ANNUAL **REPORT** 2017/18

east london idz
business streamlined

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APPROVAL OF ANNUAL REPORT 2017 / 18

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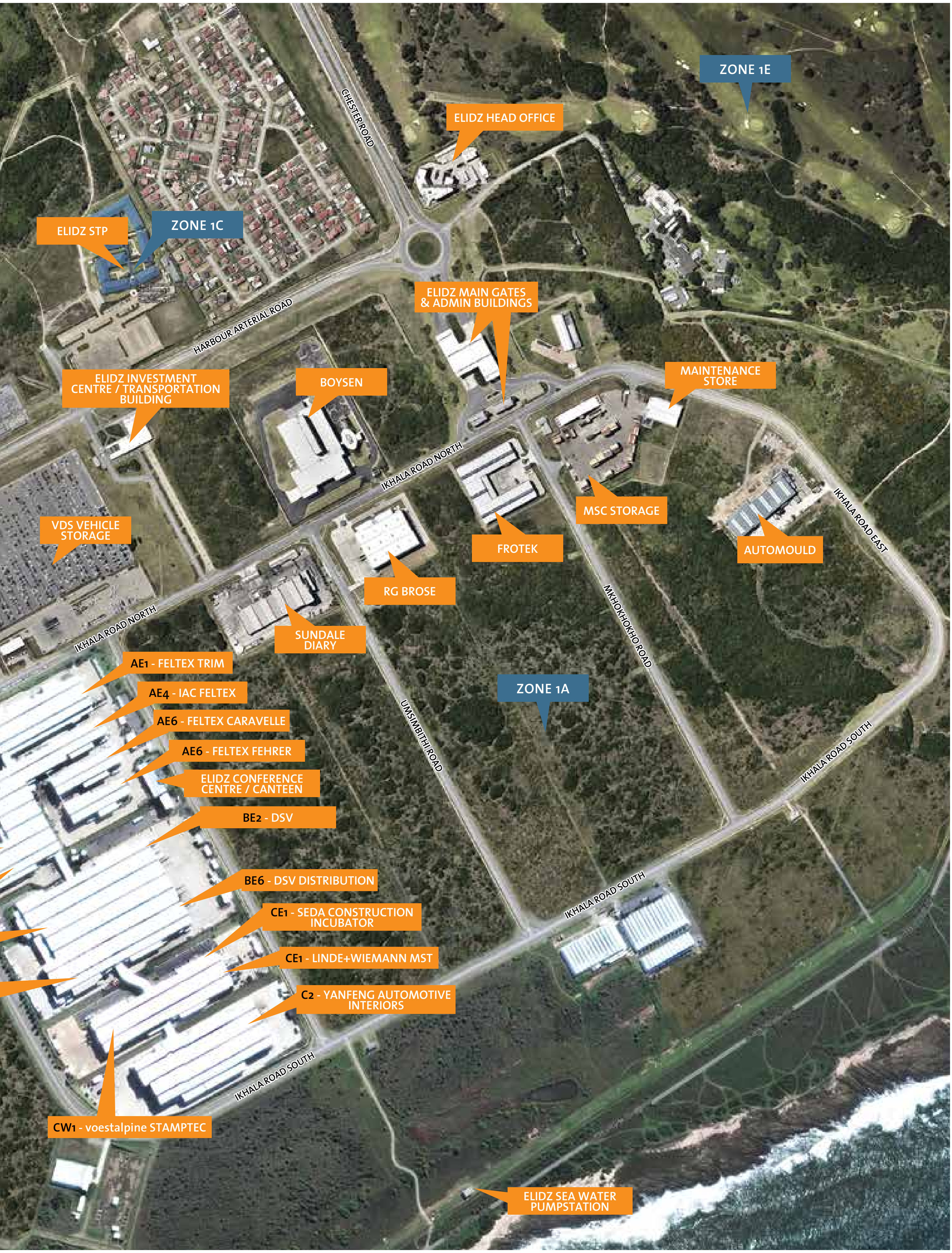
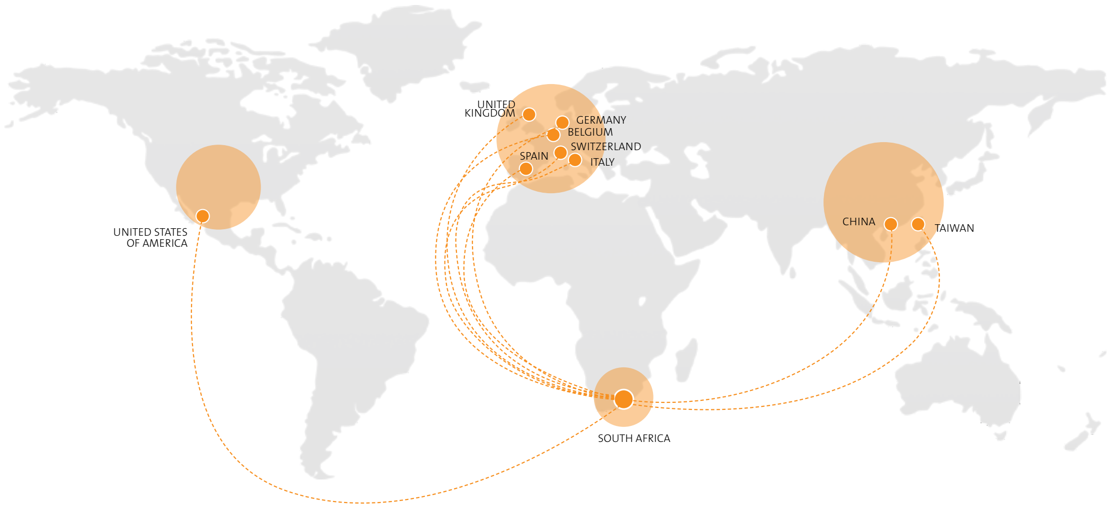
AERIAL MAP OF THE EAST LONDON INDUSTRIAL DEVELOPMENT ZONE


ZONE 1E
ELIDZ HEAD OFFICE
CHESTER ROAD
ELIDZ STP
ZONE 1C
HARBOUR ARTERIAL ROAD
ELIDZ MAIN GATES & ADMIN BUILDINGS
ELIDZ INVESTMENT CENTRE / TRANSPORTATION BUILDING
BOYSEN
MAINTENANCE STORE
IKHALA ROAD NORTH
MSC STORAGE
FROTEK
AUTOMOULD
IKHALA ROAD EAST
VDS VEHICLE STORAGE
RG BROSE
MKHOKHOKHO ROAD
SUNDALE DIARY
IKHALA ROAD NORTH
AE1 - FELTEX TRIM
AE4 - IAC FELTEX
AE6 - FELTEX CARAVELLE
AE6 - FELTEX FEHRER
ELIDZ CONFERENCE CENTRE / CANTEEN
BE2 - DSV
ZONE 1A
UMSIMBITHI ROAD
IKHALA ROAD SOUTH
BE6 - DSV DISTRIBUTION
CE1 - SEDA CONSTRUCTION INCUBATOR
CE1 - LINDE+WIEMANN MST
C2 - YANFENG AUTOMOTIVE INTERIORS
IKHALA ROAD SOUTH
IKHALA ROAD SOUTH
CW1 - voestalpine STAMPTEC
ELIDZ SEA WATER PUMPSTATION

INTERNATIONAL FOOTPRINT AND CUSTOMERS



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

Feltex Autmotive 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).

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

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

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

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

ILB Helios
Spanish company producing solar panels units

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

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

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

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

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

DSV
Logistics and supply chain management services.

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.

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

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

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

Frotek
Manufacturing of plastic products for the automotive and ICT sectors

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

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.

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

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

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

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

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

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

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,
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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

BBBEE	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 CHAIRPERSON

An organisation's Annual Report begs of the reporting institution an unwavering honesty in presenting a balanced picture of its operations and circumstances for the review period. A balanced reflection of positive and satisfying developments, along with a frank admission of affairs that continue to disappoint and frustrate the organisation in rendering its mission as effectively as it should.

Professor M.W. Makalima
ELIDZ Board Chairperson

Financial period 2017/18 was not without significant and varied successes and developments to highlight and celebrate. And yet, there is a sense of preoccupation and persuasion that these prefacing comments to this Annual Report should tilt towards an emphasis of the litany of constraints that continue to cast a shadow over the hard-won accomplishments of the entity.

Pivotal to these troubling issues is the ELIDZ's dismay over persistent fractures of an external, systemic nature that are not being reported for the first time – and that also have not shown any definite movement towards satisfactory resolution over the period that this report reviews.

Injecting Value into the SEZ Value Proposition

Chief among the ELIDZ's concerns is a question over the tangible, bottom-line value that an SEZ project like the ELIDZ is able to bring to the marketplace and to its client industrialists. In its cast role as a government business enterprise the ELIDZ must have a persuasive value proposition to offer the market. Such a proposition is also vital for the entity to also perform effectively in its other role as a developmental partner to the industries it is seeking to attract and support.

SEZs operate within the critical interface of contact and trust that should exist between the public and private sectors of government and industry. The SEZ operator's ability and credentials to stimulate industrialists to raise their investment into new and strategic industrial capabilities lives or dies on how the entity is perceived – and what it is able to bring to the table.

In short an SEZ needs to present – and sustain – a value proposition that its target market will find to be clear, convincing and trusted for the long-term. This needs to resonate with the interests of both the foreign and domestic industry partners that are being targeted for investment.

Sadly, in this regard, SEZ programming in South Africa has promised much but has yet to deliver concretely on many fronts.

Impressive and positive aims of government to incentivise new investment flows through a substantial cut in the corporate tax rate to 15% were signalled with much promise as far back as the 2013 publication of the draft Taxation Laws Amendment Bill. Some five years later this potential inducement to investment attraction is not yet operational.

And, to the external industrial observer, it is increasingly seeming that government's implementation resolve is weak, un-coordinated (and now seemingly floundering in the face of acute and rising State financial pressures).

In spite of the tedium of dti legislative processes that have had to be completed to formalise and institute the expanded SEZ benefits, there remains what appears to be a fundamental road block: the Minister of Finance must agree to give a secondary 'designation' blessing to give any SEZ and its investors eligibility to the lower corporate tax rate and other new SEZ dispensation benefits like building depreciation and employment incentives.

ELIDZ has sought energetically to procure this further approval status through its legal liaison and broader stakeholder relations efforts – but the 2017/18 period came and went and the ELIDZ investor community has yet to taste the benefits of the promise of an improved incentives regime.

This state of affairs is not only deflating for the attainment of the immediate business interests of the SEZ institutions (licensee, operator and investors). More emphatically troubling is that it signals what the market of prospective foreign and domestic investors can only perceive to be a dismal failure in government programme co-ordination and a lack of any real convergence of strategic vision and political resolve between the SEZ sector's dti and treasury principals.

With such negative perception in the air, South Africa will find it increasingly less able to compete for direct investment inflows against other competing investment destinations where economic zone policy is clear and fully backed by government enablement under the direction of a single and empowered zones authority.

SEZ Operators have long banked on the incoming incentive dispensation to bolster their value proposition and increase their sway for positive investment decisions with their pipeline of prospective investors. But questions remain over how soon the incentives will actually come into being and also whether they will truly work to stimulate additional investment inflows.

SEZs are now obliged to endure a 'wait-and-see' phase to ascertain whether rules of eligibility will render the SEZ incentives both accessible and truly potent as an investment stimulus. This includes awaiting what reception the market will give to Treasury's institution of exclusionary conditions, such as that to be a qualifying company for the corporate tax saving at least 90 percent of the income of that company must be derived from the business or provision of services within one or more SEZs. Also prescribed are limitations that qualifying companies may not incur more than 20% of deductible expenditure (or do not receive more than 20% of their income) from what the tax regime terms 'connected persons'.

A market view has been expressed that these requirements to qualify for the company tax reduction may leave the incentive with a fundamental weakness by making it extremely difficult to integrate any qualifying SEZ enterprise into a local group's value chain, mainly as a result of the connected person limitations.

Such issues and questions over how the market will respond to government's incentive regime render it very difficult for SEZ entities to plan and project with any degree of certainty their rate of business growth, their financial advancement or their final economic contribution and impact.

SEZ Programme Development and Enablement

Shortcomings for the slow-to-emerge SEZ value proposition cannot, however, be placed solely at the door of the keepers of the country's finances. It should also be observed that the Department of Trade and Industry – as SEZ programme lead – is answerable for a string of most unfortunate delays in acting to translate the State's policy on SEZs implementation and programming into concrete deliverables.

Again, this is not a new point of distress for the SEZ sector and its licensees, operators and investors.

Publication by national government of its Policy on the Development of Special Economic Zones in South Africa back in 2012 stressed that the country's zones would need a comprehensive and holistically integrated 'programme' of special economic systems and appropriate policies and support measures.

These, the SEZ policy urged, must be developed and focused to grapple with well-known – but very complex – investment attraction hurdles and impediments, such as those relating to the adequacy of infrastructure, skills readiness, technology support, market development and optimisation of logistics costs and capabilities, among others.

Not only has such a holistic enabling programme not emerged since the adoption of the SEZ policy in 2012, there is deep dismay that government's lead agent (the dti) has yet to formulate a national SEZ strategic plan to inform and define such programme delivery and canvass the endorsement of this plan by enabling stakeholder institutions (and notably Treasury).

The SEZ Act, which was issued in 2014 and commenced its operation in 2016, requires that the Minister must develop such a strategy – but this key reference on government's planning and support for the SEZ sector remains entirely absent.

The ability to drive provincial SEZ implementation within a complex inter-governmental landscape that is reliant on the full and unreserved support of many different government institutional actors is, most unfortunately, hindered by the void of not having in place a strong programme vision and explicit public sector championship, expressed and confirmed within a robust national SEZ strategic plan.

A clear SEZ strategy would lay the foundation for better and more stable resource commitment by government's national, provincial and municipal treasury authorities – acting intentionally and fully in concert with one another. This is vital to secure and release such financial and non-financial resources that the SEZ strategy needs to assure short-, medium- and longer-term strategy fulfilment of SEZs delivery.

Importantly, also, is that a shared strategic vision and implementation plan should furnish a single and common basis for a (re)shaping of stakeholder expectations of what SEZ project delivery can be expected to perform. To avoid current difficulties these performance expectations must be closely attuned to much more than simply how SEZ sites go about their business of operation and investment promotion.

Rather, and in the first instance, "programme" performance should be evaluated on how quickly and seamlessly various actors of government – led by the dti – are able to activate the required enabling institutional capacity, incentives offerings and other SEZ support measures that will finally arm existing and emerging SEZs with a complete, relevant and market-trusted value proposition.

Introspective Focus on Capability and Efficiency

In contemplating this challenging delivery environment, ELIDZ has not simply resigned itself to chance or circumstance. It has recognised that it must be proactive in configuring and positioning the entity in the best manner possible for business sustainability and success (in spite of the long-persisting SEZ programming gaps and limitations).

ELIDZ's strategic management programme in the year under review elected, therefore, to invest close attention to an introspective examination of the functional state of the current business delivery model of the entity. This was done to re-test both capability and efficiency levels and sought to orientate the entity's business units towards the adoption of specific business efficiency improvement strategies.

Ideally the national SEZ programme should inform an SEZ's operating and business model in a manner that is consistent with the SEZ policy and legislation's prescription and expectation that SEZs should discharge two principal roles. One role is as the public agents driving for economic development and transformation outcomes while the other expects SEZs to be effective as sustainable government business enterprises, nurturing the growth of competitive and profitable SEZ tenant industries.

But such balance and role integration has yet to find its expression in robust SEZ strategic planning or SEZ programme articulation of SEZ business model design. This leaves individual SEZs – the former IDZ projects as well as new aspirant SEZ projects – to forge business delivery models based solely on the learnings of their progressive implementation of their projects.

This is not an ideal situation for a programme being expanded inter-provincially. However, there are good expectations that the strategic planning initiatives on business efficiency that ELIDZ is getting under way in 2018/19 will nevertheless produce meaningful outcomes and lead to stronger levels of capability and efficiency for the business.

Continued Project Socio-economic Performance and Impact

This foreword to the Annual Report commenced with the acknowledgement that the year under review was not all gloom and dismay; 2017/18 also offered much in the way of positive developments and performance outcomes to commend it.

At a project high-level, this was evidenced in the conclusion of another positive independent survey and reporting of the performance of the ELIDZ's industrial platform by Statistics South Africa (StatsSA). The latter carried out its 2016 East London Industrial Development Zone Survey and reported its final census results in the course of 2017.

The survey is the third of its kind and follows earlier StatsSA surveys of the company financial results of ELIDZ's operational industries for the 2013 and 2015 company financial reporting periods.

StatsSA measured and reported the principal performance outcomes and impacts of the ELIDZ for the local and national economy is as follows:

- 23.6 per cent increase in total income reported by the respondent group of surveyed manufacturing and non-manufacturing SEZ enterprises for 2016, lifting the total measured income from ELIDZ zone enterprises for the year to R6,99 billion;
- 56.7 per cent annual increase in goods and services produced by ELIDZ manufacturing enterprises that were either directly exported (or sold on to domestic exporters). By rand value, this equates to more than R1.15 billion in the annual hike in this performance indicator;
- 26.2 per cent increase in manufacturing employment by ELIDZ enterprises, bringing this to a total of 2 647 manufacturing jobs. The comparable jobs growth for the Zone's non-manufacturing enterprises was more subdued, but did serve to help lift the total recorded direct, permanent employment impact of the Zone for 2016 to stand at 3 187 jobs;
- With the inclusion of additional employment in the Zone created via labour brokers, the 2016 employment total for manufacturing and non-manufacturing sectors combined increased to 3 654 jobs – representing an annual growth of 21.3 per cent for this combined performance measure;
- An 8.7 per cent increase in total annual expenditure by the SEZ enterprises was surveyed, with expenditure rising from R6.5 billion in 2015 to R7.06 billion for 2016. This was inclusive of a 14.6 percent year-to-year increase in SEZ Enterprise purchases (which rose to R4.93 billion for 2016) while Zone Enterprises also expended R137 million to transport and logistics expenses;
- Annual employment growth resulted in an additional R91 million being disbursed in payment of salaries and wages to employees of Zone enterprises. This was an increase of 29.4 per cent from the previous survey year, growing from R309 million (2015) to R400 million (2016).
- The survey's tracking of the importation (or alternatively domestic sourcing) of selected expenditure items included in the survey's collated data shows that ELIDZ's SEZ Enterprises contained their annual growth in spend on imported goods and services to just 2.7 per cent.
- In strong contrast, the year-to-year change in the amount of

expenditure for items sourced domestically strengthened by 29.2 per cent and came to stand at R2.59 billion for the year.

- Capital expenditure by enterprises reported a year-on-year weakening compared to the prior survey report, but still managed to reflect expenditure of R247 million on assets for the 2016 period. The majority of this spend relates to new asset purchases for plant, machinery and equipment.

Outlook

Despite the noted policy and systemic challenges affecting SEZ delivery, ELIDZ is pleased to be able to demonstrate – and quantify – significant advances in job creation, employment earnings and various other elements of the socio economic contribution and impacts that the operation of a special economic zone can bring to its host city and region.

The Board is optimistic that, in spite of the constraints and uncertainties that beset the prevailing SEZ programming environment, ELIDZ's management and employees will proceed to make new ground in 2018/19 with the implementation of the programme of business efficiency initiatives that were developed and refined in the course of ELIDZ's annual strategic management review process.

Optimism remains tempered, however, by the knowledge that how much can be done and how quickly we can drive for positive results rests on larger factors that must be grappled with by government across its spheres – and by the ELIDZ's community of shareholder and stakeholder principals in particular.

The Board will be seeking to engage with these stakeholder organisations positively in a bid to unlock and unblock those matters that have been detracting from SEZ programme delivery. It is in government's collective interest to be more decisive in finding ways to build new value into the SEZ programme and its market offering. It will be essential, moving forward, that collaborative efforts mobilise, activate and expedite full delivery of the SEZ promise to current and prospective investors.

Prof M.W. Makalima
Board Chairperson

23.6%

INCREASE IN TOTAL INCOME OF SURVEYED MANUFACTURING AND NON-MANUFACTURING SEZ ENTERPRISES FOR 2016 - TOTALLING **R6.99 BILLION**

R1.15 BILLION

ANNUAL INCREASE IN GOODS AND SERVICES PRODUCED THAT WERE EITHER DIRECTLY **EXPORTED** (OR SOLD ON TO **DOMESTIC EXPORTERS)**

3654

EMPLOYMENT TOTAL FOR MANUFACTURING & NON-MANUFACTURING SECTORS **ANNUAL GROWTH OF 21.3%**

8.7%

INCREASE IN TOTAL ANNUAL EXPENDITURE BY THE SEZ ENTERPRISES - TOTALLING **R7.06 BILLION**

R400 MILLION

PAYMENT OF SALARIES AND WAGES TO EMPLOYEES OF ZONE ENTERPRISES. **29.4% INCREASE** FROM THE PREVIOUS SURVEY YEAR

R2.59 BILLION

AMOUNT OF **EXPENDITURE FOR ITEMS SOURCED DOMESTICALLY = 29.2% INCREASE**

CHIEF EXECUTIVE OFFICER'S OVERVIEW

1.4.1. Financial Overview of the ELIDZ

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

Simphiwe Kondlo
ELIDZ Chief Executive Officer

Funding Trends

At the beginning of the 2017/18 financial year, Grant income of R93.7 million was allocated by the Department of Economic Development, Environment Affairs and Tourism (DEDEAT). This, combined with projected income to be generated from Operations for the 2017/18 financial year of R126.3 million, with R7.3 million of operating funds rolled over from 2016/17 led to the total approved operating budget of R227.3 million for the ELIDZ.

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 optimise all financial resources at the organisation's disposal.

Alternative Revenue Sources

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 58.8% 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 ELIDZ received grants valued at R651 million for 6 projects. Two of these projects (Yanfeng and Yekani) were approved in 2016/17 whilst four of the projects (Nulatex, TI Automotive, D Fence and MBSA) were approved in 2017/18. The four projects approved during 2017/18 will attract investment to the value of R576 million and create a total of 370 direct manufacturing jobs. Two of the new projects are in the automotive sector while Nulatex is in the pharmaceutical sector and D Fence in General Manufacturing.

1.4.2. Performance Overview

Developing an industrial complex

In line with its goal to develop a strategic industrial complex, the ELIDZ has, for the 2017/18 financial year prioritised a number of initiatives to support this goal. These include the lodging of an application for the extension of the ELIDZ SEZ footprint to cover the planned Renewable and Agro-processing precinct in Berlin and a feasibility assessment of surrounding properties to accommodate the possible extension of the ELIDZ Automotive Supplier Park (ASP).

To this end, the ELIDZ lodged the Berlin designation application at the beginning of the year, and finalized the feasibility assessment during Q1 of 2017/18.

Implementing Infrastructure Delivery

For the 2017/18 financial year, the ELIDZ had targeted to implement 3 strategic infrastructure/ superstructure projects that will become catalysts for increased economic activity, growth and diversification of the ELIDZ's investment portfolio. A number of initiatives were undertaken to support the fulfilment of this priority. The ELIDZ undertook an expansion to the Yanfeng Facility in the Automotive Supplier Park – practical project completion was achieved during September 2017.

The ELIDZ also implemented a multi-phased R300 million superstructure project for Yekani Investment, a strategic ICT investor which was approved by the ELIDZ board in 2016/17. The first phase handover is set for August 2018 while the last phase will be handed over to the investor in September 2018. The Yekani and Yanfeng projects will result in an annual increase of R13 million per annum in the ELIDZ's rental income on completion.

A waste recycling investor, Clariter, also built its manufacturing facility in Zone 1 B and this was completed by the end of the 2017/18 FY.

Attracting Strategic Investors

The ELIDZ continued to implement various initiatives to increase its competitiveness and appeal to potential investors. During the year, the ELIDZ signed 5 new investment agreements R1.35 billion. The total value is for investments made in general manufacturing, diamond cutting and polishing, aquaculture and agro-industry sectors.

The signed projects included an export oriented aquaculture project, which would see the Farming and Processing of Atlantic Salmon (3000tpa). Additionally a diamond processing and polishing investor valued at R423 million in the Jewellery manufacturing and the beneficiation of precious stones will be in Zone 1 of the ELIDZ precinct. An agro - processing project with an investment value exceeding R300 million was also signed. Included in the list of new investors, is the first investor for the zone's pharmaceutical cluster, which will be located in Zone 1 A and manufacturing Latex related products. A manufacturing entity for which will be producing specialised fencing for the General Manufacturing Cluster was also secured.

The ELIDZ investment pipeline at the end of 2017/18 had 37 potential investors valued at R9.3 billion with an employment potential of 4 777 direct jobs. While the Final stage contained the highest value (35.6%) of potential investment at R3.32 billion, it must be noted that the early negotiation stage investors accounted for 32% of the investment pipeline. The growth can be attributed to a constant growth in the number of enquiries coming through from the respective investors.

Of the 37 potential investors in different stages of the ELIDZ pipeline, 18.94% is in the aquaculture sector while 24.3% is in the General Manufacturing sector. The third biggest sector in terms of the pipeline is the aquaculture sector, while the logistics sector represent 8% of the total investment pipeline.

The aquaculture and ICT sectors represent two highest in terms of job creation potential with a combined job creation potential of 2603 direct jobs. This represents 54% of the pipeline job creation potential. The ELIDZ continues to prioritise the positioning of the zone as a competitive industrial location. The facilitation of access to investment incentives is a key priority in this regard. To date, 39% of the total zone community qualifies for the CCAE incentive. Of the qualifying enterprises, the ELIDZ has assisted 64% of the zone's qualifying enterprises to access this incentive. Efforts are under way to increase this number during 2018/19 financial year. Additionally, the ELIDZ continues to lobby the DTI to become the first pilot sites for the testing of the new SEZ incentives.

1.4.3. Capacity Constraints and Challenges facing the institution

Logistical Infrastructure constraints limiting potential of the zone

The East London IDZ is a back-of-port Industrial Development Zone. Without the existence of the port, the ELIDZ would not be able to attract

58.8% **OWN GENERATED REVENUE** TO FUND ANNUAL OPERATIONS

INVESTMENT VALUE OF SIGNED NEW INVESTMENTS DURING 2017/18 FINANCIAL YEAR **R1.35 BILLION**

79.5% **OF TOTAL SPEND WAS ON SMME** RELATED PROCUREMENT TOTALLING **R296 MILLION**

EMPLOYMENT POTENTIAL OF DIRECT JOBS FROM INVESTMENT PIPELINE AT END OF 2017/18 **4777**

some of the export-oriented manufacturers we have in the zone like Foxtec-Ikhwezi and Boysen Exhaust Systems. As the ELIDZ continues to position itself as a location for investment particularly in the automotive, agro-processing and general manufacturing, the East London port, and its related capabilities continue to be part of the selling point for the zone. Key to the limitations around the port is the 10.4 metre draught of the berth , which in turn impacts on the viability of direct calls to the EL Port by the new age vessels which require a much deeper draught of at least 14 metres . This has started to impact on East London's capability to attract new players into the city in the following manner.

Concerning Mixed Signals over the post transition institutional arrangements

The IDZ transitional provisions in the SEZ Act preserve the IDZ programme authorisations of zone designation and operator permitting. Despite re-instating both the IDZ designation and operating authorizations, the transitional deeming provisions of the Act are interpreted by the dti as effectively acting solely to preserve the "operator" credentials of these entities.

This post-transition institutional separation is problematic for existing Zone projects and is expected to be operationally disruptive as well as burdensome for Provinces to implement. The change is also foreseen to carry substantial risks of adverse implications that could undermine and destabilise the Eastern Cape zones and reduce their performance outlook and ultimate socio-economic contribution and impact. The ELIDZ continues to engage both the Executive Authority and the Department of Trade and Industry in this regard. The ELIDZ has still not received any formal communication from Department of Trade and Industry (dti) to indicate the nature of any content shortcomings or legal inconsistencies with the regulatory regime within its submitted SEZ Transitional Plan (as required by the SEZ Act and Regulations).

Delays in the operationalisation of SEZ Incentive Benefits and related industry support mechanisms

As part of the broader SEZ transitional concerns, the ELIDZ has also communicated to the dti its anxiety over the delays and seeming lack of forward movement of processes being followed at national level involving the collaboration of the dti and National Treasury to formalise the ELIDZ's status and eligibility to begin offering its current and prospective investors the new corporate tax and other incentive benefits of the SEZ dispensation. The ELIDZ is extremely anxious to factor the value of the new and unique SEZ incentives into its value offerings to prospective investors as soon as possible, as a tangible inducement for industrial location into the SEZ.

1.4.4. Financial Management and Compliance

Requests for roll over of funds

As at 31 March 2017, some contracts and projects to the value of about R76.4 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 2017/18 financial year. As at 31 March 2018, some contracts and projects to the value of R552 million 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. The funds that will be rolled over will mainly be utilised to complete the Yekani project, as well as kick-start the new projects that have been approved late in the 2017/18 financial year.

Supply chain management

As at the end of the period 2017/2018, ELIDZ awarded twenty six (26) tender contracts to the value of R 106.6 million. The East London IDZ mandate encompasses stimulating the economic growth of the Eastern Cape Province, which includes issues of economic transformation. In the period under review, April 2017 to March 2018, the ELIDZ fully supported the enhanced participation of black owned EME's and QSE's in the mainstream economy as an effective way to redress the economic imbalances of the past. During the period actual cash flow of R372.8 million was directed into major infrastructure contracts, consultants, and 110% of this (valued at R410 million) was claimed for BBBEE Service Providers. This is equivalent to 33.74% allocation (valued at R125 million) when measured in terms of Black Equity component. An amount of R296 million (79.48%) of total spent was on SMME related procurement whilst 11.02% (R41 million) was spent on women-owned enterprises. Additionally 80% of all active contracts during the 2017/18 FY were locally based (47 out of 59 awarded contracts).

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. 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.

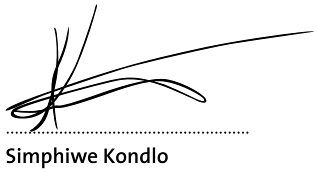
There were no major issues that were noted by the auditors last year with regard to supply chain.

Outlook

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. Four new projects are planned for the 2018/19 financial year.

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. It must however be noted that confirmation of various detail around the funding support of SEZs by DTI is, however, still outstanding. This would allow for a more stable business model for the zone. 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.



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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 GAAP, and the Companies Act, No 71 of 2008 and the PFMA. SA GAAP was withdrawn by the Accounting Practice Board as from 1 December 2012. However, Treasury instructed ELIDZ to continue using SA GAAP until a more appropriate accounting framework was identified.

The 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 2017.

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 or 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.

In terms of IDZ-SEZ transitional legislative arrangements, the original Permit remains valid with the change in legislation from the IDZ Programme to the SEZ Programme, where the Permit continues to remain in force and is regarded as a Special Economic Zone operator permit issued under the SEZ Act.

The physical Zone under development by the ELIDZ was legally declared an IDZ location participating is SA's development zone programming with the issue and gazetting of a designation notice on 1 December 2000. This was given in terms of the applicable IDZ Regulations under the provisions of the Manufacturing Development Act.

As with the Operator Permit, the designation awarded to the ELIDZ project prior to the development and commencement of the new SEZ legislative regime also remains in force and must be regarded as a valid designation of a Special Economic Zone under the SEZ Act. A Gazette Notice issued on 16 September 2016 declared that the East London Industrial Development Zone must, as from the date of commencement of the SEZ Act, be regarded as a Special Economic Zone under the SEZ Act.

In terms of the legislative change, existing IDZ entities have graduated to become one type of economic zone among different zone categories which the new extended Special Economic Zones programming now makes provision for.

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 provincial Executive Authority responsible for Economic Development (Department of Economic Development, 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 Department of Trade and Industry (SEZ Fund – Capital Projects) and from the Department of Economic Development Environmental Affairs and Tourism (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.

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;*
- *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.*

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.

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 Department of Trade and Industry'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 the Department of Economic Development and Environmental Affairs, DEDEAT) and with national government (through the Department of Trade and Industry).

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, with commencement also on the same date.

The two legislative developments signalled the formal start of the SEZ programming and the commencement of a three-year institutional transition period in which the existing IDZ projects are required to adapt their institutions and operations to be fully responsive to the intents and prescriptions of the SEZ legislative framework.

Policy Frameworks

A range of national, provincial and municipal policy frameworks govern the policy and functional mandating of the public entity's activities, including:

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); 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 & Performance Information Management	-	1	1	-	2
Research	-	-	1	-	1
Assurance	-	-	1	-	1
Total Filled Positions	1	2	5	2	10
Total Vacant Positions	-	-	-	-	-
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 OFICER

ZONE DEVELOPMENT

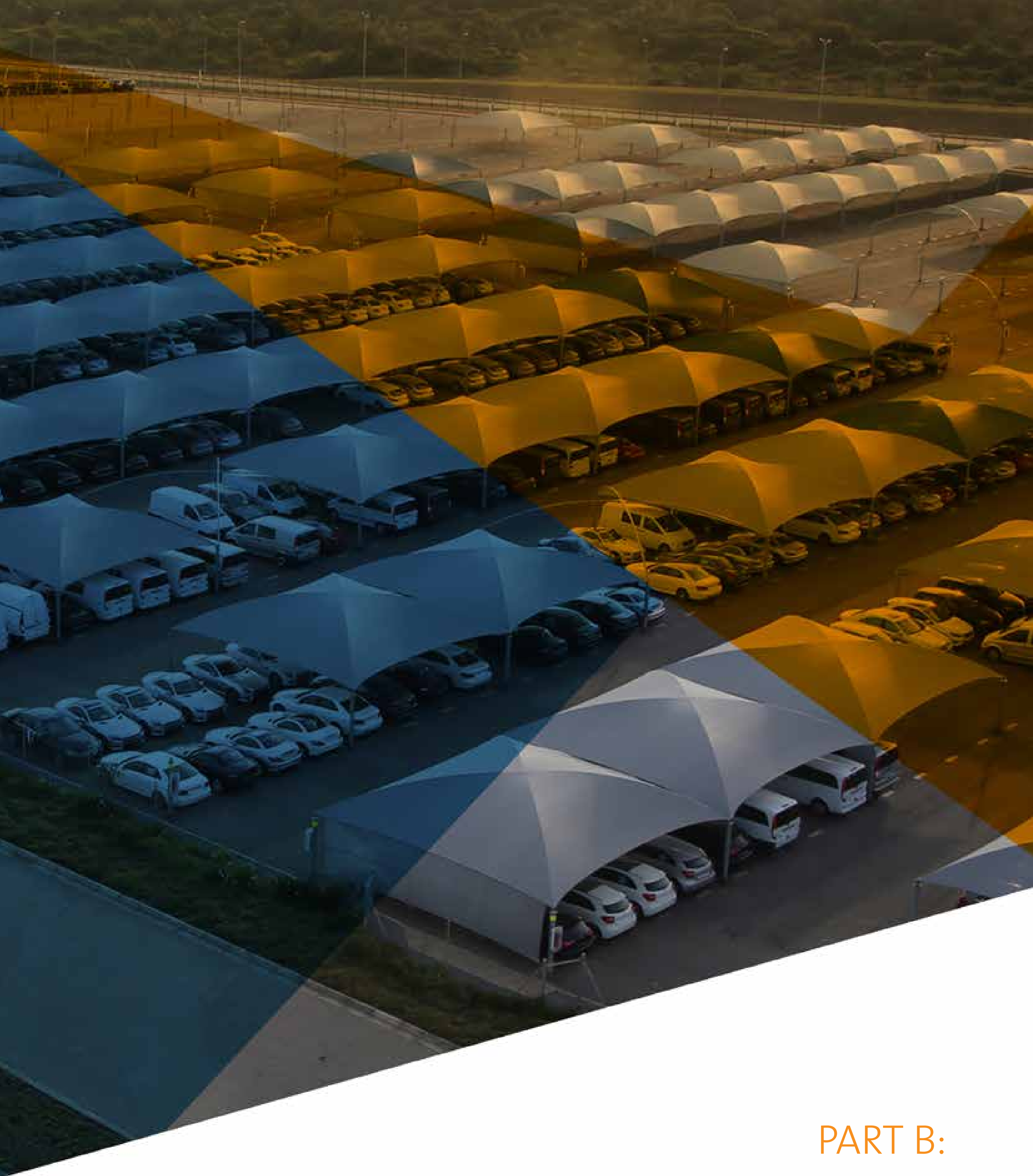
Functional Area	EM	MG	SP	AS	T
Zone Operations	1	-	-	3	4
Sector Development & Investment Promotion	-	3	1	-	4
Project Management & Coordination	-	1	2	-	3
Property Portfolio Management	-	1	-	1	2
Maintenance & Facilities Management	-	-	3	1	4
Investor Support Services Management	-	1	2	2	5
Science & Technology Park	-	1	1	2	4
Laboratory	-	-	3	2	5
Total Filled Positions	1	7	12	11	31
Project Management & Coordination	-	-	1	-	1
Maintenance & Facilities Management	-	1	3	-	4
Laboratory	-	1	1	-	2
Total Vacant Positions	-	2	5	-	7
Total Positions	1	9	17	11	38

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	-	1	3	1	5
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	5	15	5	26
Total Vacant Positions	-	-	-	-	-
Total Positions	1	5	15	5	26

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



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 (ELIDZ) set out on pages 73 to 113, which comprise the statement of financial position as at 31 March 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes 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 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) prescribed by the Accounting Standards Board, 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 the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and 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 code.

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 matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

7. As disclosed in note 34 to the financial statements, the corresponding figures for the previous balance sheet date were restated as a result of an error in the financial statements of the entity at, and for the year ended,31 March 2018.

Changes to legislation

8. As disclosed in note 7 to the financial statements, the Special Economic Zones Act, 2014 (Act No. 16 of 2014) (SEZ), and the regulations made in terms thereof, came into operation on 9 February 2016. In terms of the act and its regulations, a period of 3 years has been provided for the entity to become compliant with the legislation. As a result, a compliance plan was prepared and submitted to Department of Trade and Industry by 8 February 2017 and full compliance is required by 8 February 2019. The implications of the act may necessitate changes in the institutional structure of the company and also the funding modelling of the entity.

   The entity has engaged the provincial and national departments in an effort to obtain better understanding and assess the impact of the changes to the future modelling and structure. There is an appeal to review some of the sections of the SEZ act, particularly those affecting the institutional arrangements for the designated SEZ's.

Responsibilities of the accounting authority for the financial statements

9. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial

statements in accordance with the SA Statements of GAAP 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 ELIDZ'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 accounting authority 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 2018:

Programme	Pages in the annual performance report
Programme 1: operations	34 - 39

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 those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.
21. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do 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 financial statements and the selected programmes 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 have 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 2018

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 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 relating to events or conditions that may cast significant doubt on the ELIDZ'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 the auditor's report. However, future events or conditions may cause an entity to cease operating 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 success of the ELIDZ, as an economic initiative of government, depends largely on the health status of the global economic environment and the ruling climate for investment and foreign direct investment flows.

According to UNCTAD Global Investment Monitor, global flows of foreign direct investment (FDI) fell by 16% in 2017 to an estimated $1.52 trillion, down from a revised $1.81 trillion in 2016, according to the latest data. This is in stark contrast to other global macro-economic variables, such as GDP, and trade growth which saw substantial improvements during the same period.

Based on the macro-economic fundamentals, that include accelerating growth of the world economy, global FDI is expected to bounce back in 2018, to almost $1.8 trillion. A synchronised upturn of economic growth in major economies, the gradual recovery in commodity prices, and improved profit prospects in various economic sectors could boost business confidence, thus increasing the multinationals appetite to invest offshore.

Uncertainties still abound, however, and this could negatively affect global FDI stock. These include elevated geopolitical risks, policy uncertainties relating to the upsurge in protectionist rhetoric and a rising economic toll from natural disasters that may also have negative impact on FDI flows.

According to Goldman Sachs Chief Economist, Jan Hartzius, World economic growth is expected to grow by 4% during 2018, sustained by the synchronised expansion across developed and emerging markets. This should augur well for the global FDI stock.

Within the national economy, structural challenges such as infrastructure bottlenecks continue to hamper recovery in private investment, so negatively affecting the attractiveness of South Africa as an investment destination.

The main constraints for the ELIDZ location as an inward investment destination are related to the quality and cost of logistics for the inbound and outbound movement of materials and goods by investor industries. The size of the local South African market continues to undermine the viability of green-field, direct investment projects, so contributing to the difficulty in attracting new investment into the East London region.

The East London Port serves as a critical factor in the locational value proposition for the East London area and provides general cargo handling services to the automotive and other sectors. The port's constraints to expansion, the limited rail and road infrastructure to the hinterland and the preferential attention that major foreign investors are increasingly giving to the new deep-water port at Ngqura, suggest that East London will experience difficult and uneven growth in the 30 year planning horizon.

These logistic challenges impact on the competiveness of the East London IDZ as a preferred location for investors – to one or another degree, depending on the industrial sector involved and the nature of the supply and value chain it is dependent on.

For some potential industrial investment opportunities, the logistics cost disadvantages posed by East London's road, rail and port connectivity have explicitly terminated in the loss of high profile and potentially high impact investment to other locations, including to the Coega IDZ.

This is serving to depress and curtail the rates of successful investment settlement to levels that are more modest than had been hoped for, as the investors' perceived value of the SEZ incentives and other support measures accessible to the ELIDZ are not proving sufficient, in many instances, to mitigate higher logistics costs of doing business from East London.

Historically, the Eastern Cape economy has also struggled to develop and sustain momentum in establishing, diversifying and growing its manufacturing base as a result of the interplay of a range of structural challenges that impede development.

The provincial economy is strained, on the one hand, by population growth that the province has not been able to match with commensurate rates of growth in economic output. This is exacerbated by increased rates of urbanisation as unemployed rural citizens move to the cities to seek incomes and economic opportunities.

A net consequence is that the provincial economy is left encumbered with significant and growing populations that are state-dependent. The contribution of government services to the provincial economy is significantly higher than the national average, reflecting the low performance of the economy in more critical and productive sectors, such as manufacturing and internationally tradable services.

Stronger integration into the global economy post-1994 and lowering of import tariffs has led to a collapse of parts of the historic, non-automotive manufacturing sector due to the challenge of cheaper imports. At the same time, sectors responding to counteract global competition have been obligated to move economic production into activities that are increasingly both more capital intensive and skills/ technology intensive.

This poses a deep developmental challenge in a province that has not been successful in generating sufficient and quality outputs from the primary, secondary and tertiary level educational systems that are able to assist the provincial industrial base to become – and remain -- globally competitive. This, in turn is exacerbated by the increased migration of human capital out of the province.

2.1.1.2 Mitigation of Adverse Performance and Service Delivery Factors

National and provincial government have acknowledged that various adverse systemic and structural performance and service delivery factors are challenging efforts to expand and grow the Eastern Cape's industrial base as well as build its resilience and competitiveness.

These factors have been described and factored into the following planning instruments which seek to identify and enable long-term solutions to the challenges:

- National programme -- Special Economic Zones Policy Statement
- Provincial planning – Provincial Development Plan: Vision 2030

In moving to replace the former Industrial Development Zone (IDZ) initiative with the new and expanded Special Economic Zones (SEZ) programming, the Department of Trade and Industry (dti) acknowledged that for SEZs to be more successful they require government's development and application of a comprehensive package of special economic systems and appropriate policies and support measures and that these be responsive to the strategic intents and needs of the host region, investors, and other key stakeholders.

In scoping the nature of support to be accommodated under the SEZ programme to lift the zones programme to its intended performance as an effective economic stimulus tool, the SEZ Policy indicates that international experience shows that successful SEZ programmes tend to focus on the provision of "holistic and comprehensive packages of business development support", which include:

- infrastructure
- skills development,
- technology
- research and development
- market support
- finance
- market access
- logistics, and
- incubation programmes

Reflecting on the limited impact of the former IDZ programming, the SEZ Policy concludes that there was too much focus on in-zone activities and enterprises, with scant attention paid to out-of-zone activities, even those critical for the success of in-zone enterprises and sustainability of the zone. More effective industrial development requires that not only the zone but the host region be able to support the long term development of those industries.

Consequently, the SEZ Policy commits government to the long-term development and implementation of "a wide-ranging SEZ Programme" – but the policy recognises that this, in turn, is dependent on the forging of much stronger mechanisms and instruments of collaboration and co-ordination and on more effective, integrative planning between the spheres of government and their economic development departments, entities and agencies.

At the Provincial planning level, similar attention has been given to addressing what the plan sees as "binding constraints" that continue to inhibit economic development generally, and the diversification and growth of the industrial economy specifically.

The Provincial Development Plan: Vision 2030 cites a number of critical factors that impact the current performance and future prospects of the province's industrialisation efforts, including:

- **High logistics costs** (relating to the province's peripheral geographic position);
- **High municipal charges** (electricity, water, rates) and deteriorating delivery quality;
- A need for improving provincial **infrastructure planning and collaboration;**
- A need for improving **infrastructure maintenance**;
- **Retain and expand the automotive industry,** ensuring the auto cluster arrangement works effectively
- Design and implement **new agro-industrial special economic zones;**
- **Revive old labour-intensive industries**, such as clothing and footwear.
- **Promote new-wave industries** (green and maritime).
- Address centralised collective bargaining, which is dominated by large-scale and capital-intensive enterprises, with **real wage increases that are higher than productivity increases.**
- Address the need for **much stronger economic development support systems** that improve the effectiveness of government's interventions;
- Improve the use of and **increasing public resources for industry and enterprise support** (micro, small, medium, large businesses, and co-ops);
- Ensure the **development and supply of skills to growth sectors**;
- Support R&D and innovation initiatives;
- Develop new enabling policy instruments; **strengthening the capabilities of regional and local economic development agencies** to more efficiently drive integrated local development action;
- Establish partnerships with the private sector to **re-brand and promote investment in the province.**
- Put incentives in place to **stimulate private-sector participation** in mutually beneficial development programmes.
- **Re-engineer local government systems** to reduce bureaucratic obstacles that hinder investment and development.
- Encourage private sector to commit to sustainable development by **creating platforms for engaging with the private sector**, and
- **Augment provincial capacities** for economic intelligence, policy analyses, planning, monitoring and evaluation.

As with the national programme planning, the PDP concedes that effective redress of the challenges and constraints rests on significant investment and efforts that still need to be made into the establishment of new or strengthened multi-stakeholder partnerships. These include both public-public and public-private partnerships, which are seen as necessary to drive the development of particular industrial segments, value chains and clusters (Mhlope, 2015).

At SEZ project implementation level, the ELIDZ sees the challenges identified at the national and provincial spheres as positive points of opportunity and engagement. The IDZ/SEZ initiative is seen as providing a good basis for the convergence of State efforts to develop, test and apply co-ordinated solutions to the critical challenges that are besetting provincial/national industrialisation efforts.

An IDZ/SEZ site offers this through the institutional capability that IDZ/SEZ entities can contribute and deploy as agents of industrial development as well as through the physical platform that IDZ/SEZ zones provide in support of the attraction of strategic industrial investment and the promotion of industrial innovation, technology enhancement and competitiveness renders.

In the case of the ELIDZ, its investment into the establishment of a science and technology thrust, through the operation of the ELIDZ Science and Technology Park (STP), arms it with additional, specialised capabilities to support industrial development. The STP facilitates this on the technology and innovation fronts, as well as through targeted sector skills interventions and incubation support initiatives.

Collectively, this offers potential in the longer-term to assist the provincial industrial economy to leverage new value and competitiveness from its human capital and knowledge assets. It requires this to enter and participate in emergent and dynamic economic sectors/sub-sectors. The ELIDZ and its STP seeks to support this via the development and operation of innovation platforms, based on collaboration between government, business and institutions of higher education.

While a basis for the mitigation of adverse performance and service delivery constraints is in shared view across the spheres of government -- and at the economic zones implementation level -- it should be observed that the SEZ sector is far from attaining its desired ideal of well-co-ordinated and well-resourced and enabled integrative public responses or effective public/private interaction.

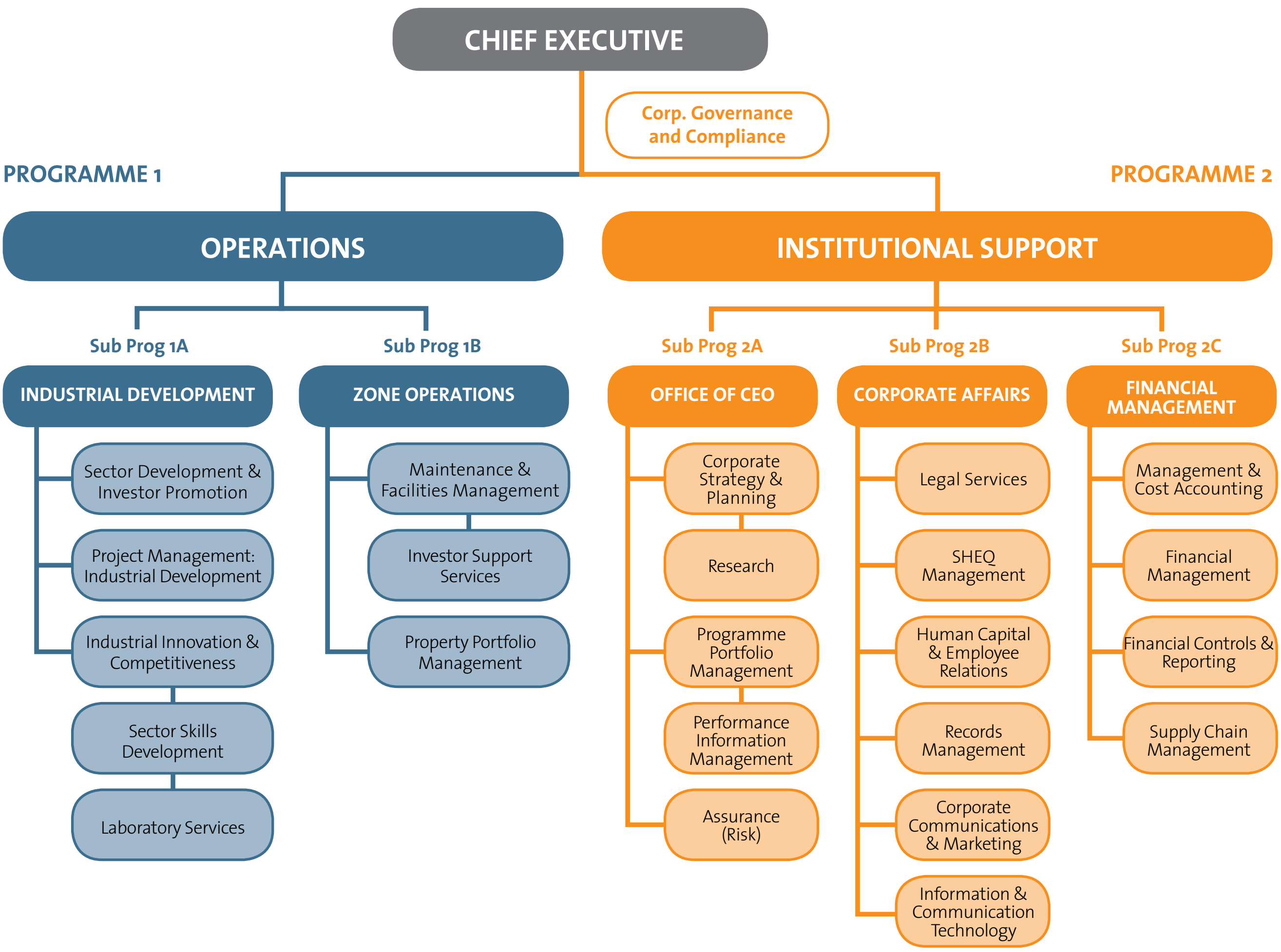
Attainment of these objectives will require policy leadership and deliberate programme enablement at the national SEZ level, coupled with collaborative solutions development and resourcing in conjunction with government authorities and institutions and agencies operative across all three spheres of State. The inter-governmental mechanisms for such a basis of enablement has not yet been fully conceptualised, defined or resourced as concrete programme instruments or support measures of the SEZ programme.

2.2.2 Organisational Environment

The current SEZ enabling legislation foresees a need for an institutional separation of the programmes and activities historically undertaken by IDZ implementing entities into two distinct, separated institutional roles – one being that of the execution of the duties of the SEZ Operator and the other termed as the role of an SEZ Management Entity.

The ELIDZ (and other existing IDZ entities) have contested the rationale for such separation of roles in the case of publicly-owned and operated SEZs (where such separation would not add value, be disruptive to the business and but would entail other adverse negative consequences). The existing IDZs have therefore advocated for an amendment to the legislation to be passed to permit a continuation of public operators fulfilling both the management and operating functions of an SEZ once the IDZ transitional period ends. These aims have met with some acceptance by policymakers within the dti and ELIDZ remains hopeful that this position can be accommodated. In the interim, the entity took proactive steps in the course of its organisational development activities to consolidate all of its operations activity into a unified operations programme. This was done to assist the organisation to streamline and manage its operations optimally, with an intent to promote both increased effectiveness and efficiency.

With effect from the financial period that commenced on 1 April 2016, the entity organised itself to drive two reformulated broad programme areas in responding to its Mission and Strategic Goals. These are the Operations component and a consolidated and reformed Institutional Support component, as shown in the graphic below.



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	*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.*
Justification	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. 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.
Supporting Strategies (Strategic Objectives)	**1.1 Acquire, designate and appropriately zone strategic parcels of land for the planned future investment and expansion of ELIDZ strategic targeted industries.** **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.**

STRATEGIC GOAL 2	IMPLEMENT INFRASTRUCTURE DELIVERY
Goal Statement	*Implement an integrative industrial infrastructure delivery programme to support development of targeted industrial activities.*
Justification	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.
Supporting Strategies (Strategic Objectives)	**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.**

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 Operations Programme consists of two sub programmes namely Industrial Development and Zone Operations. The main purpose of the Zone Development Sub-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

The main purpose of the Zone Operations Sub Programme is tooperate 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. The organisation is looking to develop and implement extensive after care programmes in order to retain existing customers. To further augment ELIDZ sustainability, the organisation strives to increase the range of centralized service offerings to its current and future investors and to decrease the cost of doing business. Functions to co-ordinate the Zone Operations programme include:

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

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 2014/2015**	**Actual Achievement 2015/2016**	**Actual Achievement 2016/2017**	**Planned Target 2017/2018**	**Actual Achievement 2017/2018**	**Deviation from 2017/2018 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	New KPI	120%	451.87%	+276.5%	See note 1

Notes

1. Key to the ELIDZ's competitiveness is its ability to provide suitable land (and property) for its potential investors. This indicator measures the extent to which the net available / uncommitted land stock is able to cover the requirement of advanced negotiation-stage investors in the ELIDZ's investor pipeline. The desired result is that the ELIDZ should be able to cover a minimum of 120% of its advanced negotiation-stage investor's land and property requirements. This would ensure that the ELIDZ is able to respond with adequacy and agility to investors that are in a hurry to settle in the zone. At the close of the financial year, the ELIDZ closed the financial year with 154 hectares of available land this was more than sufficient land stock to cater for the needs of investors in the advanced and final negotiation stages. With the current zone population trends, the calculated performance of 451.87% is therefore not surprising. With increased investment opportunities progressing through the investment pipeline, and more investors settling into the ELIDZ, this figure will decrease.

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 2014/2015**	**Actual Achievement 2015/2016**	**Actual Achievement 2016/2017**	**Planned Target 2017/2018**	**Actual Achievement 2017/2018**	**Deviation from 2017/2018 Target**	**Comment on deviations**
1.2.1 Additional hectares of land taken up for economic activity by targeted manufacturing and services industries.	New KPI	12.19Ha	9.76Ha	11.4Ha	32.05Ha	+181.1%	See Note 2

Notes

2. The ELIDZ transacted a total of 32.05 hectares for the 2017/18 financial year. This represents a 181.1% favourable variance against the annual target of 11.4ha. The ELIDZ business model, based various assumptions that include the historical investment attraction success rate and the availability of funding for superstructure, forecasts that the average hectares that can be transacted by ELIDZ annually are between 10 and 11.5 hectares. These assumptions inform the organisation's annual targets. Additionally, in the last two years, the ELIDZ has transacted an average of 10.8 hectares per annum (11.9 hectares in 2015/16 and 9.7 hectares in 2016/17). All of the above factors and assumptions were taken into account when the 2017/18 target was set. As noted above, the performance for the period under review is substantially higher than anticipated. During the financial year, as part of the investors signed in the fourth quarter, the ELIDZ signed a new investor in agro processing sector. The proposed activities for the company can be classified as horticulture and include processing of agricultural produce. The project (and the sector generally) is land intensive and requires approximately 20 hectares. Additionally, this particular investment was a new investor that proceeded rapidly through the pipeline during the 2017/18 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 2014/2015**	**Actual Achievement 2015/2016**	**Actual Achievement 2016/2017**	**Planned Target 2017/2018**	**Actual Achievement 2017/2018**	**Deviation from 2017/2018 Target**	**Comment on deviations**
2.1.1 Number of new superstructure and infrastructure projects implemented.	New KPI	New KPI	New KPI	3	2	-33.3%	See Note 3
2.1.2 Cumulative Number of reported Construction jobs attributable to annual construction activity	285	0	75	1190	520	-56.3%	See Note 4

Notes

3. For the period April 2017 to March 2018 three infrastructure/superstructure projects were under implementation. These are:
   I. The expansion to Yanfeng which started in Feb 2017 has been completed. Practical Completion was achieved on 29 September 2017 with Final Completion achieved on 12 Dec 2017.
   II. The Yekani construction commenced in May 2017 and will be completed in August 2018, however the project is programmed to realise certain Sectional completion dates, namely:
      - Section 1 SMT - January 2018
      - Section 2 Assembly - February 2018
      - Section 4 Offices - May 2018
      - Section 3 External works - August 2018

   Whilst initial plans were that sections 1, 2 and 4 would be completed by the end of March 2018, the dates have been amended due to extension of time being permitted in order to allow for Yekani installations. 3.The Clariter private development achieved Practical Completion on 5 February 2018.

   Additionally funding approval was granted for the Nulatex project. The professional team has been appointed and are currently working on detailed designs with construction expected to commence in Q2 of the next FY.Funding approval was also granted for the TI Automotive, D-Fence and MBSA projects with the procurement of the various professional teams currently underway, detailed design and subsequent construction to proceed well into the next FY.

   As part of the initial projects planned for completion for 2017/18 financial year, as outlined in the ELIDZ Strategic Plan were the Electrical

Upgrade Project, as well as the Windfarm Project. The Electrical Upgrade has been delayed due to delays in the approval of the funding application for the project by the SEZ fund. As at the close of the period under review, confirmation of funding for this project was still outstanding. The Windfarm project was delayed due to internal changes within the company that is acting as an implementation agent for the project. All of the above factors impacted on the ELIDZ's ability to meet the target for this KPI. It must, however, be noted that despite these delays the ELIDZ is on track to meet its 5 year target for this KPI.

4. The number of construction jobs for the period is much less than anticipated and the annual target for this indicator has not been achieved. This is due to the following reasons:
   1. The delayed start of the Electrical Upgrade project and Wind Farm project due to challenges challenges as outlined in the KPI.
   2. Construction activity over the December period has slowed due to company shutdowns and this has also impacted on the construction activity and subsequently the number of construction jobs recorded.

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 2014/2015**	**Actual Achievement 2015/2016**	**Actual Achievement 2016/2017**	**Planned Target 2017/2018**	**Actual Achievement 2017/2018**	**Deviation from 2017/2018 Target**	**Comment on deviations**
3.1.1 Number of investment agreements (FDI and Domestic) signed between ELIDZ and the approved investors per Annum	6	5	4	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.	R267,5m	R840.2m	R1,060m	R320m	R1,355m	+323%	See Note 6

Notes

5. The ELIDZ signed a total of 5 investors for the 2017/18 FY. This was in line with the target set for the period. With an annual target of five new signed investments for the 2017/18 financial year, the year to date actual depicts a performance of 100% for the set indicator. The signed projects included an export oriented aquaculture project, which will see the Farming and Processing of Atlantic Salmon (3000tpa). Additionally a diamond processing and polishing investor will be located in Zone 1 of the ELIDZ precinct. An agro - processing project was also signed. Included in the list of new investors, is the first investor for the zone's pharmaceutical cluster, which will be located in Zone 1 A and manufacturing Latex related products. A manufacturing entity for which will be producing specialised fencing for the General Manufacturing Cluster was also secured.
6. The information for this key performance indicator is gleaned from the Board Approvals of the investment and the investment agreement signed by investors and these are therefore source documents for this key performance indicator. The value of investment agreements signed by the ELIDZ is R1,35 billion for the year, against an annual target of R320 million. The notable over-achievement in terms of this KPI can be attributed to the strategic nature and extent of the investments that were signed during this period. These require specialised plant and equipment, which in turn, require an extensive investment from the project owners. One of these was an export oriented aquaculture project, which would see the Farming and Processing of Atlantic Salmon (3000tpa). This project alone had an investment value of R520 million. Additionally, a diamond processing and polishing investment agreement was signed. The investment valued at R423 million in the Jewellery manufacturing and the beneficiation of precious stones will be in Zone 1 of the ELIDZ precinct. The agro - processing project, outlined earlier in this document also has an investment value exceeding R300 million.

   The total value is for investments made in general manufacturing, diamond cutting and polishing, aquaculture and agro-industry sectors. Despite achieving and exceeding the annual target, it is worth noting that a number of investors were approved by the ELIDZ Board during this period and the negotiations for the signing of the investment agreements are at very advanced stages. They will, in all likelihood, sign in the 2018/19 financial year.

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 2014/2015	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from 2017/2018 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.	2932	2811	2364	4186	3384	-19.2%	See Note 7

Notes

7. The creation and retention of meaningful manufacturing jobs is critical to the ELIDZ's mandate. The ELIDZ opened the financial year with 2364 jobs that had been declared at the end of the 2016/17 financial year. This was as a result of a low number of job declarations by zone enterprises. There has been a notable growth of 30% in the number of manufacturing and services jobs during 2017/18 financial year. This can be attributed to the following two factors:
   - Improvement in the declaration of jobs by zone enterprises
   - Growth in volumes for the auto sector suppliers leading to increased employment numbers.

   While there has been an increase in the number of jobs reported, this figure is still significantly below the targeted number of jobs for the financial year.

   Key contributors to the non-achievement of the target include:

   a. Initial delays in finalising infrastructure/superstructure projects in the first two years of the five year cycle due to SEZ programme funding related issues are posing a challenge to the five year performance target, but some of the impediments have been overcome and projects now in progress should help get performance moving again;
   b. No new structures built in the first 2 years of the 5 year cycle as a result of the above-mentioned challenges, there has been no new companies that have come on stream in terms of operations since beginning of 5 year cycle. This has affected growth in manufacturing jobs.
   c. There has also been notable delays in settling renewable investors (due to national legislative issues, which deem the sector uncompetitive) as well as aquaculture investors (low appetite by funding institutions to support these sectors.
   d. Loss of substantial jobs with the closure of operators within the Aquaculture sector (at its peak the sector had 150 jobs)

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 2014/2015	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from 2017/2018 Target	Comment on deviations
3.3.1 Percentage of IDZ zone enterprises' production that is export bound.	New KPI	New KPI	New KPI	25%	48.72%	+94.9%	See Note 8

Notes

8. The impact of the operational enterprises in the zone also continues to grow. A survey undertaken by Statistics South Africa on economic activity in the zone and finalised in Quarter 2 of the 17/18 FY revealed that 48.72% of the total production of zone enterprises (R3.3 billion) was exported and as such contributing to the growth of the provinces export basket. The target for this KPI was influenced by a baseline which was undertaken by the ELIDZ during the 2016/17 performance as well the fact that we no new exporters that were planned to be operationalised during the 2017/18 financial year. It must, however, be noted that the growth experienced in the automotive sector led to an increase in export bound production despite challenges and limitations linked to the capacity of the East London Port.

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 2014/2015	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from 2017/2018 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	New KPI	40%	64%	+60%	See Note 9

Notes

9. The only SEZ incentive that was operational in the period under review was the Customs Control Area incentive. In terms of an assessment undertaken by the ELIDZ, 11 of the enterprises in the zone were eligible to benefit from this incentive based on the nature of their operations. As at the end of the period under review, 7 of these 11 enterprises had been enabled to benefit from these incentives. This translates to a performance of 64% against the target of 40% or an over performance of 60%. Part of the reason behind the over performance is that, in terms of the assumptions used to calculate the targets in the Corporate Plan, the ELIDZ had assumed that the SEZ incentives would have been operationalised during the 2017/18 financial year. This, in turn would have increased the population of eligible investors as the proposed SEZ incentives are broader than just the CCAE and more of the zone enterprises would have qualified for these. There have however, been delays in operationalising these incentives.

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 2014/2015	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from 2017/2018 Target	Comment on deviations
4.2.1 Percentage customer satisfaction rating	73.2	0	Not evaluated	75%	76.4%	1.8%	See Note 10

Notes

10. This indicator is measured annually. The target set for the 2017/18 financial year was 75%. An independent Service Provider was appointed to undertake the Customer Satisfaction Survey study on behalf of ELIDZ. The results show the 2017/18 customer satisfaction rating of 76.4%, 1.4% higher than the set target of 75%. 2017/18 results show an improvement of 1.8% compared to the 2016/17 rating of 74.6%. This can be attributed to the development and implementation of a tenant engagement plan to improve customer interactions and feedback mechanisms.

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 2014/2015	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from 2017/2018 Target	Comment on deviations
4.3.1 Number of prototypes produced in the Science and Technology (STP) pilot park	2	2	2	2	2	0%	See Note 11
4.3.2 Number of industrial innovation solutions generated per annum from issued innovation challenges.	New KPI	0	0	1	0	-100%	See Note 12
4.3.3 Number of hosted incubation facilities	New KPI	New KPI	New KPI	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	New KPI	40	117	192.5%	See Note 14

Notes

11. The STP has assisted two innovators to develop their prototypes at the Design Centre. STP has also gone out on a call to further support new prototypes and as such is supporting the completion of the development of 2 more prototypes by two innovators.
12. A total of 5 challenges were identified during this period. A lot of groundwork went into initiating challenges, drawing up of documents, in order to post challenges on the Connect and Solve on website. The encountered delays in getting documents signed off for approval due to the internal approval processes of the institutions / organisations that the ELIDZ would be developing the solutions for.
13. The desired targets have been achieved and maintained. The work being done at the STP to support enterprise and entrepreneurship development is continually sustained. The 3 incubators are Chemin, Cortex and Eciti.
14. The desired target has been exceeded The successful application for funding and continued uptake of training initiatives by Artisans has resulted in this over-achievement by enabling more training and more beneficiaries to attend. The planned number of programmes to be trained is always budgeted according to the initial available funds per financial year. The ELIDZ STP then applies for further funding during the course of the year in order to supplement its funds. This financial year, the unit worked tirelessly and this showed in further funding being awarded for training of more Artisans in the centre.

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 2014/2015**	**Actual Achievement 2015/2016**	**Actual Achievement 2016/2017**	**Planned Target 2017/2018**	**Actual Achievement 2017/2018**	**Deviation from 2017/2018 Target**	**Comment on deviations**
5.1.1 Total revenue income attributable to core IDZ Operations (Lease Transactions)	**New KPI**	**New KPI**	**New KPI**	**R50m**	**R54.41m**	**+8.88%**	**See Note 15**
5.1.2 Average Annual Property Portfolio Yield (property lease transactions)	**New KPI**	**10.30%**	**6.14%**	**4%**	**8.15%**	**+103.8%**	**See Note 16**
5.1.3 Average vacancy rate per annum in IDZ-constructed operational Tenant Facilities	**1.43%**	**1.60%**	**1.86%**	**2%**	**1.9%**	**+0.05%**	**See Note 17**
5.1.4 Annual increase in gross income from all Zone Services receipted per annum.	**New KPI**	**New KPI**	**New KPI**	**R75m**	**R72.0m**	**-4%**	**See Note 18**

Notes

15. There was a nominal favourable variance on total revenue income from lease transactions. The ELIDZ anticipates a steady revenue from rental income with the hope of increasing revenues through the leasing of vacant facilities.
16. The resulting average property portfolio yield from lease agreements that were signed during the period is calculated at 8.15%. This is well above the targeted yield of 4% and represents a favourable variance of 103.8%. This over-achievement stems from the fact that the majority of leases concluded in the fourth quarter were land leases that fetch higher yields owing to absence of construction costs that tend to negatively affect property yields.
17. The vacation of the Fort Jackson premises due to non-compliance of the building is unavoidable and is a compliance issue. The Fort Jackson property has therefore been excluded from the lettable facilities from Q3 that has contributed to the reduction in vacancies within the zone. Additionally the ELIDZ's total leased area increased during Q4 due to additional space that was taken up by two existing zone enterprises.
18. The ELIDZ had targeted to generate Gross income of R75 million from Zone services. At the end of the financial year, the total income generated was R72 million , 4% less than what had been targeted. This was mainly due to utilities usage, and by extension billing, was less than was anticipated for the financial year. This was mainly caused by lower than anticipated rates increases during the year under review. This can also be seen in savings realised on the bulk purchase of utilities for the entity.

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 2014/2015	Actual Achievement 2015/2016	Actual Achievement 2016/2017	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from 2017/2018 Target	Comment on deviations
5.2.1 Number of active bursaries in ELIDZ Bursary Award Programme	10	10	10	7	11	+57.1%	See Note 19
5.2.2 Cumulative Number of Corporate Social Investment (CSI) projects administered in ELIDZ CSI Programme	8	10	13	8	9	+12.5%	See Note 20
5.2.3 Percentage of employment-related expenditure spent on targeted training initiatives to develop identified organisational core competency areas.	4.52%	3.63%	4.21%	3%	4.27%	+42%	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).	15	0	5	3	8	+166.6%	See Note 22
5.2.5 Number of Intern / Learnership contract opportunities offered per annum within the operations of the ELIDZ organisation.	37	43	39	28	39	+39.3%%	See Note 23

Notes

19. The ELIDZ awarded 11 bursaries during 2017/18 against a target of 7 , leading to a positive variance of 57%. The increased number of bursaries was as a result of savings from the previous financial year which could then be utilised to fund more bursary beneficiaries. These bursary beneficiaries are likely to see out the academic year. A total of 11 bursaries were awarded to beneficiaries in the broader BCMM to the value of R519 220 for the financial year.

20. ELIDZ rolled-out 9 CSI projects during the period under review which indicates that the annual target of 8 was marginally exceeded. The projects were focussing on Education, Social and Community Development and Youth and Sport Development.
21. The ELIDZ prides itself on the training and development of its employees. In this respect, a number of bursaries were awarded to staff and training and development initiatives are undertaken in terms of an annual training plan in addition to individual development needs identified on staff members' performance contracts. The positive variance in performance is as a result of additional funding allocated to employee training as part of the organisation's training plan review during the financial year.
22. There was 8 Learnerships provided by the ELIDZ construction service providers for the financial year. This was against a target of 5 marking a positive variance of 66.6% for this KPI. Key to the reasons for this variance is additional opportunities created through the Yekani Project.
23. The year-to-date achievement of interns trained is 39. This is a +39.3% variance against the annual target. This was as a result of rechannelling of savings from other parts of the ELIDZ's operations towards the funding of interns – a socio economic development imperative that is critical to a project such as the ELIDZ.

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 BBBEE status by 2019/20**						
Sub-Programme:	**2C: Financial Management**						
Performance Indicator	**Actual Achievement 2014/2015**	**Actual Achievement 2015/2016**	**Actual Achievement 2016/2017**	**Planned Target 2017/2018**	**Actual Achievement 2017/2018**	**Deviation from 2017/2018 Target**	**Comment on deviations**
5.2.6 Annual assessed ELIDZ BBBEE status	Level 3	Level 2	Level 2	Level 2	Level 5	Not Achieved	See Note 24

Notes

19. The ELIDZ had targeted a Level 2 BBBEE status by the end of the 2017/18 FY. A Level 5 Status was however achieved resulting in underperformance for this KPI. This annually assessed indicator target was set as part of the 5-year strategic planning cycle. Subsequently, the codes for assessment of BBBEE scoring have changed. This has resulted in the ELIDZ achieving a lower score than what was previously forecasted. Having acknowledged the changes in the method of assessment, the ELIDZ has had to revise its targets for the remainder of the cycle.

2.4.3 Strategies to overcome areas of under performance

- The ELIDZ had a total of 24 KPIs. It achieved or exceeded the target on 18 of its KPIs , however it underperformed on 6. Below are the strategies to overcome under performance for targeted KPIs:

  Number of Superstructure and infrastructure projects delivered: There are 4 construction projects that will be implemented during the 2018/19 financial year. These will enable the ELIDZ to cover some of the ground lost towards the achievement of the 5 year target.

  Number of Construction jobs created: There are 4 construction projects that will be implemented during the 2018/19 financial year. These will enable the ELIDZ to cover some of the ground lost towards the achievement of the 5 year target.

- Number of manufacturing and services jobs created: In terms of forecasts two new companies to start operating in 18/19 (Clariter and Yekani). Additional companies that have signed during the 5-year cycle (Nulatex, DFence) will also come on stream. This, combined with pipeline potential jobs represents about 1900 additional jobs that could be created by 2019/20.

  BBBEE Status Achieved: The ELIDZ has finalised a gap analysis in terms of its current BBBEE status. A strategy to bridge the gap has been presented and approved by the ELIDZ Board. This will be implemented during the 2018/19 FY.

  Growth in Gross income from Services: The ELIDZ will continue to increase the marketing of its value added services to increase the update from potential clients.

Number of innovation solutions generated: The ELIDZ has done a lot of ground work on this KPI and the results are eminent. It is however critical that the ELIDZ continues to engage with the various stakeholders that need to fastrack the approval and implementation of these innovation solutions. **Growth in Gross income from Services:** The ELIDZ will continue to increase the marketing of its value added services to increase the update from potential clients.

Number of innovation solutions generated: The ELIDZ has done a lot of ground work on this KPI and the results are eminent. It is however critical that the ELIDZ continues to engage with the various stakeholders that need to fastrack the approval and implementation of these innovation solutions.

2.4.4 Performance linked to budget.

	2016/17			2017/18		
Programme	**Budget 2016/17**	**Expenditure**	**Variance**	**Budget 2017/18**	**Expenditure**	**Variance**
	R'000	R'000	R'000	R'000	R'000	R'000
1A. Operations: Industrial Development	123,343	123,077	266	149,704	146,188	3,516
1B. Operations: Zone Operations	83,173	83,060	113	77,654	75,629	2,025
Total	**206,516**	**206,137**	**379**	**227,358**	**221,817**	**5,541**

2.5 REVENUE COLLECTION

Revenue generation per major category 2017/18					
Revenue Items	**Annual Forecast**	**Year-To-date Forecast**	**Actual**	**Variance Amount**	**Variance %**
Rentals	50,801,608	50,801,608	54,419,722	3,618,113	7%
Utilities Income	68,791,352	68,791,352	64,075,697	-4,715,655	-7%
Zone Levies	630,979	630,979	1,700,331	1,069,352	169%
Other Income	2,100,000	2,100,000	3,778,474	1,678,474	80%
STP Revenue	4,000,000	4,000,000	2,416,914	-1,583,086	-40%
Total	**126,323,939**	**126,323,939**	**126,391,138**	**67,199**	**0%**

The entity achieved its overall revenue targets and had a positive variance of 0.05% on organisational revenue. Underperformance on revenue generation was, however, experienced for utilities due to a lower than anticipated electricity price increase, implemented by the BCMM. There was also underperformance on STP Revenue generation, but this was cushioned by better than expected performance on rentals, Zone Levies and other income generated.

2.6 CAPITAL INVESTMENT

2017/18 APPROVED CAPITAL BUDGET				
Project Name	**Approved Budget**	**Expenditure 2016/17**	**Expenditure 2017/18**	**Available budget**
Wind Farm	25,095	13,900	0	11,195
Yanfeng Expansion	35,724	7,305	26,559	1,860
Yekani Investments	267,040	4,693	153,485	108,862
Mariculture	3,550	1,166	552	1,832
TOTALS	**331,409**	**27,064**	**180,596**	**123,749**

NEWLY APPROVED PROJECTS	
Project Name	**Funding Approved**
MBSA	191,969
D-Fence	82,056
Nulatex	9,649
TI Automotive	113,855
TOTAL	**397,529**

The Entity had an approved adjusted capital budget totalling R330 million for the 2017/18 financial year, of which R180million was utilised during the year. 4 new Projects, as seen in table above, to the value of R397 million were approved during Quarter 4 of 2017/18.

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 11 April 2017 for the purposes of a budget vote meeting and on 9 November 2017 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. Professor M.W. Makalima - Chairperson

2. Councillor P. Nazo

3. Ms P. Mzazi-Geja

4. Mr A. Kanana

5. Mr E. Jooste

6. Mr S. Kondlo

7. Ms N. Mnconywa

8. Councillor V Gqodi

1. Professor M.W. Makalima

Chairperson of the ELIDZ Board and Chairperson of the Executive Committee

Current employment: Private Academic Research

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

Affiliations: None

2. Councillor P. Nazo

Chairperson of the Investment Services Committee, Member of the Executive Committee and the Finance and Tender Committee

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

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

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

3. Ms P. Mzazi-Geja

Member of the Investment Services Committee

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

Skills: Environmental Management and Conservation

Affiliations: None

4. Mr A. Kanana

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

Current employment: Chief Executive Officer of Joburg Market

Skills: Audit, Finance and Public Sector Governance

Affiliations: SAICA, Institute of Directors of South Africa (IODSA)

5. Mr E. Jooste

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

Current employment: EVJ Consulting

Skills: Supply Chain Management, Public Sector Governance and Finance

Affiliations: South African Institute of Financial Management

6. Mr S. Kondlo

Executive Director - Ex Officio

Current employment: Chief Executive Officer of the ELIDZ

Skills: Engineering and Business Management

Affiliations: SAIAE, WISA, Board Member of TCTA, Board member of BCMDA, Board Member of Joburg Water.

7. Ms N. Mnconywa

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

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

Skills: Public Sector Governance and Finance

Affiliations: SAICA, Independent Regulatory Board of Auditors (IRBA)

8. 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)

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 7 non-executive directors as at 31 March 2018. 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 M.W. Makalima	Chairperson of the Board and Chairperson of the Executive Committee	26/01/2016	N/A	Public sector	6/6	5/5 EXCO
Cllr Pumla Nazo	Chairperson of the Investment Services Committee, member of the Finance and Tender Committee and member of the Executive Committee	26/10/2011	N/A	Municipal sector	6/6	4/5 EXCO meetings 4/4 ISC meetings 5/6 FNT meetings
Phumla Mzazi-Geja	Member of the Investment Services Committee	24/10/2012	N/A	Public sector	4/6	2/4 ISC meetings
Ayanda Kanana	Chairperson of the Audit and Risk Committee and member of the Executive Committee	24/10/2012	N/A	Finance and public sector governance	4/6	5/8 ARC meetings 5/5 EXCO meetings
Eugene Vincent Jooste	Chairperson of the Finance and Tender Committee, member of the Audit and Risk Committee, member of the Investment Services Committee and member of the Executive Committee	01/11/2013	N/A	Finance and public sector governance	6/6	8/8 ARC meetings 5/5 EXCO meetings 3/4 ISC meetings 6/6 FNT meetings
Ntombentsha Mnconywa	Member of the Audit and Risk Committee and member of the Finance and Tender Committee	26/09/2016	N/A	Finance and public sector governance	6/6	7/8 ARC meetings 5/6 FNT meetings
Cllr V Gqodi	Member of the Investment Services Committee	11/10/2017	N/A	Municipal sector	2/6 (100% attendance during period of appointment)	1/4 ISC meetings (100% attendance during period of appointment)

3.4.3 Changes in the Board Composition in 2017/18 FY

Cllr V Gqodi was appointed as a new Board member during the 2017/18 FY

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

3.4.4.1 Executive Committee (EXCO)

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

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

3.4.4.2 Audit and Risk Committee (ARC)

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

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

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

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

3.4.4.3 Finance and Tender Committee (FNT)

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.

3.4.4.4 Investment Services Committee (ISC)

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;
- 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
Executive Committee	5	4	Professor MW Makalima (Chair) Cllr P Nazo Mr E Jooste Mr A Kanana
Audit and Risk Committee	8	3	Mr A Kanana (Chair) Mr E Jooste Ms N Mnconywa
Finance and Tender Committee	6	3	Mr E Jooste (Chair) Cllr P Nazo Ms N Mnconywa
Investment Services Committee	4	4	Cllr P Nazo (Chair) Ms P Mzazi-Geja Mr E Jooste Cllr V Gqodi

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 employed by the Executive Authority are not remunerated for their services as Directors.

Board members are remunerated according to the following rates:

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

Name	Remuneration	Other allowance	Other re-imbursements	Total
MW Makalima	R262,133	R5,743	None	**R267,876**
P Nazo	R184,270	R2,769	None	**R187,039**
P Mzazi-Geja	Not remunerated	Not remunerated	Not remunerated	**Not remunerated**
A Kanana	R144,607	R14,475	None	**R159,082**
EV Jooste	R265,159	R2,769	None	**R267,928**
N Mnconywa	R186,515	R3,195	None	**R189,710**
V Gqodi	R31,071	R426	None	**R31,497**
Total Board Fees 2017/18 FY				**R1,103,132**

3.5 RISK MANAGEMENT

ELIDZ has had an approved risk management policy and strategy in place for the duration of the 2016/17 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.

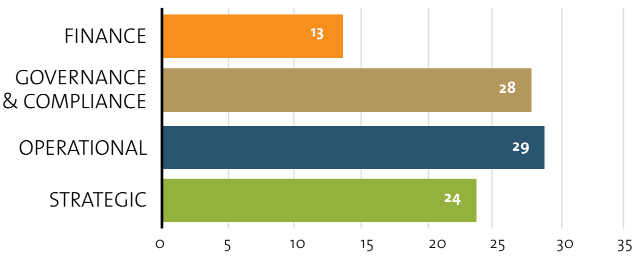
3.5.1 Board and Sub-committee oversight

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:

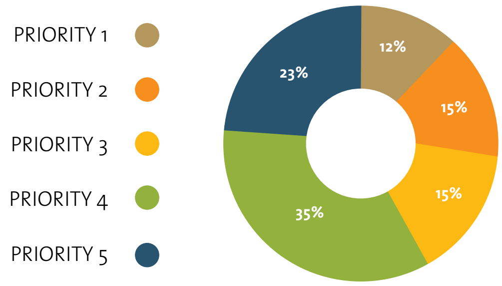
ORGANISATIONAL RISK PER CATEGORY



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



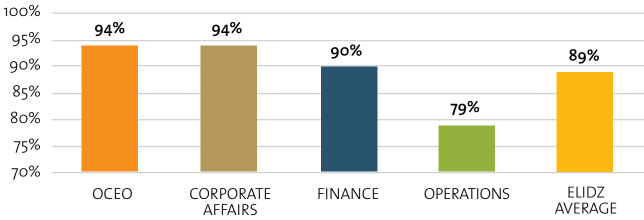
The majority of the ELIDZ risks are included in the P4 and P5 risk categories (55 out of 94 risks) – these risks are adequately mitigated through controls in place. This is consistent with the organisational controls assessment where 79 out of 94 controls have been rated as satisfactory and above.

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

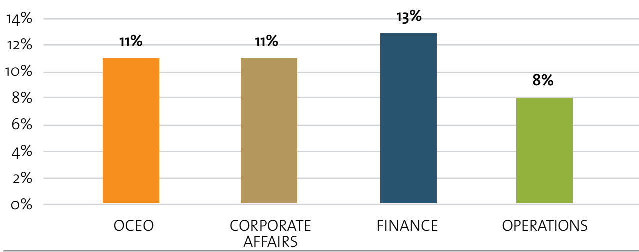
Below is a summary of the overall status of controls implementation at 31 March 2018

% 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 2018.



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.

Palmer

Jo-Anne Palmer
Company Secretary

3.7 ELIDZ SOCIAL AND ETHICAL RESPONSIBILITY

3.7.1 INTRODUCTION

As a state-owned entity charged with the responsibility of attracting and retaining strategic investments that would generate maximum socio-economic benefit for the province of the Eastern Cape – the ELIDZ's key 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 described as:

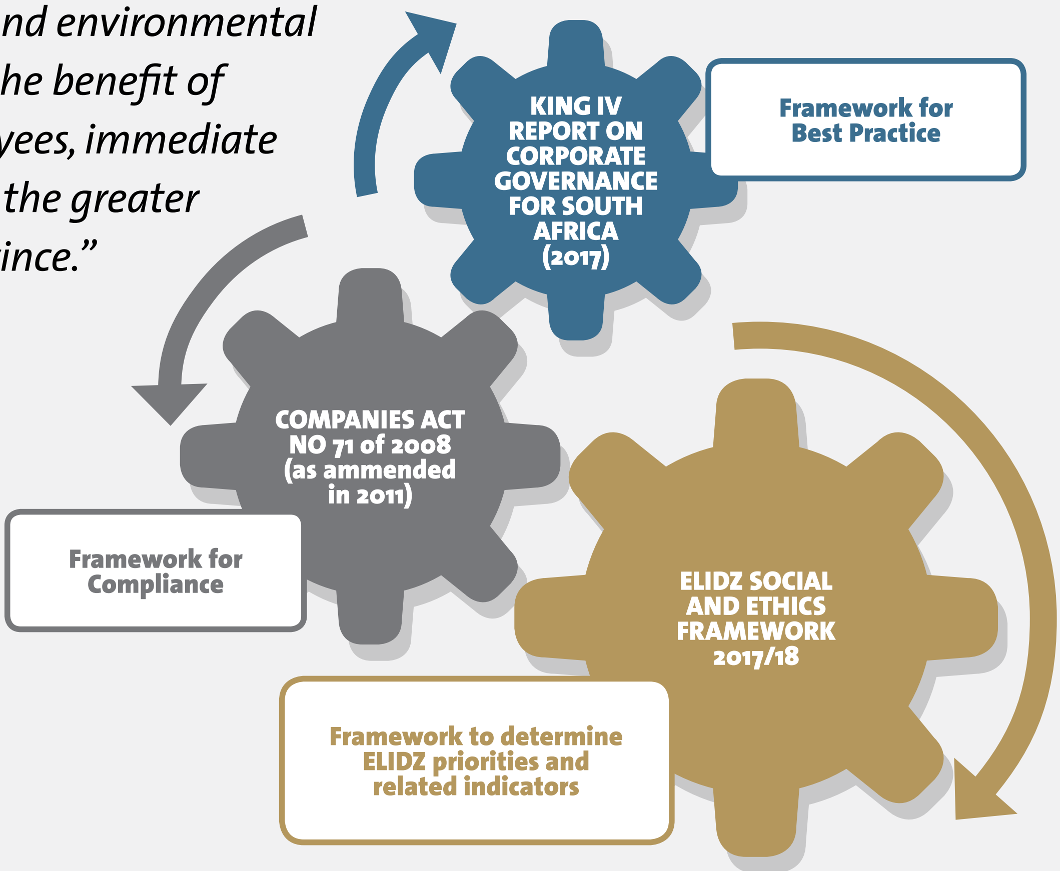
"The strategic intentions, statements and actions of the ELIDZ designed to position the organisation as a good corporate citizen in relation to responsible corporate, social and environmental management to the benefit of customers, employees, immediate communities and the greater Eastern Cape Province."

The ELIDZ does this by

- Conducting its business in a socially-responsible and ethical manner
- Engaging, learning from, respecting and supporting the communities and society in which it operate
- Developing mutually beneficial relationship and partnerships with its stakeholders
- Developing its employees and helping them to develop others
- Protecting the environment
- Protecting human rights
- Continually improving its CSR approach.

To ensure that the above commitment is priorities in all of the ELIDZ's operational activities, the ELIDZ board has delegated the Social and Ethics Committee of the board to monitor the target setting, execution and reporting on all of the above priorities.

3.7.2 KEY CONSIDERATION OF THE SOCIAL AND ETHICS COMMITTEE



As an SOC, the ELIDZ is committed to not only complying with the Companies Act No 71 of 2008 (as amended in 2011) but also applicable voluntary and leading best practice in Corporate Governance as contained in the King IV Report on Corporate Governance for South Africa (King IV Report).

[1] *King IV Report on Corporate Governance for South Africa 2016. The Institute of Directors Southern Africa NPC.*

3.7.3 LEGISLATION AND BEST PRACTICE APPLICABLE TO SOCIAL AND ETHICS COMMITTEE

Both the Companies Act and the King IV Report highlight the need for an active and operational Social and Ethics Committee.

3.7.3.1 The Companies Act on Social and Ethics

The Companies Act No 71 of 2008, The Companies Amendment Act (Act No. 3 of 2011) (hereafter the Companies Act) and the Companies Regulations of 2011 all highlight the key responsibilities for South African Companies.

It further highlights the mandate of the Social and Ethics Committee as the following:

1. To monitor the company's activities with regard to the following five areas of social responsibility:
   (i) social and economic development;
   (ii) good corporate citizenship;
   (iii) the environment, health and public safety;
   (iv) consumer relationships; and
   (v) labour and employment.
2. To draw matters within its mandate to the attention of the Board as required.
3. To report to the shareholders at the company's annual general meeting on the matters within its mandate

3.7.3.2 The King IV Report on Social and Ethics

There are no differences between the provisions made in the Companies Act and those made in the **King IV Report** with respect to the role of the Social and Ethics Committee. **The King IV Report**, however, provides a comprehensive framework and guidance on the role of the Social and Ethics Committee and this has been extensively used to guide the ELIDZ's Social and Ethics Agenda for the 2017/18 Financial Year.

3.7.4 ELIDZ SOCIAL RESPONSIBILITY PRIORITIES FOR 2017/18

BUSINESS ETHICS & TRANSPARENCY	WORKPLACE (EMPLOYMENT PRACTICES)	ECONOMY (ECONOMIC DEVELOPMENT & TRANSFORMATION)	SOCIETY (COMMUNITY DEVELOPMENT & RELATIONS)	ENVIRONMENT (ENVIRONMENTAL IMPACT MANAGEMENT)
• CSR Priority & Materiality Determination • CSR Target Setting, Oversight & Monitoring • CSR Compliance & Disclosures	• Employment Equity • Fair Remuneration • Safety, Health, Dignity & Development of Employees	• Economic Transformation • Prevention, Detection & Response to Fraud	• Public Health & Safety • Consumer Protection • Community Development • Protection of Human Rights	• Pollution • Waste disposal • Protection of Biodiversity

Above are the ELIDZ's 5 Priorities with regard to Social Responsibility for the 2017/18 financial year. The ELIDZ Social and Ethics Committee had developed numerical and non-numerical targets for each of these five priorities. Below is a brief overview on each of these five priorities.

3.7.5 **PRIORITY 1:** BUSINESS ETHICS AND TRANSPARENCY

3.7.5.1 OVERVIEW OF ELIDZ'S COMMITMENT

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 culture. This would not only ensures that the organisation walks the talk when it comes to governance and ethical best practice, it would further ensure that there are clear mechanisms to monitor and respond to key priorities in this regard.

Key to the ELIDZ's business principles are honesty and integrity. The ELIDZ's Code of Conduct provides employees with a clear understanding and expectation of the high ethical standards that underpin the ELIDZ's business principles. Annually the ELIDZ undertakes training on the Code of Conduct and other related business rules. Furthermore, there is an expectation that all ELIDZ employees complete an annual declaration of interest and recommitment to the ELIDZ Code of Conduct. The ELIDZ's Fraud Prevention Hotline also provides employees with a safe platform to report concerns regarding unethical behaviour.

3.7.5.2 OVERVIEW OF PROGRESS ON 2017/18 TARGETS

With regard to the review and revision of the ELIDZ's Ethical culture the following progress can be noted:

- A process to align the ELIDZ's Social and Ethics Committee to be in line with King IV was finalised by the end of Q3.
- A process to review all of the ELIDZ's relevant policies and related codes that guide the ELIDZ's ethical culture was finalised in Q4. The start of 2018/19 will see the revision of these policies to ensure alignment to King IV. These policies include the Social Responsibility Policy, the Corporate Social Investment Policy and the development of an Ethics policy for the organisation.

In terms of the Communication of the ELIDZ's Ethics Policies and Organisational commitment, the following progress can be noted:

- The ELIDZ Code of Conduct has been published on the ELIDZ's Intranet for full access by all employees
- A supplier code of conduct was developed by the Supply Chain Unit and will be integrated into the new supplier handbook.
- The Annual employee re-induction workshops where employees are workshopped on the organisation's code of conduct and other relevant policies was held in Q 1 and Q4.
- In line with prioritising governance and ethics, the ELIDZ developed a Social and Ethics framework for 2017/18 which allowed for:
- A clear understanding of the ELIDZ's obligations with regard to its Social and Ethics agenda both in terms of the Companies Act as well as King IV
- Setting of Corporate Social Responsibility indicators for the organisation as a means of determining key priorities and appetites for the ELIDZ.
- Development of a Social and Ethics work plan for 2017/18

3.7.5.2 PROGRESS ON NUMERICAL TARGETS (as at end MARCH 2018)

ELIDZ 2017/18 INDICATORS	ELIDZ 2017/18 TARGET	2017/18 YEAR STATUS	KEY PRIORITIES FOR 18/19
Undertake gap analysis of ELIDZ Ethics Regulatory Framework to ensure alignment to King IV.	Gap Analysis completed by end 2017/18 Remedial Action plan finalised by end of 2017/18	Alignment of EXCO terms of reference to be in line with King IV was finalised and presented to EXCO in Q3. Review of ELIDZ policies that would form the Ethics regulatory framework were reviewed and the gaps identified.	Review (and Revision) of ELIDZ Code of Conduct; Development of an Ethics Policy ; Review of the Corporate Social Investment Policy, Review of the Corporate Social Responsibility Policy.
% of eligible employees to complete Annual Declaration in line with ELIDZ Ethics Framework	100% of eligible employees to complete Annual Declaration in line with ELIDZ Ethics Framework	100% submission rate for 2017/18. Declarations for 2018/19 have been kick-started.	Ensure all employees have made their 2018/19 declarations. Consideration of an electronic declaration form.
% of eligible employees inducted / re-inducted during the FY	100% of eligible employees inducted / re-inducted during the FY	100% of all new employees attended a full induction aimed at new employees in June 2017. 57% of existing Staff members attended staff re -orientation session in Q 1 for the purposes of the 2017/18 FY 68% of staff members attended the re-orientation session held during Q4 for the purposes of the 2018/19 FY.	(a) Full induction takes place twice a year' (b) SHEQ induction happens on arrival of each new employee

3.7.6 **PRIORITY 2:** WORKPLACE (Employment Practices)

3.7.6.1 OVERVIEW OF ELIDZ'S COMMITMENT

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.

3.7.6.1 OVERVIEW OF 2017/18 TARGETS

EMPLOYMENT EQUITY: The ELIDZ Management is committed to ensuring that the ELIDZ employee profile is representative of the provincial economically active population (EAP) as required in terms of the Employment Equity Act.

In this respect, the ELIDZ has adopted an Employment Equity Plan (current plan effective from 01 November 2016 to 31 October 2019) that contains specific, measurable, attainable, relevant and time bound goals.

The numerical goals focus on increasing the representation of designated groups across all occupational levels in an effort to achieve alignment with the EAP. The non-numerical goals are initiatives that are aimed at removing barriers, which negatively impact on the organization's ability to reach the numerical targets.

A forum of twelve Employment Equity and Skills Development Committee members have been elected who are consulted extensively on all employment equity aspects and who are responsible inter alia for the monitoring of compliance with the achievement of the goals in the Employment Equity Plan.

The ELIDZ's current Employment Equity Plan has been in effect since 01 November 2016 and progress on the achievement of numerical targets is detailed below.

FAIR REMUNERATION: To ensure that its employee remuneration is fair and in line with best practise , the ELIDZ's remuneration policy allows for benchmarking of its remuneration every three years. This process was undertaken in Q4. Additionally the ELIDZ continues to implement various reward and recognition programmes linked to employee performance and long service.

EMPLOYEE WELLNESS: In order to improve the level of staff wellness and to ensure that staff remained committed to the ELIDZ, the ELIDZ implements programmes and offers incentives that nurture staff, aid in the improvement of their overall wellness and motivate staff to remain committed to the ELIDZ. In turn, these programmes and incentives ensure that the ELIDZ remains an employer of choice for competent and designated groups.

EMPLOYEE DEVELOPMENT: The 2017/18 workplace skills plan has been developed and the statutory submission requirements have been complied with. The implementation of the training plan is currently underway.

EMPLOYEE SATISFACTION: The ELIDZ, at the beginning of the 2017/18 implemented an employment satisfaction survey to develop a baseline that would enable the measurement of the impact of its Employee related programmes at the end of the Financial year. Below is the summary of the key ratings by employees:

SECTION FACTORS	AVERAGES
ORIENTATION AND TRAINING	78%
SUPERVISION	75%
COMPENSATION AND BENEFITS	69%
OTHER EXPERIENCE	69%
TOTAL AVERAGE	73%

3.7.6.3 PROGRESS ON NUMERICAL TARGETS AS AT END MARCH 2018

ELIDZ 2017/18 INDICATORS	ELIDZ 2017/18 TARGET	2017/18 YEAR STATUS	KEY PRIORITIES FOR 18/19
% of Employment Equity Goals achieved by the end of 2017/18	60% of Employment Equity Goals achieved by the end of 2017/18	**Numerical Goals** • **Year 1** (ended 31 October 2017) Achieved 5 out of 8 targets – 62.5 % Note: 3 of Year 2 targets were met in Year 1 • **Year 2** 6 months completed Achieved 5 out of 11 targets – 45.5 % Note: A year 3 target has been met **Non-Numerical Goals** 5 out of 9 targets met – 56%	Finalisation of outstanding non-numerical goal items. Filling of outstanding vacancies and giving preference to candidates who meet our EE numerical targets
% staff turnover	15% staff turnover	7.32%	Maintain a low staff turnover rate.
% staff vacancy rate	10% staff vacancy rate	7.87%	Ensure filling of vacancies
% of employment-related expenditure spent on targeted training initiatives	3% of employment-related expenditure spent on targeted training initiatives	4.27%	Implementation of a skills plan
% employee satisfaction index	65% employee satisfaction index	Staff satisfaction survey results for 2017/18 reflect an index of 73%	Actions plans to be developed to address areas of concern which are to be incorporated in the HR Strategy for 2018/19
# of intern/learnership contract opportunities offered per annum within the operations of ELIDZ organisation	28 intern/learnership contract opportunities offered per annum within the operations of ELIDZ organisation	39 interns	No further action is required in respect of the 2017/18 FY.

3.7.7 **PRIORITY 3:** ECONOMY (Economic Development and Transformation)

3.7.7.1 OVERVIEW OF ELIDZ'S COMMITMENT

Economic Development is at the centre of the ELIDZ's purpose – it is the reason for the ELIDZ's existence. 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.

3.7.7.2 OVERVIEW OF PROGRESS ON 2017/18 TARGETS

ECONOMIC IMPACT OF ZONE ENTERPRISES: A survey undertaken by Statistics South Africa on economic activity in the zone and finalised in Quarter 2 of the 17/18 FY revealed that in 2016 Zone Enterprises had generated income of R7 billion – this a 23.6% year on year improvement. Additionally, 95% of the income was generated by manufacturing enterprises while the remainder was generated by services industries in the zone. Products worth R3.3 billion were exported from zone enterprises while 49% of the total goods and services sourced by zone enterprises was sourced from local suppliers. This translates to R2.5 billion that has gone back to the local economy. A total of 3654 jobs were recorded as active in the zone while the value of salaries and wages paid amounted to R400 million.

RESPONSIBLE PROCUREMENT: The end of Q2 saw the finalisation of an ELIDZ Targetted Procurement Plan, which was aimed at ensuring that the ELIDZ's procurement strategies prioritised economic transformation. The impact of these procurement strategies is outlined below.

Incubation of new industries: The ELIDZ STP continued engaging innovators on various platforms as part of inviting those whose innovations were ready to be developed into prototypes. The ELIDZ is confident that it will develop at least one prototype in the period under review. A total of 117 skills development beneficiaries by the ELIDZ STP in Q 4.

FRAUD AND CORRUPTION PREVENTION: The ELIDZ continues to implement its Fraud Prevention Plan. To date 100% of the planned initiatives have been implemented. The ELIDZ further continues to operate its fraud hotline to allow for employees and members of the public to report any suspected fraudulent activities. No matters were reported to the Hotline for the period under review. Moreover, the ELIDZ has implemented a Fraud Hotline Awareness campaign for both internal and external consumption.

7.7.7.3 PROGRESS ON NUMERICAL TARGETS AS AT END MARCH 2018

ELIDZ 2017/18 INDICATORS	ELIDZ 2017/18 TARGET	2017/18 YEAR STATUS	KEY PRIORITIES FOR 18/19
% BBBEE participation attained during during 2017/18	90% BBBEE participation attained during 2017/18	**110%**	Continue with the implementation of the ELIDZ Targeted Procurement Strategy.
% SMME procurement target during during 2017/18	30% SMME procurement target during 2017/18	79.48%	Continue with the implementation of the ELIDZ Targeted Procurement Strategy.
% women owned enterprises target attained during 2017/18	7% women owned enterprises target attained during 2017/18	11.02%	Continue with the implementation of the ELIDZ Targeted Procurement Strategy.
% local procurement during 2017/18	30% local procurement	80% of all active contracts are local based (47 out of 59 awarded contracts)	Continue with the implementation of the ELIDZ Targeted Procurement Strategy.
# of incubates hosted on the ELIDZ platform by end of 2017/18	3 incubates hosted on the ELIDZ platform by the end of 2017/18	3 incubates hosted at the STP	None
# of skills development beneficiaries trained in the ELIDZ Science and Technology Park by end of 2017/18	40 skills development beneficiaries trained in the ELIDZ Science and Technology Park by end of 2017/18	117 skills beneficiaries trained.	Identify further partnerships to fund training.
# of prototypes developed in the ELIDZ Science and Technology Park	1 prototypes developed in the ELIDZ Science and Technology Park by end of 2017/18	2 new prototypes linked to the automotive sector were developed in STP.	Initiate publicity campaign to attract new innovations.
# of manufacturing and services jobs active in the ELIDZ by end of 2017/18	4186 manufacturing and services jobs active in the ELIDZ by end of 2017/18	3654 jobs reported by Stats SA in Q 2 / 3384 reported by Zone Enterprises	Continued advocacy for the renewable and aquaculture sectors to ensure creation of new employment. With the possible completion of the building construction of the two investors this year, much improvement will be realized in this KPI
% locally sourced production inputs by IDZ zone enterprises.	55% locally sourced production inputs by IDZ zone enterprises.	49 % locally sourced production inputs.	Enquire with DTI on operationalisation of SEZ incentives.

ELIDZ 2017/18 INDICATORS	ELIDZ 2017/18 TARGET	2017/18 YEAR STATUS	KEY PRIORITIES FOR 18/19
% of reported Fraud Hotline Reports investigated and closed	100% of reported Fraud Hotline Reports investigated and closed	There has been no matters reported to the Hotline.	Ensure Hotline has the following new features: • Multi lingual call centre • New modes of reporting (physical mail, facsimile) • 24-hour availability • External Marketing campaigns in relation to the ethics and fraud • Quarterly on-site awareness campaigns
# of investigated and confirmed fraudulent cases against the ELIDZ	0 investigated and confirmed fraudulent cases against the ELIDZ	No new cases reported or investigated in Q4.	Ensure monthly review of hotline report by Risco and Quarterly review by the Operations and Risk Committee and the Finance Committee
# of fraud related findings reported by the Auditor General of South Africa	0 fraud related findings reported by the Auditor General of South Africa	None	Ensure implementation of the fraud prevention plan to eliminate fraud.

3.7.8 **PRIORITY 4:** SOCIETY Community Development and Relations)

3.7.8.1 OVERVIEW OF ELIDZ'S COMMITMENT

The ELIDZ is committed to being a responsible corporate citizen and takes seriously it growing stature and responsibilities within the Buffalo City and wider Eastern Cape communities. This commitment to its feeder communities extends beyond the zone's core mandate of facilitating growth and job creation.

It is centered on the following principles:

- Developing and applying effective self-regulatory management practices that promote confidence in, and mutual trust between, ourselves, our stakeholders and society in general
- Contributing, directly and indirectly, to economic, social and environmental progress with a view to achieving sustainable development in the West Bank area, in the Buffalo City area, in the broader-Border area and within the Eastern Cape
- Encouraging local capacity-building through close co-operation with our stakeholders - especially the local community in the West Bank area - as well as developing shared and mutually beneficial partnerships and relationships for growth and development
- Encouraging the ELIDZ tenants and business collaborates to adopt and apply the principles of good corporate governance and good corporate citizenship and, where possible, to collaborate with them to have an increased impact in terms of overall CSR both internally within the ELIDZ and externally within the surrounding communities and society.

3.7.8.2 OVERVIEW OF PROGRESS ON 2017/18 TARGETS

CORPORATE SOCIAL INVESTMENT: Corporate Social Investment is one of the areas of focus in the ELIDZ's broader Corporate Social Responsibility Strategy. In the context of the ELIDZ CSI is defined as the support by the ELIDZ, either financially or otherwise, in identified developmental areas, to organisations and projects that seek to address the social needs of communities and society in a positive and sustainable way.

The ELIDZ has identified the following focus areas for its CSI Programmes for 2017/18:
- Educational Infrastructure and Support
- Bursaries
- Social and Community Development
- Community safety and security

As at the end of 2017/18, the ELIDZ had awarded 10 bursaries valued at R500 000 for the 2017/18 Financial year. The bursaries are targeted at needy students who excelled in Mathematics and Science during the Final Year in high school. The bursary programme, which is implemented in partnership with MST Foundation is currently in its fourth year and produced its first graduates in the period under review.

The ELIDZ has also implemented various projects throughout the Eastern Cape Province to support communities. These include the sponsorship of two mobile libraries to Lukhanyisa Junior Secondary School in Ngqamakhwe as well as Mzamomhle Junior Secondary School in Butterworth as well as equipment to the Masibambane Home for the Disabled in Debe Nek near Alice.

Mfundo Senior Primary in Mdantsane was a deserving recipient of a mini school makeover project where ELIDZ collaborated with rehabilated former prison inmates to refurbish the school in one of the most impoverished areas in Mdantsane.

The ELIDZ continues to sponsor office space for a crime-reporting centre in its neighbouring Ward 46.

PUBLIC HEALTH AND SAFETY: Key to the ELIDZ's priority is to ensure that zone enterprises do not have any negative impact on the health and safety of its surrounding communities. In line with this, the ELIDZ continues to implement a rigorous air and water quality-testing programme that enables the ELIDZ to pick up and rectify any possible impact of zone enterprises. There were no water quality related anomalies that were as a direct result of ELIDZ operational activities, that required any major interventions. With regards to Air quality monitoring historical and most recent data indicates that there are no Air Quality anomalies. Meaning that the measures elements are within the regulated thresholds.

CONSUMER RELATIONS: No new consumer campaigns were developed in the period under review. No new customers became operational on site. There were no complaints noted from any of the ELIDZ's investors.

3.7.8.3 PROGRESS ON NUMERICAL TARGETS AS AT END MARCH 2018

ELIDZ 2017/18 INDICATORS	ELIDZ 2017/18 TARGET	2017/18 YEAR STATUS	KEY PRIORITIES FOR 18/19
% completion of UN Global Compact Assessment for ELIDZ	100 % completion of UN Global Compact Assessment for ELIDZ	**Desktop research undertaken on relevant UN Global Compact Assessment tools that would be relevant to the ELIDZ. A tool has been identified and is being used to assess ELIDZ baseline . This was done in Q4.**	The results of the 1st ELIDZ UN Global Compact assessment will be utilised to develop a Social and Ethics Strategy for 2018/19
% customer satisfaction index	75% customer satisfaction index by end 2017/18	76.4% achieved.	Focus on areas that scored below 75%
% year-on-year growth in ELIDZ Corporate Social Investment	7% year-on-year growth in ELIDZ Corporate Social Investment	7% year on year growth achieved	Maintain the year on year growth
# of CSI initiatives implemented by end 2017/18	7 CSI initiatives implemented by end 2017/18	9 CSI initiatives implement Year to Date.	The Plan is to exceed the target through Department CSI Projects
# number of bursaries awarded to neighbouring communities	7 bursaries awarded to neighbouring communities	11 Bursaries were awarded	Focus will be to maintain the number of bursaries whilst investigating the impact of free education policy on our Bursary Scheme.
# of employee volunteerism hours reached by end of 2017/18	300 employee volunteerism hours reached by end of 2017/18	Total Number of Hours worked: 325 Hours	The target will be achieved through Departmental CSI project, Mandela Day and Women's Month projects
# of CSI-related partnerships implemented to benefit neighbouring communities	3 CSI-related partnerships implemented to benefit neighbouring communities	Partnerships implemented with the following companies • Abasemonti Construction Cateres cc • Sinethemba Craft and Timber Organisation • Plascon	Prioritise 4 partnerships geared towards maximising the impact of our investment.

3.7.9 **PRIORITY 5:** ENVIRONMENT (Environmental Impact Management)

3.7.9.1 OVERVIEW OF ELIDZ'S COMMITMENT

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

3.7.9.2 OVERVIEW OF PROGRESS ON 2017/18 TARGETS

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

1. SHE Policies that outline the scope of the ELIDZ SHE Management System:
   a. ISO 14001: 2004 Environmental Management system &
   b. OHSAS 1800: 2007 Occupational Health & Safety Management system.
2. An Environmental Management Framework that outlines the scope of ELIDZ Environmental considerations in relation to the ELIDZ mandate to develop and operate an Industrial Estate.
3. Certification for the internationally accredited and adopted SHE (ISO 14001: 2004 & OHSAS 1800: 2007).
4. Certification for the internationally accredited and adopted Quality Management System ISO 9001;
5. Successful implementation and maintenance of the system ensures continual improvement of implemented SHE best practices. Recertification audit in this regard successfully navigated in February 2016. Accredited Certification Validity expires 14th September 2018 for ISO 14001: 2004 & 12 May 2019 for OHSAS 1800: 2007.

TRANSITION INTO NEW MANAGEMENT SYSTEMS: The ELIDZ is required to Transition to new 2015 standards for both the Quality Management and the environmental management systems. To date the ELIDZ has performed a gap analysis in terms of the new standards and a plan is currently being implemented to ensure full alignment of the ELIDZ's system to the new standards. The recertification audit will took place in Q4 and while certificate has not yet been received – recertification has been confirmed for both systems.

ENVIRONMENTAL IMPACT ASSESSMENTS FOR NEW CUSTOMERS: No new EIAs were activated in the period under review. One of the ELIDZ's investors Clariter was issued its EIA for its operations while another investor, Caltex, based on the ELIDZ's assessment, was advised to undergo an EIA.

3.7.8.3 PROGRESS ON NUMERICAL TARGETS AS AT END MARCH 2018

ELIDZ 2017/18 INDICATORS	ELIDZ 2017/18 TARGET	2017/18 YEAR STATUS	KEY PRIORITIES FOR 18/19
# of SHE citations for ELIDZ Corporate	# of SHE citations for ELIDZ Corporate	**No SHE citations**	No citations for the period under review - Maintain and improve the existing monitoring and management programmes. Particular emphasis on tenant compliance monitoring, ELIDZ facilities & maintenance management as well as on new business development for the 2018/19 FY.
Ensure monitoring, communication, response and tracking of all zone enterprises SHE non-conformances and incidents as required.	Monitoring, communication, response and tracking of all zone enterprises SHE non-conformances and incidents as required.	One major incident involving Feltex Trim was reported.	Tenant engagement process for SHE compliance requirements is around 70% complete and will continue for the 2018 /19 FY. After focusing on emergency preparedness protocol, the aim is to assess adequacy of tenant SHE risk management interventions, for identification & mitigation of SHE risks during the 2018/19 FY.
% of SHEQ certifications retained.	100% of SHEQ certifications retained.	On track to achieving certification on transitioned Management systems.	Certification achieved - maintain and improve system management interventions for the 2018/19 FY


east london idz

3.8 AUDIT COMMITTEE REPORT

The Audit and Risk Committee is pleased to present its report for the financial year ended 31 March 2018.

3.8.1 Audit and Risk Committee Members and Attendance

The Audit and Risk 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 and Risk Committee reports that it has adopted an appropriate formal terms of reference as its Audit and Risk Committee Charter, that it has regulated its affairs in compliance with this Charter and that it has discharged all of its responsibilities contained therein. The Audit and Risk 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 and Risk 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 and Risk 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 and Risk 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 and Risk Committee has evaluated and discussed the annual financial statements of the East London Industrial Zone SOC Ltd for the year ended 31 March 2018 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 and Risk 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 and Risk Committee has therefore, at its meeting held on17 May 2018, recommended the adoption of the financial statements by the Board of Directors.

The Audit and Risk 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 and Risk 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 and Risk 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 Executive 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: 2017/18					
Programme//activity/objective	Total Expenditure for the entity (R'ooo)	Personnel Expenditure (R'ooo)	Personnel exp. as a % of total exp. (R'ooo)	No. of employees	Average Personnel cost per employee (R'ooo)
Office of the CEO	63,552,343	12,877,774	20.26%	10	1,287,777
Corporate Affairs (Admin, Legal, Research, Records, Communications, ICT & HR)	63,552,343	18,397,110	28.95%	26	707,581
Finance	63,552,343	10,475,917	16.48%	15	698,394
Operations	63,552,343	21,771,541	34.26%	31	702,308
TOTAL	**-**	**63,552,343**	**100%**	**82**	**775,028**

4.2.2 Personnel cost by salary band

EXPENDITURE: Personnel Costs By Salary Bands: 2017/18				
Programme//activity/objective	**Personnel Expenditure (R'000)**	**% of personnel exp. to total personnel cost (R'000)**	**No. of employees**	**Average Personnel cost per employee (R'000)**
Top management	3,562,929	6%	1	3,562,929
Senior management	7,562,260	12%	3	2,520,753
Professionally qualified and experienced specialists and mid-management	27,074,228	43%	23	1,177,140
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	20,187,011	32%	33	611,728
Semi-skilled and discretionary decision making	4,243,701	7%	15	282,913
Unskilled and defined decision making	892,214	1%	7	127,459
TOTAL	**63,522,343**	**100%**	**82**	**775,028**

Salaries, overtime, home-owners allowance and medical assistance by programme
The ELIDZ does not pay a homeowners allowance
R 3 275.36 in overtime was paid during the Financial Year ended 31 March 2018

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 (R'000)	Personnel Expenditure (R'000)	% of performance rewards to total personnel cost (R'000)
Top management	480,890	3,562,929	13.5%
Senior management	969,036	7,562,260	12.8%
Professionally qualified and experienced specialists and mid-management	3,033,731	27,074,228	11.2%
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	1,882,125	20,187,011	9.3%
Semi-skilled and discretionary decision making	422,255	4,243,701	10%
Unskilled and defined decision making	134,713	892,214	15%
TOTAL	**6,922,751**	**63,522,343**	**12%**

4.2.4 Training costs

Programme / activity / objective	Personnel Expenditure (R'000)	Training Expenditure (R'000)	% of Training Expenditure to total Personnel Expenditure	No. of employees trained)	Avg training cost per employee
Top management	3,562,929	-	0%	-	-
Senior management	7,562,260	16,965	0%	1	16,965
Professionally qualified and experienced specialists and mid-management	27,074,228	555,181	2%	8	69,398
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	20,187,011	611,532	3%	11	55,594
Semi-skilled and discretionary decision making	4,243,701	1,098,600	26%	20	54,930
Unskilled and defined decision making	892,214	835,227	94%	28	29,830
TOTAL	**63,522,343**	**3,117,505**	**4.91%**	**68**	**45,846**

4.2.5 Employment and Vacancies

Programme / activity / objective	2016/2017 No. of Employees	2017/2018 Approved Posts	2017/2018 No. of Employees	2017/2018 Vacancies (Budgeted)	2017/2018 Vacancies (Unbudgeted)	% of Vacancies
Office of the CEO	10	10	10	-	-	0.00%
Corporate Affairs (Admin, Legal, Research, Records, Communications, ICT & HR)	15	26	26	-	-	0.00%
Finance	23	15	15	-	-	0.00%
Operations	30	38	31	7	-	7.87%
TOTAL	**78**	**89**	**82**	**7**	**-**	**7.87%**

Programme / activity / objective	2016/2017 No. of Employees	2017/2018 Approved Posts	2017/2018 No. of Employees	2017/2018 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	22	25	23	2	2.25%
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	24	38	33	5	5.62%
Semi-skilled and discretionary decision making	16	15	15	-	0.00%
Unskilled and defined decision making	7	7	7	-	0.00%
TOTAL	**78**	**89**	**82**	**7**	**7.87%**

4.2.6 Employment changes

EMPLOYMENT CHANGES: ANNUAL TURNOVER RATES BY SALARY BAND & CRITICAL OCCUPATION FOR THE PERIOD 01 APRIL 2017 TO 31 MARCH 2017				
SALARY BAND	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
Top management	1	-	-	1
Senior management	3	1	1	3
Professionally qualified and experienced specialists and mid-management	22	3	3	23
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	24	4	1	33
Semi-skilled and discretionary decision making	16	2	1	15
Unskilled and defined decision making	7	-	-	7
TOTAL	**78**	**10**	**6**	**82**

4.2.7 Reasons for staff leaving

EMPLOYMENT CHANGES: REASONS WHY STAFF ARE LEAVING		
REASON	Number	% of total no, of staff leaving
Death	-	-
Resignation	5	6.10%
Dismissal	-	-
Retirement	-	-
Ill Health	-	-
Expiry of Contract	1	1.22%
Other	-	-
Total	**6**	**7.32%**
Total number of employees who left as a % of the total employment	**6**	**7.32%**

4.2.8 Labour relations

CASE SUSPENSIONS MANAGEMENT PRECAUTIONARY SUSPENSIONS:
One (1) transgressor was placed on suspension during the year under review. This was in light of disciplinary action being pursued against this staff member.

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 currently at arbitration stage.

DISCIPLINARY CASES:
One (1) Disciplinary Case was instituted by the Employer during the year under review. A final written warning was issued against the transgressor.

STRIKE ACTIONS:
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 declined during the 2017/18 financial year.

4.2.9 Employment equity

EMPLOYMENT EQUITY ANALYSIS (AS AT 31 MARCH 2017)

OCCUPATIONAL BANDS	AFRICAN	COLOURED	INDIAN	WHITE	Sub Total	AFRICAN	COLOURED	INDIAN	WHITE	Sub Total	Grand Total
	MALE					FEMALE					
Top management	1	-	-	-	**1**	-	-	-	-	**-**	**1**
Senior management	2	-	-	-	**2**	1	-	-	-	**1**	**3**
Professionally qualified and experienced specialists and mid-management	7	2	2	3	**14**	5	1	-	3	**9**	**23**
Skilled technical & academically qualified workers, junior management, supervisors, foremen, and superintendents	7	1	1	3	**12**	18	2	-	1	**21**	**33**
Semi-skilled and discretionary decision making	4	-	-	-	**4**	9	2	-	-	**11**	**15**
Unskilled and defined decision making	-	-	-	-	**-**	7	-	-	-	**7**	**7**
Total permanent	21	3	3	6	**33**	40	5	-	4	**49**	**82**
Temporary employees	-	-	-	-	**-**	-	-	-	-	**-**	**-**
Grand total	**21**	**3**	**3**	**6**	**33**	**40**	**5**	**-**	**4**	**49**	**82**

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
Nature of business and principal activities	The development of an industrial development zone in East London
Directors	MW Makalima (Chairperson) EV Jooste A Kanana S Kondlo (Ex officio) P Mzazi Geja P Nazo N Mnconywa V Gqodi
Registered office	Acacia House Palm Square Bonza Bay Road Beacon Bay 5241
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	Jo-Anne Palmer
Preparer	The Annual Financial Statements were internally compiled under the supervision of: Gift Matengambiri CA (SA) Chief Financial Officer

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The reports and statements set out below comprise the annual financial statements presented to the board of directors:

BOARD OF DIRECTORS' RESPONSIBILITIES AND APPROVAL

The board of directors are required in terms of the Companies Act, No 71 of 2008 (Companies Act) and the Public Finance Management Act, No 1 of 1999 (PFMA) to maintain adequate accounting records and are responsible for the content and integrity of the 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 company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with South African Statements of Generally Accepted Accounting Practice (SA GAAP). SA GAAP was withdrawn by the Accounting Practice Board as from 1 December 2012. However, Treasury instructed East London Industrial Development Zone SOC Ltd (ELIDZ) to continue using SA GAAP until a more appropriate accounting framework is identified. ELIDZ has therefore continued to use SA GAAP for the 2017/18 financial year. The Accounting Standards Board (ASB) issued directive 12 for purposes of guiding entities on the selection of an appropriate reporting framework to replace SA GAAP. The directive sets out guidance on selecting the applicable reporting framework. Management of the ELIDZ has applied its mind in selecting the financial reporting framework in accordance with guidance of the directive. Effective from 1 April 2018, the ELIDZ will prepare its financial statements in accordance with the standards of Generally Recognised Accounting Practice (GRAP). This means that for the financial year ending 31 March 2019, the applicable financial reporting framework will no longer be SA GAAP.

The board of directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the board of directors to meet these responsibilities, the board of directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The 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 loss.
The board of directors have reviewed the company's cash flow forecast for the 12 month period ending 31 March 2019 and, in light of this review and the current financial position, they are satisfied that the company has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's financial statements.

The financial statements set out on pages 78 to 113, which have been prepared on the going concern basis, were approved by the board of directors, however, the board still has the power to amend the financial statements after issue. The financial statements were signed on their behalf by:

Professor MW Makalima
Board chairperson

BOARD OF DIRECTORS' REPORT

The board of directors has pleasure in submitting their report on the annual financial statements of ELIDZ for the year ended 31 March 2018.

1. Nature of business

The company is engaged in the development 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. Review of financial results and activities

The financial statements have been prepared in accordance with SA GAAP and the requirements of the Companies Act and the PFMA. The accounting policies have been applied consistently between current and prior year. Where there are changes in accounting policies applied in prior year, the change has been disclosed in terms of the applicable financial reporting standard.

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

3. Share capital

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

4. Dividends

The company did not declare dividends for the year ended 31 March 2018.

5. Directorate

The board of directors in office during the financial year are as follows:

Directors	Nationality	Designation	Changes
MW Makalima (Chairperson)	South African	Non executive	
EV Jooste	South African	Non executive	
A Kanana	South African	Non executive	
S Kondlo (Ex officio)	South African	Executive/ Ex officio	
P Mzazi Geja	South African	Non executive	
P Nazo	South African	Non executive	
N Mnconywa	South African	Non executive	
V Gqodi	South African	Non executive	Appointed on November 10, 2017

6. Events after the reporting period

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

7. Going concern

The assets of the company exceed its liabilities by R465 416 449 (2017: R421 053 673) and company has been profitable for the previous three financial years.

The board of directors are satisfied that the company 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 company is in a sound financial position and that it has access to sufficient own generated revenue and grants to meet its foreseeable cash requirements.

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

The Special Economic Zones Act, Act 16 of 2014, and the Regulations made in terms thereof, came into operation on 9 February 2016. In terms of the Act and its Regulations, a period of 3 years has been provided for the entity to become compliant with the legislation. As a result, a compliance plan was prepared and submitted to DTI by 8 February 2017 and full compliance is required by 8 February 2019. The implications of the act may necessitate changes in the institutional structure of the company and also the funding modelling of the entity.

ELIDZ has engaged the provincial and national departments in an effort to obtain better understanding and assess the impact of the changes to the future modelling and structure of ELIDZ. There is an appeal to review some of the sections of the SEZ act, particularly those affecting the institutional arrangements for the designated SEZ's

8. Litigation statement

The company is involved from time to time in various claims and lawsuits incidental to the ordinary course of business. The company is currently involved in lawsuits which are before the courts. The details are disclosed in note 33 to the annual financial statements.

9. External auditors

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

10. Secretary

The company secretary is Ms Jo-Anne Palmer.

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018

	Note(s)	2018 R	2017 (Restated) R
Assets			
Non-Current Assets			
Investment property	3	1,584,624,768	1,430,043,075
Property, plant and equipment	4	425,981,968	442,906,843
Intangible assets	5	2,149,858	7,189,397
Other financial assets	6	16,550,131	18,357,559
		2,029,306,725	**1,898,496,874**
Current Assets			
Trade and other receivables	7	40,414,595	42,316,100
Other financial assets	6	4,812,201	4,797,364
Cash and cash equivalents	8	631,861,367	97,173,302
		677,088,163	**144,286,766**
Total Assets		**2,706,394,888**	**2,042,783,640**
Equity and Liabilities			
Share capital	9	1,000	1,000
Other Non Distributable Reserve	10	8,306,368	8,306,368
Retained income		457,109,081	412,746,305
		465,416,449	**421,053,673**
Liabilities			
Non-Current Liabilities			
Deferred income	11	1,515,009,918	1,430,961,497
Current Liabilities			
Trade and other payables	12	64,891,968	13,136,256
Deferred income	11	652,254,560	170,207,518
Provisions	14	8,821,993	7,424,696
		725,968,521	**190,768,470**
Total Liabilities		**2,240,978,439**	**1,621,729,967**
Total Equity and Liabilities		**2,706,394,888**	**2,042,783,640**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	2018 R	2017 (Restated) R
Revenue	15	127,863,669	119,989,898
Cost of sales	16	(77,241,070)	(81,958,567)
Gross profit		**50,622,599**	**38,031,331**
Other income	17	188,184,770	183,463,971
Operating expenses		(174,346,256)	(158,599,050)
Operating profit	18	**64,461,113**	**62,896,252**
Finance income	20	1,917,959	1,839,068
Fair value adjustments	21	(22,016,295)	9,682,075
Profit for the year		**44,362,777**	**74,417,395**
Other comprehensive income		-	-
Total comprehensive income for the year		**44,362,777**	**74,417,395**

STATEMENT OF CHANGES IN EQUITY

	Share capital R	Other Non Distributable Reserves R	Retained earnings R	Total equity R
Opening balance as previously reported	1,000	8,306,368	339,121,337	347,428,705
Adjustments				
Correction of prior period error (Note 34)	-	-	(792,427)	(792,427)
Restated balance at April 1, 2016	**1,000**	**8,306,368**	**338,328,910**	**346,636,278**
Total comprehensive income for the year previously stated	-	-	78,289,776	78,289,776
Correction of prior period error (Note 34)	-	-	(3,872,381)	(3,872,381)
Restated balance at April 1, 2017	**1,000**	**8,306,368**	**412,746,305**	**421,053,673**
Total comprehensive income for the year	-	-	44,362,777	44,362,777
Balance at March 31, 2018	**1,000**	**8,306,368**	**457,109,082**	**465,416,450**
Note(s)	9	10		

STATEMENT OF CASH FLOWS

	Note(s)	2018 R	2017 R
Cash flows from operating activities			
Cash generated from operations	24	716,871,820	260,870
Finance income	20	1,917,959	1,839,0689
Net cash from operating activities		**718,789,779**	**2,099,938**
Cash flows from or (used in) investing activities			
Purchase of property, plant and equipment	4	(7,819,607)	(18,408,435)
Sale of property, plant and equipment	4	12,561	113,560
Construction of investment property	3	(180,389,488)	(26,772,775)
Proceeds on sale of Investment property	3	4,094,820	-
Purchase of intangible assets	5	-	(2,577,430)
Net cash used in investing activities		**(184,101,714)**	**(47,645,080)**
Total cash movement for the year		**534,688,065**	**(45,545,142)**
Cash at the beginning of the year		97,173,301	142,718,443
Total cash at end of the year	8	**631,861,366**	**97,173,301**

ACCOUNTING POLICIES

1. Presentation of annual financial statements

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

The financial statements have been prepared on the historical cost basis, except for the measurement of investment properties. The financial statements incorporate the principal accounting policies set out below.

The financial statements are presented in South African Rands and the accounting policies are consistent with previous period. The financial statements' figures presented and disclosed are rounded to the nearest Rand.

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. Significant judgements include:

Trade receivables and other financial assets
The company 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 profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

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

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable 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.

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

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

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

Investment property
Management makes significant judgements in determining the fair value of investment property at each reporting date. The following methods are considered and utilized in determining the fair values of investment properties;

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.

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

Prevailing open market rental values are used for the income capitalization methodology with the appropriate capitalization rate as determined by the valuer with guidance from independent sources. For the cost method, the prevailing construction costs as derived from interaction with architects, quantity surveyors, and to some degree Rode and Associates and SAPOA is 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 are used after adjusting for unusual prices and the presence or absence of characteristics which are likely to influence prices.

Property plant and equipment and intangible assets
Judgement is required in determining the useful lives and residual values for purposes of depreciating and amortizing property plant and equipment and intangible assets respectively.

The useful lives and residual values are based on management's judgement and intentions on how the carrying amount of the asset will be recovered. These judgements are based on information available at the time of making the judgement.

At each reporting date, management assesses the relevance of judgements based on information available.

Interest and IAS 39 adjustments
The time value of money is considered a material factor in determining the interest income and fair value adjustments to financial instruments. Management discounts the future cash flows associated with each financial instrument to determine the impact of time value of money. Judgement is made in determining the interest rate to be used in discounting future cash flows based on the prevailing prime interest rate as determined by the South African Reserve Bank. Management factors in the particular risk associated with the industry by including a premium of 2% over and above the prevailing prime interest rate.

1.2 Investment property

Investment property is any land, building or part of land and building held for purposes of earning rentals, capital appreciation or both. The definition includes land, building or part of land and building held by the entity under a finance lease. The definition excludes property held for purposes of use in production or in the supply of goods or services, these are classified as owner occupied infrastructure.

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

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Investment properties acquired for no consideration are initially recognised and measured at fair value.

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

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

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

There are no property interests held under operating leases which are recognised as investment property.

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

1.3 Property, plant and equipment

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	10 years
IT equipment	Straight line	3 years
Infrastructure (including buildings)	Straight line	25 years
Laboratory equipment & other	Straight line	5 years
Land	Not depreciated	Indefinite
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
Plant and machinery	Straight line	5 to 25 years

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

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

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

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

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

1.4 Intangible assets

An intangible asset is defined as non monetary asset without physical substance.

An intangible asset is recognised when:

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

Intangible assets are 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. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life. The amortisation period and the amortisation method for intangible assets are reviewed at the end of every period.

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

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

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

Item	Useful life
Computer software	3 years

1.5 Financial instruments

Classification

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

- Loans and receivables
- Financial liabilities measured at amortised cost

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

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

No other reclassifications may be made into or out of the fair value through profit or loss category.

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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

Trade, other receivables and other financial assets

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

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

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against trade receivables. Subsequent recoveries of amounts previously written off are recognised as income in profit or loss.

Trade and other receivables are classified as loans and receivables.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are classified as loans and receivables and measured at amortised cost. The cash and cash equivalents are available on demand and interest income is received for the balances held with the bank.

1.6 Tax

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

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

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

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

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

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

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

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

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

1.7 Leases

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

Operating leases lessor
Operating lease income is recognised as income on a straight line basis over the lease term. The difference between actual lease income invoiced and the lease income recognised is presented in the statement of financial position under accounts receivable or accounts payable depending on whether the balance is an asset or liability.

Income for leases is presented under revenue in the statement of profit or loss.

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

1.8 Impairment of assets

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

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

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

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

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

ACCOUNTING POLICIES: *1.8 Impairment of assets - (continued)*

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

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

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

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

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

1.9 Share capital and equity

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

1.10 Employee benefits

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

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

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

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

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

1.11 Provisions and contingencies

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

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

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

Provisions are not recognised for future operating losses.
If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Contingent assets and contingent liabilities are not recognised, but are disclosed. The company discloses a contingent liability when there is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non occurrence of a future uncertain event not wholly within the control of the company. The company discloses contingent liabilities when the probability of future outflows of economic benefits is not remote. Contingent assets are disclosed only when the probability of a future inflow of economic benefits is probable.

1.12 Government grants

Government grants for core operations
Government grants are recognised when there is reasonable assurance that:

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

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

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

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

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

Grants related to income are presented as a credit in the profit or loss either separately or under a general heading such as 'Other income'.

ACCOUNTING POLICIES: *1.12 Government grants - (continued)*

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

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

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

1.13 Revenue

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

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

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

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

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

1.14 Cost of sales

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

1.15 Commitments

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.

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 (IAS 40) and property, plant and equipment (IAS 16). IAS 40 and IAS 16 require an entity to disclose the amount of contractual commitments for the acquisition 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 IAS 8 Accounting policies, Accounting estimates and Errors.

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

1.16 Irregular expenditure

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

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

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

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

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

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

ACCOUNTING POLICIES: *1.16 Irregular expenditure - (continued)*

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

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

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

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was 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.

1.18 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements. The entity preparing its financial statements is referred to as the "reporting entity" in terms of SA GAAP.
When deciding whether entities should be required to disclose a relationship as a related party relationship, the starting point of IAS 24 is the ability or perceived ability to influence transactions and/or actions of the entity, or the ability or perceived ability to compel an entity to complete a transaction it otherwise would not have completed.

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

1.19 Events after reporting period

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2018 R	2017 R

2. New Standards and Interpretations

There were no new SA GAAP standards or interpretations that were issued, effective or adopted in the current financial year. 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 GAAP. In terms of the directive the applicable reporting framework the ELIDZ will apply for the financial year ending 31 March 2019 will be the standards of Generally Recognised Accounting Practice (GRAP).

3. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	1,584,624,768	-	1,584,624,768	1,430,043,075	-	1,430,043,075

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

Reconciliation of investment property - 2017

	Opening balance	Additions	Acquisition of investment property for no consideration	Fair value adjustments	Total
Investment property	1,386,645,100	26,772,775	6,943,125	9,682,075	1,430,043,075

The investment property values include market values as per the 31 March 2018 valuation and initial costs of additions as reflected by the above reconciliation. All the above additions are arising from new construction during the financial year.

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

Details of property
A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company. The company appoints an external and independent property valuer every year. The current valuation was conducted by an independent valuer.

Details of valuation
The effective date of the revaluations is 31 March 2018. Revaluations were performed by an external registered valuer, Letlaka Ndamase, Reg. No. 5435/7. Mr Letlaka Ndamase has recent experience in the location and category of the investment property being valued.

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

3. Investment property - (continued)

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.

There have been no transfers between Levels 1, 2 or 3 during the year with regards to the fair value hierachy as detailed in note 30.

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

Amounts recognised in profit and loss for the year

	2018	2017
Rental income from investment property	54,405,603	51,814,614
Direct operating expenses from rental generating property	(13,357,508)	(12,223,582)
Direct operating expenses from non-rental generating property	(1,966,120)	(2,142,935)
	39,081,975	**37,448,097**

4. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fixtures	4,742,878	(3,369,108)	1,373,770	4,745,429	(2,956,532)	1,788,897
Infrastructure: work in progress	64,543,356	-	64,543,356	60,706,027	-	60,706,027
Infrastructure including Buildings	467,977,371	(172,175,357)	295,802,014	467,425,287	(153,474,138)	313,951,149
IT equipment	28,739,141	(22,942,524)	5,796,617	26,426,694	(21,457,675)	4,969,019
Laboratory equipment and other	4,237,023	(3,625,898)	611,125	3,619,752	(3,059,590)	560,162
Land	3,821,361	-	3,821,361	3,821,361	-	3,821,361
Motor vehicles	1,671,432	(1,085,952)	585,480	1,513,146	(1,048,922)	464,224
Office equipment	596,970	(540,892)	56,078	605,865	(565,082)	40,783
Plant and machinery	64,042,533	(10,650,367)	53,392,167	64,042,533	(7,437,312)	56,605,221
Total	**640,372,065**	**(214,390,098)**	**425,981,968**	**632,906,094**	**(189,999,251)**	**442,906,843**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

4. Property, plant and equipment - (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	1,788,897	-	-	(415,126)	1,373,771
Infrastructure including buildings	313,951,149	552,084	-	(18,701,219)	295,802,014
Infrastructure: work in progress	60,706,027	3,837,329	-	-	64,543,356
IT equipment	4,969,019	2,614,457	(36,204)	(1,750,655)	5,796,617
Laboratory equipment and other	560,162	617,270	-	(566,307)	611,125
Land	3,821,361	-	-	-	3,821,361
Motor vehicles	464,224	158,286	-	(37,030)	585,480
Office equipment	40,783	40,181	-	(24,886)	56,078
Plant and machinery	56,605,221	-	-	(3,213,054)	53,392,167
	442,906,843	**7,819,607**	**(36,204)**	**(24,708,277)**	**425,981,969**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	2,268,163	-	(42,717)	(436,549)	1,788,897
Infrastructure including buildings	331,466,814	1,165,570	-	(18,681,235)	313,951,149
Infrastructure: work in progress	46,358,422	14,347,605	-	-	60,706,027
IT equipment	9,391,813	631,460	(103,102)	(4,951,152)	4,969,019
Laboratory equipment and other	1,078,469	26,300	-	(544,607)	560,162
Land	3,821,361	-	-	-	3,821,361
Motor vehicles	532,576	-	-	(68,352)	464,224
Office equipment	85,148	-	(3,782)	(40,583)	40,783
Plant and machinery	57,170,568	2,237,500	-	(2,802,847)	56,605,221
	452,173,334	**18,408,435**	**(149,601)**	**(27,525,325)**	**442,906,843**

Detail of Property, plant and equipment

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

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

5. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	23,374,112	(21,224,255)	2,149,857	23,398,020	(16,208,623)	7,189,397

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	7,189,397	(5,039,540)	2,149,857

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	8,487,440	2,577,430	712,460	(4,587,933)	7,189,397
Work in progress	712,460	-	(712,460)	-	-
Total	**9,199,900**	**2,577,430**	**-**	**(4,587,933)**	**7,189,397**

Details of intangible assets
Cloud hosting services were completed during the previous financial year. A register containing the information required by Regulation 25(3) of the Companies Regulations 2011 is available for inspection at the registered office of the company.

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

There were no additions to intangible assets during the year reported. All the above additions in the prior year arose from acquisitions.

6. Other financial assets

	2018 R	2017 R
Non-current assets		
Long term financial assets	29,448,178	32,973,336
Time value of money	(12,898,047)	(14,615,777)
	16,550,131	**18,357,559**
Current assets		
Short term financial assets	4,812,201	4,797,364
	21,362,332	**23,154,923**

The first category of the financial asset was a debt restructuring that was done to a tenant that was in financial distress. The company was restructured and is showing signs of recovery. The company is currently paying current debt in full plus a portion of the debt that was restructured. The debt conversion is interest free and is payable over 5 years. The arrangement was part of the business rescue program done by the company in accordance with its debtors policy. The original debt was R16 748 405 and was negotiated on 25 March 2015 and agreement is reviewed annually

The second category of the financial asset is a leasehold improvement which was done on premises that are occupied by a tenant. 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 repayments 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 Annual Financial Statements [continued]

	2018 R	2017 R

7. Trade and other receivables

Trade receivables	20,232,751	22,894,369
Allowance for impairment	(12,426,955)	(13,654,164)
Rental receivables (smoothing adjustment)	25,495,098	22,768,207
Prepayments	6,036,714	7,326,644
Other receivables	547,601	536,013
Amounts from related parties/rebates	529,386	468,234
VAT	-	1,976,797
	40,414,595	**42,316,100**

Reconciliation of allowance for impairment of trade and other receivables

Opening balance	(13,654,164)	(22,757,339)
Provision for impairment	1,227,209	9,103,175
	(12,426,955)	**(13,654,164)**

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

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	559	486
Bank balances	336,174,397	1,257,942
Short-term deposits	295,686,411	95,914,874
	631,861,367	**97,173,302**

Short term deposits yielded an average interest of 6.2% (2017: 6.5%).

Included in the cash and cash equivalents of R631 861 367 (2017: R97 173 302) is a balance of R552 913 492 (2017:R76 462 159) ring fenced for projects funded in terms of the Special Economic Zone Act.

The carrying amount of the cash and cash equivalents approximates its fair value. All bank balances and short term deposits are available on demand and interest is receivable for the balances held with the bank.

9. 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, 2018	100,000	100,000

Issued

100 000 Ordinary shares of 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 company 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.

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

10. Other Non Distributable Reserve

	8,306,368	8,306,368

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.

11. Deferred income

Balance at the beginning of the year	1,601,152,339	1,678,040,873
Grants received and to be received		
DEDEAT	106,767,000	100,866,000
DTI	742,232,478	-
Interest income	7,798,830	7,461,907
South African Revenue Services - output VAT on grants	(104,263,094)	(12,387,053)
Development Bank Southern Africa (DBSA)	-	2,237,500
	2,353,687,553	**1,776,219,227**
Released to income - operations and property, plant and equipment	(119,088,307)	(113,989,922)
Released to income - rebates	-	(941,102)
Investment property - grants amortisation	(67,334,768)	(60,119,189)
	(186,423,075)	**(175,050,213)**
Non-current liabilities	1,515,009,918	1,430,961,497
Current liabilities	652,254,560	170,207,518
	2,167,264,478	**1,601,169,015**

The entity receives grants from the DTI for infrastructure development i.e. investment property and other owner occupied infrastructure. If the projects do not commence 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 financial year. The company holds an SEZ operators permit that DTI issues to all SEZs. As part of the Special Economic Zones Act No. 16 of 2014 the DTI provides the grant funding for capital projects that the company implements.

In addition, the entity receives grants from DEDEAT to fund the operational budget deficit. This grant is in line with the budget that the company presents for approval to the DEDEAT before the beginning of each financial year.

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

12. Trade and other payables

	2018 R	2017 R
Trade payables	4,019,990	3,799,902
Other grants (Note 13)	1,131,190	1,150,519
Amounts received in advance	1,125,397	1,252,353
VAT	51,456,174	-
Leave pay accrual	3,383,996	3,328,715
Salary savings accrual	94,583	97,840
Operating lease smoothing	9,967	29,597
Deposits received	3,223,860	3,130,843
Other payables	446,810	345,824
Sundry debtors Debtors with credit balances	-	663
	64,891,967	**13,136,256**

Fair value of trade and other payables
The carrying amounts of trade and other payables approximate their fair values in terms of IAS 39. 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.

13. Other grants

Department of Environmental Affairs (DEA)

	2018 R	2017 R
Opening balance	164,175	628,686
Revenue generated during the year	-	6,371
Expenditure for the year	(68,303)	(470,882)
	95,872	**164,175**

Waste to Energy Grant

	2018 R	2017 R
Grant Received	285,088	-
Expenditure for the year	(285,088)	-
	-	**-**

Renewable energy

	2018 R	2017 R
Opening balance	764,781	2,850,354
Interest capitalised	48,974	151,927
Expenditure for the year	-	(2,237,500)
	813,755	**764,781**

DEDEAT - Stem cell project

	2018 R	2017 R
Opening balance	221,562	1,078,482
Expenditure for the year	-	(856,920)
	221,562	**221,562**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

13. Other grants - (continued)

	2018 R	2017 R
Wild Coast SEZ		
Opening balance	-	443,403
Transfer to Coega	-	(443,403)
	-	**-**
Total other grants	**1,131,190**	**1,150,519**

Department of Environmental Affairs (DEA)
DEA partnered with ELIDZ in performing an environmental greening project where ELIDZ acts as project manager and also a conduit of funds for the project. The project was at finalisation stage at year end. The ELIDZ is awaiting approval of its close out report on the project.

Renewable Energy
ELIDZ was granted funds by the DBSA to implement a renewable energy school that will train artisans in renewable energy. The initial project was completed during the financial year ended 31 March 2017. The ELIDZ made an application to the DBSA to utilise the funds for another qualifying project. As at 31 March 2018 the DBSA had not approved the application.

Stem Cell project
The company received additional funding from DEDEAT for a pilot project of Stem Cell in partnership with the Eastern Cape Department of Health. The project started in prior years and is still ongoing. During the previous financial year the project's steering committee which includes ELIDZ and Department of Health approved a transfer of funds for purposes of commencing with the Stem Cell project.

Waste to energy grant
The ELIDZ has partnered with BCMM on a waste to energy project. The project is funded jointly by the two institutions. At the end of the financial year all funds for the project were fully utilised.

14. Provisions

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**

Reconciliation of provisions - 2017

	Opening balance	Additions	Utilised during the year	Total
Retentions	861,856	-	(513,158)	348,698
Performance bonus provision	5,713,542	7,075,998	(5,713,542)	7,075,998
	6,575,398	**7,075,998**	**(6,226,700)**	**7,424,696**

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 year ended 31 March 2018. The provision is based on historic data and the outflow is considered to be probable. The company paid performance bonuses to qualifying employees in August 2017 for the performance of the previous financial year.

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

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

15. Revenue

Rendering of services (providing utilities)	61,980,997	59,589,457
Telephone service income	3,795,031	3,026,059
Conference hire income	2,538,234	2,349,463
Rental income (smoothing adjustment)	2,726,891	(173,307)
Rental income (revenue)	54,405,603	51,814,614
Analytical lab income	2,416,914	3,383,612
	127,863,670	**119,989,898**

16. Cost of sales

Rendering of services

Services and utilities	71,996,464	70,304,107
Analytical lab	2,185,639	6,161,313
Conference facility	1,955,207	3,146,962
Telephone services	1,103,760	2,346,185
	77,241,070	**81,958,567**

17. Other income

Profit on disposal of investment property	303,320	-
Rebate released or credit notes utilised	138,017	973,275
Bad Debt recovery	63,188	-
Government grants released to income	119,104,983	113,989,922
Grants released investment property	67,334,768	60,119,189
Sundry income	1,240,494	8,381,585
	188,184,770	**183,463,971**

18. Operating profit

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

Remuneration, other than to employees, for:

Auditors remuneration	2,070,565	1,845,491

Operating lease charges

Equipment		
• Contractual amounts	935,121	1,025,031

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

18. Operating profit - (continued)

	2018 R	2017 R
Profit on disposal of investment property	(303,320)	-
Loss on disposal of property, plant and equipment	23,646	36,048
Impairment of Trade Receivables	1,227,209	(9,103,175)
Bad debts written off *	-	9,802,134
Amortisation on intangible assets	5,039,540	4,587,933
Depreciation on property, plant and equipment	24,708,280	27,525,325
Employee costs	75,425,212	69,120,384

*No debts were written off during the year ended 31 March 2018. All debts written off in the prior year were in terms of the company's approved debt management policy

19. Employee cost

The following items are included within employee costs expense:

Employee costs	2018 R	2017 R
Salaries and wages	48,390,690	43,838,996
Defined contribution plan	6,616,602	5,887,723
Medical aid contributions	4,412,411	3,592,916
Performance bonus provision/paid	8,318,048	7,929,565
13th cheque	4,103,264	3,574,035
Long service awards	140,000	85,000
UIF	426,242	462,848
SDL	661,938	635,018
Internships	1,749,316	1,705,495
Leave pay provision charge	606,701	1,408,788
	75,425,212	**69,120,384**

Total employee costs	2018 R	2017 R
Direct employee costs	68,808,610	63,232,661
Indirect employee costs	6,616,602	5,887,723
	75,425,212	**69,120,384**

Number of persons employed during the year respectively was:	2018	2017
Permanent Staff	78	78
Interns	39	30
Contract Staff	4	-
	121	**108**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

20 Finance income

Interest revenue		
Interest received from outstanding debtors	200,229	252,159
Interest received from other financial assets	1,717,730	1,586,909
	1,917,959	**1,839,068**

21. Fair value adjustments

Investment property (Fair value model)	(22,016,295)	9,682,075

Refer to note 3 for the details of the valuation of investment properties.

22. Auditor's remuneration

Fees (External audit fees)	2,070,565	1,845,491

23. Depreciation, amortisation and impairments

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

Depreciation		
Property, plant and equipment	24,708,280	27,525,325
Amortisation		
Intangible assets	5,039,540	4,587,933
Total depreciation, amortisation and impairments		
Depreciation	24,708,280	27,525,325
Amortisation	5,039,540	4,587,933
	29,747,820	**32,113,258**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

24. Cash generated from operations

	2018 R	2017 R
Profit before taxation	44,362,777	74,417,395
Adjustments for:		
Depreciation and amortisation	29,747,820	32,113,259
Profit on disposal of investment property	(303,320)	-
Loss on disposal of property, plant and equipment	23,642	36,047
Interest income	(1,917,959)	(1,839,068)
Fair value adjustments	22,016,295	(9,682,075)
Movements in provisions	1,397,297	849,298
Other non cash items	-	(6,943,125)
Changes in working capital:		
Decrease/(Increase) in Trade and other receivables	1,901,504	(1,405,629)
Decrease/(Increase) in Other financial assets	1,792,590	1,762,142
(Decrease)/Increase in Trade and other payables	51,755,711	(12,175,516)
(Decrease)/Increase in Deferred income	566,095,463	(76,871,858)
	716,871,820	**260,870**

25. Taxation

Reconciliation of the tax income

Taxable Income for the year		
Profit before tax	44,362,776	74,417,395
Permanent differences	(93,722,940)	(86,446,467)
Temporary differences	25,801,873	(19,777,252)
Assessed loss unrecognised	20,283,219	31,806,324
Capital gain	3,275,072	-
	-	**-**

Assessed loss carried forward		
Assessed loss brought forward	(101,912,960)	(69,991,727)
Taxable (loss)/income for the year	(20,283,219)	(31,921,233)
	(122,196,179)	**(101,912,960)**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

25. Taxation - (continued)

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%.

	2018	2017
Applicable tax rate	28.00 %	28.00 %
Permanent differences	(59.15)%	(32.53)%
Made up as follows:		
Expenses not deductable for tax purposes	59.60%	33.50%
Grant income not taxable	(117.70)%	(65.50)%
Non taxable income	(1.10)%	(0.60)%
Temporary differences	16.29%	(7.50)%
Made up as follows:		
Investment property fair value (gains)/Losses	13.90%	(3.60)%
Operating lease smoothing	(2.10)%	0.50%
Income received in advance	-%	0.10%
Depreciation and wear and tear adjustment	0.20%	- %
(Profit) or Loss on disposal of investment property and PPE	(0.20)%	- %
Provision for bad debts - general	(0.60)%	(2.60)%
Provision for leave pay	- %	0.40%
Provision for performance bonus	0.90%	0.40%
Investment property acquired for no consideration	- %	(2.60)%
Capital Gain	2.10%	- %
Unrecognised assessed loss for the year	12.76 %	12.03%
	- %	**- %**

No provision for tax has been made in 2018 financial year as the company has no taxable income. Although the company has made profits for the past three financial years, the effect of the historical assessed loss means the ELIDZ is not expected to generate taxable income and taxable temporary differences in the future that are sufficient to be utilised against the assessed loss. This is re assessed at the each reporting period.

26. Commitments

Authorised capital expenditure

Approved and contracted

	2018	2017
• Property, plant and equipment	32,737,429	33,684,992
• Investment property	105,941,629	288,683,214
	138,679,058	**322,368,206**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

26. Commitments - (continued)

The committed expenditure relates to investment property and property, plant and equipment contracts that will be finished in the coming years. The commitments will be financed by grants from the DTI as well as DEDEAT.

The commitment amounts are exclusive of VAT.

Operating leases – as lessee (expense)

Minimum lease payments due		
- within one year	315,790	937,101
- in second to fifth year inclusive	-	315,790
	315,790	**1,252,891**

Leasing arrangements

Operating leases relate to the lease of equipment with a lease term of 3 years. The company does not have an option to purchase the leased equipment at the expiry of the lease periods. There are no contingent rentals payable on the lease.

Operating leases – as lessor (income)

Minimum lease payments due		
- within one year	50,608,965	47,068,382
- in second to fifth year inclusive	138,522,275	150,466,502
- later than five years	28,695,832	22,189,716
	217,827,072	**219,724,600**

Leasing arrangements

Operating leases relate to the investment property owned by the company with lease terms of between 1 to 10 years, with an option to extend for a further 10 years in some instances. All operating lease contracts contain market review clauses in the event that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. The operating leases include an escalation clause.

Rental income earned by the company from its investment properties and direct operating expenses arising on the investment properties for the year are set out in note 3.

The company owns a metal surface treatment plant that is leased to a lessee for seven years with an option to extend. The lessee does not have an option to purchase the property at the expiry of the lease period.

Contingent rentals are based on the number of units produced for property, plant and equipment that is leased out and the percentage of revenue generated for investment property that is leased out.

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

27. 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)
Members of Key management	Refer to note 28
Non executive directors	Refer to Note 28

- The detail of the remuneration of the members of key management and non executive directors is included in note 28 to the financial statements.

Related party balances

Amounts included in Trade receivable regarding related parties

	2018 R	2017 R
BCMM Trade Receivables	246,341	598,176
BCMM Rebates/Related Party	529,386	268,825
BCMM Prepayments	3,244,848	3,000,647

Related party transactions

BCMM

	2018 R	2017 R
Expenditure: Rates and taxes	13,357,508	12,223,582
Expenditure: Electricity	46,605,865	48,812,865
Expenditure: Water	4,109,961	3,638,846
Expenditure: Sewerage	1,801,340	1,621,575
Income: Rates and taxes rebate	(138,017)	(973,275)
Income: Grass cutting expense recovery	(524,451)	(1,210,908)
Income: Rentals, utilities and ICT services	(2,306,612)	(1,466,580)

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

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.

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

27. Related parties - (continued)

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.

Sewerage
Sewerage charges are at normal arms length rates.

All other services are also at arms length

Balances
The account receivables and payables result from services rendered by the company to the related parties and vice versa. The nature of these services are described above. The balances are subject to normal 30 day payment terms. The company holds no guarantees for the balances owed by the related parties.

DEDEAT

	2018 R	2017 R
Operational grant including VAT	106,767,000	100,866,000

Compensation of directors and other key management

Key Management Remuneration	- Refer to note 28
Remuneration non executive	- Refer to note 28

28. Directors and Executive managements' emoluments

Executive

2018	Basic salary	Allowances	Employer Contribution to funds	Bonus	Total
S Kondlo	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**

2017	Basic salary	Allowances	Employer Contribution to funds	Acting Allowances	Performance Bonus	Total
S Kondlo	1,943,174	1,020,292	386,547	-	455,628	3,805,641
T Zweni	1,611,818	849,897	325,160	-	309,153	3,096,028
J Burger	172,524	102,940	35,368	-	246,694	557,526
A Magwentshu	1,429,284	754,626	293,412	-	270,167	2,747,489
G Matengambiri**	1,055,537	560,846	227,693	69,207	176,909	2,090,192
	6,212,337	**3,288,601**	**1,268,180**	**69,207**	**1,458,551**	**12,296,876**

** G Matengambiri acted as Chief Financial Officer for two months during the previous financial year
* A Magwentshu resigned as Executive Manager Corporate Affairs in November 2017

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

28. Directors and Executive managements' emoluments - (continued)

Non-executive

2018	Directors' fees	Allowances	Total
MW Makalima (Chairperson)	262,133	5,743	267,876
A Kanana	144,607	14,475	159,082
EV Jooste	265,159	2,769	267,928
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**

2017	Directors' fees	Allowances	Total
MW Makalima (Chairperson)	163,960	2,233	166,193
A Kanana	192,738	22,988	215,726
EV Jooste	189,591	2,556	192,147
P Nazo	204,194	2,556	206,750
SW Caga	91,370	1,491	92,861
N Mnconywa	62,115	1,065	63,180
V Sikwebu	37,924	639	38,563
M Marata	44,718	639	45,357
	986,610	**34,167**	**1,020,777**

29. Risk management

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

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

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

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

The gearing ratio at 2018 and 2017 respectively were as follows:

Less: Cash and cash equivalents	8	631,861,367	97,173,302
Net debt		(631,861,367)	(97,173,302)
Total equity		465,416,449	421,053,673
Total capital		**(166,444,918)**	**323,880,371**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

29. Risk management - (continued)

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.

A maturity analysis of ELIDZ's financial instruments as at 31 March 2018 is as follows:

At 31 March 2018	On demand and less than one month	1 to 12 months	More than 12 months	Total
Assets				
Other financial assets - short term	-	4,812,201	-	4,812,201
Other financial assets - long term	-	-	16,550,131	16,550,131
Trade and other receivables	8,882,783	-	-	8,882,783
Cash and cash equivalents	631,861,367	-	-	631,861,367
	640,744,150	**4,812,201**	**16,550,131**	**662,106,482**

Liabilities				**Total**
Trade and other payables	(4,466,800)	-	(3,223,860)	(7,690,660)

				Total
Liquidity gap	636,277,350	4,812,201	13,326,271	654,415,822

At 31 March 2017	On demand and less than one month	1 to 12 months	More than 12 months	Total
Assets				
Other financial assets - short term	-	4,797,364	-	4,797,364
Other financial assets - long term	-	-	18,357,559	18,357,559
Trade and other receivables	10,244,452	-	-	10,244,452
Cash and cash equivalents	97,173,302	-	-	97,173,302
Total assets	107,417,754	4,797,364	18,357,559	130,572,677

Liabilities				
Trade and other payables	(4,146,389)	-	(3,130,843)	(7,277,232)
	103,271,365	**4,797,364**	**15,226,716**	**123,295,445**

Included in the cash and cash equivalents of R631 861 367 (2017: R 97 173 302) is a balance of R552 913 492 (2017: R76 462 159) ringfenced for projects funded in terms of the Special Economic Zone act.

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

29. Risk management - (continued)

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

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

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

Interest rate sensitivity analysis.

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

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

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

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

Estimated increase in rates

	2018 R	2017 R
Estimated increase in basis points	100	100
Cash and cash equivalents	631,861,367	97,173,302
Effect on accumulated profit/ (loss)	6,318,614	971,733

Credit risk
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 tem 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.

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 2018 ELIDZ holds deposits from tenants amounting to R 3 223 860 (2017: R3 130 843) as security for tenants' lease obligations.

The amounts below are before impairment.

The entity's exposure to credit risk by class of financial asset is as follows:

	2018 R	2017 R
Trade and other receivables (excluding non financial assets)	21,309,738	23,898,616
Cash and cash equivalents	631,861,367	97,173,302
Other financial assets	21,362,332	23,154,923
	674,533,437	**144,226,841**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

29. Risk management - (continued)

Analysis by credit quality of financial assets is as follows:

Neither past due nor impaired

- Cash and cash equivalent	631,861,367	97,173,302
- Trade and other receivables	4,159,136	9,103,879
- Other financial assets	21,362,332	23,154,923

Past due and not impaired

- Trade and other receivables	3,886,247	1,140,573

Past due and impaired

- Trade and other receivables	13,264,355	13,654,164

30. Fair value information

At 31 March 2018 the carrying amount of bank balances and cash deposits, trade and other receivables, trade and other payables and contracts in progress approximated their fair values due to the short term maturities of these assets and liabilities.

Basis for determining fair value.

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

Fair value hierarchy
The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

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

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

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

Levels of fair value measurements

Level 3

Recurring fair value measurements

	Note(s)		
Assets			
Investment property	3		
Investment property		1,584,624,768	1,430,043,075
Total		**1,584,624,768**	**1,430,043,075**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

30. Fair value information - (continued)

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

Transfers of assets and liabilities within levels of the fair value hierarchy

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

31. Categories of financial instruments

Categories of financial instruments - 2018

	Note(s)	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Assets					
Non-Current Assets					
Property, plant and equipment	4	-	-	425,981,968	425,981,968
Investment property	3	-	-	1,584,624,768	1,584,624,768
Intangible assets	5	-	-	2,149,857	2,149,857
Other financial assets	6	16,550,131	-	-	16,550,131
		16,550,131	**-**	**2,012,756,593**	**2,029,306,724**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

31. Categories of financial instruments - (continued)

	Note(s)	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Current Assets					
Trade and other receivables	7	8,882,783	-	31,531,812	40,414,595
Other financial assets	6	4,812,201	-	-	4,812,201
Cash and cash equivalents	8	631,861,367	-	-	631,861,367
		645,556,351	**-**	**31,531,812**	**677,088,163**
Total Assets		**662,106,482**	**-**	**2,044,288,405**	**2,706,394,887**
Equity and Liabilities					
Equity Attributable to Equity Holders of Parent:					
Share capital	9	-	-	1,000	1,000
Non distributable reserves	9	-	-	8,306,368	8,306,368
Retained income	9	-	-	412,746,302	412,746,302
		-	**-**	**421,053,670**	**421,053,670**
Total		**-**	**-**	**421,053,670**	**421,053,670**
Liabilities					
Non-Current Liabilities					
Deferred income	11	-	-	1,515,009,918	1,515,009,918
Current Liabilities					
Trade and other payables	12	-	7,690,660	57,201,308	64,891,968
Deferred income	11	-	-	652,254,560	652,254,560
Provisions and retentions	14	-	348,698	8,473,295	8,821,993
		-	**8,039,358**	**717,929,163**	**725,968,521**
Total Liabilities		**-**	**8,039,358**	**2,232,939,081**	**2,240,978,439**
Total Equity and Liabilities		**-**	**8,039,358**	**2,653,992,751**	**2,662,032,109**

Categories of financial instruments - 2017

	Note(s)	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Assets					
Non-Current Assets					
Property, plant and equipment	4	-	-	442,906,843	442,906,843
Investment property	3	-	-	1,430,043,075	1,430,043,075
Intangible assets	5	-	-	7,189,397	7,189,397
Other financial assets	6	18,357,559	-	-	18,357,559
		18,357,559	**-**	**1,880,139,315**	**1,898,496,874**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

31. Categories of financial instruments - (continued)

	Note(s)	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Current Assets					
Trade and other receivables	7	10,244,452	-	32,071,648	42,316,100
Other financial assets	6	4,797,364	-	-	4,797,364
Cash and cash equivalents	8	97,173,301	-	-	97,173,301
		112,215,117	**-**	**32,071,648**	**144,286,765**
Total Assets		**130,572,676**	**-**	**1,912,210,963**	**2,042,783,639**
Equity and Liabilities					
Equity Attributable to Equity Holders of Parent:					
Share capital	9	-	-	1,000	1,000
Non distributable reserves	9	-	-	8,306,368	8,306,368
Retained income	9	-	-	338,328,906	338,328,906
		-	**-**	**346,636,274**	**346,636,274**
Total		**-**	**-**	**346,636,274**	**346,636,274**
Liabilities					
Non-Current Liabilities					
Deferred income	11	-	-	1,430,961,497	1,430,961,497
Current Liabilities					
Trade and other payables	12	-	7,277,232	5,859,024	13,136,256
Deferred income	11	-	-	170,207,518	170,207,518
Provisions and retentions	14	-	348,698	7,075,998	7,424,696
		-	**7,625,930**	**183,142,540**	**190,768,470**
Total Liabilities		**-**	**7,625,930**	**1,614,104,037**	**1,621,729,967**
Total Equity and Liabilities		**-**	**7,625,930**	**1,960,740,311**	**1,968,366,241**

32. Fruitless and wasteful expenditure

	2018	2017
Trade and other receivables (excluding non financial assets)	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. An investigation in progress and had not been concluded by the date of this report.

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

33. Contigent Liabilities

The first contingent liability relates to litigation that is in process against the company relating to a dispute with a former employee who is claiming for damages due to an alleged 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 contigent 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 re imbursements for any outflow from the claims above.

34. Prior period errors

The first prior period error relates to deferred income disclosed in note 11. The balance of property plant and equipment recognised as part of deferred income was not correctly reconciled to the fixed asset register for the financial year ended 31 March 2017. This resulted in an understatement to the non current portion of the deferred income balance and an overstatement in other income (grants allocated). To adjust for this error a prior period adjustment was processed.

The correction of the error results in adjustments as follows:

	2018 R	2017 R
Deferred income Long term portion		
Balance previously stated		1,427,028,195
Effect of the correction of an error		3,933,302
Restated balance		**1,430,961,497**
Other income (Grants allocated)		
Total previously reported		117,923,224
Effect of the correction of an error		(3,933,302)
Restated total		**113,989,922**

The second prior period error relates to a tenant deposit that was incorrectly recognised in revenue instead of liabilities in the prior year. The error identified affected the previous financial year ended 31 March 2014, as such the balance of trade and other payables as presented on the statement of financial position as at the said date has been adjusted to account for the error identified. The error has been corrected retrospectively. The correction of the error results in adjustments as follows:

	2018 R	2017 R
Trade and other payables		
Balance previously reported		12,723,979
Correction prior year		412,277
Restated balance		**13,136,256**

The lease smoothing adjustment recognised for a 2012 lease agreement used an incorrect lease period. There were subsequent amendments to the initial lease entereed into with the tenant and these changes were not effected on the lease smoothing adjustment. The error was identified in the financial year ended 31 March 2018. The lease smoothing disclosed in note 7 has been adjusted as follows;

	2018 R	2017 R
Trade and other receivables		
Balance previously disclosed	-	42,635,329
Correction of prior period error	-	(319,229)
Restated balance	**-**	**42,316,100**

Notes to the Annual Financial Statements [continued]

	2018 R	2017 R

34. Prior period errors - (continued)

The impact of the above adjustments on retained earnings reported for the respective periods.

Retained income

Opening balance previously reported	417,411,113	339,121,337
Effect of period period corrections to trade and other payables	(412,277)	(412,277)
Effect of period period corrections to trade and other payables	(319,229)	(380,150)
Effect of period period corrections to deferred income	(3,933,302)	-
	412,746,305	**338,328,910**

The company disclosed an assessed loss for the financial year ended 31 March 2017. Due to the corrections of prior period figures, the assessed loss for the prior period was adjusted as follows;

Assessed loss

Total previously disclosed	-	(101,888,991)
Effect of prior period corrections	-	90,940
	-	**(101,798,051)**

The capital contractual commitments disclosed in the prior year were restated. An error was identified during the 2018 financial year that there were changes to contracts entered into for the construction of an investment property. The changes were effective from the 2016/17 financial year and should have been adjusted for. The correction has been effected on the comparative disclosure amount for the 2017 financial year:

Commitments (capital)

Total previously disclosed	-	330,047,472
Correction of prior period error	-	(7,679,266)
	-	**322,368,206**

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