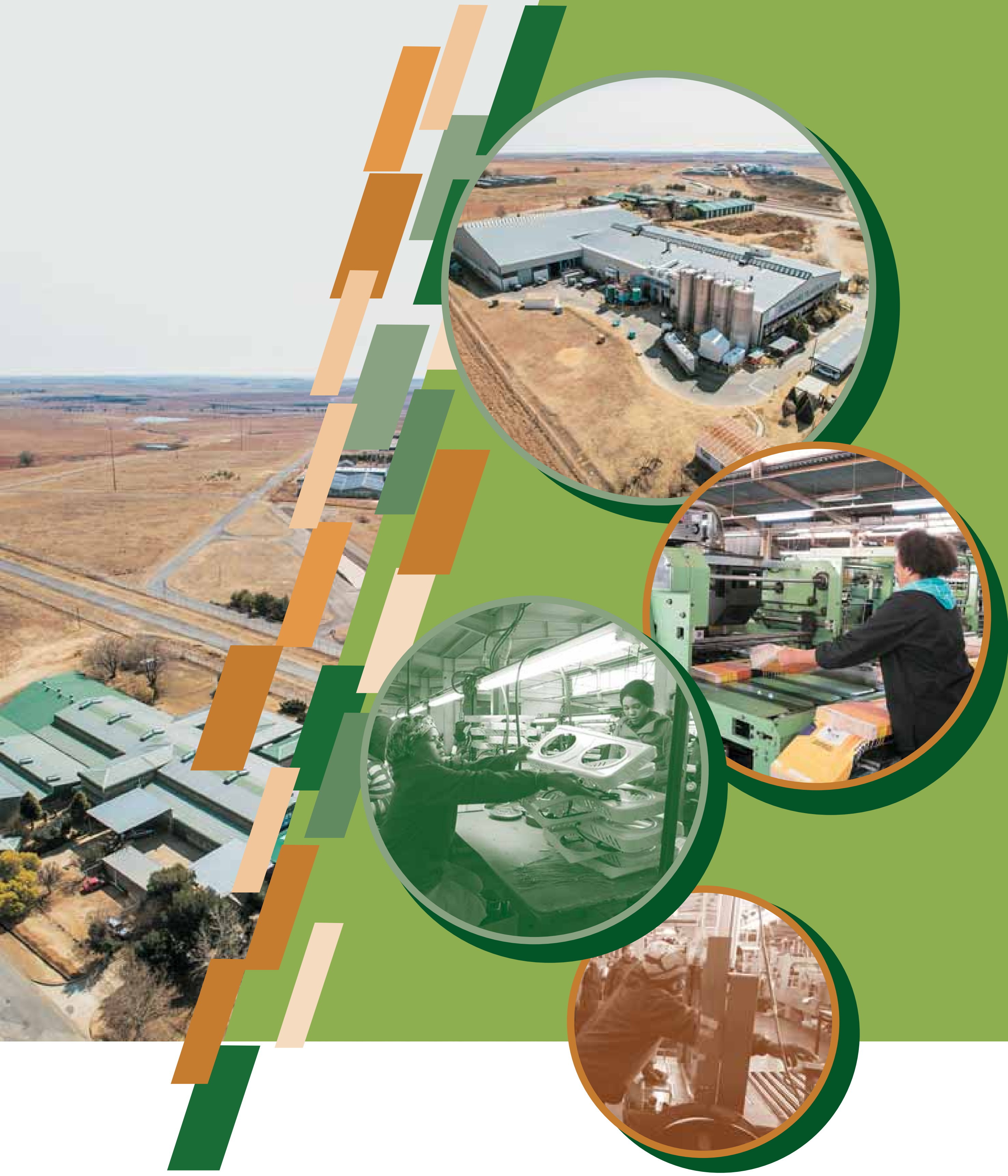

Annual Report 2017

FDC

Free State Development Corporation

Growing the Free State

FDC

Free State Development Corporation
Growing the Free State

ABOUT THIS REPORT

This annual report presents a transparent, comprehensive and comparable view of the financial, operating, and social and sustainability performance of Free State Development Corporation (FDC) for the year ended 31 March 2017 to all stakeholders. This report outlines the group's outlook and further aims to highlight opportunities and challenges, as well as planned actions to address the same. The planned actions take into account business priorities, risks and recommendations made by stakeholders.

The group is committed to sustainable development, and responds to economic, social and natural environmental imperatives within the Free State. These principles are embedded in the group's corporate strategy and values, and are reflected in the financial and economic decisions made by the group. FDC identifies significant matters through engagements with both internal and external stakeholders, and considers the risk management. This process ensures that the group remains relevant in discharging its mandate.

The board of directors oversees and reports on the key strategies, risks and sustainability matters of the group. This is done through the relevant committees, namely, Audit and Risk, Investment and Finance, Information Technology and Legal. The most significant and material issues are discussed throughout the annual report, as well as in the directors' report on pages 66 to 67.

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PART 1

OVERVIEW

PART 1: OVERVIEW

1.1 Corporation at a Glance

FDC is an economic development agency created to provide the Free State people and potential investors a wide selection of services.

These services include:

- Small medium and Micro Enterprise support through both financial (loans) and non-financial.
- Providing development and management of property portfolio.
- Providing investors with a comprehensive service in setting up a business.
- Providing export ready Free State companies with assistance in identifying new markets and export opportunities for their products.

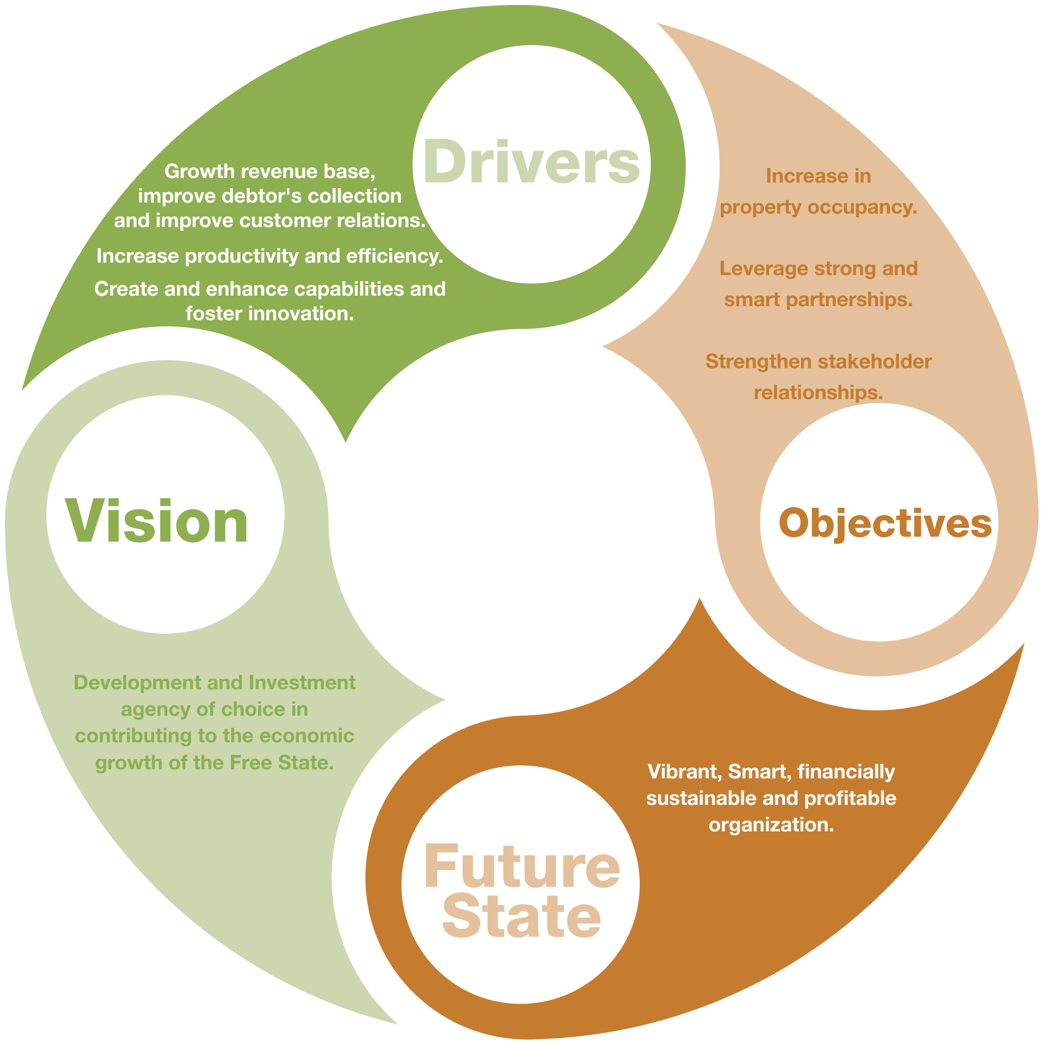
Registration Office	33 Kellner Street Westdene Bloemfontein 9301
Business Address	33 Kellner Street Westdene Bloemfontein 9301
Postal Address	PO Box 989 Bloemfontein 9300
Holding company	Free State Development Corporation
Bankers	ABSA Bank
Auditors	Auditor- General of South Africa
Company Secretary	Ms S. J. Motloung

1.2 List of Abbreviations

AGSA	Auditor-General of South Africa
AFASA	African Farmers Association of South Africa
BDS	Business Development Support
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIPC	Companies and Intellectual Property Commission
CSI	Corporate Social Investment
DESTEA	Department of Economic, Small Business Development, Tourism and Environmental Affairs
DFI	Developmental Financial Institution
DTI	Department of Trade and Industry
EMC	Executive Management Committee
FDC	Free State Development Corporation
MAP SEZ	Maluti A Phofung Special Economic Zone
MEC	Member of Executive Council
PFMA	Public Finance Management Act
SAITEX	Southern African International Trade Exhibition
SARCDA	South African Retail International Trade Show
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SMME	Small, Medium and Micro Enterprise
PY	Previous financial year

1.3 Vision, Strategic Drivers and Values

FDC is the implementation arm of the Free State Provincial Government, committed to stimulate economic growth and development in the Free State. The business is underpinned by its vision, strategic drivers and values as stated below:



Integrity	Honest	Customer Focused	Commitment to excellence	Respect
We are truthful, honest and ethical.	We are ethical and truthful.	We care for our customers.	We embrace operational excellence.	We care for our community, people, and the environment.

FDC mandates covers various functions such as entreprise development, property development, investment promotion and facilitation, export promotion and project management.

· To Provide financial business support services to SMME's and Co-operatives,
· To undertake the development and management of properties,
· To facilitate and promote investments and trade

FDC is committed to conducting business with integrity, respect, honesty, excellence and customer focused.

1.4 Role of FDC and its Legislative Mandates

1.4.1 Primary Legislation and Policies

Free State Development Corporation Act

The FDC was established by the Free State Development Corporation Act 6 of 1995 for the purpose of promoting urban and rural development, with special emphasis on small business development.

The objects of the FDC Act were amended as follows:

- The promotion and development of small, medium and micro enterprises;
- Assist Free State based small, medium and micro enterprises with funding by advancing loans and those in financial distress through payment arrangements;
- Initiate economic empowerment projects that will benefit the Free State;
- Promote trade and investment as well as identify, analyse, publicise and market investment and trade opportunities in the provincial economy, in a manner that the board of directors may deem appropriate;
- Undertake, at the request of the responsible member or other stakeholders or agencies, activities for which the necessary resources can be raised and which, in the opinion of the board of directors, will contribute to the strengthening of the provincial economy.

The Public Finance Management Act (PFMA), 1999 (Act 1 of 1999)

The FDC is a Schedule 3D entity governed by a duly appointed Board of Directors (the Board) which is the Accounting Authority of the FDC, as contemplated in Section 49(2) (a) of the PFMA.

Protocol on Corporate Governance in the Public Sector

The FDC as a State Owned Entity (SOE) has to comply with the principles of Corporate Governance as espoused in the Protocol on Corporate Governance in the Public Sector. These principles only seek to amplify and not supersede or replace the King Code on Corporate Governance but should be read in conjunction with it.

National Development Plan, Medium Term Strategic Framework (MTSF) and the Free Sate Growth and Development Strategy (FSGDS).

In addition to its founding Act, the FDC's functions and operations are also governed by other policy frameworks and guidelines. In particular, the National Development Plan, the Medium Term Strategic Framework (MTSF) and the Free Sate Growth and Development Strategy (FSGDS) were considered and relevant directives were adopted into the FDC Corporate Plan and Annual Performance Plans.

The table below illustrates the areas to which the FDC will contribute to implement these priority policy mandates.

NDP	*MTSF*	*FSGDS*
Chapter 3: Economy and Employment	Outcome 4: Decent employment through inclusive growth	Driver 3: Expand and diversify manufacturing opportunities
Chapter 13: Building a capable and developmental state	Outcome 12: An efficient, effective and developmental orientated public service Outcome	Driver 15: Foster good governance to create a conducive climate for growth and development

1.4.2 Elective Legislation, Policies and Guidelines

FDC's functions and operations are also governed by other legislative and policy frameworks and guidelines such as:

- Companies Act 71 of 2008
- National Credit Act 34 of 2005
- National Small Business Enterprise Act 102 of 1996
- Broad Based Black Economic Empowerment Act 53 of 2003
- National Development Plan
- Medium Term Strategic Framework (MTSF)
- Free Sate Growth and Development Strategy (FSGDS).
- Framework for Managing Performance Information
- Public Sector Risk Management Framework
- Internal Audit Framework
- King Code of Governance for South Africa 2009 (King III)

PART 2

DIRECTORS & THEIR PROFILES

PART 2: DIRECTORS AND THEIR PROFILES

2.1 Chairperson's Statement

Introduction

I am pleased to present the annual report for the financial Year ended 31 March 2017 to the Member of the Executive Council (MEC) for Economic Development, Small Business, Tourism and Environmental Affairs (DESTEA), the Free State Legislature, the Provincial Treasury, Auditor-General of South Africa and all other stakeholders of the Corporation. This annual report highlights what FDC does, the Corporation's performance against its targets, governance and its consolidated annual financial statements.

The FDC's mandate remains to facilitate economic growth of the Province through financial and non-financial support of identified target markets among others SMME's and Co-operatives. Our role of Trade and Investment Promotion and Facilitation encourages direct investment into the Province. The FDC's property portfolio is utilised to accommodate and facilitate business activity at favourable rental rates, with emphasis on promoting Black business for the growth of the economy and job creation.

External Environment

The Corporation, like the rest of the country, operates in a challenging economic environment that is highly regulated with high levels of stakeholder interests. The international economy is expected to grow by 3.7% in 2017, according to the International Monetary Fund (IMF) and the South African economy is expected to grow by 0.8%. The net effect on SMME's is that their ability to meet their debt repayments on time is affected negatively. The Corporation mitigated this risk by having payment plan arrangements with its SMME debtors in order to avoid foreclosure and job losses. In order to address some of these challenges faced by the SMME's, we deemed it fit to establish among others Rent-a-Desk facility which currently provides them suitable office space at affordable rates. The objective of the Corporation is to roll out the Rent-a-Desk service to all the main towns.

Sustained Improvement

The board had its annual strategic review following its successful implementation of the strategy in the previous year. The positive results achieved demonstrate the Corporation's agility and resilience to survive and even grow under difficult conditions. I believe that FDC is in a stronger position to deliver sustainable return, achieve long-term growth and meet Shareholders targets and expectations.

FDC operated during the year without external funding. Its long-term debt is primarily the actuarial valuation of its post-retirement medical aid liability of its employees. This is a complex matter that management is working to resolve. The gearing of the company remains extremely good with debt ratio of 0.05 (PY: 0.31). This demonstrates that our business has the capacity to raise external funding for Provincial Government projects that will stimulate the economy further without constraining the business operations.

Strategic and Operational Developments

We have been engaging on strategic matters to improve organisational performance. The main focus has been to ensure the increased level of debt collection and occupancy of FDC properties in order to achieve financial stability. Furthermore, the focus has been to improve the performance of the organisation by reviewing the organisational structure, diversifying revenue, collaborating with other business partners in order to leverage on each other's strengths. Amongst these are State Owned Companies involved in funding enterprises and State Departments.

Our strategic initiatives, such as the MAP SEZ, Broadband and the Vrede integrated dairy project continue to yield positive results.

Appreciation and Recognition

I wish to convey my gratitude to our Premier, Honourable E.S. Magashule and his Executive Committee, the Minister of Trade and Industry (DTI) Honourable R. Davies and Member of the Executive Council for Department of Economic, Small Business Development, Tourism and Environmental Affairs, (DESTEA) Honourable Dr B. Malakoane for their on-going support and leadership.

I recognise that our achievements would not be possible without fostering good working relations with our strategic stakeholders, Municipalities, Media, Clients and sister Development Financial Institutions such as the Small Enterprise Development Agency (SEDA), the Small Enterprise Funding Agency (SEFA), the National Empowerment Fund (NEF) and the Industrial Development Corporation (IDC). I also wish to thank my fellow board members for their individual and collective wisdom and contribution during the financial year. Their strong commitment to serving FDC and contributing to its ongoing performance is greatly appreciated.

I recognise TEAM FDC, the executive management team and all our employees, for the way they have responded to the increasing demands of the environment in which we operate and congratulate them on the results achieved from their efforts.

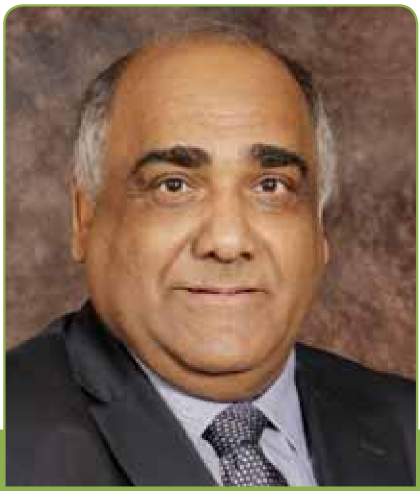
Ms HB Matseke

Chairperson

FDC Board of Directors

Ms H. B. Matseke
Board Chairperson

Mr M. R. B. Chuene
Deputy Chairperson



Mr I. Osmon
CEO

Mr V. Maharaj

Mr L.L .Phungo

Ms N. Sandlana

Ms H. N. Mkhungo
(Resigned 24 July 2016)

Ms S. Motloung
Company Secretary

Directors Profile

The Board comprises of diverse and multi-skilled individuals who are dedicated to contribute to the economic growth of the Free State. The FDC Board of Directors is as per the table below:

Name of Board Member	*Designation (in terms of the Public Entity Board structure)*	*Date Appointed*	*Date Resigned*	*Educational Qualifications*	*Area of Expertise*
Ms H.B. Matseke	(Chairperson) Independent Non-Executive Director	04 July 2012	N/A	• Introduction to Computers • Diploma in Personal Computing • Diploma in Software Supporting • Diploma in Marketing • New Managers Programme	• Construction and Property • Business Facilitation • Finance • Business Administration • Stakeholder Relations
Mr M.P.B. Chuene	(Deputy Chairperson) Independent Non-Executive Director	20 October 2014	N/A	• B UIRIS • LLB • LLM	• Corporate Governance • Commercial Law and Contracts • Strategic Board Advisory
Mr V. Maharaj	Independent Non-Executive Director	04 July 2012	N/A	• Diploma in Telecommunications • Sales Management Diploma • Marketing Management Diploma • Business Administration Diploma	• Financial Services • Marketing Marketing • New business development • SMME development • Risk management • Capital raising

Name of Board Member	*Designation (in terms of the Public Entity Board structure)*	*Date Appointed*	*Date Resigned*	*Educational Qualifications*	*Area of Expertise*
Ms H.N. Mkhungo	Independent Non-Executive Director	20 October 2014	24 July 2017	• Management Development Programme • Corporate Affairs Executive • Course • Management Advanced Programme • MA • Bachelor of Science in Nursing	• General Management • Entrepreneurship Development • Strategic Planning • Business Transformation • Change Management, business process improvement • Stakeholder Management • Business process and re-engineering • Relationship management
Mr L.I. Phungo	Independent Non-Executive Director	20 October 2014	N/A	• B Proc • LLB	• Labour Law • Insurance Law • Employment Law and Commercial Law • Mining Law • High Court and Magistrate's Court practices

Name of Board Member	*Designation (in terms of the Public Entity Board structure)*	*Date Appointed*	*Date Resigned*	*Educational Qualifications*	*Area of Expertise*
Ms T.N Sandlana	Independent Non-Executive Director	20 October 2014	N/A	· Diploma in Management · B Comm · Higher Education Diploma · Master of Business Administration · Certificate in Quality Assessment CQA · Certificate in Control Self-Assessment	· Accounting · Auditing · Management · Project Management · Governance
Mr I. Osman	Chief Executive Officer Ex-Officio Member of Board and Board Committees	06 June 2013	N/A	· Bachelor of Commerce · Hons. Bachelor of Commerce · Master of Business Administration · Management Advancement Programme · Chartered Marketer SA. · Advanced Certificate in Leadership (UCT) · Certificate In Directorship (IODSA)	· Governance and Leadership · General Management · Strategy · Financial Management · Marketing and Communication · Economics · People Management

Name of Board Member	*Designation (in terms of the Public Entity Board structure)*	*Date Appointed*	*Date Resigned*	*Educational Qualifications*	*Area of Expertise*
Ms S. Motloung	Company Secretary	1 January 2015	N/A	• B Proc • Certificate in Legislative Drafting • Certificate in the Management of Mining and Mineral Policies	• Governance • Compliance • Legal • Mining Law • Commercial law and Contracts • Strategic Management • General Management • Business process and re-engineering • Project Management • Drafting and Reviewing Policies and Laws • Business Administration • Board Advisory • Stakeholder Relationship

PART 3

EXECUTIVES & THEIR PROFILES

PART 3: EXECUTIVES AND THEIR PROFILES

3.1 Chief Executive Officer's Report

Introduction

The FDC continues in its quest to positively influence the growth and development of the Free State economy. Despite the challenges of low domestic and global economic growth, we remain focused in managing the Corporation effectively and efficiently by applying sound and simple business principles. We have formulated a three year strategy which incorporates the following pillars; revenue, attract more high impact investments into the Province and capacitate our employees to execute the strategy. We continue to strive to become a high-performance organization that delivers above-average results.

During the year, we reviewed our governance structure in order to ensure that our structure supports our strategy. The aim of this review was to strengthen stakeholder engagement, to have a seamless single-source view of our business and to integrate our business processes in order to improve operational effectiveness and efficiency. Our continually improving results clearly demonstrates that this approach is working well.

Progress during the year

The year under review saw the Corporation implementing a performance management system to measure and assess performance of employees for achievement of our mandates. This is both a strategic and operational milestone. The main aim of this is to augment staff training, skilling, monitoring and capacitation.

Furthermore, a review of our business processes was undertaken in order to automate and improve operational effectiveness and efficiency. However, this was the first phase and the next phase entails implementation of the mapped business processes. The intended outcome of this project is to improve productivity, reduce costs, increase organizational capacity and expedite the execution of daily operations and to take on more growth initiatives.

The first phase of our Broadband Initiative, the Gateway Telephony Solutions (GTS) also picked up momentum during the current financial year. A total of R6m was received from our Provincial Government to implement and manage telephone services of the provincial departments. These services were deployed at the Department of Premier and Education with clear cost savings already being demonstrated. Deployment of infrastructure has been started at DESTEA's new premises and will be completed in the ensuing financial year. It is intended that this will become a model office for the rest of the administration who will then follow suit in order to upgrade their technologies. Provision of the GTS will be rolled out to other departments and municipalities going forward.

By the end of the financial year, there was an improvement in the management of the Vrede Integrated Dairy Project. The production of milk improved significantly and the main objective is to achieve financial sustainability without depending on a subsidy from the provincial Department of Agriculture and Rural Development (DARD).

Strategic performance overview

The Corporation is on an upward trend in terms of its financial performance. The revenue increased by 5% from R190m to R200m. There was an improvement in our performance from an operating loss of R17m in the 2014-2015 financial year to a profit of R94m in the 2015-2016 financial year and a profit of R111m in the 2016-2017 financial year. This was achieved through teamwork and the effective implementation of our strategy.

FDC is one of the few State Owned Entities that do not receive funding from the fiscus. Despite this challenge, we managed to provide 48 bridging loans to SMME's at a value of R4.8m from our internal resources during the financial year. 49% of our loans were provided to youth owned enterprises constituted, and 28% to women owned enterprises. This is a determined action to improve the economy of the Free State through disadvantaged designated groups. We endeavor to fund these categories going forward as we believe that they are an integral part of our economy and a pillar of strength and inspiration in our society.

FDC as the official investment and trade promotion and facilitation entity continues with its mandate albeit with limited funds. We promoted Free State SMMEs products at local and international trade exhibitions such as the Ficksburg Cherry Festival, the South African Lifestyle hub in Atlanta, USA, the South African Retail International Trade Show (SARCDA), the Decor Exhibition (DECOREX), the South African International Trade Exhibition (SAITEX) and Africa Big Seven.

Some of the products such as VG art products are also exhibited at the FDC Rent-A -Desk offices in Bloemfontein. This is one of the ways to assist small enterprises with limited resources.

Furthermore, we managed to attract and facilitate the establishment of two investments of above R10m. The one is a tourism and service facility in Warden that consists of a petrol station, restaurant, accommodation, convenience store, conference facility and a game reserve at an estimated total investment value of R120m. The other is a PVC ceiling manufacturing company in Botshabelo at an estimated investment of R16m. The investment promotion sector remains extremely competitive globally hence our focus on attracting domestic investments. We do, however, join provincial foreign delegations and we are working hard to ensure that potential foreign investors will eventually invest in the Province.

The Property Portfolio which remains our main source of income was affected by the current economic conditions. The portfolio experienced a slight decrease from its 87% occupancy in the beginning of the financial year to 74% at the end of the financial year. We are striving continually to improve this situation as it does not only affect the FDC's income and performance but also unemployment and therefore poverty. Our innovative Rent- a- Desk facility has become a flagship in our SMME development and support programme. A total of 23 SMME's are accommodated as tenants as at 31 March 2017. This programme costs FDC a total of R1.4m per year. A total of 40 jobs were created through this initiative.

The partnership between DTI and FDC to upgrade and secure our industrial parks was completed in Botshabelo and launched by the Minister of DTI in the current financial year. The revitalization of the QwaQwa Industrial Park has commenced and will be completed at the next financial year. These efforts will make our properties more attractive to both existing and potential investors.

The Maluti-A-Phofung Special Economic Zone (MAP-SEZ) will be launched by President Jacob Zuma on the 25th of April 2017. The SEZ Operating Company is now a fully functional subsidiary of the FDC with its own board. The Chief Executive Officer together with some support staff were appointed during the current financial year. The SEZ is currently busy with putting other institutional arrangements in place as required by its governing legislation.

FDC received R160m (PY: R91m) as an infrastructure grant for the MAP-SEZ during the financial year. Road works and electrical work were completed subsequent to year end. The bulk infrastructure and top structures work will commence during the new financial year. The MAP-SEZ has attracted a number of potential investors of which four are at an advanced stage in terms of setting up their businesses within the Zone.

We continue to work on creating alternative income streams. We are positive that during the new financial year these income streams will be more clearly demonstrated. We work tirelessly to achieve our strategic objectives, of which it is key for us to become more sustainable and profitable, in order to serve the Free State and its people. This virtuous cycle is our key license to operate and exist.

In conclusion, I wish to thank my Board and its committees for its leadership, guidance, good governance, inspiration and confidence in us. We work together very well for the benefit of the FDC.

A special word of thanks must also go to our Executive Authority represented by MEC Dr B. Malakoane and the Acting Head of Department, Ms G. Brown and her executive team for their consistent support and cooperation. I also wish to thank the Provincial Director General, Mr K. Ralikontsane and his department as well as the Chief Executive Officer of the Provincial Treasury, Mr G. Mahlatsi and his department for their support and co-operation.

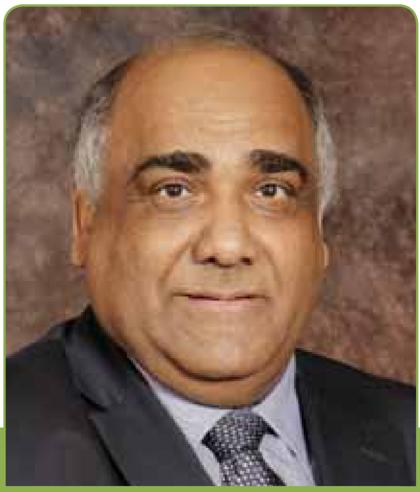
I further wish to extend my appreciation and thanks to Team FDC for their continued commitment and contribution by delivering above-average performance so that we could achieving our targets. Together we continue to strive to become a high-performance organisation.

I must also thank all our stakeholders amongst others the oversight committees in the Free State Provincial Legislature, our clients, our colleagues in other Provincial Departments and Municipalities, national Departments such as DTI, SEDA, SEFA, and IDC for their on-going support and co-operation.

Mr I Osman

Chief Executive Officer

FDC Executives



Mr I. Osmon
CEO

Ms G. Shaba
Executive Co-Operations

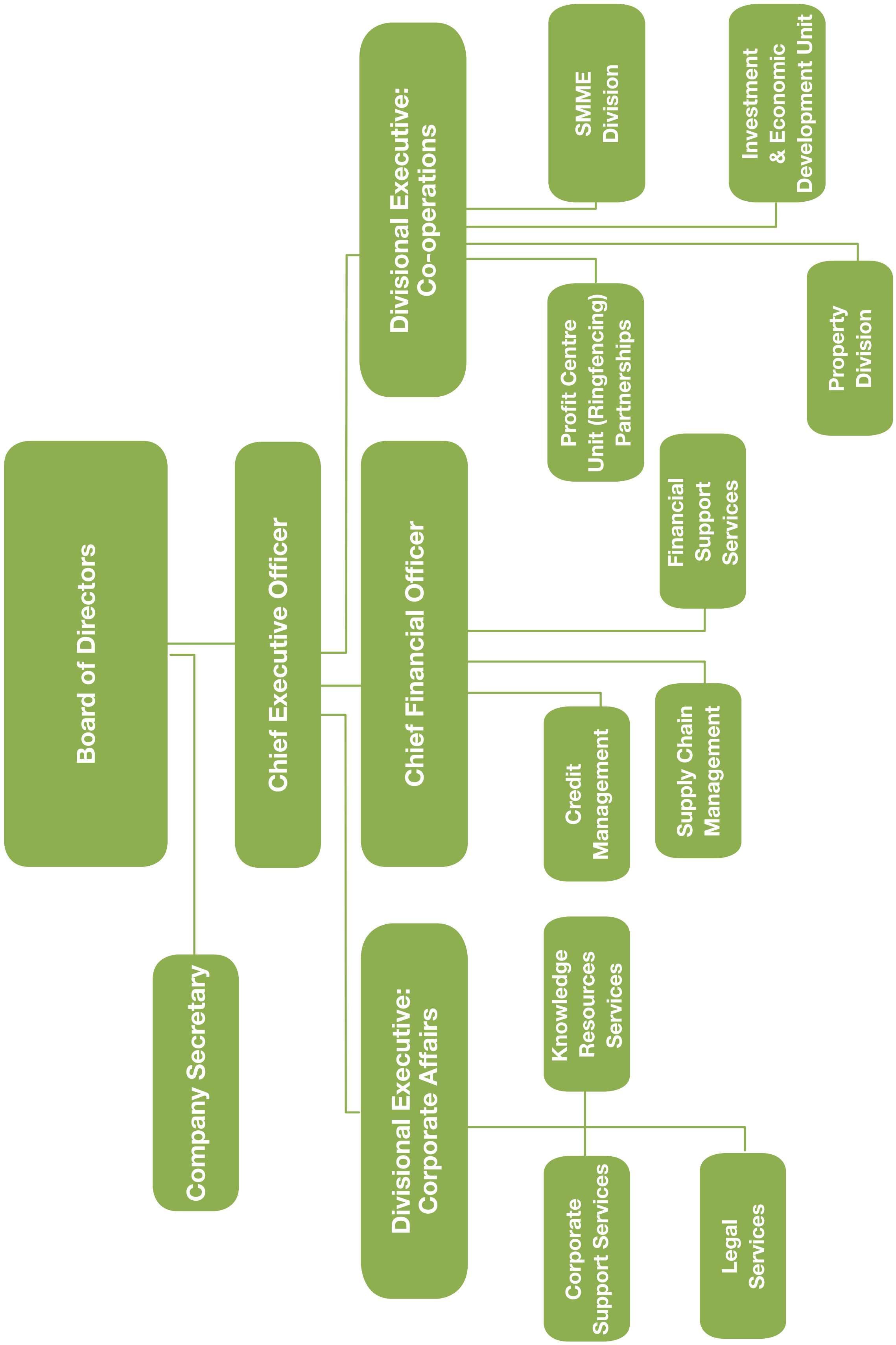
Mr S. Moyo
Chief Financial Officer

Mr D. Nkaiseng
Executive Corporate Affairs

Executive Team Profile

The Executive team is responsible for the day-to-day business of the organisation and is led by the Chief Executive Officer. The profile of the Executive Team is depicted in the table below:

Name of official	*Position held*	*Date of Appointment*	*Qualifications*
Mr Ikhraam Osman	Chief Executive Officer	6 June 2013	· Bachelor of Commerce · Hons. Bachelor of Commerce · Master of Business Administration · Management Advancement Programme · Chartered Marketer SA. · Advanced Certificate in Leadership · Certificate In Directorship
Mr Shepherd Moyo	Chief Financial Officer	1 January 2015	· Bachelor of commerce (Accounting) · Hons. Bachelor of commerce (Accounting) / CTA · SAICA (CA) SA · Attended various leadership courses
Mr David Nkaiseng	Divisional Executive: Corporate Affairs	1 November 2014	· BUIRIS · LLB
Mrs. G. Shaba	Divisional Executive: Co-operations	1 April 2015	· Marketing and Public Relations Diploma · Masters in Business Administration · Certificate in Business Management


Board of Directors
Company Secretary
Chief Executive Officer
Divisional Executive: Co-operations
SMME Division
Investment & Economic Development Unit
Profit Centre Unit (Ringfencing) Partnerships
Property Division
Chief Financial Officer
Financial Support Services
Credit Management
Supply Chain Management
Divisional Executive: Corporate Affairs
Knowledge Resources Services
Corporate Support Services
Legal Services

PART 4

PERFORMANCE OVERVIEW

PART 4 PERFORMANCE OVERVIEW

4.1 Financial Highlights

FDC group continued in the current year to implement its strategic initiatives such as diversification of revenue and improving operational efficiencies.

Our focus during the year remained the same as the previous year; which is to diversify revenue, improve debt collection, cost optimisation and strengthening governance. The group has a positive outlook. It is unquestionable that FDC is turning around and is poised for growth in the short and medium term. The provincial economy remains challenged in most of the sectors resembling that of both national and global economies. Despite the challenges in the market that we operate in, we remain focused and committed to achieving positive results for the group.

Some of the developments and achievements during the year are depicted below:

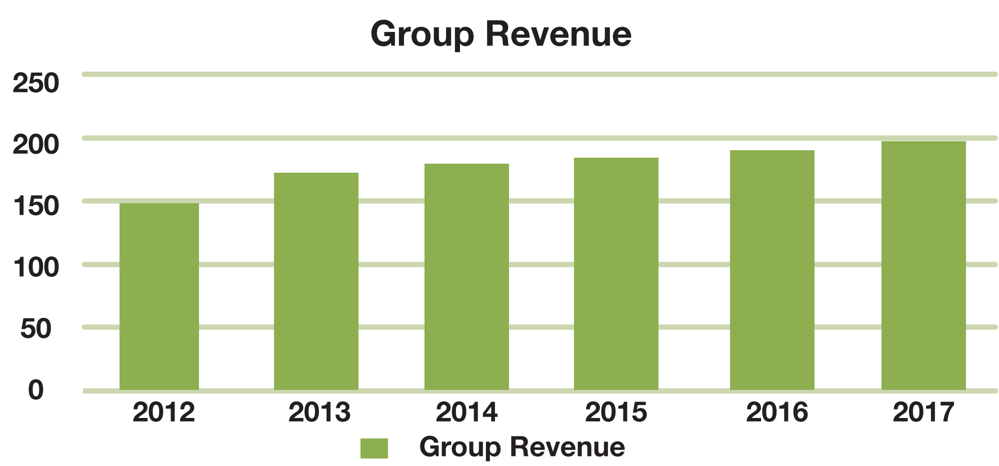
- **Debt collection was assigned to an Integrated Debt Collection Team** comprising of legal, property and finance. The debt collection remained high at 87% for rental book and 63% for loan book. We succefully implemented debt collection strategy which entailed focusing on collecting close to 100% on the current book and also collecting the older legacy debt through payment plans.

- **Gateway Telephony Savings (GTS)** was rolled out during the year and an amount of R6m was received from provincial government to implement this service to departments. Management is currently in discussions with State Information Technology Agency (SITA) to collaborate on other broadband services. These discussions are at an advanced stage and we anticipate to sign a memorandum of agreement in the following financial year.

- **Profit for the group** increased to R111m compared to R87m in the prior year period.

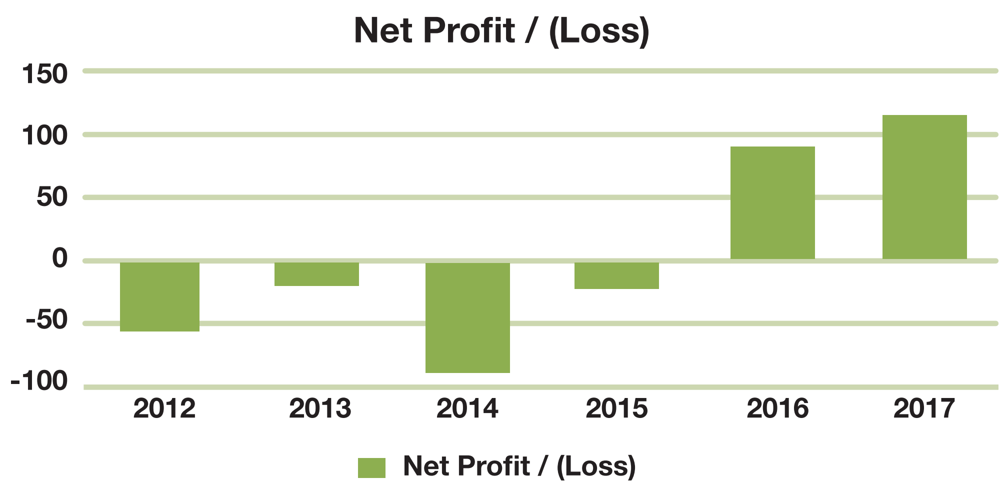
- **Improvement in stakeholder engagement** resulting in projects such as the Broadband, and improvement of our Industrial Park at Qwa-Qwa getting underway during the year. The most important benefit of this improvement in stakeholder management is our improving cashflow position due to continuing improvements in debt and rental collection.

- **Revenue increased by 5% due to escalations on our existing tenants** despite a decrease in occupancy.



FDC experienced a relatively stable revenue-flow during the year due to buoyant property occupancy which remains the major source of revenue contributing to 93% of the total revenue. The main focus going forward is to diversify revenue by market as well as product type. The group has also implemented GTS that resulted in an improvement in revenue base. This line of business has been initiated by looking at alternative ways of improving efficiency and costs within government and also meeting socio-economic imperatives.

- **Cashflow generated from operating** activities increased from **R22m** in the prior year to **R164m** in the current year which represents **645% increase** in the current year.
- Net profit for the group increased from **R87m** in the previous year to **R109m** which is an improvement by **R22m**.



4.2 Performance against Pre-determined Objectives

Statement of responsibility for performance information for the year ended 31 march 2017

I, Ikhraam Osman, Chief Executive Officer of the FDC, am responsible for the preparation of the entity's performance information and the judgements made in this information.

As the Chief Executive Officer, I am responsible for establishing and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of performance information.

In my opinion, the performance information fairly reflects the actual achievements against planned objectives, indicators and targets as per the Strategic and Annual Performance Plan of the FDC for the financial year ended 31 March 2017.

The FDC performance information for the year ended 31 March 2017 has been examined by external auditors and their report is presented on page 55.

The performance information of the FDC set out on page 31 to page 39 of the Annual Report was approved by the Board at its meeting on 31 July 2017.

Mr I Osman

Chief Executive Officer

Ms H. B Matseke

Chairperson

4.2.1 Overview of FDC's Performance

Service Delivery Environment

The Corporation funded 48 SMME's at a value of R4.6m from its own internal resources without receiving Government funding for the support and growth of SMME's. To assist our clients in financial distress, 81 payment plans were arranged with clients who owed us for 120 days and more.

The Corporation also implemented two investments above R10m. The Investment and Facilitation unit also assisted two companies to trade through its incubation interventions. These interventions included market exposure and training and development programmes.

The Property Management unit has seen the reality of the poor economic conditions which have decreased the occupancy rate of the property portfolio from 87% in the beginning of the financial year to 74% at the end of the financial year. The power of the bargaining council in the textile sector has also played a critical role in the contraction of the occupancy rate as tenants could no longer afford the labour costs. The closing down of some of our factories resulted in job losses.

In the current financial year, the property portfolio created and supported 998 jobs despite the challenges in the current economic environment.

The MAP SEZ which is going to play a critical part in the growth of the provincial economy is going to be launched on 25 April 2017 by the President of the Republic of South Africa.

The FDC was able to install Broadband telephony services to three departments and will continue with this service to other Departments and Municipalities in the next financial year. This service enables users to reduce their telephony costs and therefore re-direct the savings to other service delivery areas.

Organisational Environment

The FDC implemented its long awaited performance management system to ensure clear roles and responsibility of staff members and accountability for performance. Business processes for all business units were also mapped for stream lining work and easy achievement of objectives. Implementation of these initiatives improved the Corporation's performance enormously.

4.2.2 Strategic Outcomes Orientated Goals

To achieve its mandate, the FDC has set the following strategic goals:

Programme 1 – Investment Facilitation and Management

Strategic outcome orientated Goal 1	A vibrant and investor-friendly Free State Economy
Goal statement	To stimulate economic growth through the facilitation, leveraging on government incentives and realisation of investment opportunities.

Programme 2 –SMME Financing Development and Support

Strategic outcome orientated Goal 2	An inclusive Free State Economy
Goal statement	To contribute to inclusive economic development through the provision of development and related support to SMMEs.

Programme 3 – Property Management

Strategic outcome orientated Goal 3	A functional and supportive property infrastructure
Goal statement	To enable economic growth and development through the management of a versatile and functional property portfolio.

Programme 4 – Corporate and Business Delivery Shared Services

Strategic outcome orientated Goal 4	Financial sustainability enabling robust organisational performance
Goal statement	To achieve financial sustainability through compliance with financial norms and standards and the optimisation of resource utilisation thereby enabling effective and efficient organisational performance.

Performance against predetermined objectives is indicated in a tabular format below:

Programme 1: Investment Facilitation And Management Strategic Goal: A vibrant and investor-friendly Free State Economy							
Strategic Objective	*Measurable Objective*	*Actual Achievement 2015/2016*	*Key Performance Indicator*	*Planned Target 2016/2017*	*Actual Achievement 2016/2017*	*Deviation from planned target to Actual Achievement for 2016/2017*	*Comments on deviation*
Facilitate Small Medium and Macro Enterprise (SMME) trade development to participate nationally and internationally	Free State companies engaged in trading.	Not targeted	To incubate a number of Free State SMMEs in trade- locally and globally	2	2		
Promote and facilitate investments above R10 million	Investments successfully realised.	Not targeted	Number of investment projects above R10m implemented/ realised	2	2		
Provide assistance to SMME investors investing below R10 Million as tenants of FDC properties through the provision of affordable rental rates and business development support.	SMMEs established in FDC's properties	Not targeted	Number of new SMME Investors as FDC property tenants for rental entered into during 2016/17	5	10	+5	Aggressive marketing of our properties

Programme 2: SMME Financing, Development And Support Strategic Goal: An Inclusive Free State Economy							
Strategic Objective	*Measurable objective*	*Actual Achievement 2015/2016*	*Key Performance Indicator*	*Planned Target 2016/2017*	*Actual Achievement 2016/2017*	*Deviation from planned target to Actual Achievement for 2016/2017*	*Comments on deviation*
Provide bridging loan to SMME's & Co-ops	SMMEs and Co-ops financially assisted (bridging loan)	Not targeted	Number of existing and new SMME's and Co-operative clients of FDC assisted financially with bridging loans	34 (SMMEs 32 and Cooperatives 2)	48	+14 0 Cooperatives	More applications received from SMMEs for funding. Co-operatives have proved to be a challenge because of organisational non-compliance and becoming legitimate co-operatives. More over DESTEA gives Cooperatives grants and thus it would not make sense for them to accept a loan when they can receive a grant.

Programme 2: SMME Financing, Development And Support Strategic Goal: An Inclusive Free State Economy							
Strategic Objective	*Measurable objective*	*Actual Achievement 2015/2016*	*Key Performance Indicator*	*Planned Target 2016/2017*	*Actual Achievement 2016/2017*	*Deviation from planned target to Actual Achievement for 2016/2017*	*Comments on deviation*
Support FDC clients (rental and loans) in financial distress (long outstanding debtors -> 120 days) with payment plans.	FDC clients with payment plans	Not targeted	Number of FDC clients with payment plans	80 FDC clients with payment plans	81	+1	Intensive collection drive

Programme 3: Property Management strategic goal: a functional and supportive property infrastructure							
Strategic Objective	*Measurable objectives*	*Actual Achievement 2015/2016*	*Performance Indicator*	*Planned Target 2016/2017*	*Actual Achievement 2016/2017*	*Deviation from planned target to Actual Achievement for 2016/2017*	*Comments on deviation*
Manage the existing property portfolio in order to maximise sustainable income by re-developing, maintaining and dispose of selected existing properties in order to increase occupancy rate, which will in turn maximise revenue	Increase occupancy rate	Not targeted	Property occupancy rate (Total let area/ Total lettable area x100)	87%	73.65%	-13.35%	Bargaining council decision to increase wages in the textile sector is forcing these firms to close down and relocate to other Provinces especially KZN.

Programme 4: Shared Services							
strategic goal: financial sustainability enabling robust organisational performance							
sub-programme: financial management							
Strategic Objective	*Measurable objectives*	*Actual Achievement 2015/2016*	*Key Performance Indicator*	*Planned Target 2016/2017*	*Actual Achievement 2016/2017*	*Deviation from planned target to Actual Achievement for 2016/2017*	*Comments on deviation*
Achieve profitability and positive cash flow at a Corporation level	Profit (Loss)	Not targeted	Rand value of profit (loss) as per statement of financial performance at a Corporation level	Loss of R22,6m	Profit of R111,9m	R134,5m	Progress made at SEZ resulted in additional funds being allocated to FDC.
Achieve profitability and positive cash flow at a Corporation level	Cash on hand	Not targeted	Rand value of cash and cash equivalents.	Cash and cash equivalents of R155m	R128 984 224	-R26 015 776	VSP payments were paid to employees exiting voluntarily and back pay was paid to people promoted in 2014. Broadband did not perform as expected due to regulatory restrictions SEZ performed above budget on its infrastructure projects and expenditure.

Programme 4: Shared Services strategic goal: financial sustainability enabling robust organisational performance sub-programme: human resource management and it							
Strategic Objective	*Measurable objectives*	*Actual Achievement 2015/2016*	*Key Performance Indicator*	*Planned Target 2016/2017*	*Actual Achievement 2016/2017*	*Deviation from planned target to Actual Achievement for 2016/2017*	*Comments on deviation*
Build HR capability through training and experiential learning	Develop employees	Not targeted	Training and development spend vs. annual salary expense	1% of the annual salary budget to be spent on training	1.97%	+0.97%	Target overachieved because of high intake of interns.
Develop responsive IT capability	Improved IT infrastructure and mapped business processes	Not targeted	All business units to have IT business processes	All business units to have IT business processes in place	0%		Only the first part of the exercise was achieved. The second phase will be implemented in the 2017-2018 financial year.

Programme 4: Shared Services strategic goal: financial sustainability enabling robust organisational performance sub-programme: human resource management and IT							
Strategic Objective	*Measurable objective*	*Actual Achievement 2015/2016*	*Performance Indicator*	*Planned Target 2016/2017*	*Actual Achievement 2016/2017*	*Deviation from planned target to Actual Achievement for 2016/2017*	*Comments on deviation*
Build high performance culture	Number of employees performing at above average	Not targeted	% of employees performing optimally (Number of employees scoring 3 and above on average for the year's quarterly reviews)	At least 70% of employees performing optimally	64%	-6%	First implementation and roll out of the PDM system

GOVERNANCE

PART 5: GOVERNANCE

5.1 Corporate Governance

Introduction

The FDC is a Free State public business enterprise listed as a Schedule 3D of the Public Finance Management Act. The Corporation derives its enablement, powers and objectives from its enabling legislation, the FDC Act of 1995. The Corporation has governance responsibilities entrusted in the Board of Directors which accounts in turn to the Provincial Member of the Executive Council for Economic, Tourism and Environment Affairs. In addition to legislative requirements based on FDC's enabling legislation, the Companies Act of 2008, Protocol for Corporate Governance in Public Entities and Shareholder Compact are regulatory instruments directing Corporation's governance.

Together with the above prescripts, King Codes of Corporate Governance apply in guiding the Board of Directors to good Corporate Governance. Good Corporate Governance is a pillar of the FDC's drive to achieve its business objectives, stability accountability, transparency, responsibility, discipline, independence, fairness, social responsibility, service delivery, clean audits, oversight to management, potential investment, risk management, compliance, and to avoid business failures and corporate scandals.

The board and committees

The Board is appointed by the MEC for DESTEA in line with the provisions of the FDC Act.

The powers/roles of the Board of Directors are:

- Ensure that the executive management implements the FDC's strategy as established from time to time;
- Ensure that FDC has effective, efficient and transparent systems of operational, risk management and financial internal controls;
- Monitor the activities of the executive management;
- Provide information on the activities of FDC to those entitled to it;
- Ensure the succession and approve the appointment, of senior executives;
- Ensure that FDC operates ethically;
- Address the adequacy of retirement and health care benefits and funding thereof;
- Ensure that FDC has and maintains a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77 of the PFMA;
- Ensure that FDC has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective;
- Ensure that all applicable black economic empowerment legislative frameworks and requirements are complied with; and

- Ensure that FDC has and maintains a system for properly evaluating all major capital projects prior to a final decision on the project.

Board Evaluation

The Board has introduced instruments of self-evaluation and has evaluated itself in respect of performance and effectiveness of its members collectively and individually.

Board Independent Evaluation

The Provincial Treasury conducts the independent evaluation of the Board to assess its effectiveness and performance.

Board Charter

The Board Charter is a document that serves to set out the high level responsibilities of FDC Board and regulation of its affairs, read in conjunction with the FDC Act, the Companies Act, the PFMA and the applicable Treasury Regulations.

According to the Charter, the Board has the following Duties and Responsibilities:

- Absolute responsibility for the performance of FDC and is fully accountable to the Executive Authority;
- To retain full and effective control over FDC and monitor management closely in implementing FDC plans, strategies and resolutions. This includes the monitoring of management and operational performance;
- To ensure that FDC is fully aware of and complies with applicable laws, regulations, policies and code of business practice and communicates with its stakeholders openly and promptly with substance prevailing over form;
- To ensure that there are effective policies, procedures, practices and systems of internal control in place that protect FDC's assets, resources and reputation;
- To ensure that management has implemented an effective system of risk management;
- To ensure that all Board members have unrestricted access to accurate, relevant and timely information on the FDC and act on a fully informed basis, in good faith, with diligence, skill and care and in the best interest of FDC, whilst taking into account the interests of the various stakeholders, including employees, creditors, suppliers and local communities;
- To closely monitor the process of disclosure and communication and exercise objective judgement on the affairs of FDC;
- To monitor and manage potential conflicts of interest of Board members and management;
- To develop a clear definition of the levels of materiality or sensitivity in order to determine the scope

of delegation of authority and ensure that it reserves specific powers and authority to itself. Delegated authority must be in writing and evaluated on a regular basis;

- To ensure that financial statements are prepared for each financial year, which fairly represents the financial position of FDC; and

- To at least annually assess its performance and effectiveness as a whole and that of individual directors.

Board and Committee's meeting attendance

	Board	Board Audit and Risk Committee	Board Investment and Finance Committee	Board Information Technology and Infrastructure Committee	Board Human Resources, Remuneration and Ethics Committee	Legal Compliance Committee Meeting	Joint Board / BARPC Meeting	Joint GARPC / ITIC Meeting
Total Meetings Held	9	8	4	1	4	8	1	1
Ms HB Matseke	07				01		01	
Mr MPB Chuene	09	01	04			08	01	01
Mr V Maharaj	06	03	03		03	03	01	01
Ms HN Mkhungo *	03			01	01			
Mr LL Phungo	08	02		01	04	04	01	
Ms TN Sandlana	07	08	02	01		03	01	01
Ms S Ntanjana**		08					01	01
Mr M Ntshiea**	02	08					01	01

* Ms Mkhungo resigned from membership of Board on 24 July 2016

**Not a Board member but only Committee member

Other Board and Committee's meeting attendance

	Date of appointment	Board Related Events	Other Events	SEZ Board	SEZ GIFC Committee	SEZ HRREC Committee
Total Meetings Held		16	27	03	01	01
Ms HB Matseke	04 July 2012	09	07	02		01
Mr MPB Chuene	20 October 2014	07	10	02	01	01
Mr V Maharaj	04 July 2012	06	11	03	01	01
Ms HN Mkhungo *	20 October 2014					
Mr LL Phungo	20 October 2014		07			01
Ms TN Sandlana	20 October 2014	01	03	03		
Ms S Ntanjana**	01 August 2015		01			
Mr M Ntshiea**	01 August 2015		01			

* Ms Mkhungo resigned from membership of Board on 24 July 2016

**Not a Board member but only Committee member.

5.1.1 Committees of the Board

Group Audit, Risk and Performance Committee (GARPC)

The Group Audit, Risk and Performance Committee has been constituted in terms of regulation 27 of the Treasury regulations to provide assurance and oversight over FDC Group system of internal controls and ensure effective management of risks.

The Committee does not assume the functions of management, which remain the responsibility of the executive managers, officers and other members of senior management. The Committee acts in accordance with its statutory duties and the delegated authority of the Board as recorded in the Committee's Charter.

On all responsibilities delegated to it by the Board, the Committee makes recommendations for approval by the Board with the exception of matters delegated to the Committee by the Board in line with a Delegation of Authority Framework or from time to time. The table below discloses relevant information of the audit committee members:

Name of member	*Qualifications*	*Internal or external*	*Date appointed*	*Date Resigned*
Ms. TN Sandlana	• Diploma in Management • B Comm • Higher Education Diploma • Master of Business Administration • Certificate in Quality Assessment CQA • Certificate in Control Self- Assessment	External	01 August 2015	N/A
Mr V Maharaj	• Diploma in Telecommunications • Sales Management Diploma • Marketing Management Diploma • Business Administration Diploma	External	04 July 2012	N/A
Ms S Ntanjana	B PROC - LLB	External	01 August 2015	N/A
Mokone Ntshiea	B Com (Accounting)	External	01 August 2015	N/A

Board Investment and Finance Committee (BIFC)

The BIFC's function is to play an oversight over Investments, Finance and Property related matters on behalf of the Board. The primary focus of the committee this year was to achieve financial sustainability of the FDC through increasing capital raising projects in order to ensure, inter alia, availability of funds for SMMEs loans and property maintenance. The Committee does not assume the functions of management, which remain the responsibility of the executive managers, officers and other members of senior management. The Committee acts in accordance with its statutory duties and the delegated authority of the Board as recorded in the Committee's Charter.

On all responsibilities delegated to it by the Board, the Committee makes recommendations for approval by the Board with the exception of matters delegated to the Committee by the Board in line with a Delegation of Authority Framework or from time to time.

Board Information Technology and Infrastructure Committee (BITIC)

The BITC's function is to play an oversight over IT governance and IT Infrastructure matters on behalf of the board. The primary focus during the year was to ensure compliance with IT policies and to oversee the process of business processes mapping in order to enhance controls and improve efficiency of the FDC.

The Committee does not assume the functions of management, which remain the responsibility of the executive managers, officers and other members of senior management. The Committee acts in accordance with its statutory duties and the delegated authority of the Board as recorded in the Committee's Charter.

On all responsibilities delegated to it by the Board, the Committee makes recommendations for approval by the Board with the exception of matters delegated to the Committee by the Board in line with a Delegation of Authority Framework or from time to time.

Board Human Resources, Remuneration and Ethics Committee (BHRREC)

The BHRRC's function is to play an oversight over human resources, remuneration and ethics matters on behalf of the board. The primary focus during this financial year was to conclude the processes in relation to organizational restructuring and performance contracts for staff and executives.

The Committee does not assume the functions of management, which remain the responsibility of the executive managers, officers and other members of senior management. The Committee acts in accordance with its statutory duties and the delegated authority of the Board as recorded in the Committee's Charter.

On all responsibilities delegated to it by the Board, the Committee makes recommendations for approval by the Board with the exception of matters delegated to the Committee by the Board in line with a Delegation of Authority Framework or from time to time.

Board Legal and Compliance Committee (BLCC)

The BLCC's function is to play an oversight over Legal and Compliance matters on behalf of the board. The primary focus during this financial year was to oversee all major court cases against the FDC and reviewing new major capital raising contracts for the Corporation.

The Committee does not assume the functions of management, which remain the responsibility of the executive managers, officers and other members of senior management. The Committee acts in accordance with its statutory duties and the delegated authority of the Board as recorded in the Committee's Charter.

On all responsibilities delegated to it by the Board, the Committee makes recommendations for approval by the Board with the exception of matters delegated to the Committee by the Board in line with a Delegation of Authority Framework or from time to time.

5.1.2 Remuneration of Board members

In terms of section 6(3) of the FDC Act, a director shall hold office upon such conditions (including the payment of remuneration and allowances) as the MEC of DESTEA may determine, after consultation with the MEC responsible Finance in line with the National Treasury Guidelines.

During the current financial year under review, the Board was paid in line with the Remuneration Policy that was approved by the MEC of DESTEA and supported by the MEC of Provincial Treasury.

The Remuneration Policy of the Board is reviewed annually in line with Treasury guidelines and or cost of living adjustment

5.1.3 Compliance with laws and regulations

FDC has a compliance framework to provide guidelines to compliance with mandatory legislation and regulations affecting it. FDC also makes use of the internal audit and external audit function, Treasury and other regulatory and assurance providers to assure compliance with laws and regulations.

5.1.4 Risk Management

The FDC has in place enterprise wide risk management strategy and risk management policy. The purpose of these policy guides is to provide and maintain a working environment where everyone in the FDC is following sound risk management practices and is held accountable for achieving results. These documents also provide the FDC with a framework which the employees and the Board will utilise to implement risk management function.

A risk register which specifies the risks facing the FDC and the control measures to address was developed. Control measures were implemented and monitored on a quarterly basis.

In the 2016-2017 financial year the FDC started with implementation of business continuity management (BCM). Business continuity management policy was approved by the Board to ensure smooth operation of the BCM.

Reports on implementation of risk management processes are submitted to the Board Audit, Risk and Performance Committee quarterly to enable them to fulfil their oversight function on risk management.

Internal audit annually assesses the adequacy and efficiency of the risk management function to enable continuous improvement of the risk management function, systems and frameworks.

5.1.5 Fraud and Corruption

The FDC has zero tolerance for fraud and corruption. This is emphasised in the FDC's corporate plan that was submitted to the executive authority and provincial treasury. To deter and manage fraud, FDC's anti-fraud and corruption policy was approved by the Board and a fraud hotline is also in place to enable whistle blowers to report fraud and corruption without fear of being victimised. The hotline has been placed in all visible places for all employees to see and utilise should an incident of corruption take place.

Risk and fraud awareness sessions are held quarterly to make employees aware of fraud and corruption week.

In the 2016-2017 financial year, a detailed fraud risk assessment was conducted to enable transparent and efficient management of the fraud risks. Control measures for the identified fraud risks will be implemented and monitored in the 2017-2018 financial year. This does not however imply that there were no controls and monitoring of controls for fraud risks.

Supervision, delegations of authority, system authorisation controls and code of conduct remain key preventative and detection measures which are continuously being implemented by managers daily.

5.1.6 Minimising Conflict of Interest

All Board members and Board committee members are required to declare their interest before each meeting of board or its committees is started. Members are also required to submit Annual Declaration of Interest Forms at the beginning of each financial year or at any time the conflict might arise after the submission of the Annual Declaration of Interest Form. A conflict of interest register is kept in the office of the Company Secretary. Members of executive management and all staff members also annually declare interest and their register is kept in the office of the Human Resources Manager.

5.1.7 Code of Conduct

A code of conduct to guide the behaviour of board members and employees and to ensure that an ethical and honest culture is in place and maintained at FDC. The code of conduct specifies and explains expected and acceptable behaviour, actions and demeanour from the Board and employees of the Corporation.

5.1.8 Health, Safety and Environmental Issues

The FDC has an approved Health and Safety Policy. Health and Safety officers have been appointed in all required places to ensure compliance with health and safety requirements. The employee wellness officer was also appointed to identify and deal with health and safety issues concerning employees and to ensure a healthy and safe work environment.

5.1.9 Corporate Social Responsibility

The FDC's Corporate Social Investment (CSI) programme is an integral part of the way FDC does business. The Corporation is committed to make a positive and sustainable impact on the communities in which it operates. This is done through investing in improving the quality of life of disadvantaged communities.

During this financial year, the FDC made donations to non-profit organisation's across the Free State. Contributions were made in improving the lives of the disadvantaged communities in the Free State through the Provincial Government Initiative Programme/platform such as Operation Hlasela and FDC's own Mandela day initiative.

The following projects represent CSI work done by the FDC in the 2016-2017 financial year:

CSI Project	*Description*
Viljoenskroon Hospice	Donated Blankets, Maize Meal, Toiletries, Bedding and Beds, Sanitary pads, school bags, Fruits and vegetables and diapers for both children and adults to enhance Care Giving to the many patients they see daily.
Mohau Children's Home (Viljoenskroon)	Donated Bedding and Beds for the children's home
Senior Citizens (Viljoenskroon)	Hundreds of elderly people in viljoenskroon received food parcels and blankets
Betlehem Hospice	Donated Blankets, Mattress and food parcels
Itsoseng Disability house QwaQwa	Donated Food Parcels and disposals
Bronville Old Age Home (Welkom)	Donated Blankets; Beddings and food parcels for the home.

Operation Hlasela	
Wepenar	Donated Blankets and Food Parcels
Bothaville	Donated Blankets
Parys	Donated School Shoes
Marquard	Donated Blankets
Vrede	Donated Blankets and Squeeze bottles for school learners

5.1.10 Company Secretary

The Company Secretary is responsible for ensuring the optimum functioning of Board and its Committees in terms of relevant legislation and corporate governance principles. Board members have unrestricted access to the advice/guidance and services of the FDC Company Secretary on issues relating to governance, legislative and regulatory requirements.

The Company Secretary provides support to the Board in relation to the compilation of the Annual Plan, agendas for Board and Board Committees.

5.2 Human Resource Management

Personnel Cost by Programme

Programme	*Total Expenditure for the Entity (R'000)*	*Personnel Expenditure (R'000)*	*Personnel Expenditure as a % of total Expenditure (R'000)*	*Number of Employees*	*Average personnel cost per employee*
Investment Facilitation and Management	77 505 407	1 305 422	1.88%	2	652 711
SMME Financing, Development and Support		12 980 830	18.75%	25	59 233
Property Management		6 587 532	9.53%	11	598 867
Shared Services		44 195 650	63.95%	71	622 474

* Personnel cost for purposes of reporting are defined as all forms of remuneration excluding subsistence and travel claims

Personnel Cost by Salary Band

Level	Total Expenditure for the Entity (R)	Personnel Expenditure (R)	Personnel Expenditure as a % of total Expenditure (R)	Number of Employees	Average personnel cost per employee
Executive Directors	77 505 407	2 393 652	3	8	299 206
Top Management		9 713 588	13	5	1 942 718
Senior Management		1 374 301	1	1	1 374 301
Professional qualified		12 436 622	16	15	829 108
Skilled		40 914 500	53	56	730 616
Semi-skilled		6 047 647	8	20	302 382
Unskilled		1 563 057	2	12	130 255
Contract Employees		3 062 039	4	24	127 585
TOTAL		77 505407	100	141	5 736 172

Training Costs

Directorate/ Business Unit	Personnel Expenditure (R)	Total budgeted expenditure	Training Expenditure (R)	Training Expenditure as % of Personnel Cost (R')	No. of Employees Trained	Average Training Cost per Employee
FDC	77 505 407	62 305 976	838 136	1.3	11-Training 14-internship	33 525

Employment and Vacancies

Level	*2015/2016 No. of Employees*	*2016/2017 Approved Posts*	*2016/2017 No. of Employees*	*2016/2017 Vacancies*	*% of Vacancies*
Top Management	5	4	3	-1	-1.36%
Senior Management	1				
Professional Qualified	15	5	14	9	12.3%
Skilled	56	9	59	50	68.49%
Semi-skilled	20	11	10	-1	-1.36%
Unskilled	12	4	11	7	9.5%
Contract Employees	19	0	9	9	12.3%
TOTAL	128	33	106	73	99.87%

Employment changes

Salary Band	*Employment at beginning of period*	*Appointments*	*Terminations*	*Employment at end of period*
Top Management	5	0	0	4
Senior Management	1	0	0	1
Professional qualified	15	3	2	14
Skilled	56	8	7	60
Semi-skilled	20	1	1	10
Unskilled	12	3	0	12
Contract Employees	19	6	6	4
TOTAL	128	21	16	105

PART 6

FINANCIAL INFORMATION

Report of the auditor-general to Free State Legislature on the Free State Development Corporation

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Free State Development Corporation and its subsidiaries set out on pages 63 to 135, which comprise the consolidated and separate statement of financial position as at 31 March 2017, and the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2017, and their financial performance and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999)(PFMA).

Basis for opinion

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 consolidated and separate financial statements section of my report.

3. I am independent of the group 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.

4. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

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

Material impairments

6. As disclosed in note 8 to the financial statements, cumulative material impairments on other loans receivable of R268 753 332 (2016: R264 479 672) were incurred with regard to the separate financial statements and R268 753 332 (2016: R249 893 039) with regard to the consolidated financial statements as a result of irrecoverable loans.

7. As disclosed in note 13 to the financial statements, cumulative material impairments on trade and other receivables of R133 798 046 (2016: R113 821 287) were incurred with regard to the consolidated and separate financial statements as a result of irrecoverable debtors.

Irregular expenditure

8. As disclosed in note 45 to the financial statements the full extent of irregular expenditure is in the process of being determined due to possible non-compliance with supply chain management requirements on two contracts. The awards of a service contract to meter and collect revenue from electricity usage in industrial parks and a contract for the installation of lighting at the special economic zone (Maluti-a-Phofung) had been identified for review.

Responsibilities of accounting authority for the consolidated and separate financial statements

9. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with SA Statements of GAAP and the requirements of the PFMA and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate 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 group'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 there is an intention to liquidate the corporation or to cease operations, or there is no realistic alternative but to do so.

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

11. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

12. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the 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 selected programmes 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 corporation. I have not evaluated the completeness and appropriateness of the performance indicators 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 programmes presented in the annual performance report of the corporation for the year ended 31 March 2017:

Programmes	*Pages in the annual performance report*
Programme 1 – investment facilitation and management	33
Programme 2 – SMME financing development and support	34 - 35
Programme 3 – property management	36

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. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

Programme 1 – investment facilitation and management

Number of new SMME investors as FDC property tenants for rental entered into during 2016-17 year

18. The definition and source information for the achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI).

19. The reported achievement for the target of the number of new SMME investors as FDC property tenants for rental entered into during the 2016-17 year was misstated as the evidence provided indicated that only six SMME property tenants received rental concessions and not 10 as reported.

Programme 3 – property management

Property occupancy rate

20. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 73,65%. This was due to unavailability of sufficient appropriate evidence to confirm the total area of lettable space as well as the total lettable area occupied by property tenants. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

21. I did not raise any material findings on the usefulness and reliability of the reported performance information for programme 2 - SMME financing, development and support.

Other matters

22. I draw attention to the matters below.

Achievement of planned targets

23. Refer to the annual performance report on pages 33 to 39 for information on the achievement of planned targets for the year and explanations provided for the under and overachievements of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 19 to 21 of this report.

Report on audit of compliance with legislation

Introduction and scope

24. 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 corporation with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

25. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements

26. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 55(1)(a) of the PFMA. Material misstatements of investment properties, property, plant and equipment, inventories, trade and other receivables, cash and cash equivalents, non-controlling interest, other financial liabilities, trade and other payables and contingencies identified by the auditors in the submitted financial statement were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement management

27. The preferential point system was not applied in some procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and treasury regulation 16A6.3(b). This non-compliance was identified in the procurement processes associated with the operations of a project managed by the corporation.

Asset management

28. Sufficient appropriate audit evidence could not be submitted to confirm that the relevant treasury was promptly informed in writing, nor if the executive authority did approve the disposal of certain significant assets during the financial year under review, as required by section 54(2)(d) of the PFMA.

Other information

29. The accounting authority of the Free State Development Corporation and its subsidiaries is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.

30. 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.

31. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

32. I have not yet received the final annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.

Internal control deficiencies

33. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

34. Slow response by management resulted in findings on non-compliance with legislation and material adjustments to the financial statements due to inadequate actions to address some of the matters identified by the auditors in the previous financial years.

35. Management did not ensure that they set clear and unambiguous performance targets, clearly define how the targets should be measured and what supporting evidence should be maintained in support of the reported achievements when the targets were set in the strategic documents. This was due to inadequate management oversight being exercised over the setting of performance targets.

36. Internal audit reports were not always issued and followed up on, in a timely manner. This prevented the timely implementation of control measures to ensure that the control weaknesses identified are adequately addressed.

Auditor-General

Bloemfontein

31 July 2017

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 consolidated and separate financial statements, and the procedures performed on reported performance information for selected programmes and on the corporation's compliance with respect to the selected subject matters.

Financial statements

37. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate 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 corporation'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 board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Free State Development Corporation and its subsidiaries' 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 a corporation to cease to continue 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.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 here applicable, related safeguards.

Directors' Responsibilities and Approval

The board members are required in terms of the Free State Development Corporation Act to maintain adequate accounting records and are responsible for the content and integrity of the consolidated financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice (SA GAAP) The external auditors are engaged to express an independent opinion on these consolidated financial statements.

The consolidated financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The board members acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the board members to meet these responsibilities, the board members sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group 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 members 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 consolidated financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The board members have reviewed the group’s cash flow forecast for the year to 31 March 2018 and, in light of this review and the current financial position, they are satisfied that the group has or had access to adequate resources to continue in operational existence for the foreseeable future and therefore the consolidated financial statements have been prepared on the going concern basis.

The external auditors auditors are responsible for independently auditing and reporting on the group's consolidated financial statements. The consolidated financial statements have been examined by the group's external auditors auditors and their report is presented on page 10.

The consolidated financial statements set out on pages 66 to 135, which have been prepared on the going concern basis, were approved by the board on 31 May 2017 and were signed on their behalf by:

Mr I Osman

Chief Executive Officer

Board, Audit and Risk Committee Report

The audit committee hereby presents the report for the financial year ended 31 March 2017 in accordance with the Treasury Regulations and the Public Finance Management Act.

Audit committee's Responsibility

The audit committee reports that it has complied with its responsibilities arising from section 51 (1) (a) of the PFMA and section 3.1.13; section 27.1.7; and section 27.1.6 to 27.1.13 of Treasury Regulations.

Section 51 (1) (a) of the PFMA states that:

The accounting authority must ensure that the public entity has and maintains:

- Effective, efficient and transparent systems of financial and risk management and internal controls;
- A system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77 of the PFMA;
- An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective; and
- A system for properly evaluating all major capital projects prior to a financial decision on the project.

The audit committee reports that it has performed its duties as delegated by the Board and has a majority of independent non-executive directors who are financially literate as recommended by King 4.

The committee met during the financial year, evaluated its performance, and addressed matters of conflict of interest within the Corporation. The committee has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities as contained therein. The committee's chairman attended the annual general meeting during the year.

Appointment and oversight of the external auditors

The committee maintains a professional relationship with the external auditors and coordinates activities between external and internal auditors.

We have reviewed the engagement letter and agreed on the terms, the fee, the nature and scope of the audit function, and are satisfied that the auditors have conducted the audit in accordance with the agreed terms. We are satisfied with the auditors' independence and objectivity.

We have reviewed the public entity's implementation plan for audit issues raised in the prior year and we are satisfied that the matters have been adequately resolved except for the following:

Monitoring the company's compliance with legislative, regulatory, contractual and other Obligations

We have continued to monitor that management complies with legislative, regulatory and other contractual obligations.

Appointment of internal auditors, and review of internal controls

The committee approved the internal audit plan for the year. We are satisfied with the cooperation between the internal and external auditors and that the combined assurance addresses all significant risks facing FDC.

All internal audits were completed independent of management and the reports were presented directly to the Audit Committee for review, together with management's responses.

We have reviewed the findings of the internal audit work, which was based on the risk assessments conducted in the organisation and have noted all weaknesses reported in internal controls. Areas of concern have been raised with management and are monitored for improvements.

Board, Audit and Risk Committee Report

Monitoring the definition of risks and the adequacy and efficacy of risk management processes

The committee is aware of, and has monitored, the risks that affect the organisation. The ongoing internal audit process provides the audit committee with the assurance that all major issues regarding the appropriateness and effectiveness of internal controls are reported.

Monitoring of Pre - determined Objective were monitored, assured and achieved

Quarterly, the committee, satisfied itself that performance was measured against the predetermined objectives. On a continuous basis the committee ensures that the entity complied with the Frameworks and Circulars issued by National Frameworks.

Examination and review of the financial statements and accompanying reports

During the year the committee examined and reviewed the quarterly reports on the operational and financial performance of the corporation. The committee has reviewed the annual consolidated financial statements for the year ended 31 March 2017.

The committee confirms that the annual consolidated financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP). All provisions and contingencies have been reviewed and disclosed. The external auditors' management letter has been reviewed and the audit committee has satisfied itself with management's responses.

The audit committee concurs and accepts the independent external auditors' conclusion on the annual consolidated financial statements, and is of the opinion that the audited annual consolidated financial statements should be accepted and read together with the report of the independent external auditors.

Ms TN Sandlana
Chairperson - Audit committee

Report of the Board

The board members of the Free State Development Corporation (FDC) take pleasure in submitting the consolidated financial statements for the year ended 31 March 2017.

1. Constitution

The FDC is a Provincial Development Agency constituted in terms of the Free State Development Corporation Act of 1995 (as amended) effective from 15 September 1995.

2. Main business and operations

The objectives of FDC are:

- the promotion and development of small, medium and micro enterprises;
- to assist Free State based small, medium and micro enterprises with funding by advancing loans;
- to assist Free State based small, medium and micro enterprises in financial distress;
- to initiate economic empowerment projects that would benefit the Free State;
- to promote investment in and trade with the Province and to identify, analyse, publicise and market investment and trade opportunities in the provincial economy, in such manner and by such means as the board of directors may from time to time deem appropriate; and
- to undertake, at the request of the responsible Member or other stakeholders or agencies, activities for which the necessary resources can be raised and which, in the opinion of the board of directors, will contribute to the strengthening of the provincial economy.

The operating results and state of affairs of the FDC and its subsidiaries and associates are fully set in the attached consolidated financial statements and in our opinion do not require any further comment.

3. Directors

The MEC of the Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA) appoints directors of the Board in terms of section 5 (2) of the Free State Development Corporation Act, and the following persons were on the Board during the year under review:

Name	Office	Designation	Changes
Matseke HB	Chairperson	Non-executive	
Chuene MPB	Deputy Chairperson	Non-executive	
Osman I	Chief Executive Officer	Executive	
Maharaj V	Member	Non-executive	
Mkhungo HN	Member	Non-executive	Resigned 24 July 2016
Phungo LI	Member	Non-executive	
Sandlana TN	Member	Non-executive	

4. Directors' interests in contracts

During the year under review, the board members or officers of the FDC had no interest in any contracts.

5. Secretary

The company secretary is Ms S Motloung.

6. Remuneration of directors and senior management

Refer to note 39.

Report of the Board

7. Interests in subsidiaries and associates

The financial report in respect of the interests of the FDC in its subsidiaries and associates, listed below, is set out in the consolidated financial statements of the FDC:

Name of subsidiary or associate	Percentage holding	Audit opinion
Canton Trading 123 (Pty) Ltd t/a Jomago Health **	49 %	Liquidated (No audit opinion)
Classic Number Trading 45 (Pty) Ltd **	49 %	Liquidated (No audit opinion)
Confram Harrismith Properties (Pty) Ltd **	100 %	Liquidated (No audit opinion)
Copper Moon Trading 429 (Pty) Ltd **	55 %	Liquidated (No audit opinion)
Cross Point Trading 23 (Pty) Ltd **	25 %	Under liquidation (No audit opinion)
Golden Pond Trading 663 (Pty) Ltd **	49 %	Liquidated (No audit opinion)
Highland Furniture Factory (Pty) Ltd ** (Dormant since Oct 2015)	100 %	Pending liquidation (No audit opinion)
Mafube Risk and Insurance Brokers (Pty) Ltd *	24.50 %	Unqualified
Orofino Africa Jewellery Manufacturers (Pty) Ltd **	49 %	Liquidated (No audit opinion)
Phiritona Plastics (Pty) Ltd **	38 %	Pending liquidation (No audit opinion)
Rumar Manufacturing (Pty) Ltd **	30 %	Liquidated (No audit opinion)
Satinsky 167 (Pty) Ltd **	26 %	Liquidated (No audit opinion)
Scopefull 21 (Pty) Ltd **	50 %	Transferred (No audit opinion)
Synthpro Holdings (Pty) Ltd **	33 %	Liquidated (No audit opinion)
Twin Cities Trading 129 (Pty) Ltd **	30 %	Surrendered to FDC (No audit opinion)
Welkom Diamond Cutting Works (Pty) Ltd**	- %	Restructured (No audit opinion)
Qwa Qwa Datnis (Pty) Ltd ***	18 %	Inactive (No audit opinion)
Ligia Paper Industries (Pty) Ltd *	10 %	Inactive (No audit opinion)
Free State Agri SOC RF **	100 %	Inactive (No audit opinion)
Free State Investments SOC RF **	100 %	Inactive (No audit opinion)
Free State Publishers SOC RF **	100 %	Inactive (No audit opinion)
Maluti-A-Phofung IDZ SOC RF **	100 %	Inactive (No audit opinion)

* Associated companies

** Subsidiaries companies.

*** Investments.

Details of the Corporation's investment in subsidiaries and associates are set out in notes 6 & 7.

8. Events after the reporting period

The board members are not aware of any material event which occurred after the reporting date and up to the date of this report that require adjustment to or disclosure in the consolidated financial statements.

9. Going concern

The board members believe that the group has adequate financial resources to continue in operation for the foreseeable future and accordingly the consolidated financial statements have been prepared on a going concern basis. The board members have satisfied themselves that the group is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The board members are not aware of any new material changes that may adversely impact the group. The board members are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the group.

10. Relations with stakeholders

There are no events recorded that have occurred with stakeholders that could materially affect the reported results and financial position of FDC.

Statement of Financial Position as at 31 March 2017

Figures in Rand	Note(s)	Group 2017	Group 2016 Restated *	Corporation 2017	Corporation 2016 Restated *
Assets					
Non-Current Assets					
Investment property	3	637 999 704	660 746 520	637 999 704	660 746 520
Property, plant and equipment	4	156 656 543	67 819 199	155 778 213	66 261 159
Intangible assets	5	810 581	843 539	810 581	843 539
Investments in subsidiaries	6	-	-	100	100
Investments in associates	7	1 010 944	670 181	49 000	49 000
Loans receivable	8	11 111 697	33 750 406	11 111 697	33 750 406
Operating lease asset	9	1 860 592	2 503 348	1 860 592	2 503 348
Other investments	10	-	54 250	-	54 250
		809 450 061	**766 387 443**	**807 609 887**	**764 208 322**
Current Assets					
Loans receivable	8	89 382 142	64 847 707	89 382 142	64 847 707
Operating lease asset	9	4 318 915	595 725	4 318 915	595 725
Other investments	10	-	8 387 178	-	8 387 178
Inventories	11	3 428 990	3 342 126	3 141 289	3 054 425
Trade and other receivables	13	92 041 851	62 472 866	92 041 851	62 472 866
Cash and cash equivalents	14	129 196 680	51 349 483	128 984 224	51 137 027
		318 368 578	**190 995 085**	**317 868 421**	**190 494 928**
Non-current assets held for sale	15	52 265 350	13 109 350	52 265 350	13 109 350
Total Assets		**1 180 083 989**	**970 491 878**	**1 177 743 658**	**967 812 600**
Equity and Liabilities					
Equity					
Equity Attributable to Equity Holders of Parent					
Reserves	16&33	8 630 612	4 598 117	8 939 877	4 907 382
Retained income		846 483 558	741 668 229	842 675 133	734 802 881
		855 114 170	746 266 346	851 615 010	739 710 263
Non-controlling interest		(3 121 093)	(5 839 066)	-	-
		851 993 077	**740 427 280**	**851 615 010**	**739 710 263**
Liabilities					
Non-Current Liabilities					
Other financial liabilities	17	783 802	783 802	742 047	742 047
Retirement benefit obligation	18	39 021 000	38 213 000	39 021 000	38 213 000
Deferred income	19	120 436	141 484	120 436	141 484
Long service award provisions	20	697 760	675 319	697 760	675 319
		40 622 998	**39 813 605**	**40 581 243**	**39 771 850**
Current Liabilities					
Operating lease liability	9	-	8 776	-	8 776
Other financial liabilities	17	3 514 546	3 763 288	3 514 546	3 763 288
Deferred income	19	33 320	24 522	33 320	24 522
Trade and other payables	21	283 920 048	186 454 407	281 999 539	184 533 901
		287 467 914	**190 250 993**	**285 547 405**	**188 330 487**
Total Liabilities		**328 090 912**	**230 064 598**	**326 128 648**	**228 102 337**
Total Equity and Liabilities		**1 180 083 989**	**970 491 878**	**1 177 743 658**	**967 812 600**

FREE STATE DEVELOPMENT CORPORATION GROUP
Consolidated Financial Statements for the year ended 31 March 2017

Statement of Comprehensive Income

		Group		Corporation	
Figures in Rand	Note(s)	2017	2016 Restated *	2017	2016 Restated *
Continuing operations					
Revenue	22	200 137 395	191 873 514	200 137 395	190 556 900
Cost of sales	23	(141 251 106)	(122 480 574)	(141 251 106)	(119 711 008)
Gross profit		**58 886 289**	**69 392 940**	**58 886 289**	**70 845 892**
Other income	24	178 442 959	102 395 858	178 442 959	100 893 691
Administrative expenses	25	(9 335 608)	(7 862 410)	(9 335 608)	(7 788 522)
Employee related costs	26	(82 615 407)	(69 713 095)	(82 615 407)	(69 338 352)
Operating expenses	27	(66 207 491)	(52 545 219)	(66 734 056)	(58 262 970)
Operating profit (loss)	27	**79 170 742**	**41 668 074**	**78 644 177**	**36 349 739**
Investment revenue	28	5 490 193	1 548 448	6 147 959	2 532 750
Finance costs	29	(6 943)	(1 392 911)	(6 943)	(995 218)
Income (loss) from equity accounted investments	7	471 961	345 591	-	-
Other non-operating gains (losses)	30	19 258 186	34 407 525	19 258 186	34 407 525
Profit (loss) from continuing operations		**104 384 139**	**76 576 727**	**104 043 379**	**72 294 796**
Discontinued operations					
Loss with derecognition of subsidiaries	31	(3 397 683)	-	-	-
Profit (loss) for the year		**100 986 456**	**76 576 727**	**104 043 379**	**72 294 796**
Other comprehensive income:					
Actuarial gains / (losses) on defined benefit plans		3 828 873	8 795 217	3 828 873	8 795 217
Gains and losses on property revaluation		4 032 495	1 529 086	4 032 495	1 529 086
Other comprehensive income for the year net of taxation	32	**7 861 368**	**10 324 303**	**7 861 368**	**10 324 303**
Total comprehensive income (loss) for the year		**108 847 824**	**86 901 030**	**111 904 747**	**82 619 099**
Profit (loss) attributable to:					
Owners of the parent:					
Profit (loss) for the year from continuing operations		104 384 139	76 802 844	104 043 379	72 294 796
Profit (loss) for the year from discontinuing operations		(3 397 683)	-	-	-
Profit (loss) for the year attributable to owners of the parent		**100 986 456**	**76 802 844**	**104 043 379**	**72 294 796**
Non-controlling interest:					
Profit (loss) for the year from continuing operations		-	(226 117)	-	-
Profit (loss) for the year from discontinuing operations		-	-	-	-
		-	**(226 117)**	**-**	**-**
Total comprehensive income (loss) attributable to:					
Owners of the parent		108 847 824	87 127 147	111 904 747	82 619 099
Non-controlling interest		-	(226 117)	-	-
		108 847 824	**86 901 030**	**111 904 747**	**82 619 099**

Statement of Changes in Equity

Figures in Rand	Revaluation reserve	Other NDR	Total reserves	Retained income	Total attributable to equity holders of the group / company	Non-controlling interest	Total equity
Group							
Balance at 01 April 2015	**3 378 296**	**(309 265)**	**3 069 031**	**656 070 167**	**659 139 198**	**(1 795 545)**	**657 343 653**
Profit for the year	-	-	-	76 802 844	76 802 844	(226 117)	76 576 727
Other comprehensive income	-	-	-	10 324 304	10 324 304	-	10 324 304
Total comprehensive income for the year	**-**	**-**	**-**	**87 127 148**	**87 127 148**	**(226 117)**	**86 901 031**
Prior period error	-	-	-	-	-	(3 817 404)	(3 817 404)
Revaluation of property	1 529 086	-	1 529 086	(1 529 086)	-	-	-
Total contributions by and distributions to owners of company recognised directly in equity	**1 529 086**	**-**	**1 529 086**	**(1 529 086)**	**-**	**(3 817 404)**	**(3 817 404)**
Restated* Balance at 31 March 2016	**4 907 382**	**(309 265)**	**4 598 117**	**741 668 229**	**746 266 346**	**(5 839 066)**	**740 427 280**
Opening balance as previously reported	4 907 382	(309 265)	4 598 117	742 243 556	746 841 673	(5 839 066)	741 002 607
Adjustments:							
Prior period error	-	-	-	(575 327)	(575 327)	-	(575 327)
Restated* Balance at 01 April 2016	**4 907 382**	**(309 265)**	**4 598 117**	**741 668 229**	**746 266 346**	**(5 839 066)**	**740 427 280**
Profit for the year	-	-	-	100 986 456	100 986 456	-	100 986 456
Other comprehensive income	-	-	-	7 861 368	7 861 368	-	7 861 368
Total comprehensive income for the year	**-**	**-**	**-**	**108 847 824**	**108 847 824**	**-**	**108 847 824**
Revaluation of property	4 032 495	-	4 032 495	(4 032 495)	-	-	-
Changes in ownership interest - control lost	-	-	-	-	-	2 717 973	2 717 973
Total contributions by and distributions to owners of company recognised directly in equity	**4 032 495**	**-**	**4 032 495**	**(4 032 495)**	**-**	**2 717 973**	**2 717 973**
Balance at 31 March 2017	**8 939 877**	**(309 265)**	**8 630 612**	**846 483 558**	**855 114 170**	**(3 121 093)**	**851 993 077**
Note(s)	16&32	33		32&37			

Statement of Changes in Equity

Figures in Rand	Revaluation reserve	Total reserves	Retained income	Total attributable to equity holders of the group / company	Total equity
Corporation					
Balance at 01 April 2015	**3 378 296**	**3 378 296**	**653 712 868**	**657 091 164**	**657 091 164**
Profit for the year	-	-	72 294 796	72 294 796	72 294 796
Other comprehensive income	-	-	10 324 303	10 324 303	10 324 303
Total comprehensive income for the year	**-**	**-**	**82 619 099**	**82 619 099**	**82 619 099**
Revaluation reserve	1 529 086	1 529 086	(1 529 086)	-	-
Total contributions by and distributions to owners of company recognised directly in equity	**1 529 086**	**1 529 086**	**(1 529 086)**	**-**	**-**
Restated* Balance at 31 March 2016	**4 907 382**	**4 907 382**	**734 802 881**	**739 710 263**	**739 710 263**
Opening balance as previously reported	4 907 382	4 907 382	735 378 208	740 285 590	740 285 590
Adjustments					
Prior period errors	-	-	(575 327)	(575 327)	(575 327)
Restated* Balance at 01 April 2016	**4 907 382**	**4 907 382**	**734 802 881**	**739 710 263**	**739 710 263**
Profit for the year	-	-	104 043 379	104 043 379	104 043 379
Other comprehensive income	-	-	7 861 368	7 861 368	7 861 368
Total comprehensive income for the year	**-**	**-**	**111 904 747**	**111 904 747**	**111 904 747**
Revaluation reserve	4 032 495	4 032 495	(4 032 495)	-	-
Total contributions by and distributions to owners of company recognised directly in equity	**4 032 495**	**4 032 495**	**(4 032 495)**	**-**	**-**
Balance at 31 March 2017	**8 939 877**	**8 939 877**	**842 675 133**	**851 615 010**	**851 615 010**
Note(s)	16&32		32&37		

FREE STATE DEVELOPMENT CORPORATION GROUP

Consolidated Financial Statements for the year ended 31 March 2017

Statement of Cash Flows

Figures in Rand	Note(s)	Group 2017	Group 2016 Restated *	Corporation 2017	Corporation 2016 Restated *
Cash flows from operating activities					
Cash generated from (used in) operations	34	158 311 789	22 299 344	158 333 733	20 454 051
Interest income		5 361 162	1 455 323	5 887 731	1 455 322
Dividend received		129 031	93 125	260 228	1 077 428
Finance costs		(6 943)	(1 392 911)	(6 943)	(995 218)
Net cash flow from / (utilised in) operating activities		**163 795 039**	**22 454 881**	**164 474 749**	**21 991 583**
Cash flows from investing activities					
Purchase of property, plant and equipment	4	(87 217 519)	(23 328 372)	(87 217 519)	(23 328 372)
Retirement of property, plant and equipment	4&30	756 060	-	76 350	-
Sale of investment property	3&30	2 803 651	-	2 803 651	-
Purchase of other intangible assets	5	(145 566)	(40 967)	(145 566)	(40 967)
Net movement on loans		(1 895 726)	20 535 849	(1 895 726)	20 588 685
Net movement in non-current assets held for sale	15&30	-	790 000	-	790 000
Net cash from investing activities		**(85 699 100)**	**(2 043 490)**	**(86 378 810)**	**(1 990 654)**
Cash flows from financing activities					
Repayment of other financial liabilities		(248 742)	(687 743)	(248 742)	(417 632)
Net cash from financing activities		**(248 742)**	**(687 743)**	**(248 742)**	**(417 632)**
Total cash movement for the year		**77 847 197**	**19 723 648**	**77 847 197**	**19 583 297**
Cash at the beginning of the year		51 349 483	31 625 835	51 137 027	31 553 730
Total cash at end of the year	14	**129 196 680**	**51 349 483**	**128 984 224**	**51 137 027**

Accounting Policies

1. Presentation of Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP). The consolidated financial statements have been prepared on the historical cost basis, except for investment properties, land and buildings classified as property, plant and equipment, that have been measured at fair value and incorporate the principal accounting policies set out below. The Group's consolidated financial statements are presented in South African Rands, which is also the group's functional currency. All figures are rounded off to the nearest Rand.

These accounting policies are consistent with the previous period.

1.1 Consolidation

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and all entities, including special purpose entities, which are controlled by the Corporation.

Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated consolidated financial statements from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary to the consolidated financial statements of subsidiaries to bring their accounting policies in line with those of the group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Transactions which result in changes in ownership levels, where the group has control of the subsidiary both before and after the transaction are regarded as equity transaction and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed, and a non-controlling shareholding is retained, the remaining investment is measured at fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

Business combinations

The group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued.Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of *IFRS 3 Business combinations* are recognised at their fair values at acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *IFRS 5 Non-current assets Held For Sale and Discontinued Operations*, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

Accounting Policies

1.1 Consolidation (continued)

On acquisition, the acquiree's assets and liabilities are reassessed in terms of classification and are reclassified where the classification is inappropriate for group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interest arising from a business combination is measured either at their share of the fair value of the assets and liabilities of the acquiree or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in the note for business combinations.

In cases where the group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Investment in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

An investment in associate is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with *IFRS 5 Non-current assets held-for-sale and discontinued operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the group's share of net assets of the associate, less any impairment losses.

Losses in an associate in excess of the group's interest in that associate are recognised only to the extent that the group has incurred a legal or constructive obligation to make payments on behalf of the associate.

Any goodwill on acquisition of an associate is included in the carrying amount of the investment; however, a gain on acquisition is recognised immediately in profit or loss.

Profits or losses on transactions between the group and an associate are eliminated to the extent of the group's interest therein.

When the group reduces its level of significant influence or loses significant influence, the group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

1.2 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 result in differences that are material to the financial statements. Significant judgements include:

Trade receivables and loans and receivables

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

The group uses judgment to determine the appropriate amount to be provided for based on past experience and the debtors credit record.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Available-for-sale financial assets

The group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Other financial assets

The group assesses its other financial assets for impairment at the end of each reporting period. Impairment is only recognised up until the fair value of any securities held by the group. Fair value of securities is determined annually by external valuers/directors. Fair value is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Corporation uses alternative valuation methods.

Allowance for slow moving, damaged and obsolete stock

The group makes an allowance for slow moving, damaged and obsolete stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating profit note.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

Impairment testing

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

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. 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 goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

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

Provision for bad debts

Provision for bad debts is recognised based on the movement for significance of value in relation to the installment and whether a pattern of regularity in payments has been made.

Long service award provision

The provision for the long service award is recognised based on the number of employees and the average past service years.

Please refer to note 1.15 provisions and contingencies for recognition and measurement criteria.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Classification of leases

The group uses the guidance in IAS 17 to classify leases as either operating leases or finance 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.

Property, plant and equipment

A professional valuator is engaged every five years to determine the market values relating to Property. For the remaining four financial periods, fair value will be assessed by management with the relevant income, expenses and capitalisation rates obtained from a professional valuator. When the fair value of a revalued asset differs materially from its carrying amount, a professional valuation is obtained.

Investment property

Fair value is determined annually by external valuers/directors. Fair value is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Corporation uses alternative valuation methods.

The following methods were deemed the most applicable to the investment properties:
- Direct Comparable Sales
- Capitalisation of Income Approach
- Depreciated Replacement Value Approach

Retirement benefit obligation

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact the carrying amount of the medical obligations. Additional information is disclosed in note 18.

1.3 Investment property

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

Investment property is initially recognised at cost. Directly attributable transaction costs are included in the initial measurement. Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property.

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. Investment properties are held for long-term rental yields or for capital appreciation and are not occupied by the group. Investment properties are treated as long term investments and are carried at fair value representing open market value. Fair value is determined annually by external valuers/directors. Fair value is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Corporation uses alternative valuation methods.

The following methods were deemed the most applicable to the investment properties:
- Direct Comparable Sales
- Capitalisation of Income Approach
- Depreciated Replacement Value Approach

Management shall assess the fair value of investment property with relevant income and expenditure, capitalisation obtained from a professional valuator. This assessment shall be done regularly for a period not exceeding 5 years. When the fair value of a revalued asset differs materially from its carrying amount, a professional valuation is obtained.

If the fair value cannot be reliably determined on a continuous basis, the investment property is to be measured using the cost model.

Accounting Policies

1.3 Investment property (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and cost of the item can be reliably measured. The carrying amount of the replaced part is de-recognised. All repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

1.4 Property, plant and equipment

The cost of 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 group; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

Subsequent measurement

Property

Property is carried at the revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at the end of the reporting period.

Owner-occupied properties, whose fair value can be measured reliably, are carried at a revalued amount, being its fair value at date of the revaluation less accumulated depreciation and impairment. A professional valuator shall be engaged every five years to determine the market values. For the remaining four financial periods, fair value will be assessed by management with the relevant income, expenses and capitalisation rates obtained from a professional valuator.

When the fair value of a revalued asset differs materially from its carrying amount, a professional valuation will be obtained. If an item of property is revalued, the entire class of property to which that asset belongs is revalued.

If a property’s carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If a property’s carrying amount is decreased as a result of a revaluation or impairment the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in equity (comprehensive income) to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Property that is being constructed for future use as investment property is accounted for at fair value. Any gain arising on re-measurement is recognised in profit or loss to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognised and presented in the revaluation reserve in equity. Any loss is recognised in the revaluation reserve in equity to the extent that an amount had previously been included in the revaluation reserve relating to the specific property, with any remaining loss recognised immediately in profit or loss.

Upon disposal, any revaluation reserve relating to the particular asset being disposed, is transferred to retained earnings.

Plant and equipment

Plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Furniture and fixtures, machinery and equipment, motor vehicles and computer hardware are stated at historical cost less accumulated depreciation and impairment losses. These assets are depreciated, on a straight line basis to their expected residual values, over the estimated useful lives of the assets concerned.

The assets expected residual values and estimated useful lives are reviewed, and adjusted if appropriate, on an annual basis.

Accounting Policies

1.4 Property, plant and equipment (continued)

Change in the estimated useful life are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and cost of the item can be reliably measured. The carrying amount of any replaced part is de-recognised. All repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

Item	Average useful life
Owner-occupied properties	20 years
Furniture and fixtures, machinery and equipment	15 years
Motor vehicles	4 to 9 years
Computer hardware	1 to 10 years
Plant	15 to 25 years

The 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. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Land is not depreciated and as such will have an indefinite useful life.

1.5 Intangible assets

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

Intangible assets are initially recognised at cost.

Subsequent measurement

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 every period-end.

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

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in profit or loss.

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	1 to 7 years

1.6 Investments in subsidiaries

In the Corporation’s separate consolidated financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

Accounting Policies

1.7 Investments in associates

An investment in an associate is carried at cost less any accumulated impairment.

1.8 Financial instruments

Classification

The group classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through profit or loss - held for trading
- Loans and receivables
- Financial liabilities at fair value through profit or loss - designated
- 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.

Initial recognition and measurement

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

The group 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.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the group commits to purchase or sell the asset.

Subsequent measurement

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

Net gains or losses on the financial instruments at fair value through profit or loss include dividends and interest.

Dividend income is recognised in profit or loss as part of other income when the group's right to receive payment is established.

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 group has transferred substantially all risks and rewards of ownership.

Financial liabilities (or a part of a financial liability) are derecognised when it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Accounting Policies

1.8 Financial instruments (continued)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Impairment of financial assets

At each reporting date the group assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Impairment is only recognised up until the fair value of any securities held by the group.

Fair value of securities is determined annually by external valuers/directors. Fair value is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Corporation uses alternative valuation methods.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to (from) group companies

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

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

Trade and other receivables are classified as loans and receivables.

Accounting Policies

1.8 Financial instruments (continued)

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade and other payables are classified as financial liabilities measured at amortised cost.

Cash and cash equivalents

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

For the purpose of the cash flow statement, cash and cash equivalent comprise of cash on hand, deposits held on call with banks and collateral investments, net of bank overdrafts. Cash and cash equivalents are classified as receivables originated by the enterprise and are measured at amortised cost.

Cash and cash equivalents are classified as loans and receivables.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the effective interest rate method.

Bank overdraft and borrowings are classified as financial liabilities measured at amortised cost.

Derivatives

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

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

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

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

Held to maturity

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

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

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

Accounting Policies

1.9 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 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, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, 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.

The Corporation (Holding company) is exempt from taxation in terms of section 10(1) (cA) (I) of the Income Tax Act.

1.10 Leases

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

Finance leases – lessee

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

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

Operating leases - lessor

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

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

Accounting Policies

1.10 Leases (continued)

Operating leases – lessee

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

Any contingent rents are expensed in the period they are incurred.

1.11 Inventories

Inventories are measured at the lower of cost and net realisable value on the first-in-first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventory includes properties that were repossessed and will be sold to recover losses on impaired debtors. These properties were held as security for loans granted.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of assets

The group 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 group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the group 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.
- tests goodwill acquired in a business combination for impairment annually.

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

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

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

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

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.

1.12 Impairment of assets (continued)

Impairment on goodwill is never reversed.

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. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.13 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.

1.14 Employee benefits

Short-term employee benefits

The Corporation recognises a liability and an expense for bonuses, based on the approved policy. The Corporation recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Defined contribution plans - Pensions and Benefit Fund Contributions

The Parent has a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions into a separate entity / fund. The Parent has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Corporation pays contributions to privately administered pension insurance plans on a contractual basis. The Corporation has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit plans - Post retirement medical obligation

The Parent provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement. The expected costs of these benefits are accrued over the period of employment. The liability recognised in respect of the post-retirement healthcare benefit is the present value of the defined benefit obligation at the financial year end date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by using the fixed real medical inflation method in discounting the estimated future cash outflows by considering the yield on government bonds.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

1.15 Provisions and contingencies

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

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

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

Provisions are not recognised for future operating losses.

Accounting Policies

1.15 Provisions and contingencies (continued)

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provisions due to the passage of time is recognised as finance cost.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.16 Government grants

An unconditional government grant is recognised in profit or loss as other income when the grant becomes receivable.

Other government grants are recognised initially as deferred liability at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant.

Grants that compensate the Corporation for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Grants that compensate the Corporation for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

When the group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual installments. When loans or similar assistance are provided by government or related institutions, with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant.

The loan or assistance is initially recognised and measured at fair value and the government grant is measured as the difference between the initial carrying value of the loan and proceeds received.

1.17 Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group;

Accounting Policies

1.17 Revenue (continued)

- 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.

The group uses the percentage-of-completion method to determine the stage of completion of transactions involving the rendering of services.

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.

Dividends are recognised, in profit or loss, when the company's right to receive payment has been established.

1.18 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

1.19 Borrowing costs

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

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

The capitalisation of borrowing costs commences when:

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

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

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

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

1.20 Bad debts written off

Bad debts are written off, directly against the debtors' account, after a comprehensive collection process, all legal steps have been taken and it is considered that the Corporation will be unable to recover the debt. The collection processes include debtor visits, consultations with debtors, rework of debtors' business plans and the rescheduling of debts. If debtors cannot pay after the collection process they will be handed over to the legal department for the legal collection of debts. Bad debts are written off after the legal process has been exhausted and recognised as an expense in profit or loss. Subsequent recoveries of amounts previously written off are credited against other income in profit or loss.

Accounting Policies

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to any applicable legislation, or is in contravention of the group's supply chain management policy. Irregular expenditure is accounted for as expenditure, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless and wasteful 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 when it will be recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Assets and liabilities classified as held for sale are for distribution are presented separately as current items in the statement of financial position.

Notes to the Consolidated Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

No standards or interpretations relevant to the group became effective for the current financial year.

2.2 Standards and Interpretations early adopted

The group has not early adopted any standards and interpretations.

2.3 Standards and interpretations not yet effective

The group has historically applied Statements of GAAP (Generally Accepted Accounting Practice) as issued by the Accounting Standards Board (ASB). The Statements of GAAP were withdrawn by the ASB from 1 December 2012.

For those Government Business Enterprises that apply Statements of GAAP, the ASB agreed that, as an interim measure, these entities should continue to apply Statements of GAAP (as issued at 1 April 2012) until the ASB has undertaken more extensive research to identify the most appropriate reporting framework.

Statements of GAAP are drawn from International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRICs and SICs). Directive 5, as issued by the ASB, outlines which of these pronouncements constituted the Statements of GAAP (called the “GAAP Reporting Framework”) at 1 April 2012.

The Statements of GAAP as at 1 April 2012 comprise the IFRSs, IASs, IFRICs and SICs, and any amendments thereto, issued by the International Accounting Standards Board (IASB) or the IFRIC up until May 2011.

At year-end the ASB has not yet identified the most appropriate reporting framework and therefore there are no “standards and interpretations not yet effective”.

Since the statements of GAAP in 2012, the Board has been deliberating on what the most appropriate reporting framework should be for entities that applied statements of GAAP.

During this time; the Board agreed as an interim measure that Government Business Enterprises should retain the status quo regarding the reporting framework applied in preparing their consolidated financial statements. (Therefore continue applying statements of GAAP).

Directive 12, the selection of an Appropriate Reporting Framework by Public Entities issued in July 2015 sets out the criteria to be applied in determining whether IFRS could be applied. FDC meets the criteria as set out in this Directive.

This Directive is effective for financial year commencing on or after 1 April 2018.

Notes to the Consolidated Financial Statements

3. Investment property

Group

	2017			2016		
	Valuation	Accumulated depreciation	Carrying value	Valuation	Accumulated depreciation	Carrying value
Investment property	637 999 704	-	637 999 704	660 746 520	-	660 746 520

Corporation

	2017			2016		
	Valuation	Accumulated depreciation	Carrying value	Valuation	Accumulated depreciation	Carrying value
Investment property	637 999 704	-	637 999 704	660 746 520	-	660 746 520

Reconciliation of investment property - Group - 2017

	Opening balance	Disposals	Classified as held for sale	Fair value adjustments	Total
Investment property	660 746 520	(4 004 000)	(40 500 000)	21 757 184	637 999 704

Reconciliation of investment property - Group - 2016

	Opening balance	Classified as held for sale	Fair value adjustments	Total
Investment property	640 238 345	(13 975 700)	34 483 875	660 746 520

Reconciliation of investment property - Corporation- 2017

	Opening balance	Disposals	Classified as held for sale	Fair value adjustments	Total
Investment property	660 746 520	(4 004 000)	(40 500 000)	21 757 184	637 999 704

Notes to the Consolidated Financial Statements

3. Investment property (continued)

Reconciliation of investment property - Corporation - 2016

	Opening balance	Classified as held for sale	Fair value adjustments	Total
Investment property	640 238 345	(13 975 700)	34 483 875	660 746 520

Pledged as security

No investment property is pledged as security.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

3. Investment property (continued)

Permission - To - Occupy (PTOs)

FDC is in the possession of 27 Permissions To Occupy Certificates given as security. These PTO's were not valued by the Professional Valuer during the previous financial year or revalued for the current financial year for reasons below:

Permission To Occupy was issued by a communal tribal authority on state land within the former Homelands (in South Africa). PTO's provided the bearer with a recognised right of occupation and utilisation of an identified portion of land but the land remained the ownership of the state. PTO's are not recognised for purposes of security by financial institutions. This situation is responsible for low levels of investment by the private sector in such areas. All land holders share the same obligations, including payment of tribal levies and observance of traditional practises. Exclusive rights to residential stands or arable plot cannot be sold and can only be exchanged with the approval of the headman or chief. Anyone wishing to leave the area may sell any remaining structures to a new occupant, but the new occupant must have the stand allocated to them by the Tribal Authority before taking occupation.

- Permission to occupy is a right of personal nature allowing the user either use or occupation rights over a certain rural surveyed piece of land. Therefore it is not registerable in a Deeds Registry.
- PTO's are not eligible for registration in a Deeds Registry as they are by nature classified as mere personal rights whereas only real rights and limited real rights can be registered in a Deeds Registry.
- PTO tenure is not an economically viable form of land holdership as it is not acceptable as real security or collateral by any financial institution (it cannot secure a debt or one cannot take a home loan or mortgage against it.
- The tenure rights of the PTO lapses when its holder dies and as such cannot be inherited in a deceased estate of the holder.

A PTO is a less formal tenure right that merely evidences a user right and such is only a personal right. It is not proof of title of ownership in land and therefore cannot be classed as a Title Deed to Land.

Properties let in terms of Notarial deed of lease

Included in Investment Properties are the following properties which the Corporation has let in terms of Notarial Deed of Lease:
- Reahola Shopping Centre, Botshabelo, Erf 139 & 161.
- Setsing Shopping Centre, Phuthaditjhaba, farm 1922/19 &20.

The fair values of these properties are as follows:

Reahola Shopping Centre, Erf 139 & 161	20 000 000	19 749 600	20 000 000	19 749 600
Setsing Shopping Centre, Phuthaditjhaba, farm 1922/19 & 20	38 000 000	38 584 000	38 000 000	38 584 000
	58 000 000	**58 333 600**	**58 000 000**	**58 333 600**

Details of all investment properties

Fair value

Commercial/Industrial properties	586 506 654	607 972 640	586 506 654	607 972 640
Residential properties	51 493 050	52 773 880	51 493 050	52 773 880
	637 999 704	**660 746 520**	**637 999 704**	**660 746 520**

Notes to the Consolidated Financial Statements

3. Investment property (continued)

A register containing the detail information regarding the properties is available at the FDC's head offices, situated at 33 Kellner Street, Bloemfontein.

Properties included in the Investment Property asset register but not registered in the name of the FDC or its predecessors

FDC has started and is currently in the process of reviewing the property asset register. This process should be completed in the 2019 financial year. During this process it was discovered that for 44 properties included in the Investment property asset register, FDC or one of its predecessors, does not appear as the registered owner in the records of the Registry of Deeds.

Where it can be established that the FDC is the rightful owner of such a property, the property will be transferred into the name of the FDC. Where no such proof exists, the property will be removed from the Investment Property asset register. This will affect the value of Investment property as disclosed in the consolidated financial statements.

The value of investment properties not registered in the name of FDC is indicated below:

	2017	2016
Commercial and Industrial		
Fair value	-	23 777 520
Residential		
Fair value	-	5 047 120
Total	**-**	**28 824 640**

Details of valuation

The effective date of the Fair Value Valuation was March 2017. Revaluations were performed by an independent valuer, Mr Zack van der Merwe registered as a Professional Valuer, (Certificate no. 4973/1), with the SACPVP (South African Council of Professional valuers profession) as well as the SAIV (South African Institute of Valuers), as a professional valuer. Mr van der Merwe is not connected to the group and has recent experience in the location and categories of the investment property being valued. The group's complete last revaluation was performed on May 2017 by independent valuators.

The 2017 valuations of the investment register was performed on the basis of an independent market analysis as well as site inspections, where possible.

Methodology and approach

The methodology and approach is divided into three sections for explanation purposes and includes the following:

- the process of updating immovable asset valuations;
- the process of updating movables asset valuations; and
- data management, handling of spatial data.

Approach immovable assets

Highest and Best Use

Fundamental to the concept of value is the theory of highest and best use.

Land has no value until there is a use for it; the amount of the value however depends on the character of the intended use. The owner of real property typically desires to reap the greatest possible return from the property and will select a use to achieve this objective. Since change is ever present, the existing use of land may no longer conform to what had become its highest and best use; and the highest and best use of the improved property may differ from the highest and best use of the site if vacant.

“Highest and best use” is an appraisal concept denoting the probable use on which an estimate of market value is based. Since different possible uses tend to have different market values, the selection of a probable, or “highest and best use” is necessary for a reliable estimate of market value. A reliable prediction of “highest and best use” allows an appraiser to employ valuation techniques, market data and assumptions relevant to the selected highest and best use. A market value estimate based on anything but probable use, gave an indication of what price would actually be paid, if the property were sold as on the date of valuation.

Notes to the Consolidated Financial Statements

3. Investment property (continued)

“Highest and best use” is defined as:

“The most probable use of a property which is physically possible, appropriately justified, legally permissible and financially feasible at the time of the appraisal and which results in the highest value of the property being valued.”

The criteria considered in selecting the “highest and best use” at the time of the appraisals were:

- Physically possible. The site must possess adequate size, shape and soil conditions to support the proposed use.
- Legally permissible. The proposed use of the property must conform to all zoning and use restrictions for the site.
- Appropriately justified. A use that is not legally permissible or physically possible cannot be considered as highest and best use. A use that is both legally permissible and physically possible may never require an explanation justifying why that use is reasonably probable.
- Financially feasible. The proposed use must be capable of providing a net return to the property FDC group should the property be sold.

Basic Valuation Methods

Value is not intrinsic to a property object and is not equated with cost or production. Market value is the result of the interaction of people in the market situation, in a similar situation we can only expect people to act in a similar fashion. The basic imperfection of the appraisal process lies in the fact that we do not have reliable records of how all types of people react in all types of market situations.

There are two basic analytical methods available for the purpose of value prediction which have been used. The choice between these two analytical processes depends on the kind and quality of the information that the appraiser is able to uncover and assemble.

When sufficient and reliable market information on past market behaviour were available, various statistical methods were employed for processing data to derive a prediction of future price behaviour under given conditions and for measuring the reliability of the prediction. These methods were grouped under the label of statistical inference, i.e. the use of mathematics for drawing inferences for the future from measured records of past behaviour.

Market simulation for appraisal purposes involved the construction of a real estate market model consisting of factors that will affect transactions that might occur within the market. On the basis of the valuer’s understanding of how the market works, she then had a basis for predicting the price outcome of a transaction within the simulated market when the subject property is exposed for a hypothetical sale.

Statistical Inference – Market Data Approach

The market data approach involved direct comparisons of the property being valued to similar properties that have sold in the same or in a similar market in order to derive at a market value indication for the property being appraised. For details on each suburb’s movements see the property reports.

Carefully verified and analysed market data was used as meaningful evidence of value where it represented typical actions and reactions of buyers, sellers, users and investors. The market data approach was based on the principle of substitution. The approach implies that a prudent person will not pay more to buy a property than it will cost to buy a comparable substitute property. The price a typical purchaser will pay is usually the result of an extensive shopping process in which available alternatives are compared. The property purchased typically represents the best available balance between the buyer’s specifications and the purchase price.

Factors considered in Direct Comparison

The factors considered in direct sales comparisons are sometimes referred to as elements of comparison. The valuers’ objective was to interpret from sales of similar properties to the probable market value of the property being appraised. A comprehensive market file, augmented by current research, provided a variety of market information as a basis for the comparison process. Since no two properties are identical in all respects, the attributes of the potentially comparable sale properties were reconciled with those of the property being appraised.

In making comparisons, the appraiser identified similarities and dissimilarities. The most dependable conclusions are based on comparisons of the most similar factors and conditions. The valuer considered the extent of the dissimilarities and estimates the amounts these add to or subtract from the known price of the sold property in order to obtain an adjusted figure reflecting the probable sale price of the property being valued.

Notes to the Consolidated Financial Statements

3. Investment property (continued)

Elements of comparison used include:

- **Time:**
  The length of time for which specific sale comparisons may be useful varies with the character of the market, the rate and extent of market change and the type of property.
- **Physical Characteristics:**
  Similar properties may differ regarding to site qualities- frontage, size of land, soil type, topography
  Improvements although comparable may differ not only in size of improvements but also in quality of amendments and finishing.
- **Location:**
  Similar properties might sell for more in one neighbourhood than in another, sales data used for comparison is most meaningful when confined to the neighbourhood of the property being appraised.
- **Institutional Attributes:**
  Legal and management scheme influences on use application of the property.
- **Present use of the Property**
- **Highest and best use of property.**

Factors considered in Capitalization

The income capitalization method considers the nett annual income, through market related rentals, taking into consideration the vacancy factor and risk, which is then divided through the capitalization rate to indicate the potential market value of the property. This method was applied to improved commercial properties where market related rentals could be determined.

Methodology

General market (immovable assets)

In determining the market value for the subject property, a number of wide ranging factors had to be considered. This includes factors that range from international and national market conditions, trade agreements, legislation, exchange rates, labour aspects and the various factors that might influence the market value of the subject property.

It is a known fact that land is becoming scarcer and land near established areas are more popular for reasons such as easier access to municipal services, established infrastructures etc. Cognisance of the current economy under pressure and onerous rezoning process, service installation by municipalities and problematic electricity supply must also be reviewed.

Market Analysts from both ABSA and FNB predict more of the same; the same stability, the same low growth rates. The relatively low nominal house price growth of the past two years is forecast to continue in 2017/18. In view of current trends in and prospects for the major economic and household finance-related factors, as well as recent trends in house price growth, continued single-digit nominal price growth is forecast for 2017.

Lightstone a provider of comprehensive data, analytics and systems on property indicated that economic conditions for 2017 should remain similar to that of 2016 even though GDP forecasts for 2017 might be slightly subdued. Since it is expected that economic conditions will remain constant in 2017 it is expected that house price inflation will not increase and remain relatively stable.

Property transfers were drawn for individual townships to indicate movement and latest market related indicators for properties.

Property transfers report from 1 March 2015 to 1 March 2017 confirming no significant change in the property market.

Method of valuation

The valuation of property requires the use of a wide variety of mathematical techniques ranging from simple arithmetic through algebraic formulas to the statistical techniques of multiple regression analysis. The following formed part of the process:

- Market information comparison with data contained in the property register;
- Analysing of market data and adjusting of regression models;
- Comparison of market value estimates with market indicators; adjustments made; and
- Submission of valuations.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

3. Investment property (continued)

Amounts recognised in profit and loss for the year

Rental income from investment property	91 024 258	75 864 059	91 024 258	75 843 059
Direct operating expenses from rental generating property	(48 553 333)	(46 666 562)	(48 553 333)	(46 666 562)
Fair value adjustment / (impairment)	21 757 184	34 483 875	21 757 184	34 483 875
	64 228 109	**63 681 372**	**64 228 109**	**63 660 372**

Notes to the Consolidated Financial Statements

Figures in Rand

4. Property, plant and equipment

Group	2017			2016		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Buildings	24 826 131	(6 199 158)	18 626 973	20 793 635	(5 148 367)	15 645 268
Plant and machinery	890 050	(130 251)	759 799	851 868	(85 963)	765 905
Furniture and fixtures, machinery and equipment	7 701 876	(5 760 051)	1 941 825	8 372 142	(6 088 635)	2 283 507
Motor vehicles	1 610 913	(1 411 063)	199 850	1 737 891	(1 538 040)	199 851
Computer hardware	4 021 138	(3 401 032)	620 106	3 896 130	(3 312 843)	583 287
Assets under construction	134 507 990	-	134 507 990	48 341 381	-	48 341 381
Total	**173 558 098**	**(16 901 555)**	**156 656 543**	**83 993 047**	**(16 173 848)**	**67 819 199**

Company	2017			2016		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Buildings	23 857 761	(5 857 761)	18 000 000	19 825 265	(4 806 970)	15 018 295
Plant and machinery	890 050	(130 251)	759 799	851 868	(85 963)	765 905
Furniture and fixtures, machinery and equipment	5 077 585	(3 186 494)	1 891 091	4 592 396	(3 039 331)	1 553 065
Motor vehicles	938 985	(938 985)	-	938 985	(938 985)	-
Computer hardware	3 982 103	(3 362 770)	619 333	3 843 602	(3 261 089)	582 513
Assets under construction	134 507 990	-	134 507 990	48 341 381	-	48 341 381
Total	**169 254 474**	**(13 476 261)**	**155 778 213**	**78 393 497**	**(12 132 338)**	**66 261 159**

Notes to the Consolidated Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Group - 2017

	Opening balance	Additions	Reclassification	Disposals	Revaluations	Depreciation	Total
Buildings	15 645 268	-	-	-	4 032 495	(1 050 790)	18 626 973
Plant and machinery	765 905	38 182	-	-	-	(44 288)	759 799
Furniture and fixtures, machinery and equipment	2 283 507	636 201	-	(702 823)	-	(275 060)	1 941 825
Motor vehicles	199 851	-	-	(1)	-	-	199 850
Computer hardware	583 287	376 527	-	(7 885)	-	(331 823)	620 106
Assets under construction	48 341 381	83 871 498	2 295 111	-	-	-	134 507 990
	67 819 199	**84 922 408**	**2 295 111**	**(710 709)**	**4 032 495**	**(1 701 961)**	**156 656 543**

Reconciliation of property, plant and equipment - Group - 2016

	Opening balance	Additions	Revaluations	Prior period adjustment (additions)	Depreciation	Total
Buildings	15 168 097	-	1 529 086	-	(1 051 915)	15 645 268
Plant and machinery	806 563	1 868	-	-	(42 526)	765 905
Furniture and fixtures, machinery and equipment	1 864 883	693 574	-	18 036	(292 986)	2 283 507
Motor vehicles	169 351	-	-	50 171	(19 671)	199 851
Computer hardware	556 047	270 091	-	773	(243 624)	583 287
Assets under construction	25 978 542	22 362 839	-	-	-	48 341 381
	44 543 483	**23 328 372**	**1 529 086**	**68 980**	**(1 650 722)**	**67 819 199**

Notes to the Consolidated Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Corporation - 2017

	Opening balance	Additions	Reclassification	Disposals	Revaluations	Depreciation	Total
Buildings	15 018 295	-	-	-	4 032 495	(1 050 790)	18 000 000
Plant and machinery	765 905	38 182	-	-	-	(44 288)	759 799
Furniture and fixtures, machinery and equipment	1 553 065	636 201	-	(23 115)	-	(275 060)	1 891 091
Computer hardware	582 513	376 527	-	(7 884)	-	(331 823)	619 333
Assets under construction	48 341 381	83 871 498	2 295 111	-	-	-	134 507 990
	66 261 159	**84 922 408**	**2 295 111**	**(30 999)**	**4 032 495**	**(1 701 961)**	**155 778 213**

Reconciliation of property, plant and equipment - Corporation - 2016

	Opening balance	Additions	Revaluations	Depreciation	Total
Buildings	14 540 000	-	1 529 086	(1 050 791)	15 018 295
Plant and machinery	806 563	1 868	-	(42 526)	765 905
Furniture and fixtures, machinery and equipment	1 086 532	693 574	-	(227 041)	1 553 065
Motor vehicles	4 979	-	-	(4 979)	-
Computer hardware	556 046	270 091	-	(243 624)	582 513
Assets under construction	25 978 542	22 362 839	-	-	48 341 381
	42 972 662	**23 328 372**	**1 529 086**	**(1 568 961)**	**66 261 159**

Impairment losses are included in operating expenses in the statement of profit or loss and other comprehensive income.

Pledged as security

No assets are pledged as security.

There are no restrictions on the distribution of the revaluation reserve to the equity holders of the group.

Notes to the Consolidated Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Revaluations

Refer to note 3 investment property for the details of the valuators and assumptions used.

The carrying value of the revalued assets under the cost model would have been R 10 236 967 (2016: R 17 063 098).

Other information

Included in the above figures are assets with an initial cost price of R 4 349 155 (2016: R 6 139 543) which are fully depreciated and are still in use.

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 Corporation.

Assets under construction relates to SEZ fencing and infrastructural developments.

5. Intangible assets

Group	2017			2016		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	5 803 607	(4 993 026)	810 581	5 658 040	(4 814 501)	843 539

Corporation	2017			2016		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	5 803 607	(4 993 026)	810 581	5 658 040	(4 814 501)	843 539

Notes to the Consolidated Financial Statements

Figures in Rand

5. Intangible assets (continued)

Reconciliation of intangible assets - Group - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	843 539	145 566	(178 524)	810 581

Reconciliation of intangible assets - Group - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	971 132	40 967	(168 560)	843 539

Reconciliation of intangible assets - Corporation - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	843 539	145 566	(178 524)	810 581

Reconciliation of intangible assets - Corporation - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	971 132	40 967	(168 560)	843 539

Other information

Included in the above figures are intangible assets with an initial cost price of R 1 879 708 (2016: R 1 879 708), which are fully depreciated and are still in use.

Notes to the Consolidated Financial Statements

6. Investments in subsidiaries

Corporation

Name of company	Date acquired	Status of subsidiaries	Date liquidated / deregistered
Canton Trading 123 (Pty) Ltd *	April 2008	Liquidated	23 August 2012
Classic Number Trading 45 (Pty) Ltd *	March 2007	Liquidated	10 June 2010
Confram Harrismith Properties (Pty) Ltd *	October 1996	Deregistered	
Copper Moon Trading (Pty) Ltd *	February 2007	Liquidated	18 February 2011
Cross Point Trading 23 (Pty) Ltd	March 2007	Pending liquidation	
Golden Pond Trading 663 (Pty) Ltd *	April 2008	Liquidated	23 August 2012
Highland Furniture Factory (Pty) Ltd	January 2002	Pending liquidation	
Orofino Africa Jewellery Manufacturing (Pty) Ltd *	October 2007	Deregistered	
Phiritona Plastics (Pty) Ltd	October 2007	Pending liquidation	
Rumar Manufacturing (Pty) Ltd	February 2007	Liquidated	26 August 2010
Satinsky 167 (Pty) Ltd	October 2007	Liquidated	1 December 2010
Scopefull 21 (Pty) Ltd	August 2000	Transferred	
Synthpro Holdings (Pty) Ltd	July 2007	Liquidated	11 March 2011
Twins Cities Trading 129 (Pty) Ltd	March 2007	Surrendered	
Welkom Diamond Cutting Works (Pty) Ltd	July 2007	Restructured	29 May 2011
Free State Agri SOC RF **	February 2015	Not yet operational	
Free State Investments SOC RF **	February 2015	Not yet operational	
Free State Publishers SOC RF **	February 2015	Not yet operational	
Maluti-A-Phofung IDZ SOC RF **	February 2015	Not yet operational	

	Carrying amount 2017	Carrying amount 2016
Canton Trading 123 (Pty) Ltd *	-	49
Classic Number Trading 45 (Pty) Ltd	-	40
Confram Harrismith Properties (Pty) Ltd	-	520 000
Copper Moon Trading (Pty) Ltd	-	51
Cross Point Trading 23 (Pty) Ltd	25	25
Golden Pond Trading 663 (Pty) Ltd	-	49
Highland Furniture Factory (Pty) Ltd	100	100
Orofino Africa Jewellery Manufacturing (Pty) Ltd	-	49
Phiritona Plastics (Pty) Ltd	380	380
Rumar Manufacturing (Pty) Ltd	-	300
Satinsky 167 (Pty) Ltd	-	26
Scopefull 21 (Pty) Ltd	-	33
Synthpro Holdings (Pty) Ltd	-	30
Classic Number Trading 45 (Pty) Ltd	-	2 992 200
Twin Cities Trading 129 (Pty) Ltd	-	520 000
	505	4 033 332
Impairment of investment in subsidiaries	(405)	(4 033 232)
	100	100

The carrying amounts of subsidiaries are shown net of impairment losses. Investments in subsidiaries are impaired due to liquidation, deregistration or due to the fact that the subsidiaries are not operational.

* For the liquidated and deregistered companies, the Board approval for the write-off of the investment is still pending.

** These entities have no impact on the current year figures.

The mission and mandate of the FDC (parent entity) is to provide financial and business development services that result in the establishment of sustainable SMMEs for economic growth and development in the Free State Province.

Notes to the Consolidated Financial Statements

6. Investments in subsidiaries (continued)

Based on the above, the parent entity acquired an equity interest in various SMMEs which are generally start-up companies and disburse shareholder loans (unsecured and interest-free) as well as business loans (secured and bears interest) to them.

Interest in subsidiaries

Reporting period, voting power and percentage shareholding:

Name of company	Year end	% voting power 2017	% voting power 2016	% holding 2017	% holding 2016
Canton Trading 123 (Pty) Ltd	March	49	49	49	49
Classic Number Trading 45 (Pty) Ltd	March	40	40	40	40
Confram Harrismith Properties (Pty) Ltd	March	100	100	100	100
Copper Moon Trading (Pty) Ltd	March	55	55	55	55
Cross Point Trading 23 (Pty) Ltd	February	25	25	25	25
Golden Pond Trading 663 (Pty) Ltd	March	49	49	49	49
Highland Furniture Factory (Pty) Ltd	March	100	100	100	100
Orofino Africa Jewellery Manufacturing (Pty) Ltd	March	49	49	49	49
Phiritona Plastics (Pty) Ltd	February	38	38	38	38
Rumar Manufacturing (Pty) Ltd	March	30	30	30	30
Satinsky 167 (Pty) Ltd	February	26	26	26	26
Scopefull 21 (Pty) Ltd	February	50	50	50	50
Synthpro Holdings (Pty) Ltd	February	33	33	33	33
Twin Cities Trading 129 (Pty) Ltd	March	30	30	30	30
Free State Agri SOC RF	March	100	100	100	100
Free State Investments SOC RF	March	100	100	100	100
Free State Publishers SOC RF	March	100	100	100	100
Maluti-A-Phofung IDZ SOC RF	March	100	100	100	100

Subsidiaries with less than 50% voting powers held

Although the Corporation holds less than 50% of the voting powers in the entities listed previously, the investment is considered a subsidiary because of additional voting powers granted to the Corporation as a result of its loan to the investee.

Restrictions relating to subsidiaries

Up until such time as the commercial loan and all interest thereon, as well as the shareholder's loan have been repaid to the parent entity, no dividends will be declared to shareholders.

Reporting period

The management accounts for the entities with year ends that are different to the Corporation were obtained. The effect of transactions that occurred between the entities year end date and the Corporation's year end date were assessed at a group level. The impact was found to be insignificant. Minor adjustments were processed to eliminate intergroup transactions and balances during the consolidation process.

Subsidiaries which were derecognised during the year due to liquidation / deregistration

Phiritona Plastics (Pty) Ltd	(679 710)	-

Phiritona Plastics (Pty) Ltd was liquidated during the year. The entity's assets at liquidation comprised solely of property plant and equipment.

The loss on derecognition of assets sold during liquidation was recognised in comprehensive income. Refer to note 31.

Notes to the Consolidated Financial Statements

7. Investments in associates

Group

Name of company	Listed / Unlisted	% ownership interest 2017	% ownership interest 2016	Carrying amount 2017	Carrying amount 2016
Mafube Risk and Insurance Consultants (Pty) Ltd	Unlisted	24.50 %	24.50 %		
Cost				49 000	49 000
Accumulated profits				621 181	1 259 893
Income (loss) from equity accounted investments				471 961	345 591
Less: Dividends paid				(131 198)	(984 303)
				1 010 944	670 181

Corporation

Name of company	Carrying amount 2017	Carrying amount 2016
Mafube Risk and Insurance Consultants (Pty) Ltd	49 000	49 000

The carrying amount of Mafube Risk and Insurance Consultants (Pty) Ltd approximates its fair value.

The carrying amounts of associates are shown net of impairment losses.

Summarised financial information of material associates

Total assets	7 143 244	6 286 019
Total liabilities	3 818 430	4 319 351
Revenue	5 654 226	3 877 623
Profit / (loss)	1 926 371	1 410 577

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

7. Investments in associates (continued)

Mafube Risk and Insurance Consultants (Pty) Ltd

Nature of the business:	Insurance and employee broker
Country of incorporation:	South Africa
Group shareholding:	24.50%

Associates with different reporting dates

The management accounts of Mafube Risk and Insurance were obtained for the period that differs to the year of the group. The transactions that occurred during this period were assessed and found to be insignificant to the group. The management accounts were however consolidated to a period ending 31st of March 2017.

8. Loans receivable

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Business loans Business loans are secured by installment sale agreements, special and general notarial bonds, key man insurance and comprehensive insurance. These loans are repayable over a maximum period of 5 years and the interest is equal to the prime lending rate.	194 827 081	170 959 278	194 827 081	184 579 362
Housing loans The Corporation holds collateral in the form of first bonds over the properties of the clients. These loans have a maximum repayment period of 20 years and the interest is equal to the prime lending rate.	59 028 733	63 522 184	59 028 733	63 522 184
Personnel loans See terms and conditions below.	8 716 998	9 941 174	8 716 998	9 941 174
Bridging loans These are short term loans secured by installment sale agreements, special and general notarial bonds, key man insurance and comprehensive insurance. Interest is charged at the prime lending rate and repayment is over the length of the project ranging from 1 month to 1 year.	106 674 359	104 068 516	106 674 359	105 035 065
	369 247 171	348 491 152	369 247 171	363 077 785
Total impairment	(268 753 332)	(249 893 039)	(268 753 332)	(264 479 672)
	100 493 839	**98 598 113**	**100 493 839**	**98 598 113**
Non-current assets				
Loans and receivables	11 111 697	33 750 406	11 111 697	33 750 406
Current assets				
Loans and receivables	89 382 142	64 847 707	89 382 142	64 847 707
	100 493 839	**98 598 113**	**100 493 839**	**98 598 113**

Notes to the Consolidated Financial Statements

8. Loans receivable (continued)

Personnel loans

At 31 March 2017, included in personnel loans are loans to former-employees to the amount of R 2 131 126 (2016: R 4 087 072).

Personnel loans consist of housing, motor vehicle, computer and personal loans.

The housing loans are secured by a first mortgage bond over the properties and are repayable over a maximum period of 30 years at the South African Revenue Services official rate.

Motor vehicle loans are secured by installment sales agreements, and are repayable over a maximum period of 5 years. For computers and personal loans the security is the net salary of the employee and is repayable over a maximum period of 2 years. All personnel loans carry interest at the South African Revenue Services official rate.

Bursary and dependent study loans are secured by the net salary of the employee, repayable within 12 months and carry interest at the South African Revenue Services official rate. Study bursaries are expensed and recognised as loans if employees fail their studies.

Loans and receivables past due

	Group 2017			
Loans past due, but not impaired	**31-60 days**	**61-90 days**	**91-120 days**	**120+**
Bridging loans	268 955	139 674	149	3 949 480
Home loans	235 390	162 206	-	23 462 900
Business loans	-	198 185	981	37 106 978
Staff loans	-	83 752	-	2 373 413
	504 345	**583 817**	**1 130**	**66 892 771**

	Corporation 2017			
Loans past due, but not impaired	**31 - 60 days**	**61 - 90 days**	**91 -120 days**	**120 +**
Bridging loans	268 955	139 674	149	3 949 480
Home loans	235 390	162 206	-	23 462 900
Business loans	-	198 185	981	37 106 978
Staff loans	-	83 752	-	2 373 413
	504 345	**583 817**	**1 130**	**66 892 771**

	Group 2016			
Loans past due, but not impaired	**31-60 days**	**61-90 days**	**91-120 days**	**120+**
Bridging loans	7 001	271	148	6 221 155
Home loans	529 349	618	275 784	15 454 696
Business loans	453 616	248	186 323	34 615 597
Staff loans	58 516	62	15 625	293 695
	1 048 482	**1 199**	**477 880**	**56 585 143**

Notes to the Consolidated Financial Statements

8. Loans receivable (continued)

Corporation 2016

Loans past due, but not impaired	31-60 days	61-90 days	91-120 days	120+
Bridging loans	7 001	271	148	6 221 155
Home loans	529 349	618	275 784	15 454 696
Business loans	453 616	248	186 323	34 615 597
Staff loans	58 516	62	15 625	293 695
	1 048 482	**1 199**	**477 880**	**56 585 143**

Loans were individually assessed to evaluate the movement on the loan. Movement was evaluated based on the significance of the value of the movement in relation to the installment and whether there was a pattern of regularity in payments made.

Loans were not impaired, beneath the fair value of the securities provided to the loan.

The carrying amount reported in the statement of financial position for other financial assets approximate fair value.

Valuations - Collateral of immovable securities over other financial assets

The valuation of immovable securities over other financial assets was performed by an independent valuer, Mr. Zack van der Merwe (Pr Val 4973/1), a Professional valuer, in accordance with the provisions of the South African Council of Property Valuers Profession (SACPVP) as well as the South African Institute of Valuers (SAIV). The market valuations for the immovable securities of FDC were determined based on valuation methods, principles and techniques approved by the South African Council for the Property Valuers Profession.

The valuation of movable securities were performed by an independent valuer, Mr. Zack van der Merwe, a Professional Valuer. The market valuations for movable securities of FDC were determined based on valuation methods, principles and techniques accepted as best practice and in compliance with the Generally Accepted Accounting Practices (GAAP).

The valuators determined the fair value of the securities for statement of financial position purposes on the following effective dates: 31 March 2017 and 31 March 2016. The effective date of the valuation was March 2017.

Reconciliation of impairment on loans and receivables

	Provision for bad debt housing loan	Personnel loans impairment	Provision for bad debts loans	Total
Opening balance	(24 989 219)	(1 261 264)	(238 229 189)	(264 479 672)
Movement in the year	8 948 363	81 268	(13 303 292)	(4 273 661)
	(16 040 856)	**(1 179 996)**	**(251 532 481)**	**(268 753 333)**

Credit quality of loans and receivables

The credit quality of loans and receivables can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Loans and receivables

Credit rating	2017 Group	2017 Corporation
B rating	4 498 073	4 498 073
C rating	62 063 524	62 063 524
Below C rating	33 932 242	33 932 242
	100 493 839	**100 493 839**

Definition of risk ratings:

B rating – Good behaviour, minor risk.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

8. Loans receivable (continued)

C rating – Fair trade risk

Below C rating – Poor trade risk

Receivables is given a B-rating if the following criteria is met:
- 80% of the total amount billed was paid during the financial year
- More than 8 payments were made during the year.

Receivables is given a C-rating if the following criteria is met:
- 80% of the total amount billed was paid during the financial year
- Less than 8 payments were made during the year.

Receivables is given below a C-rating if the following criteria is met:
- Less than 80% of the total amount billed was paid during the financial year.

It is the company's mandate to engage with BEE and SMME companies to improve their productivity, and therefore an element of poor trade risk will be present at the corporation.

9. Operating lease asset (liability)

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Non-current assets	1 860 592	2 503 348	1 860 592	2 503 348
Current assets	4 318 915	595 725	4 318 915	595 725
Current liabilities	-	(8 776)	-	(8 776)
	6 179 507	**3 090 297**	**6 179 507**	**3 090 297**

Non-current assets

Operating lease asset

In terms of IAS 17 (Leases) par. 50, lease income from operating leases shall be recognised in income on a straight line basis over the lease term. The differences between the contractual payments and the straight lining are recognised as an operating lease asset.

Current liability

Operating lease liability

In terms of IAS 17 (Leases) par. 33, lease payments under operating leases shall be recognised as an expense on a straight line basis over the lease term. The differences between the contractual payments and the straight lining are recognised as an operating lease liability.

Refer to note 35 for the minimum lease payments disclosure of the operating lease assets and liabilities.

10. Other investments

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Non-current				
Qwa Qwa Datnis (Pty) Ltd *	-	54 250	-	54 250
Current				
Corporate Money Managers Investment ***	-	8 387 178	-	8 387 178
	-	**8 441 428**	**-**	**8 441 428**

* The Corporation holds 18% of the issued share capital.

The Corporation, obtained a letter from the Qwa Qwa Datnis (Pty) Ltd auditors confirming that the company ceased business operations effective 10 July 2016.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

10. Other investments (continued)

From a group perspective, the investment in Qwa Qwa Datnis (Pty) Ltd is deemed to be impaired. No movement in the equity of the investment has been recorded in equity of the group and thus the entire investment has been impaired through profit and loss.

Equity investments are carried at cost.

***Corporate Money Managers Investment

The Corporate Money Managers Investment is deemed to be unrecoverable as no funds have been received from them since 2012. Due to no future expected recoveries, the carrying amount of the investment has been impaired and this represents the best estimate of its fair value.

Fair value hierarchy of financial assets at fair value through profit or loss

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and

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

The level within which the financial instrument is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets measured at fair value in the statement of financial position are as follows:

Level 3				
Financial assets at fair value through profit or loss	-	8 387 178	-	8 387 178

The following method and assumption was used to estimate the fair value of the financial asset.

- The estimate of dividend receivable as per curator.

The group's financial assets classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

Reconciliation of financial assets at fair value through profit or loss measured at level 3

Reconciliation financial assets at fair value through profit or loss measured at level 3 - Group - 2017

	Opening balance	Impairment	Total
Financial assets at fair value through profit or loss	8 387 178	(8 387 178)	-

Reconciliation financial assets at fair value through profit or loss measured at level 3 - Group - 2016

	Opening balance	Total
Financial assets at fair value through profit or loss	8 387 178	8 387 178

Notes to the Consolidated Financial Statements

Figures in Rand	Group 2017	Group 2016	Corporation 2017	Corporation 2016

10. Other investments (continued)

Reconciliation financial assets at fair value through profit or loss measured at level 3 - Corporation - 2017

	Opening balance	Impairment	Total
Financial assets at fair value through profit or loss	8 387 178	(8 387 178)	-

Reconciliation financial assets at fair value through profit or loss measured at level 3 - Corporation - 2016

	Opening balance	Total
Financial assets at fair value through profit or loss	8 387 178	8 387 178

11. Inventories

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Work in progress	155 904	155 904	-	-
Finished goods	131 797	131 797	-	-
Stands held for re-sale	3 141 289	3 054 425	3 141 289	3 054 425
	3 428 990	**3 342 126**	**3 141 289**	**3 054 425**
Carrying value of inventories carried at fair value less costs to sell	3 273 086	3 186 222	3 141 289	3 054 425

The carrying value of inventories carried at fair value less costs to sell comprises of finished goods and stands held for re-sale.

During the year R 0 (2016: R 206 122) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

Included in inventory is 298 properties relating to the Human Settlement Project. Based on agreement with the FDC these properties are to be transferred to the tenants having an agreement with the FDC. If these tenants cannot be traced, then the property will be transferred to the current tenant. Due to outstanding levies FDC is currently unable to transfer the properties to the new owners and subsequently still hold the title deed to the properties.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

12. Loans to subsidiaries

Shareholders loans

Cross Point Trading 23 (Pty) Ltd This loan according to the agreement, is obligated to cede with an equivalence of shares in favour of the Corporation and continues until such time as the business loan and the shareholder's loan are repaid. This amount is long term in nature, bears no interest and is repayable on demand.	-	-	737 756	737 756
Highlands Furniture Factory (Pty) Ltd This loan is long term in nature, bears no interest, is unsecured and has no fixed terms of repayment.	-	-	4 299 675	4 299 675
Phiritona Plastics (Pty) Ltd This loan according to the agreement, is obligated to cede with an equivalence of shares in favour of the Corporation and continues until such time as the business loan and the shareholder's loan are repaid. This amount is long term in nature, bears no interest and is repayable on demand.	-	-	451 163	451 163
	-	-	5 488 594	5 488 594
Total impairment	-	-	(5 488 594)	(5 488 594)
	-	**-**	**-**	**-**

Loans to subsidiaries impaired

As of 31 March 2017, loans to subsidiaries of R 5 488 594 (2016: R 5 488 594) were impaired and provided for due to the fact that the subsidiaries are not operational anymore.

The carrying amounts of loans to and from subsidiaries are denominated in Rand.

Reconciliation of provision for impairment of loans to subsidiaries

	2017	2016
Opening balance	5 488 594	44 612 636
Provision for impairment	-	(39 124 042)
	5 488 594	**5 488 594**

13. Trade and other receivables

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Trade receivables	70 959 821	38 260 759	70 959 821	38 260 759
Prepayments	2 185 230	2 154 201	2 185 230	2 154 201
Deposits	6 453 990	382 766	6 453 990	382 766
VAT receivable	390 684	347 884	390 684	347 884
Sundry debtors	2 213 394	4 219 155	2 213 394	4 219 155
Creditors with debit balances	277 574	2 849 359	277 574	2 849 359
Accrued income	9 561 158	14 258 742	9 561 158	14 258 742
	92 041 851	**62 472 866**	**92 041 851**	**62 472 866**

Trade receivables is shown net of provision for impairment.

Credit quality of trade and other receivables

The carrying amount reported in the statement of financial position for trade and other receivables approximate fair value due to the short time period between initiation and settlement thereof. The effect of discounting is not material.

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

13. Trade and other receivables (continued)

Impairment losses can be attributed to the current economic environment which is being characterised by an increase in the defaulting of payments.

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

The total trade receivables that are neither past due nor impaired amounted to R 43 712 338 (2016: R 34 411 621), for Corporation and Group.

The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The maximum exposure to credit risk at the reporting date was:

Trade receivables

Counterparties without external credit rating	2017 Group	2017 Corporation
B rating	6 247 713	6 247 713
C rating	56 059 206	56 059 206
Below C rating	8 652 902	8 652 902
	70 959 821	**70 959 821**

Definition of risk ratings:

B rating – Good behaviour, minor risk.

C rating – Fair trade risk

Below C rating – Poor trade risk

Receivables is given a B-rating if the following criteria is met:
- 80% of the total amount billed was paid during the financial year
- More than 8 payments were made during the year.

Receivables is given a C-rating if the following criteria is met:
- 80% of the total amount billed was paid during the financial year
- Less than 8 payments were made during the year.

Receivables is given below a C-rating if the following criteria is met:
- Less than 80% of the total amount billed was paid during the financial year.

It is the company's mandate to engage with BEE and SMME companies to improve their productivity, and therefore an element of poor trade risk will be present at the corporation.

Trade and other receivables past due but not impaired

The ageing of amounts past due but not impaired is as follows:

31 to 60 days	4 708 820	6 719 570	4 708 820	6 719 570
61 to 90 days	5 321 058	4 516 559	5 321 058	4 516 559
91 to 120 days	5 350 857	2 781 395	5 350 857	2 781 395
More than 120 days	32 948 778	14 043 721	32 948 778	14 043 721
	48 329 513	**28 061 245**	**48 329 513**	**28 061 245**

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	Group		Corporation	
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13. Trade and other receivables (continued)

Trade and other receivables impaired

As of 31 March 2017, trade and other receivables of R 133 798 046 (2016: R 113 821 287) were impaired and provided for.

The ageing of these loans is as follows:

1 to 30 days	939 853	510 048	939 853	510 048
31 to 60 days	1 846 275	645 105	1 846 275	645 105
61 to 90 days	1 827 713	588 786	1 827 713	588 786
91 to 120 days	2 585 363	2 144 820	2 585 363	2 144 820
More than 120 days	126 598 842	109 932 528	126 598 842	109 932 528
	133 798 046	**113 821 287**	**133 798 046**	**113 821 287**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	113 821 287	110 020 433	113 821 287	110 020 433
Provision for impairment	19 976 759	3 800 854	19 976 759	3 800 854
	133 798 046	**113 821 287**	**133 798 046**	**113 821 287**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The group does not hold any collateral as security.

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	28 047	28 047	28 047	28 047
Bank balances	118 948 518	50 705 220	118 815 779	50 572 481
Call investments	10 140 398	536 499	10 140 398	536 499
Short term deposits	79 717	79 717	-	-
	129 196 680	**51 349 483**	**128 984 224**	**51 137 027**

Credit quality of cash at bank and short term deposits, excluding cash on hand

Public entities bank with major banks with high credit standing. Furthermore, the cash holdings with banks are spread amongst a variety of banks to reduce the concentration of their credit risk exposure. The minimum counterparty credit rating for placing deposits and investing in government bonds is 'A' by Standard & Poor's or its Moody's or Fitch's rating equivalents, while the minimum rating for investments in corporate bonds is 'AA-'. The rating of certain investment securities were below 'A' at year-end due to downgrading of instruments or institutions by the rating agencies and due to the tightening of investment guidelines by the Bank, which resulted in passive breaches on some of the financial assets in the Bank's portfolios.

Included in our cash and cash equivalents are the following third party balances:

Vrede Dairy Farm	4 424 587	3 518 695	4 424 587	3 518 695

The carrying amount reported in the statement of financial position for cash and cash equivalents approximate fair value.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

15. Non-current assets held for sale

The Corporation has entered into negotiations to sell Investment properties that have been identified as non-performing.

The buyer of the properties has already been identified and the sale is expected to take place during the course of the subsequent financial year.

Assets and liabilities

Non-current assets held for sale				
Investment property	52 265 350	13 109 350	52 265 350	13 109 350

Opening balance	13 109 350	-	13 109 350	-
Additions	40 500 000	13 975 700	40 500 000	13 975 700
Disposals	-	(866 350)	-	(866 350)
Fair value adjustments	(1 344 000)	-	(1 344 000)	-
	52 265 350	**13 109 350**	**52 265 350**	**13 109 350**

16. Revaluation reserve

Opening balance	4 907 382	3 378 296	4 907 382	3 378 296
Revaluation of property plant and equipment	4 032 495	1 529 086	4 032 495	1 529 086
Closing balance	**8 939 877**	**4 907 382**	**8 939 877**	**4 907 382**

The revaluation reserve arises on the revaluation of properties. When revalued properties are sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings.

Items of other comprehensive income included in the revaluation reserve will not be reclassified subsequently to profit or loss.

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17. Other financial liabilities

Held at amortised cost				
Shell South Africa (Pty) Ltd	742 047	742 047	742 047	742 047
The Corporation has two agreements with Shell South Africa (Pty) Ltd. Shell advanced loans to the Corporation to erect a service station each in Abolishable and Hothead. These loans are redeemed by means of a monthly fuel rebate per litre, payable in respect of each litre of petrol purchased from Shell for re-sale at these service stations. The service stations are dedicated Shell service stations for which Shell has sole right of use and only Shell products are sold.				
Abolishable service station The agreement will continue for the longer period of 20 years or until 39,280,000 litres of Shell petrol have been purchased for resale on the premises. Effective date: December 1985. FDC is still paying off the loan by means of rebates as per initial agreement.				
Hothead service station The agreement will continue for the longer period of 20 years or until 77,220,000 litres of Shell petrol have been purchased for resale on the premises. Effective date: December 1991. FDC is still paying off the loan by means of rebates as per initial agreement.				
Other financial liabilities The balance includes commercial loans granted with credit balances.	3 556 301	3 805 043	3 514 546	3 763 288
	4 298 348	**4 547 090**	**4 256 593**	**4 505 335**
Non-current liabilities				
At amortised cost	783 802	783 802	742 047	742 047
Current liabilities				
At amortised cost	3 514 546	3 763 288	3 514 546	3 763 288
	4 298 348	**4 547 090**	**4 256 593**	**4 505 335**

The carrying amount reported in the statement of financial position for other financial liabilities approximate fair value.

18. Retirement benefits

Defined benefit plan

The benefit is in terms of current and retired employees of the parent entity (employees of FDC) who are currently members of medical schemes or continue to belong to a medical scheme after retirement. Pensioners include retired employees or their widow(er)s. The liability is in respect of pensioners who continue to belong to a medical scheme after retirement. In respect of these employees, 67% of the medical aid contribution is paid by the group (Corporation) while the pensioners pay the remaining 33%. Actuarial valuation is undertaken every year. Currently there is no funding arrangement in place to meet the liabilities that have occurred to date or that will occur in the future.

Notes to the Consolidated Financial Statements

	Group		Corporation	
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18. Retirement benefits (continued)

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(38 213 000)	(42 498 000)	(38 213 000)	(42 498 000)
Contributions to actuarial gain / (loss)	3 868 000	8 772 000	3 868 000	8 772 000
Post retirement benefit costs included in employee costs	(4 676 000)	(4 487 000)	(4 676 000)	(4 487 000)
	(39 021 000)	**(38 213 000)**	**(39 021 000)**	**(38 213 000)**

The fair value of plan liabilities include:

Contributions to actuarial gain / (loss)

Actuarial gains and (losses) arising from changes in financial assumptions	2 886 000	3 320 000	2 886 000	3 320 000
Actuarial gains and (losses) arising from experience adjustments	982 000	5 452 000	982 000	5 452 000
	3 868 000	**8 772 000**	**3 868 000**	**8 772 000**

Post retirement benefit costs included in employee costs (note 27)

Current service cost	(1 884 000)	(2 307 000)	(1 884 000)	(2 307 000)
Interest cost	(3 833 000)	(3 757 000)	(3 833 000)	(3 757 000)
Benefits paid	1 041 000	1 577 000	1 041 000	1 577 000
	(4 676 000)	**(4 487 000)**	**(4 676 000)**	**(4 487 000)**

Key assumptions used

Assumptions used at last valuation on 31 March 2017.

Discount rates used	9.70 %	10.03 %	9.70 %	10.03 %
Health cost inflation	8.24 %	8.93 %	8.24 %	8.93 %
Expected increase in salaries	6.00 %	6.00 %	6.00 %	6.00 %
General inflation	6.75 %	7.43 %	6.75 %	7.43 %

The discount rate used is based on government bonds (2016: government bonds).

Other assumptions:

Pre-retirement mortality rate: SA85/90: rated down 3 years for female lives.

Post-retirement mortality rate: PA (90): ultimate with a one year age reduction.

The effect of an increase of a 0.5% (2016: 0.5%) point in the medical cost trend rate and the effect of a decrease of one percentage point on the following would be:

	Group / Corpration 2017		**Group / Corporation 2016**	
	Increase	**Decrease**	**Increase**	**Decrease**
Effect on the aggregate of the service and interest cost cost	3 181 500	(2 252 000)	2 390 000	(2 165 000)
Benefit obligation at end of the year	42 202 500	36 769 000	40 603 000	36 048 000

The expected retirement age for both males and females is 60.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

18. Retirement benefits (continued)

In general resignation rates are age dependent and for the purposes of the valuation age-related resignation rates have been assumed.

It is assumed that active employees would experience the following rates of resignation per annum prior to retirement at the specific ages. The resignation rates between the ages indicated have been smoothed between the rates indicated below:

Age	Rate
20	16%
30	10%
40	6%
50	2%+
55	Nil

It is assumed that 90% of retirees will be married at retirement and that the husband will be 3 years older than the wife.

The experience adjustments arising on the plan liabilities for the last six years are as follows:

Year	Closing balance	Experience adjustments
2017	39 021 000	982 000
2016	R 38 213 000	R 5 542 000
2015	R 42 498 000	R (6 214 000)
2014	R 41 629 000	R 139 000
2013	R 35 010 000	R 1 378 000

Retirement benefit obligation

The Corporation and members contribute to a fixed contribution pension fund and an associated employee benefit scheme. It is a self-funded scheme governed by the Pension Fund Act, 1956 and managed by a Board of Trustees. The fund had 85 (2016: 88), members at year end. The fund was registered on 1 April 1997. At present the total employer contributions, including contributions to associated schemes, are made at 15% of pension funding salaries, while the members contribute 7,55% of pension funding salaries.

The expected contribution to the retirement benefit contribution for the year ending 31 March 2018 is R 4 178 520.

19. Deferred income

Financial service fees are levied when an application for financing is approved. These service fees are amortised over the loan term. Financial service fees are realised in full when the loan is settled.

Non-current	120 436	141 484	120 436	141 484
Current	33 320	24 522	33 320	24 522
	153 756	**166 006**	**153 756**	**166 006**

20. Long service award provisions

Reconciliation of long service award provisions - Group - 2017

	Opening balance	Additions	Total
Long service awards	675 319	22 441	697 760

Notes to the Consolidated Financial Statements

20. Long service award provisions (continued)

Reconciliation of long service award provisions - Group - 2016

	Opening balance	Utilised during the year	Total
Long service awards	699 013	(23 694)	675 319

Reconciliation of provisions - Corporation - 2017

	Opening balance	Additions	Total
Long service awards	675 319	22 441	697 760

Reconciliation of provisions - Corporation - 2016

	Opening balance	Utilised during the year	Total
Long service awards	699 013	(23 694)	675 319

Benefit Structure

The Company has a policy to provide a long service award to employees who have been in the service of the Company for a certain period of time. The awards are cash lump sums that depend on the employees' length of service. Unauthorised absence from work or unpaid leave for at least one month is not regarded as service for purposes of calculating this award.

The assumptions used are based on statistics and market data as at 31 March 2017. We have used the following valuation assumptions:

Discount rate

The discount rate required by IAS19 should be set with reference to a high quality corporate bond. In countries where there is no deep market in such bonds, the market yield on government bonds should be used. We have set the discount rate by using the best fit discount rate at 31 March 2017 based on the yields from the zero coupon government bond curve. The best fit has been determined taking into account the cash-flow weighted duration of the liabilities, which is approximately 5.0 years (2016: 5.0 years). The recommended discount rate is 8.9% (2016: 8.9%).

Pre-retirement mortality

We have assumed that the pre-retirement mortality will be in line with SA85-90 (Light) table rated down by 3 years for female employees. This is a table reflecting mortality experience in South Africa.

Withdrawal rates

We have provided for rates of withdrawal as follows:

Age	Withdrawal Rate
20	16%
25	12%
30	10%
35	8%
40	6%
45	4%
50	2%
55	Nil

Assumed Retirement Age

We have assumed employees will retire at age 60.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

20. Long service award provisions (continued)

Methodology

The liabilities are valued using the Projected Unit Credit Method. The liability has been calculated as the accrued service liability. The accrued service liability is calculated by valuing all future leave and payments expected to be made in respect of benefits accrued up to the valuation date. Allowance has been made in these calculations for salary increases and investment returns up to the date that the benefit is received.

21. Trade and other payables

Trade payables	223 717 927	137 340 337	222 910 844	136 533 257
Debtors with credit balances	14 164 349	15 290 818	14 164 349	15 290 818
VAT payable	288 071	288 071	-	-
Sundry creditors	16 741 279	6 782 505	16 741 279	6 782 505
Accruals	13 549 253	13 159 219	12 748 688	12 358 654
Vrede Dairy Project	4 424 587	3 518 695	4 424 587	3 518 695
Deposits received	10 418 756	10 049 972	10 418 756	10 049 972
Other payables	615 826	24 790	591 036	-
	283 920 048	**186 454 407**	**281 999 539**	**184 533 901**

Accruals consists of travelling claims and water and electricity.

Vrede Dairy Project comprises third party cash balances amounting to R 4 424 587 (2016: R 3 518 695) as disclosed in note 14.

Of the Vrede Dairy Project payable R 738 634 (2016: R 474 775) relates to amounts owing to South African Revenue Services.

Deposits received relates to deposits paid by tenants for the renting of property.

Trade payables are non-interest bearing and normally settled within 60 days.

Notes to the Consolidated Financial Statements

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22. Revenue

Sale of inventory	-	1 295 614	-	-
Utility income	95 066 603	100 866 532	95 066 603	100 866 532
Rental income	91 024 258	75 864 059	91 024 258	75 843 059
Interest on debtors and loans	13 784 082	13 616 585	13 784 082	13 616 585
Broadband income	262 452	230 724	262 452	230 724
	200 137 395	**191 873 514**	**200 137 395**	**190 556 900**

23. Cost of sales

Sale of goods	-	2 769 566	-	-
Rendering of services	92 697 773	73 044 446	92 697 773	73 044 446
Rental costs	48 553 333	46 666 562	48 553 333	46 666 562
	141 251 106	**122 480 574**	**141 251 106**	**119 711 008**

Sale of goods				
Cost of goods sold	-	2 769 566	-	-
Rendering of services				
Service expense	92 697 773	73 044 446	92 697 773	73 044 446
Rental services				
Rental costs	48 553 333	46 666 562	48 553 333	46 666 562

24. Other income

Administration and legal fees received	242 926	280 867	242 926	280 867
Fees earned	244 928	188 309	244 928	188 309
Bad debts recovered and impairment reversal	-	1 202 791	-	2 791
Debt recoveries	2 493 826	2 779 368	2 493 826	2 491 667
Insurance claims	5 964 676	-	5 964 676	-
Service costs	168 144	802 516	168 144	788 050
Legal fees recoveries	-	126 034	-	126 034
Government grants	169 328 459	97 015 973	169 328 459	97 015 973
	178 442 959	**102 395 858**	**178 442 959**	**100 893 691**

The Government grant is granted to FDC to focus on the sustainable development of SMMEs. The Chief Executive Officer or Acting Chief Executive Officer of FDC needs to provide the DESTEA annually, at least three months before the start of the financial year, with written assurance as contemplated in section 38 (1)(i) of the Public Finance Management Act,1999. Within 30 days from the effective date of the transfer payment agreement, FDC is expected to provide the department with a corporate plan document. FDC has to provide the department within 15 days following the end of the month with monthly financial reports and submit quarterly financial reports within 30 days following the end of the quarter.

FDC has received a grant from IDC to fund part of the operational costs of the Agency Development and Support Department ("ADS") programme. The programme has been implemented to assist municipal entities and/or Municipalities to fulfil their mandate (the "ADS Programme") on the development and job potential inherent in various municipal areas through, but not limited to, integrated rural development, tourism, infrastructure provision, urban renewal strategies and other initiatives on a sustainable basis. FDC is expected to provide monthly reports on the utilization of the Grant according to the template provided by IDC.

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

24. Other income (continued)

FDC also received a grant from the Department of Trade and Industry in order to plan and prepare for the establishment of an Special Economic Zone (SEZ) in the Free State Province (Maluti-A-Phofung) and to develop a suitable business organisation that successfully attracts investors for such a SEZ. In accordance with the grant agreement, FDC has to perform and achieve the set of activities within the time frames and budgets set out in the agreement. FDC is solely accountable for use, for the intended purpose, of the funds granted in accordance with the budget stipulated in the agreement. FDC is also responsible to commence and / or continue to carry out project management including environmental impact assessment, socio economic impact analysis, skills assessment & training model, investment opportunity packaging and facilitation and documenting reports for the Maluti-A-Phofung SEZ business plan proposal and application.

Included in the government grant above is:

Government grants				
DESTEA grant	8 947 368	2 261 530	8 947 368	2 261 530
IDC grant	-	3 554 357	-	3 554 357
SEZ grant	160 381 091	91 200 086	160 381 091	91 200 086
	169 328 459	**97 015 973**	**169 328 459**	**97 015 973**

25. Administrative expenses

Assessment rates and municipal charges	278 140	310 161	278 140	310 161
Bank charges	94 452	145 349	94 452	120 983
Cleaning	201 132	421 666	201 132	420 519
Consumables	754 146	431 272	754 146	431 272
Debt collection	1 330 405	484 613	1 330 405	484 613
Entertainment	408 732	327 167	408 732	326 153
Flowers	12 566	9 769	12 566	9 769
Insurance recoveries	-	102 054	-	102 054
Legal expenses	142 847	-	142 847	-
Licenses	516 330	579 856	516 330	579 856
Printing and stationery	426 973	190 952	426 973	187 277
Recruitment fees	186 742	79 886	186 742	79 886
Security	2 014 066	1 916 021	2 014 066	1 906 544
Subscriptions	193 283	40 278	193 283	40 278
Telephone and fax	2 967 039	1 847 827	2 967 039	1 813 618
Training	419 653	975 539	419 653	975 539
	9 946 506	**7 862 410**	**9 946 506**	**7 788 522**

26. Employee related costs

Direct employee costs				
Salaries and wages	45 389 729	35 267 100	45 389 729	35 034 998
Bonuses (13th cheque)	2 797 380	2 755 062	2 797 380	2 686 938
Directors fees	13 067 793	12 459 591	13 067 793	12 459 591
Leave provision	1 348 065	868 693	1 348 065	868 693
Non-pensionable allowances	13 600 717	11 507 804	13 600 717	11 507 804
Other employee benefits	576 409	690 175	576 409	615 658
Post-employment benefits - Pension - Defined contribution plan	5 717 000	6 064 000	5 717 000	6 064 000
Medical aid - company contributions	-	2 147	-	2 147
Long-term benefits - incentive scheme	118 314	98 523	118 314	98 523
	82 615 407	**69 713 095**	**82 615 407**	**69 338 352**

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

27. Operating profit (loss)

Operating profit (loss) for the year is stated after accounting for the following:

Income from subsidiaries (other than investment income)				
Dividends	129 031	93 125	260 228	1 077 428
Interest	4 022	3 503	4 022	3 503
	133 053	**96 628**	**264 250**	**1 080 931**
Operating lease charges				
Contractual amounts	3 856 253	1 358 791	3 856 253	1 358 791
Depreciation and amortisation				
Depreciation of property, plant and equipment	1 701 961	1 650 722	1 701 961	1 568 961
Amortisation of intangible assets	178 524	168 560	178 524	168 560
Total depreciation and amortisation	**1 880 485**	**1 819 282**	**1 880 485**	**1 737 520**
Auditor's remuneration - external				
Audit fees	6 331 012	4 351 538	6 331 012	4 311 538
Expenses by nature				
Depreciation, amortisation and impairment	1 880 485	1 819 282	1 880 485	1 737 521
Employee costs	82 615 407	69 713 095	82 615 407	69 338 352
Insurance	10 347 167	10 401 414	10 347 167	10 401 414
Net impairment losses	24 250 420	5 865 662	24 250 420	5 865 662
Professional services	16 264 458	18 811 553	16 264 458	18 811 553
Security services	24 904 234	23 354 496	24 904 234	23 354 496

* The significant variance in operating expenditure is due to the impairment of trade and other receivables, following the valuation of securities. Please refer to notes 8 & 13.

28. Investment income

Dividend revenue				
Subsidiaries - Local	129 031	93 125	260 228	1 077 428
Interest revenue				
Group companies	4 022	3 503	4 022	3 503
Bank	5 357 140	1 451 820	5 883 709	1 451 819
	5 361 162	**1 455 323**	**5 887 731**	**1 455 322**
Total	**5 490 193**	**1 548 448**	**6 147 959**	**2 532 750**

29. Finance costs

Group companies	-	306 932	-	-
Bank overdraft	6 943	993 973	6 943	993 973
Other interest paid	-	92 006	-	1 245
Total finance costs	**6 943**	**1 392 911**	**6 943**	**995 218**

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016
30. Other non-operating gains (losses)				
Gains (losses) on disposals, scrappings or settlements				
Non-current assets held for sale	(1 200 350)	(76 350)	(1 200 350)	(76 350)
Property plant and equipment	45 351	-	45 351	-
	(1 154 999)	**(76 350)**	**(1 154 999)**	**(76 350)**
Fair value gains (losses)				
Investment property	21 757 184	34 483 875	21 757 184	34 483 875
Non-current assets held for sale	(1 343 999)	-	(1 343 999)	-
	20 413 185	**34 483 875**	**20 413 185**	**34 483 875**
Total other non-operating gains (losses)	**19 258 186**	**34 483 875**	**19 258 186**	**34 483 875**

31. Discontinued operations

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Loss with derecognition of subsidiary *	(679 710)	-	-	-
Loss with derecognition of minority interest	(2 717 973)	-	-	-
	(3 397 683)	**-**	**-**	**-**

Refer to note 6 for the subsidiaries that were derecognised.

32. Other comprehensive income

Components of other comprehensive income - Group - 2017

	Gross	Tax	Net
Items that will not be reclassified to profit (loss)			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	3 828 873	-	3 828 873
Movements on revaluation			
Gains (losses) on property revaluation	4 032 495	-	4 032 495
Total items that will not be reclassified to profit (loss)	**7 861 368**	**-**	**7 861 368**

Components of other comprehensive income - Group - 2016

	Gross	Tax	Net
Items that will not be reclassified to profit (loss)			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	8 795 217	-	8 795 217
Movements on revaluation			
Gains (losses) on property revaluation	1 529 086	-	1 529 086
Total items that will not be reclassified to profit (loss)	**10 324 303**	**-**	**10 324 303**

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

32. Other comprehensive income (continued)

Components of other comprehensive income - Corporation - 2017

	Gross	Tax	Net
Items that will not be reclassified to profit (loss)			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	3 828 873	-	3 828 873
Movements on revaluation			
Gains (losses) on property revaluation	4 032 495	-	4 032 495
Total items that will not be reclassified to profit (loss)	**7 861 368**	**-**	**7 861 368**

Components of other comprehensive income - Corporation - 2016

	Gross	Tax	Net
Items that will not be reclassified to profit (loss)			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	8 795 217	-	8 795 217
Movements on revaluation			
Gains (losses) on property revaluation	1 529 086	-	1 529 086
Total items that will not be reclassified to profit (loss)	**10 324 303**	**-**	**10 324 303**

33. Non-distributable reserve

The other non-distributable reserve comprises fair value adjustment on property, plant and equipment recognised during the 2010 financial year of R 309 265.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

34. Cash generated from (used in) operations

Profit (loss) before taxation	104 384 139	76 576 727	104 043 379	72 294 796
Adjustments for:				
Depreciation and amortisation	1 880 485	1 819 282	1 880 485	1 737 521
Losses on disposals, scrappings and settlements of assets and liabilities	1 154 999	76 350	1 154 999	76 350
Income (loss) from equity accounted investments	(340 763)	572 563	-	-
Dividend income	(129 031)	(93 125)	(260 228)	(1 077 428)
Interest income	(5 361 162)	(1 455 323)	(5 887 731)	(1 455 322)
Finance costs	6 943	1 392 911	6 943	995 218
Fair value adjustments	(20 413 185)	(34 483 875)	(20 413 185)	(34 483 875)
Net impairment loss / (reversal)	19 976 759	3 800 853	19 976 759	3 800 853
Straight lining of operating leases	(3 089 210)	(465 860)	(3 089 210)	(465 860)
Increase in employee benefits	4 676 000	4 488 000	4 676 000	4 488 000
Movement in long service award	(16 686)	(1 477)	(16 686)	(1 477)
Prior period error on minority interest consolidation	-	(3 817 404)	-	-
Gain on derecognition of non-controlling interest	(679 710)	-	-	-
Prior year adjustments to assets (note 4)	-	(68 980)	-	-
Changes in working capital:				
Inventories	(86 864)	(81 579)	(86 864)	-
Trade and other receivables	(49 545 744)	(25 403 211)	(49 545 744)	(25 999 687)
Other investments	8 441 428	-	8 441 428	-
Trade and other payables	97 465 641	(532 103)	97 465 638	569 367
Deferred income	(12 250)	(24 405)	(12 250)	(24 405)
	158 311 789	**22 299 344**	**158 333 733**	**20 454 051**

35. Commitments

Authorised capital expenditure

Refurbishment of Ratlou Shopping Complex for R 0 (2016: R 15 248 513).

Tshiame Project SEZ Roads for R 128 800 000 (2016: R 25 000 000).

Tshiame Project SEZ Lighting for R 0 (2016: R 24 000 000).

Tshiame Project SEZ Professional services towards Capex for R 11 200 000 (2016: R 18 856 524).

Operating leases – as lessee (expense)

Minimum lease payments due				
- within one year	-	121 464	-	121 464

Operating leases – as lessor (income)

Minimum lease payments due				
- within one year	29 305 986	25 671 518	29 305 986	25 671 518
- in second to fifth year inclusive	73 384 293	60 185 308	73 384 293	60 185 308
- later than five years	20 250 368	3 784 239	20 250 368	3 784 239
	122 940 647	**89 641 065**	**122 940 647**	**89 641 065**

The group is under operating lease agreements for properties. These lease agreements have escalations between 8% and 10% per year with the agreement terms varying between 3 – 5 years.

Notes to the Consolidated Financial Statements

36. Contingencies

The group has contingent liabilities and contingent assets in respect of legal claims arising in the ordinary course of business.

Contingent liabilities

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

Claim by Free State Transformation Consultants against the Corporation

The Free State Transformers (FTC) claims the Department of Human Settlements paid fees to the FDC that were due to them (FTC). A claim was put in against the FDC for marketing and sales of properties in Botshabelo. An amount of R 1 732 500 together with interest thereon at a rate of 15.5% per annum calculated from the day the FDC received the money until the date of full payment. The FDC is opposing the claim and the matter is yet to be resolved.

Claim by MC Moranye against the Corporation

This individual was evicted and claims the house should not have been sold. A claim for damages of R 100 000 for selling the house in execution was lodged against the FDC. The plaintiff argues the selling and the execution was null and void. The FDC reverted to counsel for advice and is opposing the claim. The case is in trial and has been postponed.

Claim by Metsimaholo Local Municipality against the Corporation

This matter relates to a dispute between the FDC and the Metsimaholo Local Municipality. The municipality claims that the FDC owes outstanding electricity rates and taxes amounting to R 729 918. Judgement in this matter is still pending although the management's legal council is of the opinion that the judgement against the FDC is unlikely.

The Rental Company Trust (TRCT)

Contractor provided a service to the FDC however the FDC was not satisfied with the service and cancelled the contract. The contractor sued the FDC with regards to the contract for an amount of R 438 094. The matter was set for trial on the 17 & 18th of March 2015 and was postponed for a possible settlement between the two parties.

PKX

PKX is a financial services company based in Johannesburg that the FDC was introduced to by the Department of Economic Development and Tourism. PKX was instructed by the Department of Economic Development to get financiers or investors on behalf of the FDC. In terms of the agreement entered into between the FDC, Department of Economic Development and PKX, the Department of Economic Development was supposed to pay disbursements limited to 5% of finances raised. PKX is suing the FDC for services rendered to the amount of R 12 441 164. The matter is set for possible settlement between the Department of Economic Development and Tourism and the contractor.

Dihlabeng Local Municipality

The Dihlabeng Municipality is suing the FDC for the recovery of water, refuse, sanitation and rates. The matter was heard on 5th of March 2015 and judgement was made in favour of the said local municipality to the amount of R 428 785. The FDC is however appealing the judgement.

Claim by former employee

A former employee refused placement in an alternative position during a restructuring process and was subsequently retrenched from the employment of the FDC. The matter is currently at the CCMA. The former employee is claiming reinstatement and R 969 486 being 12 months' salary and compensation. A settlement could not be reached during the conciliation process and the matter has been referred to the Labour Court.

Claim by former employee

The matter relates to a former employee who was dismissed after being found guilty during a disciplinary hearing process. The matter was referred to the CCMA for conciliation but a settlement could not be reached. The claim amount to R 8 190 742.

Notes to the Consolidated Financial Statements

36. Contingencies (continued)

Claim by Maziya General Services

The matter relates to a company that was appointed by the FDC to erect a security fence at Special Economic Zone in Harrismith. Maziya General Services is suing the FDC for the services rendered to the amount of R 9 000 000.

Maluti-A-Phofung Local Municipality

The Maluti-A-Phofung Local Municipality summoned the FDC to withdraw title deeds. FDC is defending the matter. The properties in question's total value amounts to R 790 000.

Maluti-A-Phofung Local Municipality

There is a payable balance (short-term debt) between Maluti-A-Phofung Local Municipality and FDC which is in dispute. The balance in dispute amounts to R 70 366 877 owing to Maluti-A-Phofung Local Municipality.

37. Prior year errors

Misstatements of prior year - Group and Corporation

The aggregate effect of the prior period errors on the consolidated financial statements for the year ended 31 March 2016 is as follows:

Statement of Financial Position

Assets gross adjustment	-	(575 327)	-	(575 327)
Retained income	-	575 327	-	575 327
	-	**-**	**-**	**-**

Operating lease asset				
Previously stated	-	2 984 708	-	2 984 708
Adjustment	-	(481 360)	-	(481 360)
	-	**2 503 348**	**-**	**2 503 348**

The adjustment relates an omission of operating leases on the prior year schedule.

Trade receivables				
Previously stated	-	62 490 483	-	62 490 483
Adjustment	-	(17 617)	-	(17 617)
	-	**62 472 866**	**-**	**62 472 866**

The adjustments were made as per Auditor General Exception 19 dealing with VAT apportionment in prior year.

Non-current assets held for sale				
Previously stated	-	13 975 700	-	13 975 700
Adjustment	-	(866 350)	-	(866 350)
	-	**13 109 350**	**-**	**13 109 350**

The adjustment was made as per Auditor General Exception 78 dealing with disposal of investment properties in prior year.

Trade payables				
Previously stated	-	187 244 407	-	185 323 901
Adjustment	-	(790 000)	-	(790 000)
	-	**186 454 407**	**-**	**184 533 901**

The adjustment was made as per Auditor General Exception 78 dealing with disposal of investment properties in prior year.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

37. Prior year errors (continued)

Statement of comprehensive income

Gross adjustment	-	575 327	-	575 327
Revenue not recognised				
Previously stated	-	192 354 874	-	191 038 260
Adjustment	-	(481 360)	-	(481 360)
	-	**191 873 514**	**-**	**190 556 900**

Lease revenue not recognised in prior year.

Operating expenses not recognised				
Previously stated	-	52 527 602	-	58 245 353
Adjustment	-	17 617	-	17 617
	-	**52 545 219**	**-**	**58 262 970**

The adjustments were made as per Auditor General Exception 19 dealing with VAT apportionment in prior year.

Loss on disposal of Investment property not recognised				
Adjustment	-	(76 350)	-	(76 350)

The adjustment was made as per Auditor General Exception 78 dealing with disposal of investment properties in prior year.

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

38. Related parties

Relationships	
Holding company	Free State Development Corporation
Subsidiaries	Refer to note 6
Associates	Refer to note 7
Directors	Refer to directors report
Members of key management	Refer to note 39
Government entities with significant influence	Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA)
	Free State Gambling and Liquor Authority
Newly incorporated subsidiaries	Free State Agri SOC Limited (RF)
	Free State Investments SOC Limited (RF)
	Free State Publishers SOC Limited (RF)
	Maluti-A-Phofung SEZ SOC Limited (RF)

FDC is a schedule 3D Provincial Government Business Enterprise in terms of the Public Finance Management Act, Act 1 of 1999 as amended by Act 29 of 1999, therefore falls within the provincial sphere of government. As a consequence, FDC has a number of related parties, being entities that fall within the provincial sphere of the MEC of DESTEA. Amounts due from/to these entities are subject to the same terms and contributions as normal trade receivables and trade payables. Unless specifically disclosed, these transactions are concluded at arm's length and the group is able to transact with any entity.

Related party balances

Loan accounts - Owing (to) by related parties	**Loan amount 2017**	**Provision for impairment 2017**	**Net balance 2017**	**Loan amount 2016**	**Provision for impairment/ write offs 2016**	**Net balance 2016**
Canton Trading 123 (Pty) Ltd	-	-	-	4 151 068	(4 151 068)	-
Classic Number Trading 45 (Pty) Ltd	-	-	-	5 970 023	(5 970 023)	-
Confram Harrismith Properties (Pty) Ltd	-	-	-	11 166 626	(11 166 626)	-
Copper Moon Trading (Pty) Ltd	-	-	-	2 193 210	(2 193 210)	-
Cross Point Trading 23 (Pty) Ltd	4 813 114	(4 813 114)	-	4 813 114	(4 813 114)	-
Golden Pond Trading 663 (Pty) Ltd	-	-	-	1 405 833	(1 405 833)	-
Highland Furniture Factory (Pty) Ltd	10 281 387	(10 281 387)	-	9 197 747	(9 197 747)	-
Orofino Africa Jewellery Manufacturing (Pty) Ltd	-	-	-	21 686 905	(21 686 905)	-
Phiritona Plastics (Pty) Ltd	5 507 292	(5 507 292)	-	4 757 507	(4 757 507)	-
Rumar Manufacturing (Pty) Ltd	-	-	-	3 668 892	(3 668 892)	-
Satinsky 167 (Pty) Ltd	-	-	-	1 300 941	(1 300 941)	-
Synthpro Holdings (Pty) Ltd	-	-	-	6 238 141	(6 238 141)	-
Twin Cities Trading 129 (Pty) Ltd	-	-	-	1 466 238	(1 466 238)	-
Welkom Diamond Cutting Works (Pty) Ltd	-	-	-	1 458 318	(1 458 318)	-
	20 601 793	**(20 601 793)**	**-**	**79 474 563**	**(79 474 563)**	**-**

Notes to the Consolidated Financial Statements

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016

38. Related parties (continued)

Related party transactions

Insurance expense				
Mafube Risk and Insurance Brokers (Pty) Ltd	11 700 252	6 575 144	11 700 252	6 575 144
Rent received from related parties				
Free State Gambling and Liquor Authority	1 928 770	1 758 516	1 928 770	1 758 516
Grant received				
DESTEA	10 200 000	2 261 530	10 200 000	2 261 530

39. Directors' and prescribed officer's emoluments

Key management personnel

2017

	Emoluments	Allowances	Corporation Contributions	Total
Finger KF	1 020 872	111 097	43 034	1 175 003
Tlhomelang KF	802 715	552 033	186 096	1 540 844
Motloung SJ	1 164 415	-	209 886	1 374 301
	2 988 002	**663 130**	**439 016**	**4 090 148**

2016

	Emoluments	Allowances	Corporation Contributions	Total
Finger KF	659 977	417 536	126 497	1 204 010
Moahloli KLK	2 814	338	-	3 152
Motloung SJ	220 822	31 969	20 432	273 223
Tlhomelang KF	660 636	384 179	172 494	1 217 309
	1 544 249	**834 022**	**319 423**	**2 697 694**

Non-executive

2017

	Directors' fees	Travel Claims	Corporation Contributions	Total
Chuene MBP	545 500	102 374	1 458	649 332
Matseke HB (Mayeza)	597 000	90 660	1 338	688 998
Mkhungo HN	70 500	7 968	446	78 914
Ntanjana SP*	98 000	44 016	647	142 663
Ntshiea ME*	112 000	52 220	857	165 077
Phungo LI	317 000	58 644	1 440	377 084
Sandlana TN	367 000	76 122	1 338	444 460
Maharaj V	336 000	122 844	977	459 821
	2 443 000	**554 848**	**8 501**	**3 006 349**

Notes to the Consolidated Financial Statements

39. Directors' and prescribed officer's emoluments (continued)

2016

	Directors' fees	Travel claims	Corporation Contributions	Total
Chuene MBP	472 601	59 027	1 221	532 849
Matseke HB (Mayeza)	611 251	158 868	1 041	771 160
Mkhungo HN	252 000	3 975	924	256 899
Mochochoko N	158 000	26 058	595	184 653
Ntanjana SP*	152 000	24 514	1 032	177 546
Ntshiea ME*	152 000	51 487	1 094	204 581
Phungo LI	346 000	77 580	1 172	424 752
Sandlana TN	404 500	10 834	1 426	416 760
	2 548 352	**412 343**	**8 505**	**2 969 200**

Executive

2017

	Emoluments	Corporation Contributions	Other	Total
Osman I	1 215 594	296 326	695 944	2 207 864
Maharaj V	616 285	44	-	616 329
Mgemane PM	912 580	160 077	642 744	1 715 401
Moyo S	1 381 459	182 584	337 106	1 901 149
Nkaiseng DSR	1 301 254	159 719	391 383	1 852 356
Shaba G	1 231 314	201 698	335 333	1 768 345
	6 658 486	**1 000 448**	**2 402 510**	**10 061 444**

2016

	Emoluments	Corporation Contributions	Other	Total
Osman I	1 119 709	270 309	771 678	2 161 696
Maharaj V	1 661 538	1 785	349 903	2 013 226
Moyo S	1 112 235	182 772	658 852	1 953 859
Nkaiseng DSR	981 150	148 957	617 003	1 747 110
Shaba G	978 624	200 058	435 818	1 614 500
	5 853 256	**803 881**	**2 833 254**	**9 490 391**

* Members of the Board Auditors and Risk Committee.

Notes to the Consolidated Financial Statements

40. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

Group - 2017

	Loans and receivables	Non-financial assets	Total
Investments in associates	1 010 944	-	1 010 944
Loans receivable	100 493 839	-	100 493 839
Trade and other receivables	83 011 947	9 029 904	92 041 851
Cash and cash equivalents	129 196 680	-	129 196 680
Operating lease asset	-	6 179 507	6 179 507
Inventories	-	3 428 990	3 428 990
	313 713 410	**18 638 401**	**332 351 811**

Group - 2016

	Loans and receivables	Non-financial assets	Total
Investments in associates	670 181	-	670 181
Loans receivable	98 598 113	-	98 598 113
Trade and other receivables	59 588 015	2 884 851	62 472 866
Cash and cash equivalents	51 349 483	-	51 349 483
Operating lease asset	-	3 099 073	3 099 073
Inventories	-	3 342 126	3 342 126
	210 205 792	**9 326 050**	**219 531 842**

Corporation - 2017

	Loans and receivables	Non-financial assets	Total
Investment in subsidiaries	100	-	100
Investment in associates	49 000	-	49 000
Loans receivable	100 493 839	-	100 493 839
Trade and other receivables	83 011 947	9 029 904	92 041 851
Cash and cash equivalents	128 984 224	-	128 984 224
Operating lease asset	-	6 179 507	6 179 507
Inventories	-	3 141 289	3 141 289
	312 539 110	**18 350 700**	**330 889 810**

Corporation - 2016

	Loans and receivables	Non-financial assets	Total
Investments in subsidiaries	100	-	100
Investments in associates	49 000	-	49 000
Loans receivable	98 598 113	-	98 598 113
Trade and other receivables	59 588 015	2 884 851	62 472 866
Cash and cash equivalents	51 137 027	-	51 137 027
Operating lease asset	-	3 099 073	3 099 073
Inventories	-	3 054 425	3 054 425
	209 372 255	**9 038 349**	**218 410 604**

Notes to the Consolidated Financial Statements

41. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

Group - 2017

	Financial liabilities at amortised cost	Non-financial liabilities	Total
Other financial liabilities	4 298 348	-	4 298 348
Retirement benefit obligation	-	39 021 000	39 021 000
Trade and other payables	283 631 977	288 071	283 920 048
Deferred income	-	153 756	153 756
Long service award provision	-	697 760	697 760
	287 930 325	**40 160 587**	**328 090 912**

Group - 2016

	Financial liabilities at amortised cost	Non-financial liabilities	Total
Other financial liabilities	4 547 090	-	4 547 090
Operating lease obligation	8 776	-	8 776
Retirement benefit obligation	-	38 213 000	38 213 000
Trade and other payables	186 166 336	288 071	186 454 407
Deferred income	-	166 006	166 006
Long service award provision	-	675 319	675 319
	190 722 202	**39 342 396**	**230 064 598**

Corporation - 2017

	Financial liabilities at amortised cost	Non-financial liabilities	Total
Other financial liabilities	4 256 593	-	4 256 593
Retirement benefit obligation	-	39 021 000	39 021 000
Trade and other payables	281 999 539	-	281 999 539
Deferred income	-	153 756	153 756
Long service award provision	-	697 760	697 760
	286 256 132	**39 872 516**	**326 128 648**

Corporation - 2016

	Financial liabilities at amortised cost	Non-financial liabilities	Total
Other financial liabilities	4 505 335	-	4 505 335
Operating lease obligation	8 776	-	8 776
Retirement benefit obligation	-	38 213 000	38 213 000
Trade and other payables	185 323 901	-	184 533 901
Deferred income	-	166 006	166 006
Long service award provision	-	675 319	675 319
	189 838 012	**39 054 325**	**228 102 337**

Notes to the Consolidated Financial Statements

42. Risk management

Capital risk management

The group manages its retained earnings, which at year end amounted to R 846 483 558 (2016: R 741 668 229) as capital and there were no changes in either its policies or processes for managing capital, or in what it regards as capital, from the prior period.

The group's objective when managing capital is to safeguard the group's ability to continue as a going concern in order to provide benefits to stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain the capital structure, the group receives grants from The Free State Department of Tourism, Environmental and Economic Affairs to invest in SMME development. The Corporation does not pay any dividends and all profits are reinvested in SMME developments.

Liquidity risk

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities.

The group monitors its risk to a shortage of funds using projected cash flows from operations. The group's objective is to maintain a balance equal to an average of three months budgeted operating expenses. The group has sufficient unutilised facilities available.

The table below analysis the Corporation's financial liabilities into relevant maturity groupings based on the remaining periods at the reporting date to maturity date. The amounts disclosed in the table are the contractual discounted cash flows.

Group

At 31 March 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Other financial liabilities	3 514 546	783 802	-	4 298 348
Trade and other payables	283 920 048	-	-	283 920 048

At 31 March 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Other financial liabilities	3 763 288	783 802	-	4 547 090
Trade and other payables	186 454 407	-	-	186 454 407

Corporation

At 31 March 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Other financial liabilities	3 514 546	742 047	-	4 256 593
Trade and other payables	281 499 539	-	-	281 499 539

At 31 March 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Other financial liabilities	3 763 288	742 047	-	4 505 335
Trade and other payables	184 533 901	-	-	184 533 901

Notes to the Consolidated Financial Statements

42. Risk management (continued)

Interest rate risk

The group's exposure to risk for changes in market interest rates relate primarily to the group's (Corporation) long term and short term loans granted with floating interest rates. Changes in the interest rate will affect the revenue stream of the group (Corporation), as most of the interest bearing financial assets is linked to the prime interest rate. The group does not make use of interest rate derivatives and therefore 100% of the interest-bearing financial instruments have a variable interest rate.

Interest rate risks are presented by way of sensitivity analysis in accordance with IFRS 7: Financial Instruments: Disclosure. These show the effects of changes in market interest rates on interest repayments, interest income and expenses, other income components and, if applicable shareholder's equity. The time frame, over which the assessment is made, is 12 months due to the next reporting date being 31 March 2017. The analysis is based on the assumption that the prime interest rate has increased / decreased by 2% with all other variables held constant. There were no changes in the assumptions and methods used from the previous period.

The following table illustrates the sensitivity of the group's profit and equity to rate risk if interest rates change with the following percentages:

	Group		Corporation	
Figures in Rand	2017	2016	2017	2016
	+2%	**+2%**	**-2%**	**-2%**
Increase / (decrease) in profit for the Group	2 009 877	1 971 962	(2 009 877)	(1 971 962)
Increase / (decrease) in profit for the Corporation	2 009 877	1 971 962	(2 009 877)	(1 971 962)

Credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information in its credit risk controls.

The group's maximum exposure to credit risk is equal to the cost amount of the financial assets at the reporting date and is summarised below:

Loans and receivables	100 493 839	98 598 113	100 493 839	98 598 113
Other investments	-	8 441 428	-	8 441 428
Trade and other receivables	92 041 851	62 472 866	92 041 851	62 472 866
	321 732 370	**220 861 890**	**321 519 914**	**220 649 434**

Refer to notes 8 & 13 for the amounts that best represents the group's maximum exposure to credit risk.

Price risk

The group is not exposed to price risk since no listed securities are held for investment purposes and the financial assets available for sale consists of investments in unquoted shares.

43. Exposure to technical insolvency

The consolidated financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Corporation is not exposed to technical insolvency through its subsidiaries. It has accounted for the financial risk by an accumulated impairment of total business loans and loans to group companies.

The following subsidiaries are under liquidation / provisional liquidation:
- Cross Point Trading (Pty) Ltd
- Highlands Furniture Factory (Pty) Ltd
- Phiritona Plastics (Pty) Ltd

Notes to the Consolidated Financial Statements

43. Exposure to technical insolvency (continued)

The group is not exposed to any other significant creditors except as mentioned in the note regarding contingencies.

No indication exists that the FDC cannot meet its obligations, or is unable to pay debts as they become due for payment. FDC's asset base is solid and can meet its obligations when due. The group as well as the Corporation managed to recover from significant losses incurred in the prior year to a profit in the current financial year.

The Corporation will continue to manage its expenses by implementing stringent cost cutting measures aimed at reducing operating costs to acceptable levels, thus moving to increase profits irrespective of the significant impairments recognised. The Corporation will further continue to enhance its credit assessment and debt collection processes in order to reduce impairments going forward.

44. Events after the reporting period

The board members are not aware of any matter or circumstance arising since the end of the financial year.

45. Irregular expenditure

Breakdown				
Opening balance	1 352 977	2 448 890	1 352 977	2 448 890
Irregular expenditure for the year	-	1 352 977	-	1 352 977
Condoned	(1 352 977)	(2 448 890)	(1 352 977)	(2 448 890)
Irregular expenditure awaiting condonation	**-**	**1 352 977**	**-**	**1 352 977**

Irregular expenditure 2017

As a result of the audit of the 2016/17 financial year, two contracts were identified that will be placed under review for potential non-compliance to procurement laws, regulations and supply chain management policy.

The contracts relate to the following:

- Award of the installation of lighting at the Special Economic Zone (Maluti-a-Phofung) in terms of the requirements, definitions and interpretation of Local Content as stipulated in the Preferential Procurement regulations,
- Award of a service contract to meter and collect revenue from electricity usage in industrial parks managed by the Corporation in respect of the process of evaluation and final award of the contract.

The outcome of this process will be revealed in the ensuing financial year.

46. Fruitless and wasteful expenditure

There was no fruitless and wasteful expenditure incurred during the year (2016: R 0).

47. Comparative figures

Certain comparative figures have been reclassified, where necessary to conform with the changes in presentation in the current year.

NOTES

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