	-	-	75,438	-	-	75,438
Polytec	-	-	-	84,555	-	-	84,555
Auria	-	-	-	36,350	-	-	36,350
Interest	13,931	-	-	-	33,560	-	47,491
Total	552,913	-268,637	-	837,612	33,560	406	1,155,853

The East London IDZ had projects to the value of R1.7 billion approved from the SEZ fund for the 2018/19 financial year. These funds were utilised in the execution of various projects, as seen above and an amount of R268.6 million has been spent during the financial year. The ELIDZ applied to Provincial Treasury to roll over the R1.155 billion into the 2019/20 financial year.



PART C:

CORPORATE GOVERNANCE

3.1 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 IV 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.

3.2 PORTFOLIO COMMITTEES

Parliament exercises its role through evaluating the performance of the ELIDZ. It does this by interrogating the annual financial statements of the organisation and other relevant documents, which may be 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 of 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 17 April 2018 for the purposes of a budget vote meeting and on 15 November 2018 for the consideration of annual and financial oversight reports.

3.3 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.

3.4 THE BOARD OF DIRECTORS



1.

2.

3.

4.

5.

1. Councillor P. Nazo

Chairperson of the Operations and Risk Committee, Member of the Governance Committee and the Finance Committee

Current employment:

Portfolio Head for Spatial Planning and Development at the 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, Member of the Institute of Directors in Southern Africa (IODSA)

2. Ms S. Nkungwana *

Member of the Operations and Risk Committee

Current employment:

Senior Manager: Economic Research and Development, DEDEAT

Skills: Economic Development, Research

Affiliations: Member of the Institute of Directors in Southern Africa (IODSA)

4. Mr A. Kanana

Chairperson of the Audit Committee and Member of the Governance Committee

Current employment:

Chief Executive Officer of Joburg Market

Skills: Audit, Finance and Public Sector Governance

Affiliations: Member of SAICA, Member of the Institute of Directors in Southern Africa (IODSA)

3. Mr E. Jooste

Chairperson of the Finance Committee, Member of the Audit Committee and the Governance Committee

Current employment:

EVJ Consulting (Pty) Ltd

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, Chairperson Governance Committee, Chairperson Audit & Risk Committee, Member of Finance Committee at Amatola Water, Member of Audit Committee and Finance Committee of Rhodes University.

5. Mr S. Kondlo

Executive Director - Ex Officio

Current employment:

Chief Executive Officer of the ELIDZ

Skills: Engineering and Business Management

Affiliations: SAIIE, WISA, Board Member of TCTA, Board member of BCMDA, Member of the Institute of Directors in Southern Africa (IODSA)



6.

6. Professor M.W. Makalima

Chairperson of the ELIDZ Board and Chairperson of the Governance Committee

Current employment:
Private Academic Research

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

Affiliations: Member of the Institute of Directors in Southern Africa (IODSA)

7.

7. Ms N. Mnconywa

Member of the Finance Committee and the Audit Committee

Current employment:
Head of Department and Senior lecturer in Accounting, University of Fort Hare

Skills: Public Sector Governance and Finance

Affiliations: SAICA, Marine Living Resource Fund: Audit committee member, Member of the Institute of Directors in Southern Africa (IODSA)

8.

9.

8. Mr B. Mpondo *

Member of the Operations and Risk Committee

Current employment:
Managing Director of Safiri (Pty) Ltd

Skills: Transport Planning, Development Planning, Project Management

Affiliations: Member of the Institute of Directors in Southern Africa (IODSA)

10.

9. Mr M. Mfuleni *

Member of the Audit Committee

Current employment:
CEO of Imbizo Group

Skills: Manufacturing and Development, Telecoms and IT Consulting

Affiliations: Member of the Institute of Directors in Southern Africa (IODSA), Chairman BayTV, President Black Technology Forum (BITF)

10. Councillor V Gqodi *

Member of the Investment Services Committee

Current employment:
Councillor at Buffalo City Metropolitan Municipality

Skills: Local Economic Development, Community Relations

Affiliations: Member of the Institute of Directors in Southern Africa (IODSA)

** New members*

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 Chief Executive Officer 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.

3.4.1 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 Chief Executive Officer 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.

3.4.2 Composition of the Board

The Board of the East London IDZ comprised of 9 non-executive directors as at 31 March 2019. The Chief Executive Officer is an ex officio member of the Board. The Executive Authority is responsible for appointing members of the Board and the Chairperson 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
Professor MW Makalima	Chairperson of the Board and Chairperson of the Governance Committee	26/01/2016	N/A	Public sector	6/6	4/4 Governance Committee
Clr P Nazo	Chairperson of the Operations and Risk Committee, member of the Finance Committee and member of the Governance Committee	26/10/2011	N/A	Municipal sector	5/6	4/4 Governance Committee 5/5 Operations and Risk Committee 4/6 Finance Committee
Mr A Kanana	Chairperson of the Audit Committee and member of the Governance Committee	24/10/2012	N/A	Finance and public sector governance	3/6	4/5 Audit Committee 2/4 Governance Committee
Mr E Jooste	Chairperson of the Finance Committee, member of the Audit Committee, member of the Governance Committee and interim member of the Operations and Risk Committee	01/11/2013	N/A	Finance and public sector governance	5/6	4/5 Audit Committee 4/4 Governance Committee 3/5 Operations and Risk Committee (as interim member) 6/6 Finance Committee
Ms N Mnconywa	Member of the Audit Committee and member of the Finance Committee	26/09/2016	N/A	Finance and public sector governance	6/6	5/5 Audit Committee 5/6 Finance Committee
Clr V Gqodi	Member of the Operations and Risk Committee	11/10/2017	N/A	Municipal sector	5/6	5/5 Operations and Risk Committee
Ms S Nkungwana	Member of the Operations and Risk Committee	31/10/2018	N/A	Public sector	Attended 1/2 Board meetings held during period of appointment	Attended 0/1 Operations and Risk Committee meeting held during period of appointment
Mr M Mfuleni	Member of the Audit Committee	31/10/2018	N/A	Private business	Attended 2/2 Board meetings held during period of appointment	Attended 1/1 Audit Committee meeting held during period of appointment
Mr B Mpondo	Member of the Operations and Risk Committee	31/10/2018	N/A	Private business	Attended 2/2 Board meetings held during period of appointment	Attended 1/1 Operations and Risk Committee meeting held during period of appointment
Ms P Mzazi-Geja	Member of the Operations and Risk Committee	24/10/2012	31/10/2018	Public sector	Attended 1/4 Board meetings held during period of appointment	Attended 1/3 Operations and Risk Committee meetings held during period of appointment

3.4.3 Changes in the Board Composition in 2018/19 FY

The following changes in Board composition took place in the 2018/19 FY

- Ms P Mzazi-Geja was retired as a Board member on 31 October 2018;
- Ms S Nkungwana was appointed as a Board member on 31 October 2018;
- Mr M Mfuleni was appointed as a Board member on 31 October 2018;
- Mr B Mpondo was appointed as a Board member on 31 October 2018.

3.4.4 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 Governance Committee;
- The Audit Committee;
- The Finance Committee;
- The Operations and Risk Committee.

3.4.4.1 Governance Committee

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 committee;
- 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.

3.4.4.2 Audit Committee

The audit 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 committee is comprised of four 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 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;
- Ensure that the Board makes informed decisions and is 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.

3.4.4.3 Finance Committee

The committee is comprised of three non-executive directors. The Committee 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;
- Performing the functions of a remuneration committee.

3.4.4.4 Operations and Risk Committee

The committee is comprised of four non-executive directors. The Committee is responsible for:

- Deliberating on issues relating to business development and in particular the attraction and placement of investment;
- Performing the functions of a social and ethics committee in terms of the Companies Act of 2008;
- Enquiring into the process of risk identification and the measures in place to contain these risks;
- 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
Governance Committee	4	4	Professor MW Makalima (Chair) Cllr P Nazo Mr E Jooste Mr A Kanana
Audit Committee	5	4	Mr A Kanana (Chair) Mr E Jooste Ms N Mnconywa Mr M Mfuleni
Finance Committee	6	3	Mr E Jooste (Chair) Cllr P Nazo Ms N Mnconywa
Operations and Risk Committee	5	4	Cllr P Nazo (Chair) Ms S Nkungwana Cllr V Gqodi Mr B Mpondo

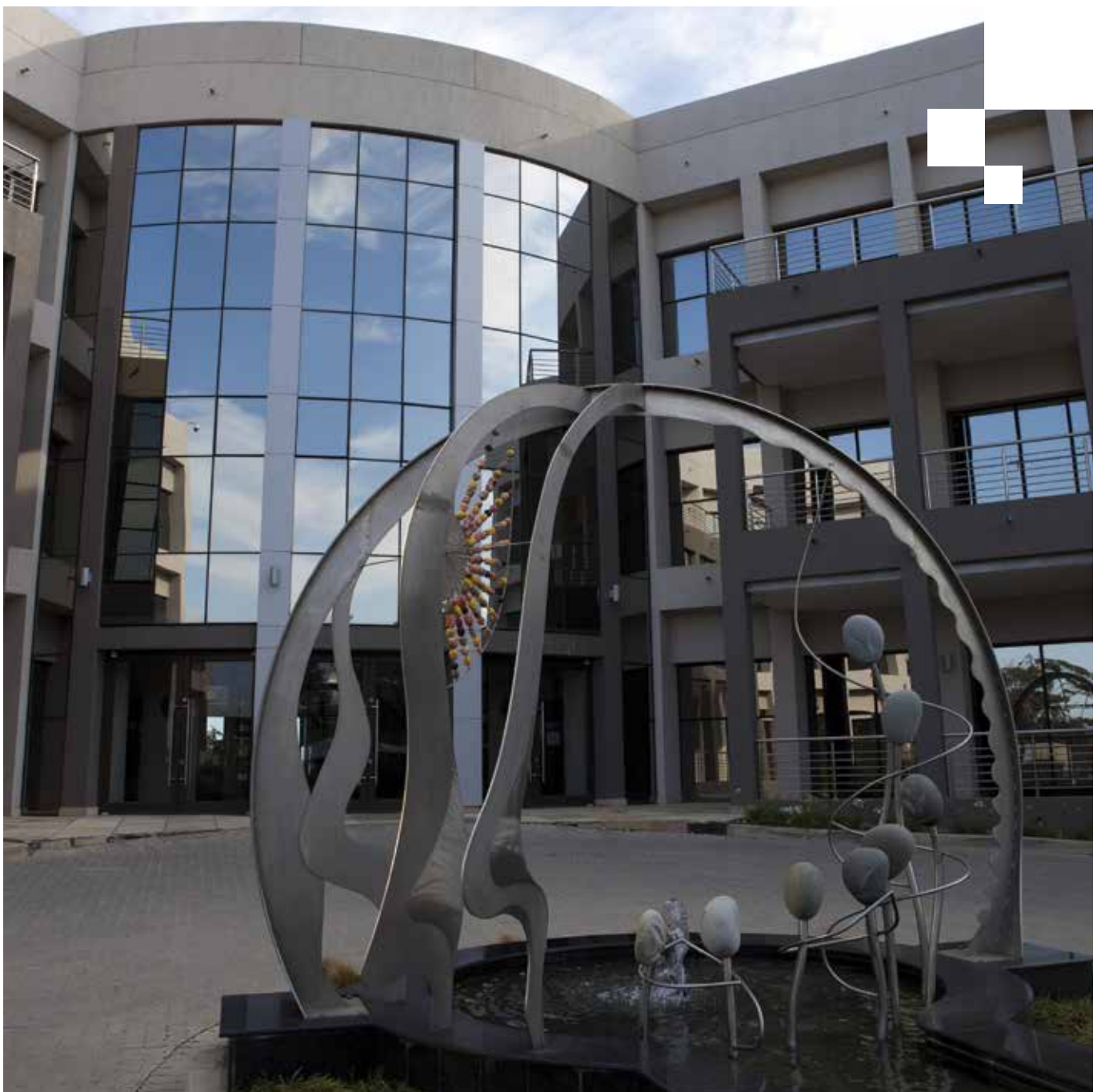
3.4.5 Remuneration of Board Members

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 in the employ of 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 (Audit/Operations and Risk) – R9 500 per sitting of the committee
- Statutory Committee members (Audit/Operations and Risk) – R6 375 per sitting of the committee
- Chairperson of committee (other than Audit/Operations and Risk) – R8 500 per sitting of the committee
- Member of committee (other than Audit/Operations and Risk) – 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 chairperson 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 (Audit/Operations and Risk), 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 rates.

Name	Remuneration	Other allowance	Other re-imbursements	Total
MW Makalima	R163,960	R2,233	None	R166,193
P Nazo	R204,194	R2,556	None	R206,750
P Mzazi-Geja	Not remunerated	Not remunerated	Not remunerated	Not remunerated
A Kanana	R192,738	R22,988	None	R215,726
EV Jooste	R189,591	R2,556	None	R192,147
N Mnconywa	R62,115	R1,065	None	R63,180
V Gqodi	-	-	-	-
B Mpondo	-	-	-	-
S Nkungwana	Not remunerated	Not remunerated	Not remunerated	Not remunerated
M Mfuleni	-	-	-	-
Total Board Fees 2018/19 FY				R1,020,777



3.5 RISK MANAGEMENT

ELIDZ has had an approved risk management policy and strategy in place for the duration of the 2018/19 financial year. Risk assessments are conducted regularly in order to determine the effectiveness of the risk management strategy and to identify new and emerging risks.

The Risk Management Committee assessed the overall system of risk management, especially the mitigation of unacceptable levels of risk. The Committee met monthly to review the organisational risk register and provide updates on implementation of risk management action plans.

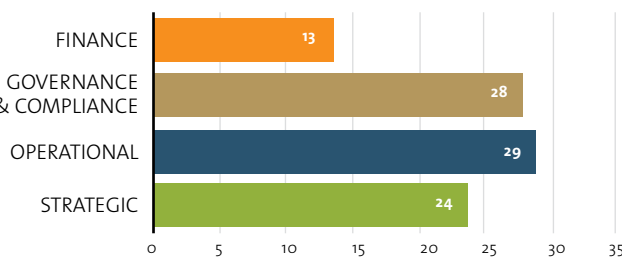
3.5.1 Board and Sub-committee oversight

The Board has continued to perform their oversight role in respect of risk management. An additional level of oversight has however been implemented from the second quarter – high priority risks have been allocated to the relevant Board sub-committee thereby allowing for greater oversight and monitoring of action plans. The Audit and Risk Committee advised management and those charged with governance on risk management and independently monitored the effectiveness of the system of risk management. Assurance was further provided by internal audit through their independent review of the ELIDZ risk management processes.

A reduction was noted in the overall entity residual risk as a result of action plans implemented during the period. This has transmitted into improvements in the entity’s performance as well as a significant improvement in the internal control environment.

The ELIDZ Risk Register consisted of 94 risks. The risks were categorised as follows:

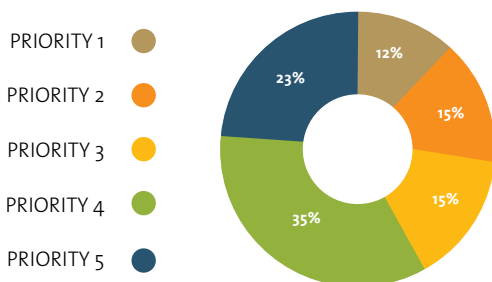
ORGANISATIONAL RISK PER CATEGORY



At the beginning of the financial year the risk were prioritised based on the extent of the residual risk which was mainly a result of the impact, the probability and strength of controls to mitigate the risks.

Below is an illustration of the various priorities:

ORGANISATIONAL RISK PER PRIORITY



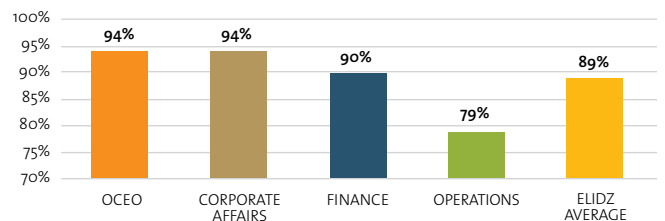
The majority of the ELIDZ risks are included in the P4 and P5 risk categories (55 out of 94 risks) – these risks are adequately mitigated through controls in place. This is consistent with the organisational controls assessment where 79 out of 94 controls have been rated as satisfactory and above.

Operations continues to manage the bulk of the P1 and P2 risks (12 out of 25 risks) including a significant majority of the P1 risks (64%). Certain of these risks are influenced by factors outside of the control of the unit e.g. funding availability and market conditions. However, completion of action plans for the unit has been noted at only 24% for P1 risks (remaining risk categories show higher percentage completion percentages).

At the end of the 4th quarter, ELIDZ had implemented 89% of its risk improvement action plans.

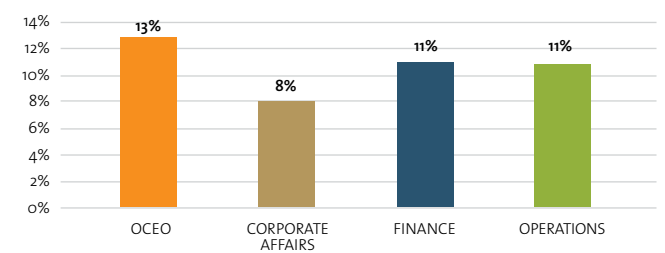
Below is a summary of the overall status of controls implementation at 31 March 2019

% IMPLEMENTATION OF RISK IMPROVEMENT ACTION PLANS



At the end of the 4th quarter, ELIDZ had reduced its residual risk by 10.7%.

Below is a summary of the % residual risk reduction per department at 31 March 2019

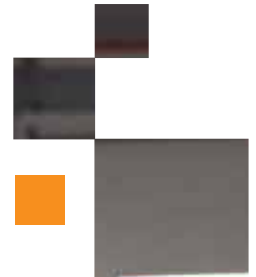


3.6 COMPANY SECRETARY

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.



Jo-Anne Palmer
Company Secretary



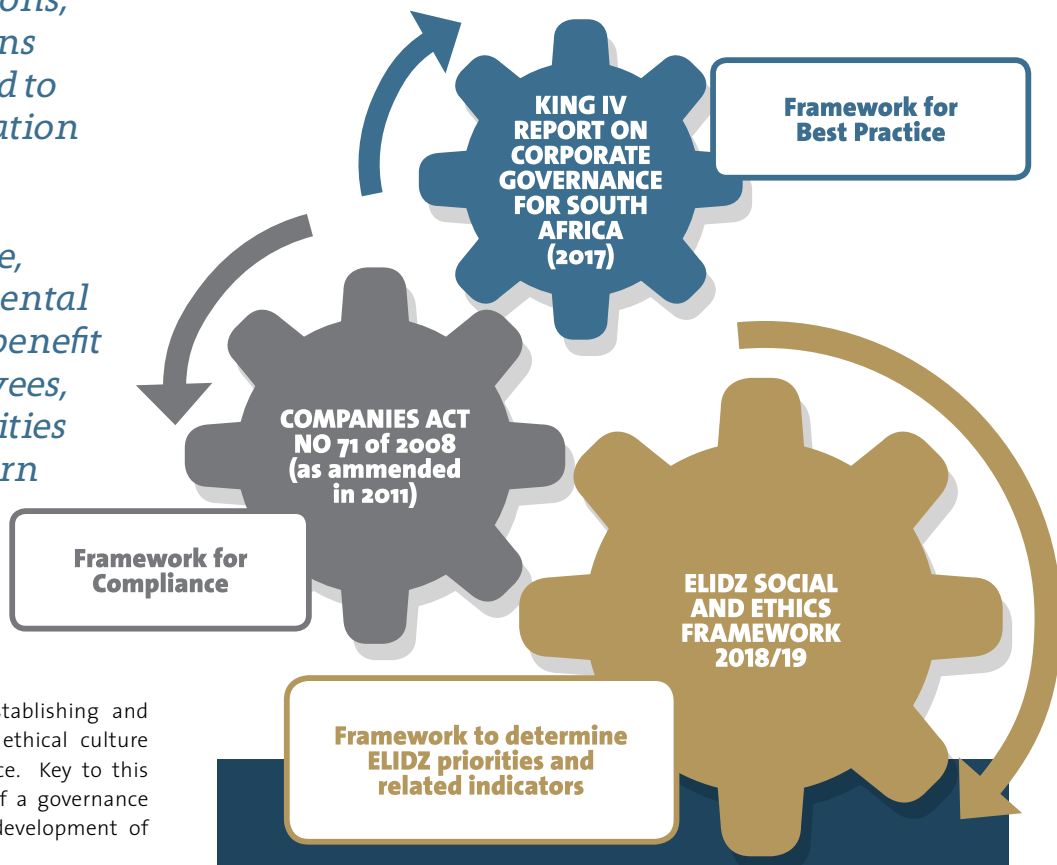
3.7 ELIDZ SOCIAL AND ETHICAL RESPONSIBILITY

ELIDZ SOCIAL RESPONSIBILITY CONTEXT

- ELIDZ is a state-owned entity charged with the responsibility of attracting and retaining strategic investments that generate maximum socio-economic benefit for the province of the Eastern Cape.
- Part of this priority, by nature, is the sustainable development of surrounding communities. This priority informs the ELIDZ Corporate Social Responsibility principles.

Corporate Social Responsibility, in the context of the ELIDZ is therefore described as:

“The strategic intentions, statements and actions of the ELIDZ designed to position the organisation as a good corporate citizen in relation to responsible corporate, social and environmental management to the benefit of customers, employees, immediate communities and the greater Eastern Cape Province.”



- The ELIDZ is committed to establishing and maintaining an organisational ethical culture that is in line with best practice. Key to this commitment is the existence of a governance framework that supports the development of this desired ethical culture.
- This does not only ensure that the organisation walks the talk when it comes to corporate citizenship, governance and ethical best practice, it further ensures that there are clear mechanisms to monitor and respond to key priorities in this regard.
- The ELIDZ governing body has allocated the role of Social and Ethics Strategy Implementation and Monitoring to the Operations and Risk Committee of the board.
- This committee develops clear Annual Workplan and Indicators to measure and monitor the ELIDZ’s Responsibilities and obligations with respect to the workplace, society, the economy and the environment.





BUSINESS ETHICS & TRANSPARENCY

ESTABLISHMENT OF AN ORGANISATIONAL ETHICAL CULTURE

The ELIDZ prioritised the establishment of an organisational ethical culture during 2018/19. Key focus areas for the period included the following:

- The **Review and Development of an Ethics Regulatory framework**
- The **Communication of Ethics policies and organisational commitment** to key stakeholders.
- The **Execution, Reporting and Oversight and Disclosures** on all matters relating to the 5 Social and Ethics focus areas
- The **development of a Social and Ethics Workplan for 2018/19**, which allowed for:
 - A clear understanding of the ELIDZ's obligations with regard to its Social and Ethics agenda
 - Setting of Corporate Social Responsibility indicators for the organisation as a means of determining key priorities and appetites for the ELIDZ.

ELIDZ 2018/19 PRIORITIES	STATUS
Review and Revise all policies and codes that guide the ELIDZ Ethics Regulatory Framework to ensure alignment to King IV and other best practice.	✓
100% of eligible employees to complete Annual Declaration in line with ELIDZ Ethics Framework	✓
100% of eligible employees inducted / re-inducted during the FY	✓
2 training programmes implemented to ensure employee awareness of ELIDZ Ethics Regulatory Framework	✓
Revision of the Fraud Prevention Policy and related procedures to ensure alignment to the 2017 Protected Disclosure Act Amendment.	✓
Reporting of Social and Ethics priorities and finding to the Board.	✓
Social and Ethics Report issued as part of the Annual Report and the AGM Proceedings	✓

Completed ■ In progress ■ Not implemented ■

ELIDZ 2018/19 INDICATORS	ELIDZ 2018/19 PERFORMANCE	STATUS
Reported Fraud Hotline Reports investigated and closed	No cases reported to the Hotline to date.	✓
# of investigated and confirmed fraudulent cases against the ELIDZ	No suspected fraud reported to the Hotline or to the Internal auditors.	✓
# of fraud related findings reported by the Auditor General of South Africa	0 related findings reported by AG in the recent AG Report.	✓



WORKPLACE

ELIDZ EMPLOYMENT PRACTICES

The ELIDZ's employees are an integral part of the ELIDZ's Value Delivery Mechanism are at the core of ensuring that the ELIDZ remains competitive, cutting age and able to deliver to customer and shareholder value.

- With this realization, the ELIDZ's Human Capital Strategy is centered on ensuring that the organization:
- Attracts skilled and suitable employees that share the ELIDZ's value system
- Invests in the education and development of its employees
- Retains its skilled and experienced employees through reward and recognition of loyalty and performance
- The ELIDZ is further committed to ensuring:
 - Diversity of the workplace
 - Integrated wellness of its employees
 - Compliance with relevant legislation and best practice with regard to Human Capital Management.

EMPLOYMENT EQUITY

- The ELIDZ has a 3 year Employment Equity Plan (current plan effective from 01 November 2016 to 31 October 2019) .
- The numerical goals focus on increasing the representation of designated groups across all occupational levels in an effort to achieve alignment with the EAP.
- ELIDZ targeted 70% achievement of its 3 year numerical targets. Actual performance:

- Year 1: 5 of 8 (62.5% achievement)
 - Year 2: 5 of 11 (45.5% achievement)
 - Year 3 (to date): none of 10
 - Years 1 to 3 (to date): 13 of 29 (45% achievement)
- There have been a limited number of vacancies across all levels, but specifically grades A and B. This has negatively impacted on the ability of the organisation to achieve its targets.
 - A forum of twelve Employment Equity and Skills Development Committee members have been elected who are consulted extensively on all employment equity aspects.

WORKPLACE AND EMPLOYMENT PRACTICES

ELIDZ 2018/19 INDICATORS	ELIDZ 2018/19 PERFORMANCE	STATUS
12% staff turnover	The staff turnover rate as at 31 March 2019 is 4.71%.	✓
10% staff vacancy rate	The vacancy rate as at 31 March 2019 is 5.56% against the annual target of 10%.	✓
70% employee satisfaction index	Employee satisfaction index completed with a result of 76.8%	✓
3% of employment-related expenditure spent on targeted training initiatives	The total training expenditure as at end Quarter 4, amounts to R 3,744,379.00, which is 5.2% of total the cost of employment.	✓



ECONOMY

JOB CREATION AND TRAINING

As a state owned entity that is mandated with diversifying the province's manufacturing base, the ELIDZ is conscious of its inherent responsibility to deliver on this mandate in a manner that would also extend and deepen the economic transformation impact of not only its operations, but also that of its tenanted industries.

- The ELIDZ demonstrates its commitment to being a catalyst for economic development through:
 - The Design and Development of investor solutions that would increase the competitiveness of manufacturing entities that locate in the ELIDZ
 - The attraction of strategic investments that would create jobs and other socio-economic benefits for the Eastern Cape Province.
 - The incubation of new sectors and technologies in the ELIDZ's Science and Technology Park
 - Responsible Procurement of goods and services.
- To date the ELIDZ has **exceeded its annual target of 32 interns and has to date ensured the creation of 45 opportunities.**
- Additionally, while the ELIDZ is **still significantly behind in terms of meeting its 5-year target on the manufacturing and services jobs**, there has been significant growth in the period under review.
- As at the end of the financial year, there were **4666 active manufacturing and services jobs in the compared compared to the reported 3 351 at the end of quarter 1.**

EMPOWERMENT

- During the period, actual cash flow of **R 488.3 million was directed into major infrastructure, contracts, consultants**, and 124.06% of this (an amount valued at R 608 million) was claimed for BBEE Service Providers.
- This is equivalent to **40.91% allocation** (valued at R199.7 million) when measured in terms of **black equity component.**
- An amount of R 118.9 million has been **spent on SMME procurements making 24.37 % of total spends; while 15.6% (amounting to R 76.1 million) has been spent with women-empowered companies.**

BEE TARGET	SMES TARGET	BLACK WOMAN TARGET
90%	30%	12%
ACTUAL ACHIEVED		
124.06%	24.37%	15.6%

TRANSFORMATION

In recognition of the **need to do more in terms of shifting the bulk of its expenditure to benefit Black Owned Enterprises**, the ELIDZ revised its Preferential Procurement Policy to allow for the following:

- Award of all ELIDZ contracts to **BBBEE compliant contractors**,
- **Specification of the minimum 30% compulsory sub-contracting provision for all contracts that are above R30 million** to ensure that opportunities for the participation of designated groups are created.
- The designated groups include **SMMEs with a minimum of 51% ownership** by either **black people, black youth, black women, black people with disabilities, black people living in rural or underdeveloped areas, black owned co-operatives and black military veterans**.

The organisation has awarded the following tenders that are above R 30 million and were eligible for 30% sub contracting:

Project	Value of contract	Sub-contracting of 51% Black owned SMME portion(maximum)	Sub-contracting of Overall SMME's portion(maximum)
Electrical Upgrade	R 102 037 761,13	TBA	TBA
TI Auto Contractor	R 176 927 500,00	R 6 811 000,00	R 24 818 775,37
D-Fence Contractor	R 95 783 788,00	R15 218 228,23	R 38 566 524,36
MBSA Contractor	R 360 697 500,00	R 16 099 445,76	R 64 835 530,92
TOTALS	R 735 446 549,1	R38 128 673,99	R 128 220 830,65

With 2018/19 being the first year for the ELIDZ to implement this policy provision, a number of challenges were noted during the roll out. These included the following:

- **Work packages were not designed** to make provision of SMME involvement
- **Bulk of the work was classified as “specialized works”** which requires guarantees and warranties.
- **Poor response to the Subcontracting Database Expression Of Interest (EOI)**
- **Only the subcontracting by main contractor qualifies for the requirement.** Second Tier subcontracting does not qualify.
- **Limited guidance** with regards to implementation of the requirement

The ELIDZ has devised a number of strategies to respond to these challenges and to ensure that the policy is optimised. These include the following:

- ELIDZ has **developed an implementation guide** for subcontracting
- **Work packages are designed for SMMEs** prior to tender process
- **ELIDZ update subcontracting database** to make provision for all CIDB grade up Level 7
- ELIDZ **consulting team unbundled “specialized works”** to accommodate SMME's

ELIDZ 2018/19 INDICATORS	ELIDZ 2018/19 PERFORMANCE	STATUS
28 intern/learnership contract opportunities offered per annum within the operations of ELIDZ organisation	45 interns have been trained.	✓
12 intern opportunities created by ELIDZ consultants by end of 2018/19	16 intern opportunities had been created by ELIDZ consultants.	✓
Improvement of BBBEE Rating from Level 5 to Level 4 by the end of 2018/19 FY	Level 2 rating achieved	✓
30% work subcontracted to designated groups for all tenders above R30 million	Mandatory sub-contracting included in all contracts. Contractors currently busy with selection of sub-contractors	■
3 incubators hosted on the ELIDZ platform by the end of 2018/19	3 incubators are hosted at the ELIDZ's STP. These are Chemin, Cortex Hub and ECTI.	✓
80 skills development beneficiaries trained in the ELIDZ Science and Technology Park by end of 2018/19	87 skills beneficiaries have been trained in the STP to date.	✓
1 prototypes developed in the ELIDZ Science and Technology Park by end of 2018/19	1 prototype developed in the ELIDZ Science and Technology Park by end of 2018/19. signing agreements with the ELIDZ.	✓
4972 manufacturing and services jobs active in the ELIDZ by end of 2018/19	The ELIDZ reports an achievement of 4666 manufacturing jobs during the 2018/19 FY.	■
30% local procurement	82% local procurement for all contracts awarded during the FY	✓
100 % completion of UN Global Compact Assessment for ELIDZ	Undertaken as part of the Ethics Review Gap Analysis	✓
75% customer satisfaction index by end 2018/19	A customer satisfaction rating of 75.2% was achieved	■





COMMUNITY DEVELOPMENT

- The ELIDZ continues to prioritise the development of surrounding communities through its Corporate Social Investment projects and significant impact has been achieved in this regard.
- It can be seen that there has been an emphasis on initiatives in Ward 46 followed by initiatives in BCMM and the greater EC province respectively as identified in the CSI Plan that has been internally developed.
- There is also a strong support of educational initiatives such as Rally to Read and the provision of learning materials to schools followed by a support for youth and sport development.

ELIDZ 2018/19 INDICATORS	ELIDZ 2018/19 PERFORMANCE	STATUS
7% year-on-year growth in ELIDZ Corporate Social Investment	There was a 4.8% year-on-year growth in CSI	✓
7 CSI initiatives implemented by end 2018/19	12 CSI initiatives implemented to date	✓
7 bursaries awarded to neighbouring communities	A total of 11 bursaries were active as at the end of the Second quarter	✓
300 employee volunteerism hours reached by end of 2018/19	312 employee volunteerism hours were reached	✓



ENVIRONMENTAL IMPACT MANAGEMENT

- The ELIDZ has invested in strategic human and financial resources dedicated to ensuring that SHEQ sustainability management best practices. The ELIDZ has maintained the following requirements:
- Successful re-certification for ISO 9001:2015 Quality Management System was achieved in March 2019 and this is valid for a period of three years from date of certification.
- Since inception the ELIDZ has maintained the BS-OHSAS 18001:2007 Occupational Health and Safety Management System certification and has successfully transitioned to the ISO 45001:2018 Occupational Health and Safety Management system.
- Since achieving accredited certification in the ISO 14001:2015 Environmental Management System in February 2018, the ELIDZ has been successfully re-certified in March 2019 for a further three years.

ENVIRONMENTAL IMPACT MANAGEMENT

- There are no activities linked to the ELIDZ operations that required new EIAs to be undertaken in the period under review.
- There is one potential investor (Caltex), whose EIA is still in progress. A record of decision is awaited in this regard.
- Environmental due diligence assessment were undertaken for all new investments prior to these being allocated sites and taken through to board for approval.

ELIDZ 2018/19 INDICATORS	ELIDZ 2018/19 PERFORMANCE	STATUS
0 of SHE citations for ELIDZ Corporate	There has been no SHE citations for the ELIDZ.	✓
Monitoring, communication, response and tracking of all zone enterprises SHE non-conformances and incidents as required.	SHE monitoring programmes have yielded no new enterprise related non-conformances in Q3. Tracking zone enterprise impact on environment continues and the Air and Water Quality monitoring has not noted any noxious emitters in the zone.	✓
Ensure Environmental due diligence is performed for 100% of investments presented to board for approval	Environmental Impact Due Diligence performance for all of the investments presented to board.	✓
100% of SHEQ certifications retained.	100% of SHEQ certifications retained .	✓



3.8 AUDIT COMMITTEE REPORT

The Audit Committee is pleased to present its report for the financial year ended 31 March 2019.

3.8.1 Audit Committee Members and Attendance

The Audit Committee consists of the members listed hereunder and has met as reflected below

Name of the members	Number of meetings attended
Mr A. Kanana (Chairperson)	5 of 8
Mr E. Jooste (Member)	8 of 8
Ms N. Mnconywa (Member)	7 of 8

3.8.2 Audit committee responsibility

The Audit Committee reports that it has adopted an appropriate formal terms of reference as its Audit 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 Audit Committee 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 Audit Committee 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 Audit Committee 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.

3.8.3 Effectiveness of Internal Control

The Audit Committee 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 IV report on corporate governance.

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

- Quarterly review of financial statements;
- Quarterly review of performance reports;
- Performance management review;
- Annual Financial Statements review;
- Dashboard review;
- Human resource management;
- Compliance review;
- Supply chain management review;
- Going concern review;
- Asset management;
- Costing model;
- Fraud hotline review;
- Follow up reviews (all audits).

The Audit Committee 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.

3.8.4 Evaluation of Financial Statements

The Audit Committee has evaluated and discussed the annual financial statements of the East London Industrial Zone SOC Ltd for the year ended 31 March 2019 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 Audit Committee 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.

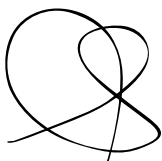
The Audit Committee has therefore, at its meeting held on 28 May 2019, recommended the adoption of the financial statements by the Board of Directors.

The Audit Committee concurs with and accepts the Auditor General of South Africa'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 Auditor-General of South Africa.

3.8.5 Auditor-General:

The Audit Committee has met with the Auditor-General of South Africa to ensure that issues that were raised are being resolved by management.

On behalf of the Committee:



.....
Mr A Kanana
Chairperson: Audit Committee





PART D:

HUMAN RESOURCE MANAGEMENT

4.1 INTRODUCTION

ELIDZ employees are crucial assets in driving the achievement of the company's strategic goals. As such, the ELIDZ continues to implement various measures to ensure the optimisation of such. The ELIDZ issues a quarterly Human Capital Management Report to the Board's Governance Committee, which also serves as the Social, and Ethics and HR Committee. The report, amongst other things reports on the following:

- The company's employment relationships;
- The company's contribution towards the educational development of its employees

4.2 HUMAN RESOURCES OVERSIGHT STATISTICS

4.2.1 Personnel cost by programme

EXPENDITURE: Personnel Costs by Programme: 2018/19					
Programme//activity/objective	Total Expenditure for the entity	Personnel Expenditure	Personnel exp. as a % of total exp.	No. of employees	Average Personnel cost per employee
Office of the CEO	18,034,456	13,918,876	77.2%	9	1,546,542
Corporate Affairs	59,191,680	19,909,758	33.6%	25	796,390
Finance	18,042,238	11,223,902	62.2%	15	748,260
Operations	146,727,513	25,823,859	17.6%	36	717,329
TOTAL	241,995,887	70,876,395	29.3%	85	833,839

The above figures only include the cash cost of employment and excludes the cost of internships. The cost of employment as disclosed in note 22 to the annual financial statements include internship costs and accruals such as bonus provision and leave accrual.

4.2.2 Personnel cost by salary band

EXPENDITURE: Personnel Costs By Salary Bands: 2018/19				
Programme//activity/objective	Personnel Expenditure	% of personnel exp. to total personnel cost	No. of employees	Average Personnel cost per employee
Top management	4,345,224	6%	1	4,345,224
Senior management	8,761,157	12%	3	2,920,386
Professionally qualified and experienced specialists and mid-management	29,349,004	41%	22	1,334,046
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	22,197,267	31%	36	616,591
Semi-skilled and discretionary decision making	5,027,786	7%	15	335,186
Unskilled and defined decision making	1,195,956	2%	8	149,495
TOTAL	70,876,394	100%	85	833,839

The above figures only include the cash cost of employment and excludes the cost of internships. The cost of employment as disclosed in note 22 to the annual financial statements include internship costs and accruals such as bonus provision and leave accrual.

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

The ELIDZ does not pay a homeowners allowance

R 41 700.37 in overtime was paid during the Financial Year ended 31 March 2019

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

4.2.3 Performance rewards

Programme//activity/objective	Performance rewards	Personnel Expenditure	% of performance rewards to total personnel cost
Top management	536,351	4,345,224	12%
Senior management	812,166	8,761,157	9%
Professionally qualified and experienced specialists and mid-management	3,752,857	29,349,004	13%
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	2,513,511	22,197,267	11%
Semi-skilled and discretionary decision making	598,714	5,027,786	12%
Unskilled and defined decision making	147,297	1,195,956	12%
TOTAL	8,360,896	70,876,394	12%

The above figures only include the cash cost of employment and excludes the cost of internships. The cost of employment as disclosed in note 22 to the annual financial statements include internship costs and accruals such as bonus provision and leave accrual.

4.2.4 Training costs

Programme / activity / objective	Personnel Expenditure	Training Expenditure	% of Training Expenditure to total Personnel Expenditure	No. of employees trained)	Avg training cost per employee
Top management	4,345,224	49,613	1.14%	1	49,613
Senior management	8,761,157	148,090	1.69%	3	49,363
Professionally qualified and experienced specialists and mid-management	29,349,004	1,083,623	3.7%	22	49,256
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	22,197,267	1,772,963	7.98%	36	49,249
Semi-skilled and discretionary decision making	5,027,786	591,237	1.22%	12	49,270
Unskilled and defined decision making	1,195,956	98,852	8.26%	2	49,426
TOTAL	70,876,394	3,744,379	5.28%	76	49,268

The above figures only include the cash cost of employment and excludes the cost of internships. The cost of employment as disclosed in note 22 to the annual financial statements include internship costs and accruals such as bonus provision and leave accrual.

4.2.5 Employment and Vacancies

Programme / activity / objective	2017/2018 No. of Employees	2018/2019 Approved Posts	2018/2019 No. of Employees	2018/2019 Vacancies (Budgeted)	% of Vacancies
Office of the CEO	10	10	9	1	10%
Corporate Affairs	26	26	25	1	3.85%
Finance	15	15	15	-	0.00%
Operations	31	39	36	3	7.69%
TOTAL	82	90	85	5	5.56%

Programme / activity / objective	2017/2018 No. of Employees	2018/2019 Approved Posts	2018/2019 No. of Employees	2018/2019 Vacancies	% of Vacancies
Top management	1	1	1	-	0.00%
Senior management	3	3	3	-	0.00%
Professionally qualified and experienced specialists and mid-management	23	24	22	2	9.09%
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	33	39	36	3	8.33%
Semi-skilled and discretionary decision making	15	15	15	-	0.00%
Unskilled and defined decision making	7	8	8	-	0.00%
TOTAL	82	90	85	5	5.56%

4.2.6 Employment changes

EMPLOYMENT CHANGES: ANNUAL TURNOVER RATES BY SALARY BAND & CRITICAL OCCUPATION FOR THE PERIOD 01 APRIL 2018 TO 31 MARCH 2019				
SALARY BAND	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
Top management	1	-	-	1
Senior management	3	-	-	3
Professionally qualified and experienced specialists and mid-management	21	2	1	22
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	33	4	1	36
Semi-skilled and discretionary decision making	15	1	1	15
Unskilled and defined decision making	7	2	1	8
TOTAL	82	9	4	85

4.2.7 Reasons for staff leaving

EMPLOYMENT CHANGES: REASONS WHY STAFF ARE LEAVING		
REASON	Number	% of total no, of staff leaving
Death	-	-
Resignation	3	3.53%
Dismissal	-	-
Retirement	1	1.18%
Ill Health	-	-
Expiry of Contract	-	-
Other	-	-
Total	4	4.71%
Total number of employees who left as a % of the total employment	4	4.71%

4.2.8 Labour relations

PRECAUTIONARY SUSPENSIONS:

None.

LABOUR REFERRALS TO THE CCMA DISPUTES:

One (1) alleged unfair labour practice was referred to the CMMA during the 2017/18 financial year and this is still at arbitration stage.

One (1) alleged unfair labour practice was referred to the CMMA during the 2018/19 financial year and this has been withdrawn by the employee.

INTERNAL DISCIPLINARY CASES:

None.

STRIKE INDUSTRIAL ACTION:

No industrial action took place within the EL IDZ during the year under review. It is to be noted that the Trade Union membership numbers increased during the 2018/19 financial year.



4.2.9 Employment equity

EMPLOYMENT EQUITY ANALYSIS (AS AT 31 MARCH 2019)											
OCCUPATIONAL BANDS	AFRICAN	COLOURED	INDIAN	WHITE	Sub Total	AFRICAN	COLOURED	INDIAN	WHITE	Sub Total	Grand Total
	MALE					FEMALE					
	Top management	1	-	-	-	1	-	-	-	-	
Senior management	2	-	-	-	2	1	-	-	-	1	3
Professionally qualified and experienced specialists and mid-management	6	2	2	3	13	5	1	-	3	9	22
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	9	1	1	3	14	19	2	-	1	22	36
Semi-skilled and discretionary decision making	4	-	-	-	4	9	2	-	-	11	15
Unskilled and defined decision making	-	-	-	-	-	8	-	-	-	8	8
Total permanent	21	3	3	6	34	42	5	-	4	51	85
Temporary employees	-	-	-	-	-	-	-	-	-	-	-
Grand total	21	3	3	6	34	40	5	-	4	51	85

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

4.2.10 Foreign workers

FOREIGN WORKERS

No foreign workers were appointed during the year under review



PART E:

FINANCIAL INFORMATION

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Legal form of entity	Public entity (PFMA)
Nature of business and principal activities	The development and management of the Special Economic Zone (SEZ) in East London
Directors	MW Makalima (Chairperson) EV Jooste A Kanana S Kondlo (Ex-officio) P Nazo N Mnconywa V Gqodi S Nkungwana M Mfuleni B Mpondo
Registered office	Acacia House Palm Square Bonza Bay Road 5201
Business address	Lower Chester Road Sunnyridge East London 5201
Postal address	P.O Box 5458 Greenfields East London 5208
Bankers	Standard Bank
Auditors	Auditor General of South Africa
Secretary	Ms. Jo-Anne Palmer
Preparer	The financial statements were internally compiled under the supervision of: Gift Matengambiri CA (SA) Chief Financial Officer
Specific governing legislation	Public Finance and Management Act 1 of 1999 The Special Economic Zones Act 16 of 2014

INDEX

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

Index	Page
Board of Directors' Responsibilities and Approval	72
Board of Directors' Report	73
Statement of Financial Position	74
Statement of Financial Performance	75
Statement of Changes in Net Assets	76
Cash Flow Statement	77
Statement of Comparison of Budget and Actual Amounts	78
Accounting Policies	79 - 91
Notes to the Financial Statements	92 - 118

SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Accepted Recognised Accounting Practice
NDR	Non distributable reserves
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards

BOARD OF DIRECTORS' RESPONSIBILITIES AND APPROVAL

The board of directors is required by the Public Finance Management Act (Act 1 of 1999) to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the entity as at the end of the financial period and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The entity has initially adopted South African Statements of Generally Recognised Accounting Practice with effect from current financial period. The prior year comparative figures have been restated to comply with the requirements of GRAP.

The board of directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the board of directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or deficit 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 entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The board of 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed the entity's cash flow forecast for the year to 31 March 2020 and, in the light of this review and the current financial position, they are satisfied that the entity has or 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 entity's financial statements.

The financial statements set out on pages 72 to 118, which have been prepared on the going concern basis, were approved by the board of directors on 31 August 2019 and were signed on its behalf by:



Professor MW Makalima
Board chairperson

BOARD OF DIRECTORS' REPORT

The board of directors submits its report for the year ended 31 March 2019.

1. Nature of business

The entity is engaged in the development and management of East London's special economic zone, investment attraction and investment management. It operates in the coastal Buffalo City Metropolitan in the Republic of South Africa.

2. Going concern

The assets of the entity exceeds its liabilities by R 2 297 663 638 (2018: R2 184 327 910) and the entity has been profitable for the previous three years.

The board of directors are satisfied that the entity has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis. The board of directors have satisfied themselves that the entity is in good 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 continues to grow 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 financial year, the company had adequate capital funds in its bank accounts to complete projects that were at different stages of completion.

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 was provided for the entity to become compliant with the legislation. As a result, a compliance plan was prepared and submitted to DTI by 8 February 2017 and full compliance was required by 8 February 2019.

In August of 2018 department of Trade and Industry Minister Dr Rob Davies gazetted draft regulations on the Governance and Composition of the Special Economic Zones (SEZs). The proposed regulations seek to provide for the management and operation of the development zone (IDZ) entity not to be separated; for the existing SEZ operator or entity to hold a licence and permit to function as both the management entity and State-owned operator; or for the separation of the SEZ entity from the operator, where a private company is appointed to either operate the SEZ wholly or in part.

3. Subsequent events

The board of directors is not aware of any matter or circumstance arising since the end of the year.

4. Accounting policies

The financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury. The entity initially adopted the standards of GRAP during the current financial year. Consequently the related comparative figures are restated to account for the change in framework.

5. Share capital

There were no changes in the authorised or issued share capital of the entity during the year under review.

6. Dividends

No dividends were declared or paid to the shareholders during the year.

7. Board Of Directors

The directors of the entity during the year and to the date of this report are as follows:

Directors	Nationality	Changes
MW Makalima (Chairperson)	South African	
EV Jooste	South African	
A Kanana	South African	
S Kondlo (Ex-officio)	South African	
P Mzazi Geja	South African	Resigned 31 October 2018
P Nazo	South African	
N Mnconywa	South African	
V Gqodi	South African	
S Nkungwana	South African	Appointed 31 October 2018
M Mfuleni	South African	Appointed 31 October 2018
B Mpondo	South African	Appointed 31 October 2018

8. Secretary

The secretary of the entity is Ms. Jo-Anne Palmer.

9. Auditors

Auditor General of South Africa will continue in office in current financial period.

STATEMENT OF FINANCIAL POSITION

as at 31 March 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Other financial assets	3	17 487 734	4 521 238
Receivables from exchange transactions	4	46 842 248	34 377 881
Prepayments	5	3 116 411	6 036 714
Cash and cash equivalents	6	1 203 158 748	631 861 366
		1 270 605 141	676 797 199
Non-Current Assets			
Investment property	7	1 701 120 531	1 584 624 768
Property, plant and equipment	8	515 131 288	530 542 443
Intangible assets	9	686 795	2 149 857
Other financial assets	3	12 845 189	16 841 094
		2 229 783 803	2 134 158 162
Total Assets		3 500 388 944	2 810 955 361
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	17 447 531	12 304 602
Payables from non-exchange transactions	11	683 823	1 131 190
VAT payable	12	18 992 346	51 456 174
Unspent conditional grants and receipts	13	1 155 853 860	552 913 492
Provisions	14	9 747 746	8 821 993
		1 202 725 306	626 627 451
Total Current Liabilities		1 202 725 306	626 627 451
Total Liabilities		1 202 725 306	626 627 451
Net Assets		2 297 663 638	2 184 327 910
Share capital	15	1 000	1 000
Accumulated surplus		2 297 662 638	2 184 326 910
Total Net Assets		2 297 663 638	2 184 327 910

* See Note 37 & 36

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Rendering of services	17	84 342 837	70 731 176
Rental of facilities and equipment	18	76 259 133	57 132 494
Recoveries	19	-	63 188
Sundry income	19	763 207	1 378 511
Interest received - investment	20	1 316 120	1 917 959
Gain on disposal of assets and liabilities	19	-	303 320
Total revenue from exchange transactions		162 681 297	131 526 648
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	367 162 922	276 083 881
Total revenue	16	529 844 219	407 610 529
Expenditure			
Employee related costs	22	(83 747 671)	(75 425 213)
Depreciation and amortisation	8&9	(28 432 752)	(34 637 352)
Lease rentals on operating lease	23	(992 359)	(935 121)
Debt Impairment	24	(2 044 902)	1 227 209
Fair value adjustments	25	(141 552 137)	(22 016 295)
General Expenses	26	(159 738 669)	(146 706 382)
Total expenditure		(416 508 490)	(278 493 154)
Surplus for the period		113 335 729	129 117 375

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Share capital	Other NDR	Accumulated surplus	Total net assets
Opening balance as previously reported	1 000	8 306 368	412 746 304	421 053 672
Adjustments				
Change in accounting policy - GRAP 105	-	(8 306 368)	8 306 368	-
Change in accounting policy - GRAP23	-	-	1 524 706 856	1 524 706 856
Prior year adjustments	-	-	109 450 007	109 450 007
Balance at April 1, 2017 as restated*	1 000	-	2 055 209 535	2 055 210 535
Changes in net assets				
Surplus for the period	-	-	129 117 375	129 117 375
Total changes	-	-	129 117 375	129 117 375
Restated* Balance at 01 April 2018	1 000	-	2 184 326 909	2 184 327 909
Changes in net assets				
Surplus for the year	-	-	113 335 729	113 335 729
Total changes	-	-	113 335 729	113 335 729
Balance at 31 March 2019	1 000	-	2 297 662 638	2 297 663 638

15

* See Note 37 & 36

CASH FLOW STATEMENT

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		150 153 878	132 495 003
Grants		935 152 901	772 171 641
Interest income		1 316 120	1 917 959
		1 086 622 899	906 584 603
Payments			
Employee costs		(83 747 671)	(73 421 215)
Suppliers		(161 947 260)	(114 373 609)
		(245 694 931)	(187 794 824)
Net cash flows from operating activities	28	840 927 968	718 789 779
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(11 343 333)	(7 819 608)
Proceeds from sale of property, plant and equipment	8	26 827	12 561
Construction of investment property	7	(258 047 900)	(180 389 488)
Proceeds from sale of investment property	7	-	4 094 820
Purchase of other intangible assets	9	(266 180)	-
Net cash flows from investing activities		(269 630 586)	(184 101 715)
Net increase/(decrease) in cash and cash equivalents		571 297 382	534 688 064
Cash and cash equivalents at the beginning of the year		631 861 366	97 173 302
Cash and cash equivalents at the end of the year	6	1 203 158 748	631 861 366

* See Note 37 & 36

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rendering of services	84 617 007	-	84 617 007	84 342 837	(274 170)	
Rental of facilities and equipment	62 915 319	-	62 915 319	70 753 908	7 838 589	
Total revenue from exchange transactions	147 532 326	-	147 532 326	155 096 745	7 564 419	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	98 591 228	(1 050 358)	97 540 870	97 540 870	-	
Total revenue	246 123 554	(1 050 358)	245 073 196	252 637 615	7 564 419	
Expenditure						
Personnel	(75 146 049)	(8 774 768)	(83 920 817)	(83 747 671)	173 146	
Lease rentals on operating lease	(1 329 871)	336 348	(993 523)	(992 359)	1 164	
General Expenses	(165 345 012)	4 135 513	(161 209 499)	(159 738 669)	1 470 830	
Total expenditure	(241 820 932)	(4 302 907)	(246 123 839)	(244 478 699)	1 645 140	
Surplus before taxation	4 302 622	(5 353 265)	(1 050 643)	8 158 916	9 209 559	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	4 302 622	(5 353 265)	(1 050 643)	8 158 916	9 209 559	
Reconciliation						
Basis difference						
Government grants and subsidies				269 622 052		
Operating lease smoothing				5 505 225		
Depreciation and amortisation				(28 432 752)		
Other income				763 207		
Interest received				1 316 120		
Debt impairment				(2 044 902)		
Fair value adjustment				(141 552 137)		
Actual Amount in the Statement of Financial Performance				113 335 729		

Explanations for material variances and budget adjustments

Rental of facilities and equipment.

The rental revenue has a positive variance of 12% when compared to the budget. This is due to new leases entered into by the entity which have increased the rental income. The related buildings were vacant at the beginning of the year.

Budget adjustment

The adjustments during the year result from re-allocations within the budget.

ACCOUNTING POLICIES

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and are rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

The ELIDZ adopted the standards of SA GRAP for the first time during the current financial year in terms of Directive 12.

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables and other financial assets

The entity assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity 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 and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are determined based on the history of defaults by its debtors. Each debtor is allocated a loss ratio based on indicators prevailing at reporting date. The loss ratio is applied to balances owed to estimate the estimated future cashflows receivable from the debtor.

Impairment testing

The recoverable amounts of cash-generating units and 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 assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets and intangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable or may have changed from previous estimates. 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 inflation and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions and Note 18 of the accounting policies.

Expected manner of realisation for deferred tax

Deferred tax is provided 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. The entity recognises a deferred tax asset for assessed losses only when the entity expects to have sufficient taxable income to offset the assessed loss in the foreseeable future.

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 entity 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 entity 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 entity 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 entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives and residual values for its depreciable assets. These estimates are based on management's experience, knowledge and current expectations for the use of the depreciable assets. The annual depreciation charge will be adjusted for any changes in these estimates.

ACCOUNTING POLICIES: 1.1 Significant judgements and sources of estimation uncertainty - (continued)

Selection of an appropriate reporting framework

The entity applied the guidance provided by Directive 12 issued by the ASB in selecting the appropriate financial reporting framework. In applying the guidance the ELIDZ assessed the extent of reliance on government funding through grants. This assessment was based on past results and forecasts for future periods.

For the year ended 31 March 2018, 54% of the entity's operational budget and 100% for capital expenditure (construction of infrastructure and investment property) was funded through government grants.

Management concluded that the portion of the entity's funding requirements that is funded by government grants was significant. Consequently, management decided on GRAP as the appropriate financial reporting framework.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs that are directly attributable to the acquisition are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Fair value

Subsequent to initial recognition the entity measures investment property at fair value. The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit 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 net surplus or deficit 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 non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The company has established guidelines to determine which components they consider as significant. These guidelines are applied to each item of property plant and equipment recognised by the entity. At each reporting period these guidelines are reviewed to align with information that is available and reliable. Any changes in the guidelines are accounted for as a change in accounting estimate and as such are adjusted for prospectively in the financial statements.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an

ACCOUNTING POLICIES: 1.3 Property, plant and equipment - (continued)

item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Not depreciated	Indefinite
Buildings	Straight line	40 years
Infrastructure networks	Straight line	10 to 50 years
Plant and machinery	Straight line	5 to 25 years
Furniture and fixtures	Straight line	20 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 to 15 years
IT equipment	Straight line	3 to 10 years
Laboratory and other property, plant and equipment	Straight line	5 to 10 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The 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.

The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 26).

1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

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

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. 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.

ACCOUNTING POLICIES: 1.4 Intangible assets - (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. 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.

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Patents, trademarks and other rights	Straight line	10 years
Computer software	Straight line	3 years

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial

assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions. Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

ACCOUNTING POLICIES: 1.5 Financial instruments - (continued)

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as
- forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial assets	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market

ACCOUNTING POLICIES: 1.5 *Financial instruments - (continued)*

transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

1.6 Prepayments

Prepayments are payments that the entity has made at the reporting date for economic benefits or service potential to be received in future periods. Prepayments are made in accordance with contracts between the entity and third parties.

The entity recognises as an asset the extent to which payments made exceed the value of economic benefits or service potential received.

The entity measures prepayments at the fair value of the consideration paid, to the extent that it exceeds the value of goods or services received. As the entity receives the related goods or services, it shall reduce the carrying amount of prepayments made by the fair value of those goods or services received. Any related asset or expense will be recognised in accordance with the applicable GRAP standard.

1.7 Tax

Current tax assets and liabilities

The company is subject to tax in accordance with the applicable laws and regulations. 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.

1.8 Value added tax

The company is subject to value added tax in accordance with the Value added Tax Act 89 of 1991. Value added tax for current and prior periods is, to the extent that it is due to the Receiver of Revenue, recognised as a liability. If the value added tax is due from the Receiver of Revenue for current and prior periods, that balance is recognised as an asset.

The entity levies (claims) output (input) value added tax on goods and services sold (purchased) in accordance with the provisions of the Value Added Tax Act 89 of 1991 and relevant regulations.

Value added tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the Receiver of Revenue, using the value added tax rates that have been enacted by the end of the reporting period.

1.9 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.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue. The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

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 or liability.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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

Basis for estimates of future cash flows

In measuring value in use the entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining

ACCOUNTING POLICIES: 1.10 Impairment of cash-generating assets - (continued)

- useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a
- reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount,

less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

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 entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are
- affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment

ACCOUNTING POLICIES: 1.10 Impairment of cash-generating assets - (continued)

loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

- Whether assets are acquired to earn a commercial return
- Whether assets are acquired to deliver services for which the entity is mandated other than those which generate an economic return

Designation

At initial recognition, the entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an entity's objective of using the asset.

The entity designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The entity designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the entity designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired. The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at

ACCOUNTING POLICIES: 1.11 Impairment of non-cash-generating assets - (continued)

the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If

any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital

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

1.13 Provisions and contingencies

A provision is a liability of uncertain timing or amount. Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

ACCOUNTING POLICIES: 1.13 Provisions and contingencies - (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

A contingent liability is a possible obligation that arises from past events, and 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; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events, and 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.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the entity considers that an outflow of economic resources is probable, an entity recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

A commitment is an agreement or a pledge to assume a financial obligation at a future date. The company has two types of commitments:

- Those for the receipt of goods or services from suppliers and
- Lease commitments to render or receive a service to or from a customer or a supplier.

A commitment arises out of a contractual agreement between the company and another party which entitles the company or the third party to enforce the delivery of the agreed upon goods or services at an agreed amount.

Contractual commitments are not recognised but are disclosed in the notes to the financial statements.

The first category of commitments is disclosed in terms of the accounting standards for investment property (GRAP 16) and property, plant and equipment (GRAP 17). GRAP 16 and GRAP 17 require an entity to disclose the amount of contractual commitments for the acquisition

ACCOUNTING POLICIES: 1.14 Commitments - (continued)

of investment property and property, plant and equipment respectively. The company only discloses capital contractual commitments that is, commitments for the acquisition of non-current assets.

The entity measures and discloses the amount of contractual commitments at the stated contract amount excluding any applicable value added taxes. The entity enters into contractual agreements where the amount of the obligation will be determined at a future date. The entity measures such contractual commitments using an estimate based on available and reliable information at reporting date. Where there are changes in the estimate determined by management at a future date, the change is accounted for in accordance with GRAP 3 Accounting policies, Accounting estimates and Errors.

The second category of commitments is disclosed in accordance with the accounting standard applicable for lease transactions.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

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 reporting date. 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 or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and

- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the entity's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,

ACCOUNTING POLICIES: 1.16 Revenue from non-exchange transactions - (continued)

- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions and conditions associated with the grant.

The entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier. Where there are restrictions or conditions attached to a government grant, the entity recognises revenue to the extent that it has satisfied those restrictions or conditions. A liability is recognised for the portion of government grants representing restrictions or conditions that the entity has not fulfilled.

When government remit grants on a re-imburement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform with GRAP 3.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made 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.

1.21 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) this Act; or
- (b) the State Tender Board Act, 1968 (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 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 officer or 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 programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.22 Budget information

Public entities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by

ACCOUNTING POLICIES: 1.22 Budget information - (continued)

economic classification linked to performance outcome objectives. The approved budget covers the fiscal period from 2018/04/01 to 2019/03/31.

Due to the nature and budgeting requirements of the entity, only the operational budget funded through a grant is made public. To that end, the entity only presents budget information for the statement of financial performance.

The financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the financial statements.

Comparative information is not required.

The company presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as a separate additional financial statement in accordance with Standards of GRAP. The entity discloses an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts. The entity classifies all variances above 10% of the budgeted amount to be significant and as such the financial statements will include the disclosure for explanations for such variances.'

1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements.

1.24 Events after reporting date

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

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event 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 financial statements.

1.25 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 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 plans are charged as an expense as they fall due. The contributions are not discounted.

NOTES TO THE FINANCIAL STATEMENTS

Figures in Rand

2019

2018

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The entity has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 20: Related parties	01 April 2019	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements

2.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Impact is currently being assessed
IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact
Guideline: Guideline on Accounting for Landfill Sites	01 April 2019	Unlikely there will be a material impact
Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2019	Unlikely there will be a material impact
Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	Unlikely there will be a material impact
GRAP 104 (revised): Financial Instruments	01 April 2019	Unlikely there will be a material impact
GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact

Notes to the Financial Statements: 2. New standards and interpretations - (continued)

Figures in Rand		2019	2018
Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:	
GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact	
GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact	
GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact	
GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact	
GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact	
IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact	
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact	
IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact	
IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Impact is currently being assessed	
IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact	

3. Other financial assets

At amortised cost

Other financial assets	30 332 923	21 362 332
------------------------	------------	------------

Non-current assets

At amortised cost	12 845 189	16 841 094
-------------------	------------	------------

Current assets

At amortised cost	17 487 734	4 521 238
-------------------	------------	-----------

Included in the balances above is the effect of time value of money on the expected future cashflows as follows:

Time value of money effect

	2019	2018
Current assets	1 075 709	290 963
Non-current assets	10 817 303	12 607 084
	11 893 012	12 898 047

The first category of the financial asset relates to debt restructuring agreements that the entity has entered into with some of its customers that are in financial distress. The restructured debt is interest free and is payable over an agreed period of time. These arrangements are part of an informal business rescue program done by the company in accordance with its debtors policy. The debt is due for final settlement in the next financial year.

The second category of the financial asset 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 is R25 741 495.

Notes to the Financial Statements: 3. Other Financial Assets - (continued)

Figures in Rand	2019	2018
-----------------	------	------

4. Receivables from exchange transactions

Trade debtors	26 432 846	20 232 751
Impairment for bad debts	(13 660 643)	(12 426 955)
Rental receivables (Smoothing adjustment)	31 000 324	25 495 098
Other receivables	338 802	547 601
Other debtors including related parties	297 491	529 386
Accrued investment income	2 433 428	-
	46 842 248	34 377 881

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(12 426 955)	(13 654 164)
Provision for impairment	(1 233 688)	1 227 209
	(13 660 643)	(12 426 955)

The carrying amount of the trade and other receivables approximates their fair values.

5. Prepayments

Prepayments	3 116 411	6 036 714
-------------	-----------	-----------

The prepayments relate to prepaid insurance and software licences. The terms of each contract require a prepayment of the contract amount or premium. The service to which the prepayment relates will be rendered in future periods.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 561	559
Bank balances	4 673 354	336 174 396
Short-term deposits	1 198 481 833	295 686 411
	1 203 158 748	631 861 366

Cash and cash equivalents ringfenced for projects funded in terms of the SEZ act	1 155 853 860	552 913 492
--	---------------	-------------

7. Investment property

	Cost / Valuation	Carrying value	Cost / Valuation	Carrying value
Investment property	1 701 120 531	1 701 120 531	1 584 624 768	1 584 624 768

Notes to the Financial Statements: 7. Investment property - (continued)

Figures in Rand	2019	2018
-----------------	------	------

Reconciliation of investment property - 2019

	Opening balance	Additions	Fair value adjustments	Total
Investment property	1 584 624 768	258 047 900	(141 552 137)	1 701 120 531

Reconciliation of investment property - 2018

	Opening balance	Additions	Disposals	Fair value adjustments	Total
Investment property	1 430 043 075	180 389 488	(3 791 500)	(22 016 295)	1 584 624 768

Pledged as security

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

Investment property in the process of being constructed or developed

Investment property - Cost	193 974 881	192 041 573
----------------------------	-------------	-------------

Details of property

A register containing the information required by Regulations 25(3) of the companies regulations 2011 is available for inspection at the registered office of the entity. The entity appoints an external, independent property valuer every year.

Details of valuation

Certain investment property was revalued in the current year after final close out. The effective date of those revaluations was 31 March 2019. Revaluations were performed by a team of external registered valuers headed by Penny Lindstrom, Reg. No. 935/7. The team of valuers has recent experience in the location and category of the investment property being valued.

The remainder of the properties measured at fair value were revalued in the prior year by Letlaka Ndamase, Reg. No. 5435/7. These properties were subjected to an internal review during the year which resulted in no changes to the fair values determined as at 31 March 2019. This is in accordance with the entity's internal policy on valuations of investment property.

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

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

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 since the last valuation was performed.

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

Amounts recognised in surplus or deficit

Rental revenue from Investment property	76 259 133	57 132 494
---	------------	------------

Notes to the Financial Statements: 7. Investment property - (continued)

Figures in Rand	2019	2018
Expenditure incurred on investment property that generated rental revenue		
Direct operating expenses (excluding repairs and maintenance)	(20 297 343)	(13 357 508)
Repairs and maintenance	(3 072 192)	(3 674 534)
	(23 369 535)	(17 032 042)
Expenditure investment property that did not generate rental revenue		
Direct operating expenses (excluding repairs and maintenance)	(2 073 566)	(1 966 120)

8. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	3 821 361	-	3 821 361	3 821 361	-	3 821 361
Infrastructure including buildings	675 184 142	(224 514 063)	450 670 079	665 000 691	(203 552 791)	461 447 900
Plant and machinery	64 042 533	(13 741 069)	50 301 464	64 042 533	(10 650 367)	53 392 166
Furniture and fixtures	4 749 628	(3 250 403)	1 499 225	4 742 878	(3 369 108)	1 373 770
Motor vehicles	1 671 432	(1 114 442)	556 990	1 671 432	(1 085 952)	585 480
Office equipment	602 368	(325 338)	277 030	596 970	(540 892)	56 078
IT equipment	32 860 128	(25 415 648)	7 444 480	32 197 087	(22 942 524)	9 254 563
Laboratory and other property, plant and equipment	4 282 222	(3 721 563)	560 659	4 237 023	(3 625 898)	611 125
Total	787 213 814	(272 082 526)	515 131 288	776 309 975	(245 767 532)	530 542 443

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation reversal	Depreciation	Total
Land	3 821 361	-	-	-	-	3 821 361
Infrastructure including buildings	461 447 900	10 183 452	-	-	(20 961 273)	450 670 079
Plant and machinery	53 392 166	-	-	116 352	(3 207 054)	50 301 464
Furniture and fixtures	1 373 770	6 750	-	219 782	(101 077)	1 499 225
Motor vehicles	585 480	-	-	-	(28 490)	556 990
Office equipment	56 078	5 399	-	238 616	(23 063)	277 030
IT equipment	9 254 563	1 102 531	(50 977)	-	(2 861 637)	7 444 480
Laboratory and other property, plant and equipment	611 125	45 201	-	-	(95 667)	560 659
Total	530 542 443	11 343 333	(50 977)	574 750	(27 278 261)	515 131 288

Notes to the Financial Statements: 8. Property, plant and equipment - (continued)

Figures in Rand	2019	2018
-----------------	------	------

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Land	3 821 361	-	-	-	3 821 361
Infrastructure including buildings	484 107 182	931 468	-	(23 590 750)	461 447 900
Plant and machinery	56 605 221	-	-	(3 213 055)	53 392 166
Furniture and fixtures	1 788 897	-	-	(415 127)	1 373 770
Motor vehicles	464 224	158 286	-	(37 030)	585 480
Office equipment	40 783	40 181	-	(24 886)	56 078
IT equipment	4 969 019	6 072 403	(36 202)	(1 750 657)	9 254 563
Laboratory and other property, plant and equipment	560 162	617 270	-	(566 307)	611 125
Total	552 356 849	7 819 608	(36 202)	(29 597 812)	530 542 443

Pledged as security

No assets are pledged as security.

Other information

Details of properties

Property, plant and equipment in the process of being constructed or developed

Infrastructure including buildings	71 268 861	61 085 410
IT equipment	-	3 457 946
	71 268 861	64 543 356

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Strategic electricals (Berlin)

Recognised as at the end of the year

The project is linked to the settlement of an investor in Berlin which did not materialise. The project was put on hold until another investor could be obtained. The ELIDZ continues to seek out investors to settle on the land in Berlin.

9 671 877

9 671 877

Actom - Contract Z6/E1/TRF/03/11 - Transformers

Recognised as at the end of the year

See reason for the strategic electricals project.

25 494 175

25 494 175

Wind Farm

Recognised as at the end of the year

The ELIDZ entered into a contract with a supplier to deliver a turnkey solution for the windfarm project. The supplier wound up its operations and was unable to complete the project. The ELIDZ is currently in the process of performing an analysis of work completed in order to appoint another supplier to complete the project.

25 041 050

25 041 050

60 207 102

60 207 102

No impairment losses have been recognised on the above projects. Management has assessed the recoverable amount of the work in progress. The carrying amount does not exceed the recoverable amount for the projects above. This assessment is reviewed at each reporting period.

Notes to the Financial Statements: 8. Property, plant and equipment - (continued)

Figures in Rand	2019	2018
-----------------	-------------	-------------

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within IT Equipment	Total
Opening balance	61 085 410	3 457 946	64 543 356
Additions/capital expenditure	10 183 451	-	10 183 451
Transferred to completed items	-	(3 457 946)	(3 457 946)
	71 268 861	-	71 268 861

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within IT Equipment	Total
Opening balance	60 706 027	-	60 706 027
Additions/capital expenditure	379 383	3 457 946	3 837 329
	61 085 410	3 457 946	64 543 356

Expenditure incurred to repair and maintain property, plant and equipment

Contracted services	(21 006 242)	(23 702 163)
---------------------	--------------	--------------

Details 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 entity.

9. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Patents, trademarks and other rights	30 000	(4 054)	25 946	-	-	-
Computer software	23 536 616	(22 875 767)	660 849	23 374 112	(21 224 255)	2 149 857
Total	23 566 616	(22 879 821)	686 795	23 374 112	(21 224 255)	2 149 857

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Patents, trademarks and other rights	-	30 000	(4 054)	25 946
Computer software, other	2 149 857	236 180	(1 725 188)	660 849
	2 149 857	266 180	(1 729 242)	686 795

Notes to the Financial Statements: 9. Intangible assets - (continued)

Figures in Rand	2019	2018
Reconciliation of intangible assets - 2018		
	Opening balance	Amortisation
Computer software, other	7 189 397	(5 039 540)
		Total
		2 149 857

Details of intangible assets

A register containing information required by Regulation 25(3) of the Companies Regulations 2011 is available for inspection at the registered office of the entity: None of the above intangible assets were internally generated, encumbered or pledged as security

10. Payables from exchange transactions

Trade payables	8 436 609	4 019 988
Other payables	1 953 587	1 676 758
Accrued leave pay	3 618 534	3 383 996
Deposits received	3 438 801	3 223 860
	17 447 531	12 304 602

Fair value of trade and other payables

The carrying amounts of trade and other payables approximate their fair values in terms of GRAP 104. In line with the PFMA the company settles trade payables within 30 days. The time value of money impact on the expected outflows is not material.

11. Payables from non-exchange transactions

Other payables from non-exchange transactions	683 823	1 131 190
---	---------	-----------

The payables arise from agreements entered into between the ELIDZ and other organs of state (the funder). The ELIDZ performs a facilitating role for a project on behalf of the other organ of state. The end recipient of the project is usually another organ of state. The ELIDZ receives funds and holds these in trust on behalf of the funder and carries out certain tasks stated in the funding agreements.

12. VAT payable

Tax payables	18 992 346	51 456 174
--------------	------------	------------

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
-----------------	------	------

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent grants (DTI)	1 155 853 860	552 913 492
Unspend conditional grant reconciliation		
Beginning of the year	552 913 492	76 462 160
Grant receipts	837 612 015	651 081 121
Interest received	33 559 711	6 364 021
Conditions met and recognised as income	(268 231 358)	(180 993 810)
	1 155 853 860	552 913 492

The entity receives grants from the Department of Trade and Industry (DTI) for infrastructure development i.e. investment property and other owner occupied infrastructure. If the projects do not commence or are cancelled, the funds are returned to the DTI. The DTI approved the roll over for the SEZ project funds that were unutilised at the end of the previous and current financial year.

See note 21 for reconciliation of grants from National/Provincial Government.

14. Provisions

Reconciliation of provisions - 2019

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Retentions	348 698	-	-	(348 698)	-
Performance bonus provision	8 473 295	9 747 746	(8 360 896)	(112 399)	9 747 746
	8 821 993	9 747 746	(8 360 896)	(461 097)	9 747 746

Reconciliation of provisions - 2018

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Retentions	348 698	-	-	-	348 698
Performance bonus provision	7 075 998	8 473 295	(6 843 864)	(232 134)	8 473 295
	7 424 696	8 473 295	(6 843 864)	(232 134)	8 821 993

Retentions

Retentions relate to project amounts which were withheld after the completion of the implementation of a significant part of the ERP system. The retention was recognised when the completed intangible asset was recognised by the entity.

The amount was released in the current year when the service provider completed the implementation of the insignificant portions of the ERP which were outstanding at the date of initial recognition.

Performance bonus provision

The provision for performance bonus relates to the payment of bonuses to the entity's employees based on the assessment of performance for the financial period ended 31 March 2019. The provision is based on historic data and the outflow is considered to be probable. The settlement of the provision is dependant on key factors such as the performance of employees as well as the timing of the approval of the board of directors. The timing of the settlement is uncertain at the reporting date. Consequently the entity has recognised a provision as the amount and timing of settlement of the obligation is uncertain.

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
-----------------	------	------

15. Share capital

Authorised

1 000 000 Ordinary shares of R0.01 each.	10 000	10 000
--	--------	--------

Reconciliation of number of shares issued:

Reported as at 31 March 2019	100 000	100 000
------------------------------	---------	---------

Issued

100 000 Ordinary shares at R0.01 each	1 000	1 000
---------------------------------------	-------	-------

The issued share capital consists only of ordinary shares. There is no intention on the part of the entity to repay the capital to the shareholders. The ordinary shares issued can only be sold or transferred to an entity that is an organ of the state. The declaration of dividends is considered at the annual general meeting of the shareholders. Since incorporation the company has not declared any dividends.

16. Revenue

Rendering of services	84 342 837	70 731 176
Rental of facilities and equipment	76 259 133	57 132 494
Recoveries	-	63 188
Sundry Income	763 207	1 378 511
Interest received from debtors and other	1 316 120	1 917 959
Government grants & subsidies	367 162 922	276 083 881
	529 844 219	407 307 209

The amount included in revenue arising from exchanges of goods or services are as follows:

Rendering of services	84 342 837	70 731 176
Rental of facilities and equipment	76 259 133	57 132 494
Recoveries	-	63 188
Sundry Income	763 207	1 378 511
Interest received - investment	1 316 120	1 917 959
	162 681 297	131 223 328

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue

Government grants & subsidies	367 162 922	276 083 881
-------------------------------	-------------	-------------

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
-----------------	------	------

17. Rendering of services

Electricity income	64 525 452	55 131 388
Conference hire income	2 943 284	2 538 234
Analytical lab income	3 313 532	2 416 914
Telephone services income	5 572 576	3 795 031
Estate levy income	1 595 744	1 700 331
Water income	4 146 055	3 284 885
Sewerage income	2 246 194	1 864 393
	84 342 837	70 731 176

18. Rental of facilities and equipment

Premises

Rental income - third party	70 753 908	54 405 603
Rental smoothing	5 505 225	2 726 891
	76 259 133	57 132 494

19. Other revenue

Bad debts recovered	-	63 188
Sundry Income	763 207	1 378 511
	763 207	1 441 699

The amount included in other revenue arising from exchanges of goods or services are as follows:

Gain on disposal of asset	-	303 320
---------------------------	---	---------

20. Interest received

Interest revenue		
Other financial assets	1 005 035	1 717 730
Interest charged on trade and other receivables	311 085	200 229
	1 316 120	1 917 959

21. Government grants and subsidies

Operating grants

Government grant (DEDEAT)	98 931 570	95 091 072
---------------------------	------------	------------

Notes to the Financial Statements: 21. Government grants and subsidies - (continued)

Figures in Rand	2019	2018
-----------------	------	------

Capital grants

Government grant (DTI) for infrastructure	268 231 352	180 992 809
	367 162 922	276 083 881

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	268 231 352	180 992 809
Unconditional grants received	98 931 570	95 091 072
	367 162 922	276 083 881

22. Employee related costs

Basic	70 510 804	63 522 968
Bonus	9 635 347	8 318 048
UIF	477 251	426 242
SDL	737 615	661 938
Leave pay provision charge	446 341	606 701
Internships	1 895 313	1 749 316
Other short term costs	45 000	140 000
	83 747 671	75 425 213

23. Lease rentals on operating lease

Equipment

Contractual amounts	992 359	935 121
---------------------	---------	---------

24. Debt impairment

Contributions to debt impairment provision	1 233 688	(1 227 209)
Bad debts written off	811 214	-
	2 044 902	(1 227 209)

The ELIDZ wrote a debt of R811 214 during the financial year. No bad debts were written off in the prior year.

25. Fair value adjustments

Investment property (Fair value model)	(141 552 137)	(22 016 295)
--	---------------	--------------

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
26. General expenses		
Advertising	591 894	385 982
Auditors remuneration	2 130 620	2 070 565
Bank charges	95 060	97 666
Cleaning	628 643	366 389
Computer expenses	789 979	520 690
Consulting and professional fees	7 623 235	9 880 137
Consumables (laboratory and conference centre)	4 805 058	4 140 846
Donations	816 661	779 278
Entertainment	133 819	119 890
Insurance	3 548 855	4 169 415
IT expenses	2 173 667	1 465 504
Medical expenses	588 333	588 333
Motor vehicle expenses	85 015	68 892
Placement fees	158 606	849 519
Postage and courier	123 046	97 195
Printing and stationery	154 407	184 036
Promotions	973 331	1 470 441
Repairs and maintenance contracted services	24 078 434	27 376 697
Security costs	7 967 583	7 967 583
Software expenses	3 560 365	2 738 709
Staff welfare	155 729	143 615
Subscriptions and membership fees	286 491	957 100
Telephone and fax	1 172 860	1 205 195
Training	1 849 066	1 368 189
Travel - local	2 025 464	1 202 248
Rates and taxes	19 971 057	13 357 508
Electricity	53 818 124	46 779 455
Water	5 578 021	4 109 961
Sewerage	2 013 557	1 801 340
Fixed Assets - Disposal (Losses)	24 230	23 646
Project expenses contracted services	7 221 863	8 685 421
Board fees	1 018 003	1 103 132
SHEQ Expenses	3 285 594	20 225
Internal Audit services	291 999	611 580
	159 738 669	146 706 382

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
-----------------	------	------

27. Auditors' remuneration

Fees (External audit fees)	2 130 620	2 070 565
----------------------------	-----------	-----------

28. Cash generated from operations

Surplus	113 335 729	129 117 375
Adjustments for:		
Depreciation and amortisation	28 432 752	34 637 352
Gain (loss) on sale of assets and liabilities	24 230	(279 678)
Fair value adjustments	141 552 137	22 016 295
Debt impairment	1 233 688	(1 227 209)
Bad debts written off	811 214	-
Movements in provisions	925 753	1 397 297
Changes in working capital:		
Receivables from exchange transactions	(12 464 367)	1 785 667
Prepayments	2 920 303	1 289 930
Other financial assets	(8 970 591)	1 792 591
Payables from exchange transactions	5 143 576	2 329 443
VAT	(32 463 828)	49 479 377
Payables from non-exchange transactions	(447 367)	(19 329)
Unspent conditional grants and receipts	600 894 739	476 470 668
	840 927 968	718 789 779

29. Taxation

No provision has been made for 2019 tax as the entity has no taxable income. The estimated tax loss available for set off against future taxable income is R 99 632 875 (2018: R 106 618 352).

Reconciliation of the tax income

Taxable income for the year

Profit before tax	113 335 729	129 117 375
Permanent differences	(268 419 726)	(183 710 807)
Temporary differences	162 069 474	46 588 999
Assessed loss unrecognised	-	4 729 361
Capital gain	-	3 275 072
Utilised assessed loss	(6 985 477)	-
	-	-

Notes to the Financial Statements: 29. Taxation - (continued)

Figures in Rand	2019	2018
Assessed loss carried forward		
Assessed loss brought forward	(106 618 352)	(101 888 991)
Taxable (loss)/income for the year	6 985 477	(4 729 361)
	(99 632 875)	(106 618 352)

Reconciliation of the income tax expense

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 28%

Reconciliation of tax rate (%)

Applicable tax rate	28	28
---------------------	----	----

Permanent differences

Expenses not deductible for tax purposes	25	20
Grant income not taxable	(91)	(60)
Other permanent differences	1	-

Temporary differences

Investment property fair value (gains)/losses	35	5
Operating lease smoothing	(1)	(1)
Depreciation and wear and tear adjustment	6	6
Other temporary differences	(1)	-
Capital gain	-	1
Unrecognised/Utilised(-) assessed loss for the year	(2)	1
	-	-

30. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	-	30 332 923	30 332 923
Trade and other receivables from exchange transactions	-	15 841 924	15 841 924
Cash and cash equivalents	1 203 158 748	-	1 203 158 748
	1 203 158 748	46 174 847	1 249 333 595

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	17 447 532	17 447 532
Taxes and transfers payable (non-exchange)	683 823	683 823
	18 131 355	18 131 355

Notes to the Financial Statements: 30. Financial instruments disclosure - (continued)

Figures in Rand	2019	2018
-----------------	------	------

2018

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	-	21 362 332	21 362 332
Trade and other receivables from exchange transactions	-	8 882 783	8 882 783
Cash and cash equivalents	631 861 366	-	631 861 366
	631 861 366	30 245 115	662 106 481

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	12 304 603	12 304 603
Taxes and transfers payable (non-exchange)	1 131 190	1 131 190
	13 435 793	13 435 793

Financial instruments in Statement of financial performance

2019

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	(1 005 035)	(1 005 035)
Impairment loss	1 233 688	1 233 688
	228 653	228 653

2018

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	(1 717 730)	(1 717 730)
Impairment loss	(1 227 209)	(1 227 209)
	(2 944 939)	(2 944 939)

31. Commitments

Authorised capital expenditure

Already approved and contracted for

• Property, plant and equipment	113 334 249	32 737 429
• Investment property	401 862 023	105 941 629
	515 196 272	138 679 058

Total capital commitments

Already approved and contracted for	515 196 272	138 679 058
-------------------------------------	-------------	-------------

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 DTI, DEDEAT as well as own generated revenues. The commitment amounts are exclusive of VAT.

Notes to the Financial Statements: 31. Commitments - (continued)

Figures in Rand	2019	2018
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	947 223	315 790
- in second to fifth year inclusive	1 299 487	-
	2 246 710	315 790

Operating leases relates to the lease of equipment with a lease term of three years. The entity does not have an option to purchase the leased equipment at the expiry of the lease period. There are no contingent rentals payable on the lease.

Operating leases - as lessor (income)

Minimum lease receipts due		
- within one year	76 783 373	50 608 964
- in second to fifth year inclusive	185 884 367	138 522 275
- later than five years	109 472 116	28 695 832
	372 139 856	217 827 071

Leasing arrangements

Operating leases relate to the investment property owned by the entity 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 an escalation clause.

Rental income earned by the entity from its investment properties and direct operating expenses arising on the investment properties for the year are set out in note 7.

The entity 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 property, plant and equipment that is leased out and the percentage of revenue generated for investment property that is leased out.

32. Contingencies

The first contingent liability relates to litigation that is in the process against the company relating to a dispute with a former employee who is claiming for damages due to a breach and repudiation of their employment contract. The case is currently before the high court. The company's lawyers and management consider the likelihood of the action against the company being successful as unlikely. The claim for damages is estimated at R5 977 280.

The second contingent liability relates to a claim by a current employee for alleged unfair labour practices. The estimated amount of the claim is R166 584. The case is currently before the CCMA. Management and the company's legal representatives consider the likelihood of the action against the company being successful as unlikely.

Should the action be unsuccessful the company does not have insurance to cover the costs and will not receive any reimbursements for any outflow from the claims above.

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
-----------------	------	------

33. Related parties

Relationships

Shareholder with controlling interest	Department of Economic Development Environmental Affairs and Tourism (DEDEAT)
Shareholder with significant influence	Buffalo City Metropolitan Municipality (BCMM)
Other related parties with significant influence	Department of Trade and Industry (DTI) as custodians of the SEZ act, an enabling legislation to the ELIDZ as well as material transactions in the form of capital funding provided to the ELIDZ.
Members of key Management	S. Kondlo T. Zweni N . Makhoba G. Matengambiri
Non-executive Directors	M. Makalima P. Nazo A. Kanana S. Nkungwana E. Jooste N. Mnconywa V. Gqodi P. Mzazi-Geja (resigned 31 October 2018) B. Mpondo M. Mfuleni

The detail of the remuneration of the members of key management and non-executive directors is included in note 34 to the financial statements

Related party transactions

Buffalo City Metropolitan Municipality

Expenditure: Rates and Taxes	20 297 343	13 357 508
Expenditure: Electricity	53 491 838	46 605 865
Expenditure: Water	5 578 021	4 109 961

For directors remuneration refer to note 34

For grant funding received from DEDEAT refer to note 21.

For grant funding received from DTI refer to note 21 and 13

The entity transacts with the minority shareholder, BCMM in its capacity as a provider of municipal services to the zone. The following terms are applicable to the various transactions entered into between the entity and BCMM:

Notes to the Financial Statements: 31. Commitments - (continued)

Figures in Rand	2019	2018
-----------------	------	------

Rates

All vacant land was valued and rated as agricultural land.

New developments and developments that did not benefit in the past benefits offered to ELIDZ 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 does not apply to properties within the zone.

Water

A 15% special discount rate was offered on bulk purchases by BCMM.

Electricity

ELIDZ obtains its electricity at the Eskom rate plus a 2.5% wheeling charge.

All other transactions are at arms-length rates applicable to the general population of the BCMM.

34. Directors and Executive managements' remuneration

2019	Basic salary	Allowances	Employer contributions to funds	Performance bonus	Total
S Kondlo (Ex-officio)	2 227 200	1 148 854	432 818	536 351	4 345 223
T Zweni	1 848 441	953 443	365 679	454 107	3 621 670
G. Matengambiri	1 434 937	740 105	292 382	358 059	2 825 483
N. Makhoba	1 344 326	693 357	276 320	-	2 314 003
	6 854 904	3 535 759	1 367 199	1 348 517	13 106 379

2018	Basic salary	Allowances	Employer contributions to funds	Performance bonus	Total
S Kondlo (Ex-officio)	2 068 434	1 085 532	408 962	480 890	4 043 818
T Zweni	1 716 609	900 891	345 524	361 097	3 324 121
A Magwentshu	782 031	466 612	181 316	347 404	1 777 363
G. Matengambiri	1 329 020	699 312	276 267	260 535	2 565 134
N. Makhoba	482 916	293 475	108 788	-	885 179
	6 379 010	3 445 822	1 320 857	1 449 926	12 595 615

Notes to the Financial Statements: 34. Directors and Executive managements' remuneration - (continued)

Figures in Rand	2019	2018	
Non-executive			
2019	Members' fees	Allowances	Total
MW Makalima (Chairperson)	168 705	4 099	172 804
EV Jooste	192 259	2 556	194 815
A Kanana	82 340	8 302	90 642
P Nazo	166 303	2 343	168 646
N Mnconywa	150 433	2 556	152 989
V Gqodi	123 613	10 218	133 831
M Mfuleni	38 949	9 791	48 740
B Mpondo	43 191	12 345	55 536
	965 793	52 210	1 018 003
2018	Directors fees	Allowances	Total
MW Makalima (Chairperson)	262 133	5 743	267 876
EV Jooste	265 159	2 769	267 928
A Kanana	144 607	14 475	159 082
P Nazo	184 270	2 769	187 039
N Mnconywa	186 515	3 195	189 710
V Gqodi	31 071	426	31 497
	1 073 755	29 377	1 103 132

35. Change in estimate

Property, plant and equipment

In the current period management have revised the estimated useful lives of certain categories of property plant and equipment. The affected categories are as follows:

Category	Previous useful life assessment	Re-assessed useful life
Laboratory equipment	5	10
Furniture	10	20
Buildings	25	40
Infrastructure	25	10 to 50
Office equipment	5	5 to 15

The effect of this revision has decreased the depreciation charges for the current and future periods by R 3 378 814 and R186 200 961 respectively.

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
-----------------	------	------

36. Prior period errors

Property, plant and equipment specifically infrastructure network items were previously recognised as a single asset and measured at the total project expenditure. During the current financial year, the entity engaged external services to identify and unbundle the infrastructure networks into identifiable significant components. The exercise resulted in the identification of previously unrecognised items of infrastructure networks. These items may have been misclassified in previous financial years. The identification of these items resulted in a change in the cost previously recognised for infrastructure network assets. The error has been corrected retrospectively in accordance with GRAP 3. The impact of the prior period error correction on net assets is shown below:

Statement of financial position

Property plant and equipment	104 560 477
Accumulated surplus (1 April 2017)	(109 450 008)

Statement of financial performance

Depreciation expense	4 889 531
----------------------	-----------

The reconciliation of the above prior period error correction is as follows:

(Property plant and equipment (completed infrastructure))

Previously stated	295 802 014
Correction of error	104 560 477
	400 362 491

Depreciation

Previously stated	29 747 820
Correction of error	4 889 531
	34 637 351

Other financial assets

During the current financial year the entity identified that the effect of discounting cash flows to arrive at the amortised cost of other financial assets was allocated to non-current assets. However a portion of the discounting effect related to the current asset portion of other financial assets. The effect of the correction is as follows:

Current assets

Previously stated	4 812 201
Correction of error	(290 963)
	4 521 238

Non-current assets

Previously stated	16 550 131
Correction of error	290 963
	16 841 094

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
-----------------	------	------

37. Change in accounting policy and comparative figures

The Accounting Standards Board (ASB) issued directive 12 for the selection of an appropriate reporting framework for public entities. Effective for the financial years ending from 1 April 2018 entities will no longer apply standards of SA GAAP. In terms of the directive the applicable reporting framework the ELIDZ has applied for the financial year ending 31 March 2019 are the standards of Generally Recognised Accounting Practice (GRAP).

Change in accounting framework

Certain comparative figures have been reclassified due to change in accounting framework.

GRAP 23 Revenue from non-exchange transactions

The change has impacted the treatment of government grants. Under SA GAAP the entity recognised a deferred income liability for grants related to the acquisition of assets. The deferred income liability was then amortised over the useful lives of the purchased items of investment property and property plant and equipment. Under the standards of GRAP the entity is required to apply GRAP 23 for revenue from non-exchange transactions. GRAP 23 if government grant receipts are subject to conditions and stipulations the entity is required to recognise a liability to the extent of the unfulfilled conditions and stipulations attached to each grant received. As the entity satisfies these stipulations and conditions, it recognises income under government grants and subsidies to the extent of the conditions and stipulations fulfilled. This difference in accounting between SA GAAP and GRAP has necessitated a change in accounting policy for the treatment of government grant receipts. In line with GRAP 3, Accounting policies, changes in accounting estimates and errors the adjustment was applied retrospectively from prior financial year. This is consistent to par 80 of Directive 2 read with par 27 of Directive 12. The net effect of significant change in accounting framework is as shown on the table belows;

Unspent conditional grants

Previously recognised under SA GAAP

GRAP 23 adjustment

	2018	2017
Previously recognised under SA GAAP	2 167 264 478	1 601 169 015
GRAP 23 adjustment	(1 614 350 986)	(1 524 706 856)
	552 913 492	76 462 159

Government grants and subsidies

Previously recognised under SA GAAP - Other income (government grants released to income)

Previously recognised under SA GAAP - Other income (investment property)

GRAP 23 Adjustment

	2018
Previously recognised under SA GAAP - Other income (government grants released to income)	119 104 983
Previously recognised under SA GAAP - Other income (investment property)	67 334 768
GRAP 23 Adjustment	89 644 130
	276 083 881

GRAP 105 Transfer of Functions between Entities under Common Control

The non distributable reserve arose from one of the main provision of awarding an operators permit to East London Industrial Development Zone Corporation. The main provision 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. GRAP 105 Transfer of Functions between Entities under Common Control, paragraph 4 requires the acquiring entity recognise assets acquired or transferred and liabilities assumed at carrying amount. The difference is recognised in accumulated surplus or deficit. This change in accounting policy resulted in the derecognition of the previously recognised Non-distributable reserve with a transfer to accumulated surplus of R8 306 368 as shown below

Other non-distributable reserve

Recognised under SA GAAP

GRAP 105 adjustment

	2018
Recognised under SA GAAP	8 306 368
GRAP 105 adjustment	(8 306 368)
	-

Notes to the Financial Statements: - (continued)

Figures in Rand	2019	2018
Statement of financial position presentation changes		
GRAP 1 requires that as a minimum, the face of the statement of financial position shall include line items that present separately amounts for receivables and payables for exchange and non-exchange transactions. Under the previously adopted accounting framework, there was no such distinction. Consequently all receivables and payables were presented as a singular amount on the statement of financial position. The initial adoption of GRAP has resulted in the following amounts being separately disclosed as follows;		
Receivables from exchange transactions (Trade and other receivables)		
Previously stated under SA GAAP		40 414 595
Transferred to prepayments		(6 036 714)
		34 377 881
Prepayments		
Transferred from trade and other receivables		6 036 714
Payables from exchange transactions (Trade and other payables)		
Previously stated		64 891 968
Transferred to VAT payable		(51 456 174)
Transferred to payables from non-exchange transactions		(1 131 190)
		12 304 604
VAT Payable		
Transferred from trade and other payables		51 456 174
Payables from non-exchange transactions		
Transferred from trade and other payables		1 131 190
Statement of financial performance presentation changes		
Rendering of services (Revenue)		
Previously stated		127 863 669
Transferred to rental of facilities		(57 132 494)
		70 731 175
Rental of facilities and equipment		
Transferred from revenue		57 132 494
Cost of sales		
Previously stated		77 241 070
Transferred to general expenses		(77 241 070)
		-

Notes to the Financial Statements: 37. Change in accounting policy and comparative figures - (continued)

Figures in Rand	2019	2018
Other income (Sundry income)		
Previously stated		188 184 770
Transferred to government grants and subsidies		(186 439 751)
Transferred to recoveries		(63 188)
Transferred to gain on disposal of assets and liabilities		(303 320)
		1 378 511
General expenses (Operating expenses)		
Previously stated		174 346 256
Error correction PPE depreciation		4 889 531
Transferred to depreciation and amortisation		(34 637 352)
Transferred to employee related costs		(75 425 213)
Transferred from cost of sales		77 241 070
Transferred to lease rentals on operating leases		(935 121)
Transferred to debt impairment		1 227 209
		146 706 380

38. Risk management

Financial 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 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 Committee.

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. 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.

Notes to the Financial Statements: 38. Risk management - (continued)

Figures in Rand	2019	2018
-----------------	------	------

A maturity analysis of ELIDZ's financial instruments as at 31 March 2019 is as follows:

2019 Liquidity gap analysis	On demand and less than one month	1 to 12 months	More than 12 months	Total
Assets				
Other financial assets	-	17 487 734	12 845 188	30 332 922
Receivables from exchange transactions	15 841 924	-	-	15 841 924
Cash and cash equivalents	1 203 158 748	-	-	1 203 158 748
Subtotal	1 219 000 672	17 487 734	12 845 188	1 249 333 594
Liabilities				
Payables from exchange transactions	(14 008 731)	-	(3 438 801)	(17 447 532)
Payables from non-exchange transactions	(683 823)	-	-	(683 823)
	1 204 308 118	17 487 734	9 406 387	1 231 202 239

2018 Liquidity gap analysis	On demand or less than one month	1 to 12 months	More than 12 months	Total
Assets				
Other financial assets	-	4 521 238	16 841 094	21 362 332
Receivables from exchange transactions	8 882 782	-	25 495 098	34 377 880
Cash and cash equivalents	631 861 366	-	-	631 861 366
Subtotal	640 744 148	4 521 238	42 336 192	687 601 578
Liabilities				
Payables from exchange transactions	(9 080 743)	-	(3 223 860)	(12 304 603)
Payables from non-exchange transactions	(1 131 190)	-	-	(1 131 190)
	630 532 215	4 521 238	39 112 332	674 165 785

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the entity assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

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 year, or since the end of the previous 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 net 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.

Notes to the Financial Statements: 38. Risk management - (continued)

Figures in Rand	2019	2018
-----------------	------	------

Trade receivables comprise mainly of amounts owing from tenants. Management evaluated credit risk relating to tenants before they were incorporated into the zone. ELIDZ tenants pay deposits at the beginning of their lease terms. At 31 March 2019 ELIDZ holds deposits from tenants amounting to R3 438 801 (2018: R3 223 860) as security for tenants' lease obligations.

The amounts below are before impairment.

Financial assets exposed to credit risk at year end were as follows:

The entity's exposure to credit risk by class of financial asset is as follows:	2019	2018
Trade and other receivables from exchange transactions (Gross)	29 502 567	21 309 738
Cash and cash equivalent	1 203 158 748	631 861 366
Other financial assets (Gross)	30 332 923	21 362 332

Analysis by credit quality of financial assets is as follows: Neither past due nor impaired

Cash and cash equivalents	1 203 158 748	631 861 366
Receivables from exchange transactions	14 230 962	4 159 136
Other financial assets	30 332 923	21 362 332
	1 247 722 633	657 382 834

Past due and not impaired

Trade and other receivables	1 118 378	3 886 247
-----------------------------	-----------	-----------

Past due and impaired

Trade and other receivables	14 153 227	13 264 355
-----------------------------	------------	------------

Market risk

Interest rate risk

The entity's interest bearing assets are included under cash and cash equivalents. As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates due to 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 interest 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 Financial Statements: 38. Risk management - (continued)

Figures in Rand	2019	2018
Estimated increase in rates		
Cash and cash equivalents	1 203 158 748	631 861 366
1% thereof:	12 031 587	6 318 614

39. Fruitless and wasteful expenditure

Opening balance	184 718	-
Incurred during the year	-	184 718
Written off	(184 718)	-
	-	184 718

In the year 2015 one of ELIDZ's suppliers ceded their rights to monies owed for services rendered to the ELIDZ to their funders. The ELIDZ made payments directly to the supplier and not the cession holder. The cession holder instituted a claim against the ELIDZ to recover the monies incorrectly paid to the supplier. The court issued a default judgement for the ELIDZ to pay the cession holder, the payment was made during the current financial year. The payment is classified as fruitless and wasteful as it was made in vain and would have been avoided had reasonable care been exercised. The board approved the entire amount for write off during the current year.





east london idz
business streamlined

East London IDZ SOC Ltd, Reg No: 2003/012647/30
Lower Chester Road, Sunnyridge, East London, 5201
PO Box 5458, Greenfields, East London, 5208
Republic of South Africa

Tel: +27 43 702 8200 | Fax: +27 43 702 8251

www.elidz.co.za ●●●●●●●●●●