FDC

Free State Development Corporation
Growing the Free State

2017/18
Annual Report

TABLE OF CONTENTS

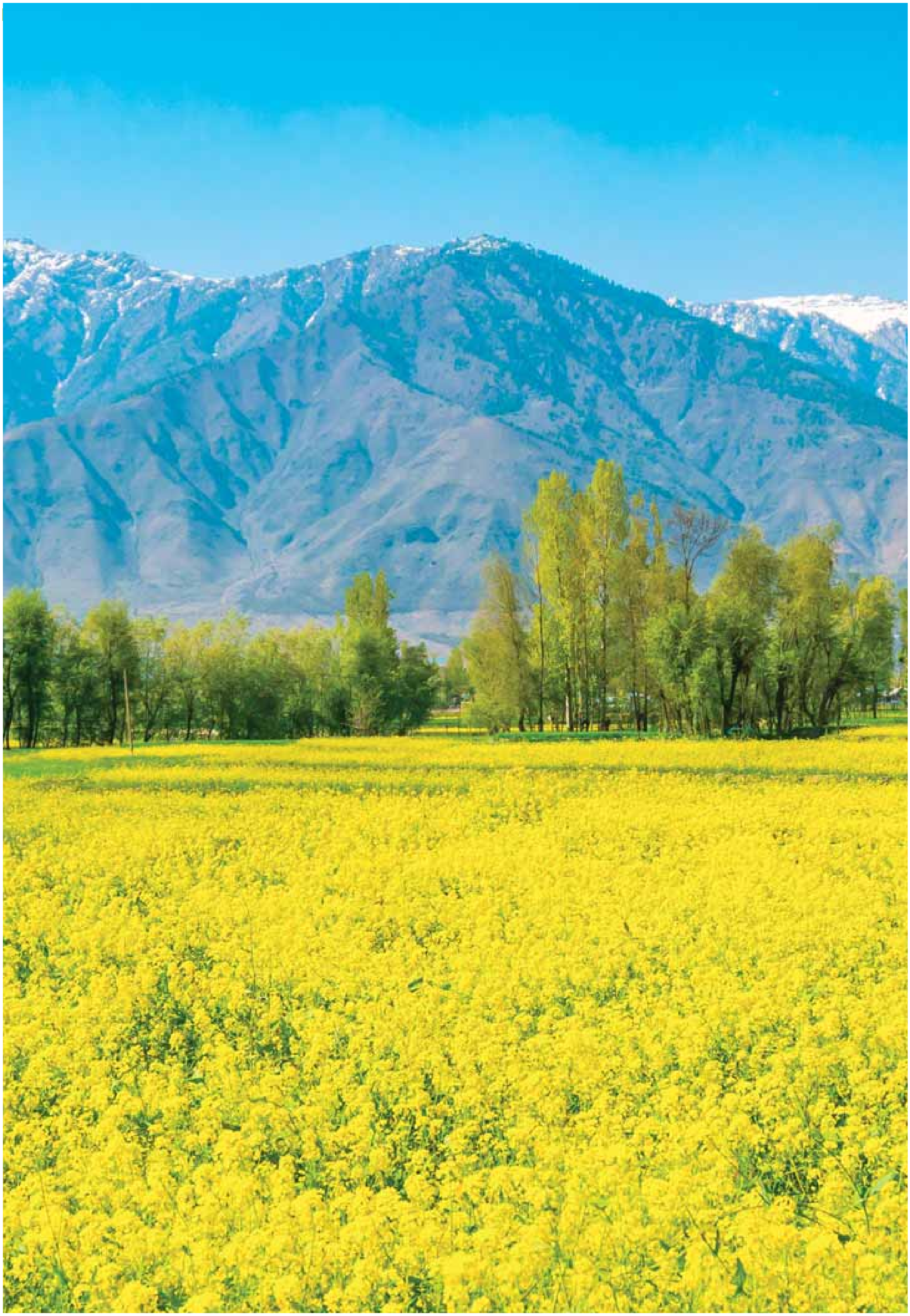
PART 1: GENERAL INFORMATION

PART 2: STRATEGY

PART 3: CAPITALS AND PERFORMANCE

PART 4: GOVERNANCE FRAMEWORK

PART 5: FINANCIAL INFORMATION



PART 1
GENERAL INFORMATION

1.1 CORPORATION AT A GLANCE

Nature of Business and principal activities

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

These services include:

- Providing financial and non-financial support to Small Medium and Micro Enterprises;
- Providing development and management of property portfolio;
- Providing investors with a comprehensive service in setting up businesses in the Free State Province; and
- 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 (Acting)	Ivy - Joy Mabokgole

1.2 ACRONYMS AND 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
DTI	Department of Trade and Industry
EMC	Executive Management Committee
FDC	Free State Development Corporation
GTS	Gateway Telephone Services
IDC	Industrial Development Corporation
IIA	Institute of Internal Auditors
MACUFE	Mangaung Arts and Cultural Festival
MAP SEZ	Maluti-A-Phofung Special Economic Zone
MEC	Member of Executive Council
OECD	Organisation for Economic co-operation and Development
PFMA	Public Finance Management Act
SEZ	Special Economic Zone
SMME	Small, Medium and Micro Enterprise
SOE	State Owned Enterprise

1.3 CHAIRPERSON'S STATEMENT

Introduction

I am delighted to present the annual report for the financial year ended 31 March 2018 to the member of the executive council (MEC) for Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA), the Free State Provincial Government Executive Council, the Free State Legislature, and Auditor General of South Africa and all other stakeholders of the Corporation.

The FDC, classified as a public entity under Schedule 3D of the Public Finance Management Act (PFMA) of 1999, was established in terms of the Free State Development Corporation Act 6 of 2010 (as amended). The corporation's founding act has been amended by the Free State Provincial Government to enable this institution to address changes in its operating environment.

The FDC continues to contribute towards strengthening and diversifying the economy of the Free State Province in line with its strategic objectives and mandate. To this end, the corporation has upheld its mission to create an enabling environment for growth through targeted, strategic infrastructure development, social transformation and investment facilitation to encourage investment and employment within the province.

External Environment

The year under review has been challenging from a macroeconomic perspective both at a domestic and global level. The South African economy is expected to grow by 1.5 %[1] in 2018, which is projected to increase to 2.1%[2] in 2020. The Free State economy is projected to grow by 2.3%[3] for the next coming two years, with agriculture and mining contributing a significant share due to continuing recovery of commodity prices and improved agricultural production as a result of favourable rainfall.

The risk of sustained low growth in South Africa over the medium-term, has become one of the biggest threats to government's plans to grow the economy and create employment. In an attempt to address these conditions, FDC embarked on targeted interventions aimed at mitigating market failures experienced by the SMMEs. This process unearthed the development of a range of innovative interventions geared at ensuring that our SMMEs are sustainable and contribute positively to the provincial economy. To this end, negotiated repayment arrangements were entered into with our clients that were struggling to meet their dues to the Corporation.

The role of the FDC is to identify, develop and package investment opportunities, to provide a professional and comprehensive service to entrepreneurs; to assist them to expand their existing operations and to facilitate easy access for investment opportunities by both local and foreign investors.

FDC will amplify its efforts and coordinate activities with other entities to achieve the goals of the National Development Plan and government's economic strategy as set out in the New Growth Path, Medium Term Strategy Framework, Free State Provincial Growth and Development Strategy, Industrial Policy Action Plan and National Infrastructure Plan. The Corporation will also continue to seek partnerships and opportunities that will result in business activities that will create much-needed jobs, improved competitiveness and a more inclusive economy with increased participation by women, youth, disabled and black entrepreneurs.

Strategic Developments

During the period under review, the Board led a strategy review process that sought to examine and reassess the organisation's strategic position to determine its ability for effective and efficient delivery. The board designed a vision 2020 and 2030 which is discussed in detail under 2.7 (Our future State). The main principle outlined in our strategy is to turn FDC to profitability and a cash-positive position by diversifying revenue sources and implementing high impact programmes that will assist government in meeting its service delivery mandate.

The Corporation experienced a relatively stable revenue-flow during the year due to buoyant property occupancy which remains the major source of revenue contributing 92% of total revenue. In order to achieve our 2020 vision, FDC focused on extensive marketing of its new products such as Gateway Telephony Savings (GTS) and project management. GTS business entails alternative ways of improving efficiency and cost cutting in providing telephone services within government and also meeting socio-economic imperatives whilst project management entails assisting departments to execute their programmes efficiently. However, just like any other business

[1] *OECD January 2018*
[2] *IDC research November 2017*
[3] *Markit-IHS 2018*

venture, we are experiencing delays in rolling out these products to all government departments during the year due to regulatory and other logistical challenges. We believe that by engaging with our government in this regard, these will be resolved for the benefit of all parties concerned.

The Corporation further placed emphasis on building partnerships with other SMME support institutions, the government and the private sector such as the National Empowerment Fund (NEF), the Small Enterprise Development Agency (SEDA), National Youth Development Agency (NYDA), State Information Technology Agency (SITA) and National and Regional Chambers of Commerce and Industries. These partnerships contributed to greater awareness of our organisation's products and services, innovation, outreach to SMMEs, increase in our loan book and effective post investment support to funded enterprises. A total of 1580 jobs were created of which SMME development and support contributed 610 and property portfolio contributed 970 jobs. This is a significant contribution into the provincial economy.

The Special Economic Zone gained traction during the year. The former president of the Republic, his excellency, Mr Jacob Zuma launched the SEZ on the 25th of April 2017. A number of investors have shown interest in setting businesses in our Zone. During the year we had two investors that were approved by DTI for the construction of the factories valued at R192m. The SEZ remains a catalytic programme for attracting investors into the Province.

Appreciation and Recognition

My highest gratitude is extended to the former Premier, Honourable E.S Magashule for the on-going motivation and support. I also wish to thank the current Premier, Honourable S Ntombela and the Executive Committee, Minister of Trade and Industry (DTI) Honourable R. Davies and the Member of the Executive Council for Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA), Honourable B Malakoane. I take this opportunity as well to welcome our new MEC, Honourable LP Mahasa.

Our achievements during the year would have not been possible without coherent 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). Their invaluable guidance and support to our developmental mandate is highly appreciated.

I also wish to thank my management, and fellow past and present board members for their unparalleled wisdom, diligence and support. The team spirit and sacrifices throughout the year are commendable and for that I am deeply appreciative.

I am looking forward to a fulfilling 2018/19 financial year as we continue with our mandate for a better Free State Province and a better South Africa.

Ms HB Matseke

Chairperson

1. 4 VISION , MISSION AND VALUES

Vision

To be the leading catalyst for economic growth and development in the Free State Province.

Mission

To drive economic development through empowerment by;

- Contributing to the radical socio-economic transformation of the Free State Province;
- Providing financial, non- financial and property services to SMMEs and Cooperatives;
- Identifying businesses opportunities which are developed through capital raising and partnerships;
- Developing and managing properties for business and residential purposes; and
- Facilitating and promoting investments and trade.

Values

The FDC subscribes to the following values:

- To be customer focused;
- To be honest and operate with integrity;
- To deliver excellence;
- To embrace teamwork and respect for others; and
- To embrace change.

1.5 OUR MANDATE

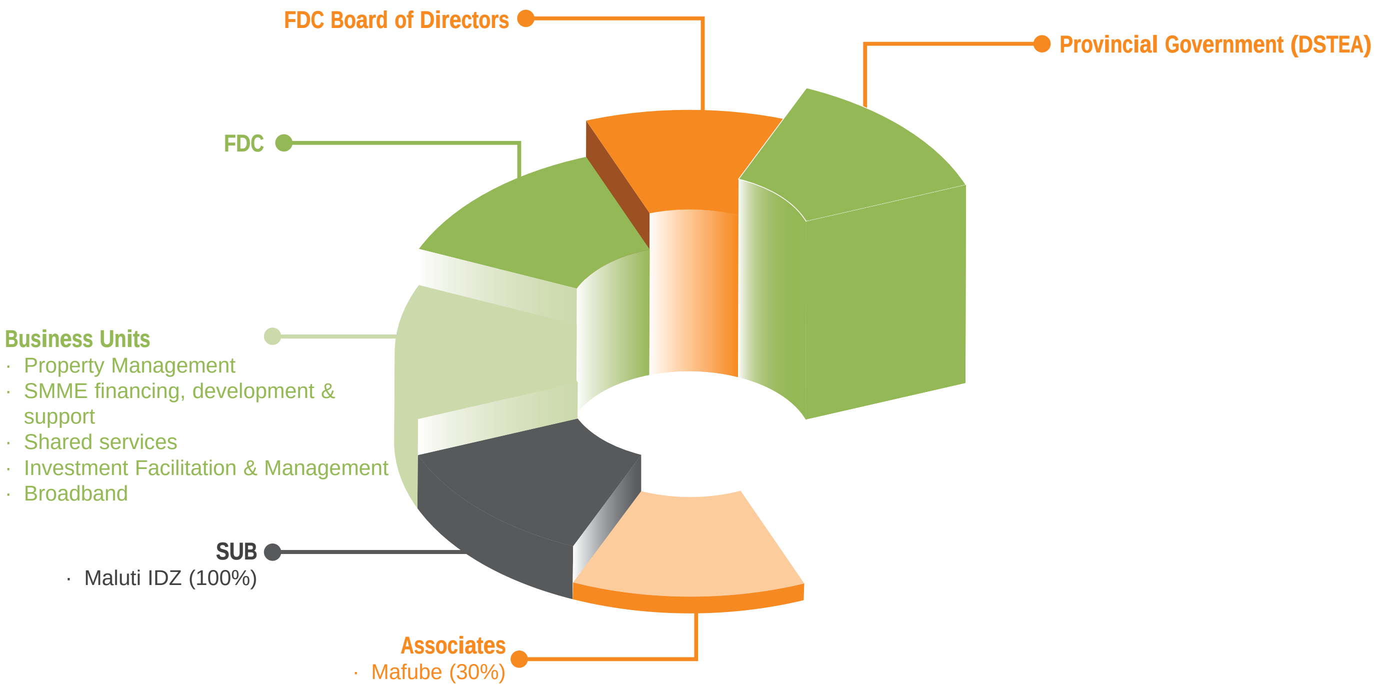
Our mandate originates from the Free State Development Corporation Amendment Act 6 of 2010. The mandate is as follows:

- 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 through payments arrangements;
- 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.

1.6 ORGANISATIONAL STRUCTURE

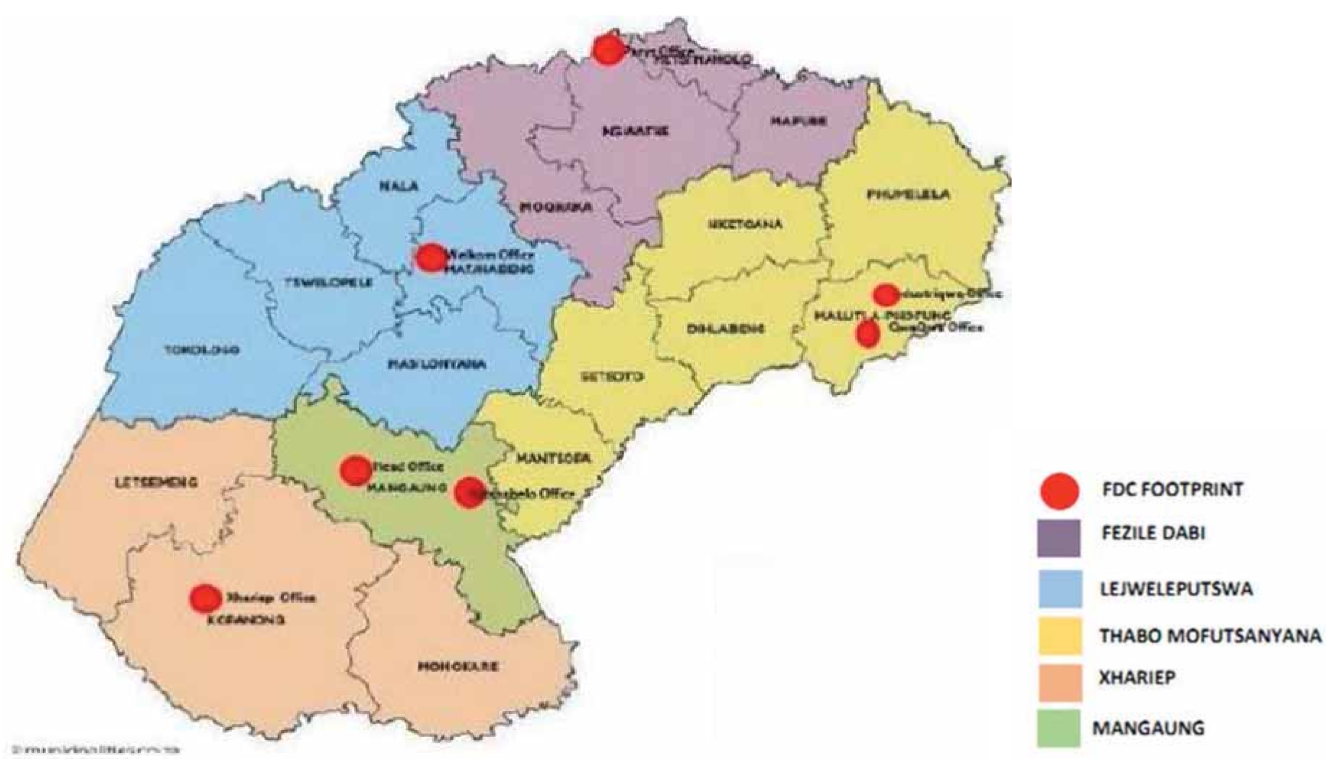
FDC is an entity of government in business. We consider ourselves to be working hard in developing Free State economy. We operate commercially, while simultaneously contributing to the imperatives of our government through compliance with dual mandate that applies in state-owned companies. We maintain a strong governance position with a fully constituted board with a recent approved corporate plan that position our future direction. Our robust engagements with key stakeholders are paramount in delivering developmental and sustainable value.

Below is the legal structure of the Corporation:



1.7 OUR PROVINCIAL PRESENCE

FDC operates in all five districts in order to better serve the people of the Free State. The presence enables us to customise the products per region and stimulate growth in a meaningful manner. We provide mainly property as a stimulus for economic growth in Mangaung and Thabo Mofutsanyane and SMME support to all other districts. Below is the pictorial view of our presence.




TAJIMA
TAJIMA
TAJIMA
TAJIMA

PART 2
STRATEGY

2.1 CEO'S STATEMENT

Introduction

FDC operated under a very challenging economic environment during the year, characterised by slow economic growth, high unemployment and struggling SMMEs. These conditions affected FDC directly through SMMEs inability to pay us on time. The Corporation developed a strategy and a business model to respond to these challenges. The strategy was developed at the back of the principle that FDC should achieve sustainability without government grants. This strategy emanates from the national government that all SOEs should be self-sustaining and cease to be a fiscus burden. We concur with this principle and we remain one of the few SOEs that are self-sustaining under these difficult times.

Our Performance

Financial performance

FDC's performance was characterised by losses due to impairment of debtors, settlement on legal claims, utility business, losses on sale of property and reduction on SEZ grant. Whilst FDC is a developmental entity with no expectation of making profit, the minimum requirement is to break even. FDC incurred a loss of R121m in the current financial year compared to a profit of R107m in the prior year due to reasons stated above. In order to resolve these losses in future, management implemented a number of initiatives such as starting a broadband business to steer the Corporation into profitability. This business did not perform as expected due to regulatory challenges. Other initiatives embarked on are described below:

Special Economic Zone

The Maluti-A-Phofung Special Economic Zone (MAP SEZ), located in the eastern part of the Free State was granted an SEZ licence and operator permit in April 2017 in terms of the SEZ Act no 16 of 2014.The former President of South Africa, Mr. Jacob Zuma officially launched the Maluti-A-Phofung Special Economic Zone on 25th April 2017. On the 2nd of June 2017, the MAP SEZ was then gazetted by the Department of Trade and Industry thereby making its operating activities official under the SEZ Act no 16 of 2014. This initiative will improve investment, employment into the province and also increase the revenue and asset base of the corporation in the long run.

The MAP-SEZ has managed to attract local and foreign investor interest from countries such as China, Russia, Croatia, Denmark, India, Belarus, Bulgaria and the United Arab Emirates amongst others. These are currently in various stages of the due diligence process. The total investment value for these potential investors is estimated at R2.6 billion which will be realised in the next five to ten years, contributing a significant number of permanent and temporary job opportunities in Maluti-A-Phofung region. Two investors to the value of R192m have been approved by DTI for the construction of the factories during the year.

DTI Revitalisation of Industrial Parks Project

Through our partnership with DTI, our industrial parks in QwaQwa and Botshabelo are being upgraded to become more attractive and to provide a more secure and modern environment for the investor-tenants. This in turn is expected to further increase job creation and investment in the Province. Our investor-tenants provide about 20 000 jobs and have fixed investments of over R2 billion in our industrial parks. The second phase of the revitalization of the Botshabelo industrial park will begin in the 2018-2019 financial year. The first phase at Botshabelo was completed in the previous financial year. This initiative will improve our cash position as the properties are built or improved on behalf of the Corporation. DTI has spent in excess of R80m over the last two years in revitalising our industrial parks.

Rent-a-Desk

As part of our endeavour to provide SMMEs with a suitable office space and general work environment, at affordable price, we conceptualised the Rent-a-Desk facility. The first one was opened in Mangaung in the previous financial year followed by the opening of the facility in Parys during the month of January 2018. Two more facilities will be rolled out in Botshabelo and QwaQwa. This is not a profit making venture as it assists SMMEs who ordinarily would not afford to be in business due to high rental costs, especially for emerging Black business. A total of 23 SMMEs have been assisted to date.

SMME Support

Considerable efforts are continuously made by the FDC to ensure that it works closely with stakeholders in the SMME development sector to ensure a consolidated and integrated approach in the implementation and provision of financial and non-financial support services. The FDC has made great strides through the Radical Economic Transformation Programme, of the DESTEA to fund 33 SMMEs, with total loan disbursement amounts of R4.2m. The funding was able to create about 394 job opportunities in the Free State Province during the year. A further total of 216 jobs were created on other SMME support programme and 970 jobs were created in our property portfolio. This resulted in 1580 jobs opportunities created during the year.

Looking Forward

Over the next three years, we are planning to have delivered key strategic initiatives such as the following:

- Expand the roll out of the broadband, printing and publishing in the entire Province;
- Increase our property portfolio by at least R500m in the commercial and industrial sectors;
- Develop and manage a high performing team;
- Identify and secure new business opportunities in mining, manufacturing and services; and
- Intensify our collaboration with other state organs in order to improve service delivery for the government.

Appreciation

I would like to thank my MEC, my Board and members of the Executive Council for their support and guidance. Furthermore, I wish to thank all our employees and stakeholders in the Legislature, the Municipalities, the private sector and the media once again for their contribution and commitment to the Corporation.

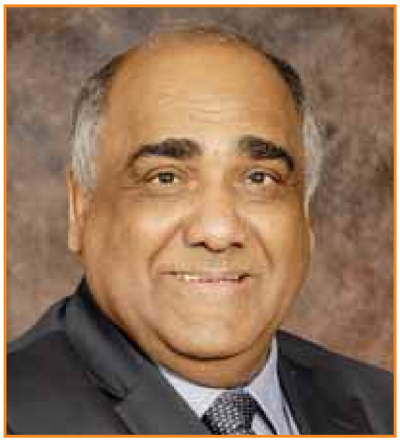
I look forward to a productive and progressive year as we implement our vision 2020 initiatives.

I OSMAN

CHIEF EXECUTIVE OFFICER

2.2 FDC EXECUTIVES

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 below:



Mr I. Osman
Chief Executive Officer

Mr S. Moyo
Chief Financial Officer

Ms G. Shaba
Executive Core Operations

Name of the 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
Mrs G. Shaba	Divisional Executive: Core Operations	1 April 2015	· Master of Business Administration · Hons. Bachelor of Commerce · Marketing and Public Relations Diploma. · Certificate in Business Management

2.3 OUR STRATEGY

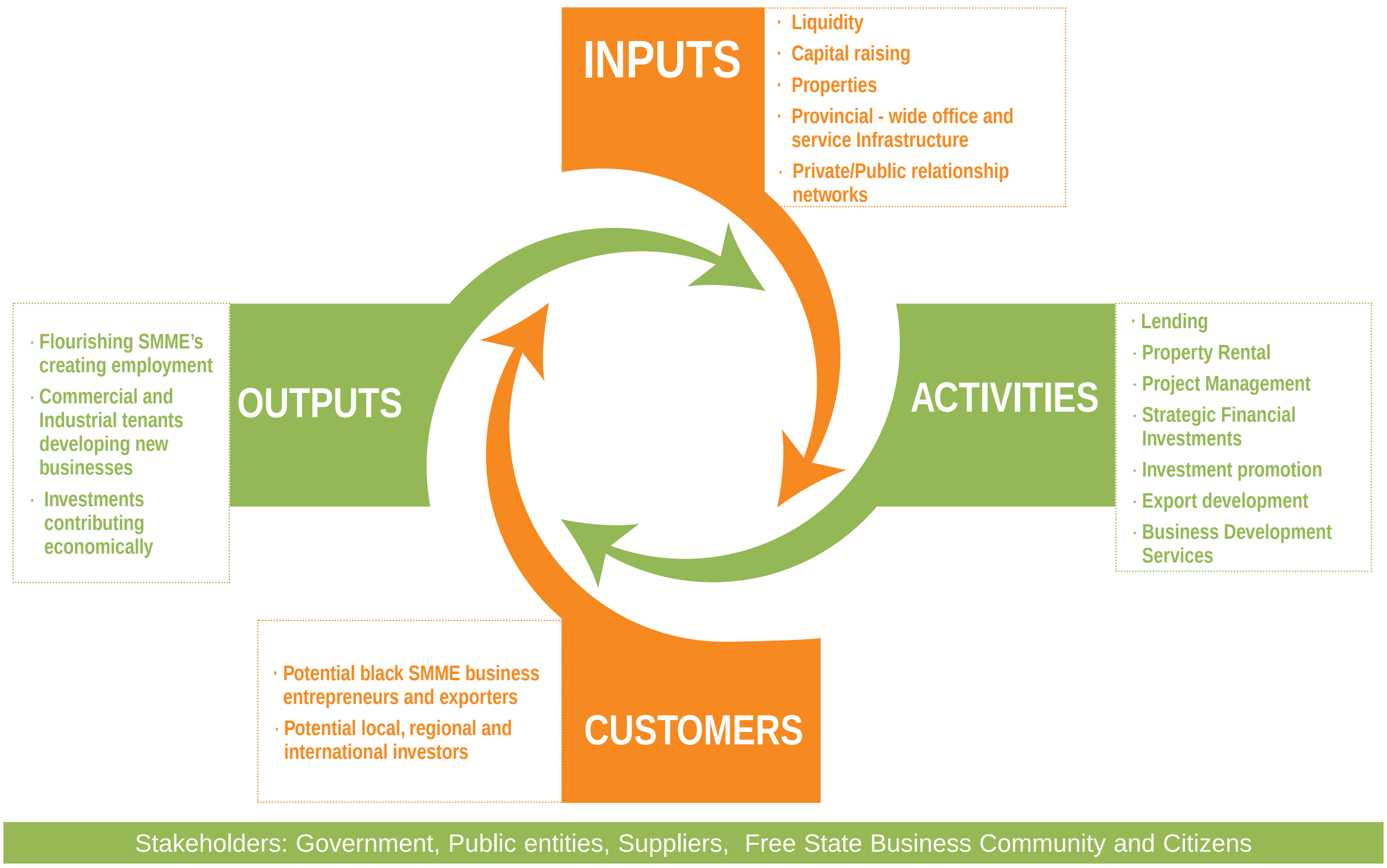
The Corporation has designed its strategy in order to achieve its mandate and also ensure self-sustainability. The key focus areas for the next three financial years is to achieve sustainable profit, intensify investment promotions, provide financial and non-financial assistance to SMMEs and build a high performing team. These objectives will ensure that FDC achieves its mandate.

Financial	- Achieve profitability and positive cash flow at a Corporate level
Learning and Growth	- Build high performance culture - Build HR capability through training and experiential learning
Customer	- To provide an enabling environment for Free State SMMEs to trade and exports. - Promote and facilitate investments above R10 million - Provide investor facilitation services to SMMEs investing below R10 million - Manage the existing property portfolio in order to maximise income - Support FDC loan and rental customers whose accounts are assumed to be in financial distress. - Provide loan financing to SMMEs

2.4 OUR BUSINESS MODEL

The Corporation's business model consists of four components i.e. the inputs, activities, customers and outputs. The diagram below depicts our model which is the way the Corporation can sustain itself through revenue generation. The objective of our business model is to achieve the following;

- Build and strengthen a beneficially mutual partnerships with our stakeholders;
- Achieve business excellence by utilising information technology as an enabler in the digital world and running various business units within FDC in an integrated manner; and
- Identify and secure new business opportunities through focusing on commercial activities and pursuing strategic investments.



2.5 PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

The Corporation designed its key performance targets in line with its strategic intent. Over the years, FDC has revised and simplified its own objectives so as to focus on key areas that are important in executing its mandate. Below is a summary of key targets and progress made against each target.

PROGRAMME 1: INVESTMENT FACILITATION AND MANAGEMENT

PROGRAMME 1: INVESTMENT FACILITATION AND MANAGEMENT							
Strategic Goal: A vibrant and investor-friendly Free State Economy							
Strategic Objective	Measurable Objective	Actual Achievement 2016/2017	Key Performance Indicator	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from planned target to Actual Achievement for 2017/2018	Comments on deviation
To provide an enabling environment for Free State SMMEs to trade and export.	To provide Free State SMMEs with export promotional platforms and/ or export development programmes.	Not targeted (Different measure)	Number of SMMEs provided with promotional and /or export training programmes.	96	109	+13	More SMMEs participated
Promote and facilitate investments above R10 million	Investments successfully committed	2	Number of business ventures (new and expansion) committed with investments above R10million.	2	4	+2	These include SEZ DTI funded investments
Provide investor facilitation services to SMMEs investing below R10 million	To provide SMMEs with investor facilitation services	Not targeted (Different measure)	Number of SMMEs with investment commitment below R10million.	30	30	N/A	N/A

PROGRAMME 2: SMME FINANCING, DEVELOPMENT AND SUPPORT

Strategic Goal: An inclusive Free State Economy

Strategic Objective	Measurable Objective	Actual Achievement 2016/2017	Key Performance Indicator	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from planned target to Actual Achievement for 2017/2018	Comments on deviation
Support FDC loan and rental customers whose accounts are assumed to be in financial distress (overdue by at least 120 days).	Providing BDS services to FDC customers whose accounts are assumed to be in financial distress	81	Number of FDC customers (rental & loans) assumed to be in financial distress with payment/ debt resolution plans	60	73	+13	Persistent collection drive.
Provide loan financing to SMMEs	SMMEs financially assisted	Not targeted (Different measure)	Number of existing and new SMMEs financially assisted	36	33	-3	Not all loan application were paid because of cash flow problems experienced by FDC

PROGRAMME 3: PROPERTY MANAGEMENT

PROGRAMME 3: PROPERTY MANAGEMENT							
Strategic Goal: A functional and supportive property infrastructure							
Strategic Objective	Measurable Objective	Actual Achievement 2016/2017	Key Performance Indicator	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from planned target to Actual Achievement for 2017/2018	Comments on deviation
Manage the existing property portfolio in order to maximize income	Increase in property portfolio occupancy rate	Not targeted (Different measure)	% occupancy rate of commercial and industrial properties	70%	74%	+4%	The Commercial and Industrial units are well marketed, hence they meet the targets.
Manage the existing property portfolio in order to maximize income	Increase in property portfolio occupancy rate	Not targeted	% occupancy rate of residential property	70%	84%	+14%	The residential units were well marketed, hence they meet the targets.

PROGRAMME 4: SHARED SERVICES FINANCIAL MANAGEMENT PERFORMANCE							
Strategic Goal: Achieve Financial Sustainability							
Strategic Objective	Measurable Objective	Actual Achievement 2016/2017	Key Performance Indicator	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from planned target to Actual Achievement for 2017/2018	Comments on deviation
Achieve profitability and a positive cash flow at corporate level	Profit (Loss)	R107m	Rand value of profit (loss) (excluding SEZ)	Profit of R12 million	Loss of R121m.	Loss of R133m.	Broadband roll-out did not materialise as planned; Planned insourcing of Security did not materialise; Impairment of debtors; Loss on utility business and property sales.
Achieve profitability and a positive cash flow at corporate level	Cash on hand	R129m	Cash on hand (excluding SEZ)	R20 million	R 85m	R65m	Intense collection drive by the organisation in conjunction with debt collectors.

PROGRAMME 4: SHARED SERVICES (Continued)							
HUMAN RESOURCE MANAGEMENT PERFORMANCE AGAINST PREDETERMINED OBJECTIVES							
Strategic Goal: Performance Excellence							
Strategic Objective	Measurable Objective	Actual Achievement 2016/2017	Key Performance Indicator	Planned Target 2017/2018	Actual Achievement 2017/2018	Deviation from planned target to Actual Achievement for 2017/2018	Comments on deviation
Build high performance culture	Employees performing optimally	64%	Percentage of employees performing at average (3) and above average	70%	71.79%	+1.79%	FDC's focus on performance assesment.
Build HR capability through training and experiential learning	To develop employees and a competent skills base	1.97%	At least % of the budgeted annual salary to be spent on training and development (including interests)	At least 1%	At least 1.24%	+0.24%	Performance Management implementation – training identified during performance assessment was implemented

2.6 RISK MANAGEMENT

The FDC has established systems for effective, efficient and transparent risk management as required by the Public Finance Management Act. Risk management frameworks are reviewed annually and implemented to improve the risk management maturity of the FDC. The Board of the FDC has delegated risk governance and oversight to the Group Audit, Risk and Performance Committee (GARPC). Implementation of the risk management frameworks and processes are monitored by the GARPC through quarterly reports submitted by the Executive Management Committee.

Strategic risk identification and mitigation.

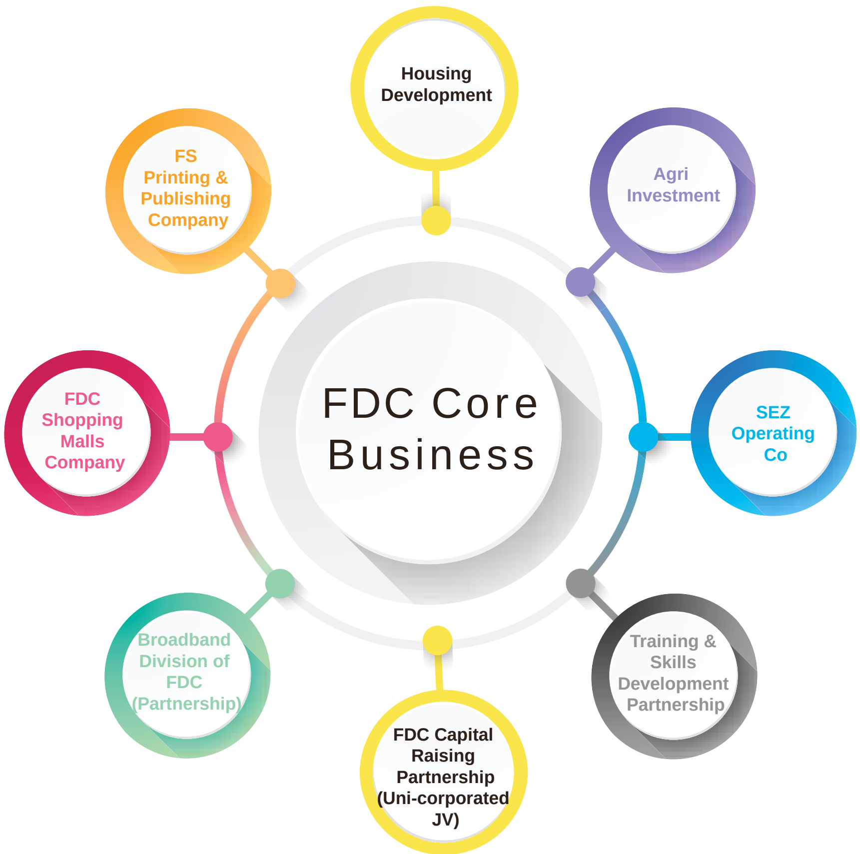
The critical and high risks that have an impact on the achievement of each of FDC's strategic objectives were:

No	Strategic Objective	Description	Risk Mitigation
1	Facilitate SMME trade development to participate nationally and globally.	Availability of qualifying SMMEs to penetrate the market.	Marketing strategy to create awareness of FDC brand and product offering. MoU with SEDA in place to train SMMEs. SMMEs provided with exporters training. SMMEs and their products marketed at national and international exhibitions and outbound missions in China and Turkey.
2	Promote and facilitate investment above R 10 million	Attracting foreign direct investment into Free State	FDC participates in international mission to market Free State to investors. DTI assists SEZ to fund construction of top structure and provides different incentives to investors
3	Build a high performance culture	Performance Management system implemented and being used.	Performance management fully operational. Staff training is in place.
4	Facilitate SMME trade development to participate nationally and globally.	FDC's ability to support SMMEs	SMMEs provided with exporters training through DTI craft funding. SMMEs Exposed to the market through international and national exhibitions. FDC participates in the national craft forum which provides officials with training to support crafters. SMMEs and their products marketed at national and international exhibitions such as in China and Turkey.
5	Manage the existing property portfolio in order to maximise sustainable income by developing, maintaining and disposing of selected existing properties in order to increase occupancy rate, which will in turn maximise revenue.	Business continuity and disaster recovery Theft, fraud and corruption	Fraud awareness session facilitated quarterly, security officials present at FDC properties. Clear segregation of duties at finance
6	Manage the existing property portfolio in order to maximise sustainable income by developing, maintaining and disposing of selected existing properties in order to increase occupancy rate, which will in turn maximise revenue.	Selling of properties below market value	Tolerate this one because FDC is a developmental institute and also has to develop SMMEs

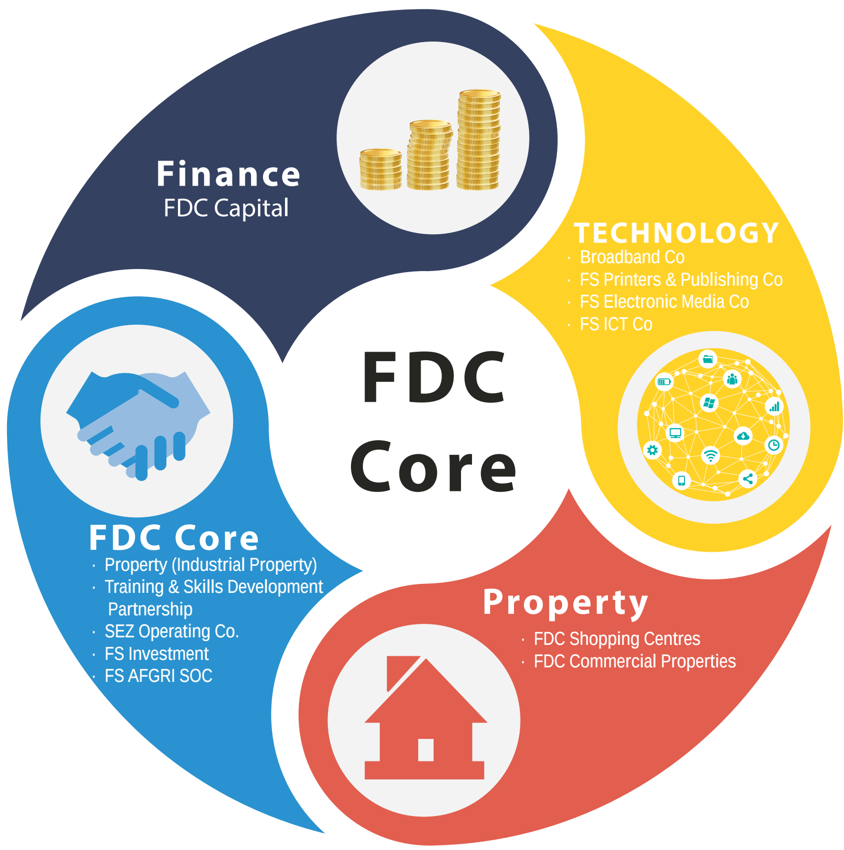
7	Achieve profitability and positive cash flow	Reliance on one source of income	Alternative income streams being undertaken
8		Liquidity risk	Collection drive still in place. Debt arrangement agreements with clients still in process.
9	Support FDC clients (Rental and Loans) in financial distress with payments plans	Resistance/ability by some debtors to pay their accounts	Debt arrangement agreements with clients still in process.
10	Provide assistance to SMME investors investing below R10 million as tenants of FDC properties through provision of affordable rental rates and business development support.	Liquidity risk	Collection drive still in place. Debt agreements with clients still in process.

2.7 OUR FUTURE STATE

2020 Vision



2030 Vision



PART 3
CAPITALS AND PERFORMANCE

3.1 HUMAN CAPITAL

Introduction

The Corporation's medium and long term goals cannot be achieved without our greatest assets – Human Capital. This is the most important asset that the Corporation's investment must be focused on. Our Human Resources department exist so that we can create an environment that allows our employees to realise their goals and aspirations and that of the organisation. The essence of our approach is underpinned by the following principles:

- Our employees should demonstrate a self-generated and proactive willingness to perform;
- Our wellness programme allows employees to flourish and improve their personal quality of life;
- Our employees are capable and continually strive towards self-actualisation;
- Our employees are enabled to make a meaningful contribution to the Corporation; and
- Our employees are fully integrated and engaged into our business and have a sense of belonging.

The Corporation undertakes to train employees in order for them to achieve the desired goals of the organisation in the most meaningful, effective and efficient manner. We continue to spend at least 1% of the payroll costs on employee training in order to achieve this important target.

Personnel Cost Programme

PROGRAMME	TOTAL EXPENDITURE FOR THE ENTITY	PERSONNEL EXPENDITURE (R)	PERSONNEL EXPENDITURE AS A % OF TOTAL EXPENDITURE	NUMBER OF EMPLOYEES	AVERAGE PERSONNEL COST PER EMPLOYEE (R)
Investment Facilitation and Management	78 464 135,13	5 208 258,90	6,64%	4	1 302 064,73
SMME Financing, Development and Support		12 004 862,87	15,30%	11	1 091 351,17
Property Management		12 004 509,94	15,30%	16	750 281,87
Shared Services		47 006 107,80	59,90%	88	534 160,32
Contract Employees		2 240 395,62	2,86%	17	131 787,98
Total		78 464 135,13	100%	136	576 942,17

Personnel Cost by Salary Band

LEVEL	TOTAL EXPENDITURE FOR THE ENTITY	PERSONNEL EXPENDITURE (R)	PERSONNEL EXPENDITURE AS A % OF TOTAL EXPENDITURE (R'000)	NUMBER OF EMPLOYEES	AVERAGE PERSONNEL COST PER EMPLOYEE
Top Management	78 464 135,13	7 539 055.14	9.61%%	4	2 039 138.20
Senior Management		1 088 398.13	1.39%	1	1 088 398.13
Professional Qualified		16 249 699.84	20.71%	15	914 508.80
Skilled		40 646 954.52	51.80%	62	655 596.04
Semi-Skilled		6 718 947.93	8.56%	22	305 406.7
Unskilled		3 980 683,95	5,07%	15	265 378,72
Contract Employees		2 240 395,62	2,86%	17	131 787,97
Total		78 464 135,13	100%	136	576 942,17

Training Costs

DIRECTORATE/ BUSINESS UNIT	BUDGETED EXPENDITURE (R)	TOTAL EXPENDITURE (R)	TRAINING EXPENDITURE (R)	TRAINING EXPENDITURE AS % OF PERSONNEL COST	NO. OF EMPLOYEES TRAINED
FDC	75 943 533.85	78 464 135,13	1 001 225,20	1.28%	81

Employment and Vacancies

LEVEL	2017/2018 NO. OF EMPLOYEES	2017/2018 VACANCIES	% OF VACANCIES
Top Management	3	1	3,23
Senior Management	0	1	3,23
Professional Qualified	15	5	16,13
Skilled	61	20	64,52
Semi-Skilled	22	4	12,90
Unskilled	18	0	0
Contract Employees	17	N/A	N/A
Total	136	31	100,00

Employment Changes

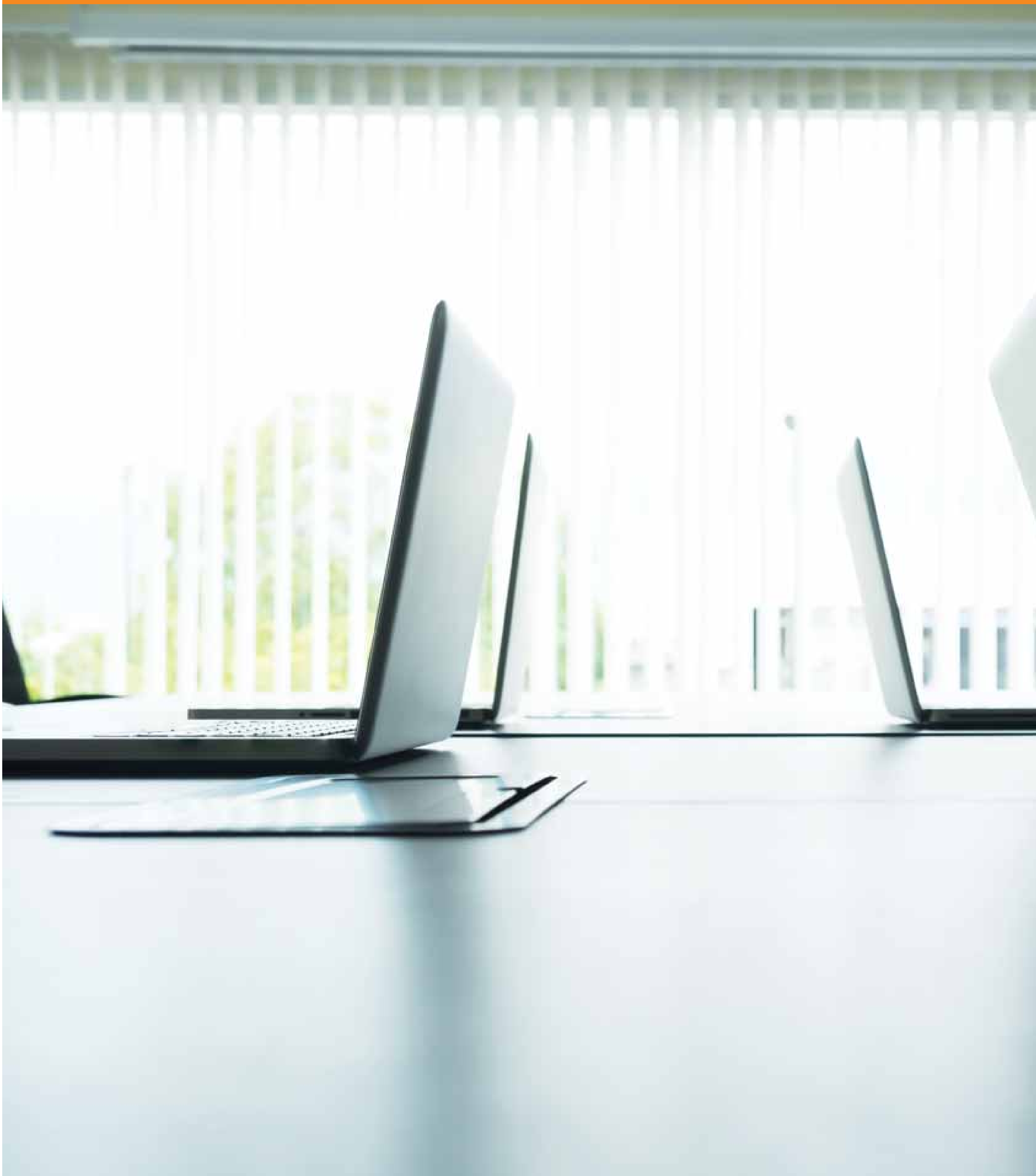
SALARY BAND	EMPLOYMENT AT BEGINNING OF PERIOD	APPOINTMENTS	TERMINATIONS	EMPLOYMENT AT END OF PERIOD
Top Management	4	0	1	3
Senior Management	1	0	1	0
Professional Qualified	12	3	0	15
Skilled	54	10	3	61
Semi-Skilled	18	6	2	22
Unskilled	15	3	0	18
Contract Employees	15	13	11	17
Total	119	35	18	136

3.2 SOCIAL AND RELATIONSHIP CAPITAL

Despite challenges faced by FDC, we understand that managing our business without contributing to our communities is not enough. The Corporation embarked on the following activities as part of its social investment:

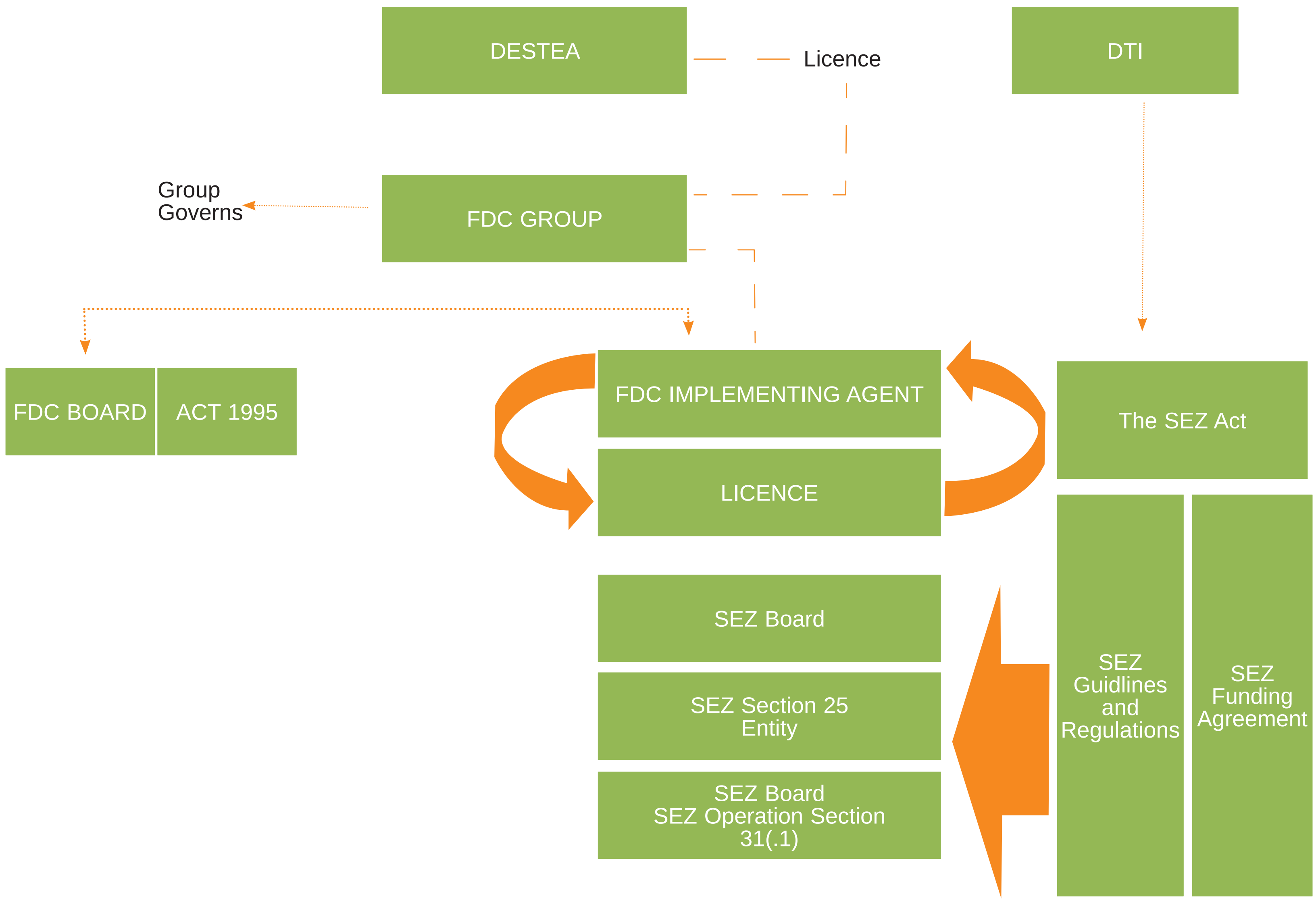
CSI PROJECT	DONATION
Tshireletso Children's home	Donated Blankets; Clothes; Food Parcels; Toiletries and 4 Hot plate-stoves
Itekeng Disability Centre	Donated Blankets; Food Parcels; wheelchair and Toiletries
Ubuntu Social Care (old Age home)	Donated Blankets; Food Parcels and Toiletries
Local Primary and High Schools in Bultfontein	Donated School Shoes and Sanitary Towels
Bultfontein Senior Citizens	Donated Blankets and Food Parcels
Itsoseng Disability Centre in QwaQwa	Donated Food Parcels; Blankets; disposals; mattress and
Rent-a-Desk	Assists SMMEs with affordable office space
Take a Girl Child to work place	The FDC hosted 15 learners from two local disadvantaged schools in Mangaung. The aim was to Motivate and inspired a girl child in realizing their own self-worth in despite of their personal background. The girls were presented with goodie bags i.e. diaries; sanitary towels and pens and snacks for the day.
FS Women in Business Awards	The FDC hosted Women in business awards graced by the Minister Lindiwe Zulu. The aspiration of the event was to honour and give recognition to the contribution of women in business, who made changes in communities and society at large, through their efforts and commitment. Selected winners were awarded with certificates; vouchers and tablets

PART 4
GOVERNANCE FRAMEWORK



4.1 GOVERNANCE STRUCTURE

The Board of directors is appointed by the shareholder represented by MEC of DESTEA and it is responsible for strategic direction and oversight of FDC. The executive management under the leadership of the CEO, is responsible for the day-to-day management of the Corporation.



Introduction

The FDC is a public business enterprise in the Free State Province established in terms of Free State Development Corporation Act No.6 of 1995. It is listed as a Schedule 3D in terms of the Public Finance Management Act No.1 of 1999(PFMA).

The Board of Directors as the accounting authority in terms Section 55 of the PFMA has governance responsibilities and must account to the Provincial Member of the Executive Council for Economic, Small Business Development,Tourism and Environment Affairs. In addition to legislative requirements based on FDC's enabling legislation, the Companies Act of 2008, Protocol on Corporate Governance in the Public Sector and Shareholder Compact are regulatory instruments directing the Corporation's governance.

The FDC Board of Directors is committed to responsible and effective corporate governance. Its role is to provide strategic oversight, ethical and effective leadership through a range of mechanisms, policies, procedures, committee structures and values that enable such leadership, some of which are briefly described in this report.

Free State Legislature

In terms of the Constitution of the Republic of South Africa, the National Assembly and Provincial Legislatures have an oversight role over their respective Executives. The Provincial Legislature is required to maintain oversight over the Provincial Cabinet, and Members of the Provincial Cabinet must provide the Provincial Legislature with full and regular reports concerning all matters under their control.

Free State Legislature has established the following committees to facilitate its oversight role over the FDC:

The Portfolio Committee on Public Accounts, (PROPAC) (Financial responsibilities)

This committee addresses, inter alia, the following:

- Issues raised in the Auditor-General's audit outcomes;
- Compliance with the PFMA and Treasury Regulations;
- Financial performance;
- Corporate Governance; and
- Consideration of the Report of the Auditor-General on financial statements for the year ending 31 March 2018.

The Portfolio Committee on Agriculture and Rural Development, Economic, Small Business Development and Sports, Arts and Culture (Non-financial responsibilities)

This committee addresses, inter alia, the following:

- Monitoring the economy, efficiency and effectiveness of service delivery as measured by performance indicators presented in the pre-determined objectives;
- Evaluating management's explanation as to why the entity's service delivery performance did not attain the targets set in the corporate plans;
- Equity of service delivery;
- Investigating the circumstances that led to financial under-performance and the impact this had on service delivery and the measures taken by management to rectify the situation;
- Consideration of Annual Report;
- Consideration of the Corporate Plan; and
- Consideration of Quarterly Non-Financial Report.

Executive Authority

In terms of section 63 to 65 of the PFMA, the MEC is the Executive Authority and is responsible for the functions specified therein and assigned to him or her by the Premier. MECs are accountable collectively and individually to the Provincial Legislature for the exercise of their powers and the performance of their functions.

The MEC must ensure that the FDC sets up adequate systems to enable herself to discharge her responsibilities. The MEC is further required to oversee such systems to ensure that they function optimally and comply with the Framework for Managing Programme Performance Information and other related guidelines.

The FDC Board of Directors must regularly provide their MECs with the above information. The MEC responsible for the Corporation is the MEC for the Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA).

Legislative and Regulatory Framework

The Constitution of the Republic of South Africa

The Constitution of the Republic of South Africa is the supreme law of the Republic and all statutes and legal provisions must be interpreted in line with its provisions.

Section 195(1) of the Constitution binds all organs of state and public enterprises to basic values and principles. It further places a responsibility on provincial legislature to provide suitable mechanisms in order to ensure the following:

- To ensure that all provincial executive organs of state in the province are accountable to it; and
- To maintain oversight of provincial executive authority in the province and any provincial organ of state including FDC

Public Finance Management Act (PFMA)

Sections 50 and 51 of the PFMA provide for the fiduciary duties and general financial governance responsibilities of the Board respectively and in terms of section 3(2), in the event of any inconsistency between the PFMA and any other legislation, the PFMA prevails.

The PFMA also regulates conflict of interest, and makes provision for the FDC Board of directors to delegate its functions to an official of the FDC. The ultimate accountability remains with the Board.

In addition, through the Treasury Regulations, the PFMA makes provision for the following reporting and oversight mechanisms:

- Shareholder Compact;
- Corporate Plan;
- Annual Report;
- Audit Committee and
- Provincial Treasury.

Free State Development Act No. 6 of 1995 (FDC Act)

The FDC Act is the enabling legislation of the FDC and the main objects of FDC are set out in Section 3 of such Act. Sections 4 and 4A of the Act specify the powers of the Board of Directors.

Companies Act 71 of 2008

As a state-owned entity, FDC subscribes to provisions of the Companies Act 71 of 2008, as amended, in as far as it relates to directors and their obligations.

Board Charter

The Board Charter provides the terms of reference of the FDC Board, setting out the high level responsibilities of FDC Board and regulation of its affairs.

According to the Board Charter, the Board has the following duties and responsibilities:

- Absolute responsibility for the performance of FDC and is fully accountable to the Executive Authority. As a result, the board should give strategic direction to FDC;
- 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. The FDC Board as a whole and each individual director must not accept any payment of commission, any form of bribery, gift or profit for him/herself.
- 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;
- Notwithstanding any delegated authority. The board retains overriding power and responsibility on delegation of authority and may assume and take decision on a subject matter of any delegated authority;
- 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 Evaluation

Board has introduced instruments of self-evaluation to assess its performance and effectiveness.

Board Independent Evaluation

Provincial Treasury conducts the independent evaluation of the Board to assess its effectiveness and performance in terms of its mandate.

4.2 THE BOARD OF DIRECTORS

Ms H.B. Matseke

Chairperson

Date of appointment 04 July 2012

- **Diploma in Personal Computing, Diploma in Software Supporting, Diploma in Marketing, New Managers Programme and Introduction to Computers**

MR B. P. M. Chuene

Deputy Chairperson and Chairperson of legal and Compliance Committee

Date of appointment 20 October 2014

- **B UIRIS, LLB and LLM**

Mr L.L. Phungo

Chairperson of the Human Resources Remuneration and Ethic Committee

Date of appointment 20 August 2014

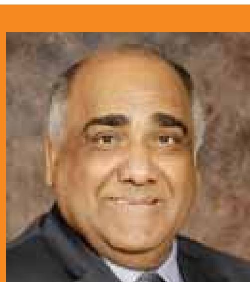
- **B PROC and LLB**

Mr V. Maharaj

Chairperson of Investment and Finance Committee

Date of appointment 04 July 2012

- **Diploma in Telecommunications, Sales Management Diploma, Marketing Management Diploma and Business Administration Diploma**



Mr I. Osman

Chief Executive Officer

Date of appointment 06 June 2013

- **Bachelor of Commerce, Hons. Bachelor of Commerce, Master of Business Administration, Management Advancement Programme, Advanced Certificate in Leadership (UCT) and Certificate In Directorship (IODSA), Chartered Marketer SA.**

Ms TN Sandlana

Chairperson of the Board, Audit, Risk and Performance Committee

Date of appointment 20 October 2014

- **Diploma in Management, B Comm, Higher Education Diploma, Master of Business Administration, Certificate in Quality Assessment CQA, Certificate in Control Self Assessment.**

4.3 THE AUDIT COMMITTEE

Mr V. Maharaj

Member of the Board, Audit, Risk and Performance Committee

Date of appointment 04 July 2012

- **Diploma in Telecommunications, Sales Management Diploma, Marketing Management Diploma and Business Administration Diploma**

Mr M Ntshiea

Member of the Board, Audit, Risk and Performance Committee

Date of appointment 01 August 2015

- **B. Com Accounting**

Ms TN Sandlana

Chairperson of the Board, Audit, Risk and Performance Committee

Date of appointment 20 October 2014

- **Diploma in Management, B Comm, Higher Education Diploma, Master of Business Administration, Certificate in Quality Assessment CQA, Certificate in Control Self Assessment.**

Ms S Ntanjana

Member of the Board, Audit, Risk and performance Committee

Date of appointment 01 August 2015

- **B. Proc LLB**

Committees of the Board and other matters

Board Audit, Risk and Performance (GARPC)

The GARPC has been constituted in terms of regulation 27 of the Treasury Regulations to provide assurance and oversight over the FDC of internal controls and ensure effective management of risks. The Committee acts in line with its statutory duties and delegated authority.

Board Investment and Finance Committee (BIFC)

The BIFC is a Board Committee playing an oversight role over all FDC Investments, Finance and Property related matters. Its primary focus was to achieve financial sustainability of the FDC through projects relevant to the FDC mandate in terms of section of the FDC Act. The Committee acts in line with functions delegated to it by the FDC Board.

Board Information Technology and Infrastructure Committee (BITIC)

The BITIC is a Board Committee playing an oversight role on all IT governance and infrastructure. IT policies and processes have been put in place to enhance controls and efficiency of the Corporation. King IV has highlighted key issues on IT governance and the Committee is in a continuous process to ensure that FDC aligns itself with such recommendations.

Board Human Resources, Remuneration and Ethics Committee (BHHREC)

The BHRREC is a Board Committee with a function of playing an oversight role over all human resources, remuneration and ethics matters.

Board Legal and Compliance Committee (BLCC)

The BLCC plays an oversight function in as far as all legal and compliance issues of the FDC are concerned. This serves to oversee all major court cases for and against the FDC and reviewing of all major contracts.

Remuneration of Board and Committee 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 responsible Member may determine, after consultation with the Member of the Executive Council responsible for Finance in line with the National Treasury Guidelines.

Compliance with laws and regulations

The FDC has developed and continues to update its register with all laws and regulations relevant to the FDC environment and mandate. FDC also makes use of the internal audit and external audit function, Treasury and other regulatory assurance providers to assure compliance with relevant laws and regulations.

Minimising conflict of interest

In order to minimise conflict of interest, all board members and committee members are required to declare any conflict of interest on an annual basis and before any meeting commences. A conflict of interest register is kept in the office of the Company Secretary. Executive Management is also required to declare any conflict of interest. Their register is kept in the office of the Human Resource Manager.

Code of Conduct

The code of conduct guides members on the ethical and honest conduct that is expected of them. King IV is highly focused on ethical leadership and culture.

Company Secretary

The Company Secretary is appointed to perform functions in terms of section 10 A of the Free State Development Corporation Act of No.6 of 1995 as well as section 88 of the Companies Act No.71 of 2008 as amended. The Company Secretary is also responsible to ensure that the Board is functioning optimally and is well managed. Board members have unrestricted access to the advice/guidance and services of the Company Secretary on issues relating to governance, legislative and regulatory requirements.

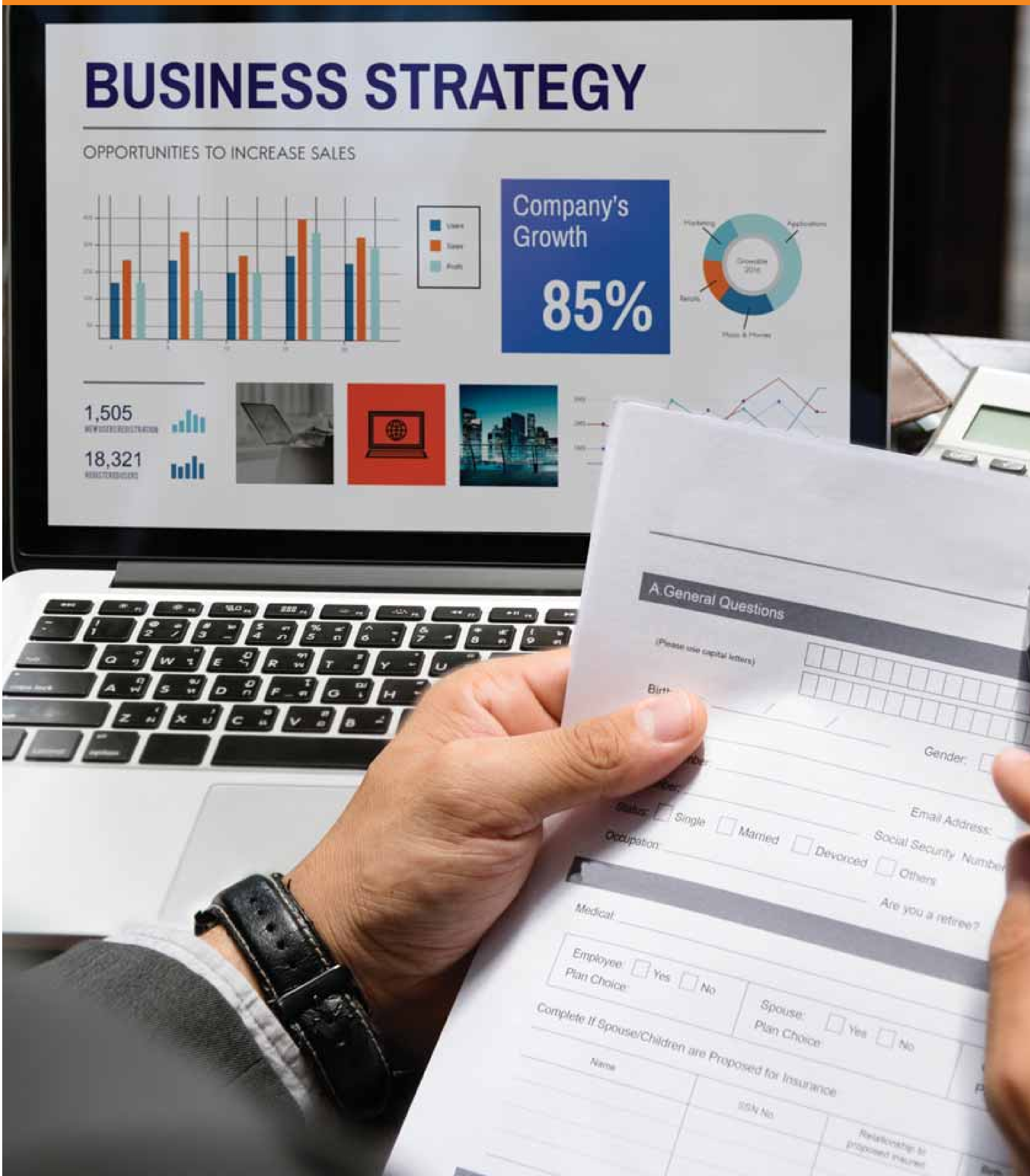
Board and Committee Members Meetings Attendance

	Board	GARPC	BIFC	BITIC	BHRREC	BLCC
Total Meeting held:	**11**	**9**	**2**	2	4	2
Ms HB Matseke	10				1	
Mr MPB Chuene	11	1	2	2	2	2
Mr V Maharaj	11	9	2	1	3	2
Mr LL Phungo	5				3	2
Ms TN Sandlana	11	9	1	2	2	2
Ms S Ntanjana	1	8				
Mr M Ntshiea	3	9				

Joint Board and Committee Meetings Attendance

	Joint Board & GARPC	Joint GARPC & BITIC	Joint GARPC & BIFC	Joint BLCC & BIFC	Joint GARPC & BLCC
Total Meeting held:	**3**	**2**	**2**	**1**	**1**
Ms HB Matseke					
Mr MPB Chuene	3	2		1	1
Mr V Maharaj	3	1	2	1	1
Mr LL Phungo				1	
Ms TN Sandlana	3	2	2	1	1
Ms S Ntanjana	1	1	2		1
Mr M Ntshiea	2	2	2		1

PART 5
FINANCIAL INFORMATION



INDEPENDENT AUDITOR'S REPORT

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

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 (the group) set out on pages 48 to 112, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the 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 Free State Development Corporation group as at 31 March 2018, 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

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.

4. 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.

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

Material uncertainty relating to going concern

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

7. Note 19 to the financial statements indicates that the group had significant outstanding trade and other payables of R406 776 710 at 31 March 2018, and as at that date, the current liabilities exceeded the current assets by R157 666 568 as per the statement of financial position. The collection of outstanding loans and debtors is slow, resulting in cumulative material impairments on loan receivables of R272 223 109 in note 8 and trade and other receivables of R162 447 319 in note 11. As stated in note 19 and note 11, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the group's ability to meet its financial obligations as they fall due and achieve strategic objectives and initiatives as outlined in the corporate plan.

Emphasis of matters

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

Material impairments

9. As disclosed in note 8 to the financial statements, cumulative material impairments on loan receivables of R272 223 109 (2017: R268 753 332) were incurred with regard to the consolidated and separate financial statements as a result of irrecoverable loans.

10. As disclosed in note 11 to the financial statements, cumulative material impairments on trade and other receivables of R162 447 319 (2017: R133 798 046) were incurred with regard to the consolidated and separate financial statements as a result of irrecoverable debtors.

Irregular expenditure

11. As disclosed in note 38 to the financial statements, irregular expenditure of R109 797 410 was incurred due to non-compliance with supply chain management (SCM) requirements.

Restatement of corresponding figures

12. As disclosed in note 40 to the financial statements, the corresponding figures for 31 March 2017 were restated as a result of an error in the financial statements of the group at, and for the year ended, 31 March 2018.

Other matter

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

Maluti-A-Phofung Special Economic Zone

14. The Maluti-A-Phofung Special Economic Zone (SEZ) is located in Tshiame, Harrismith on land that is owned by the Corporation. The SEZ is being developed to attract investments to the Free State province through the provision of incentives with the ultimate goal of contributing towards the country's economic growth. The Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA) appointed the Free State Development Corporation as the implementing agent for the SEZ development on 20 November 2013. The Free State Development Corporation created a 100% owned subsidiary, Maluti-A-Phofung Industrial Development Zone SOC RF (MAP IDZ), on 18 February 2015.

15. The SEZ Act, 2014 (Act No. 16 of 2014) requires three different key role players, namely the licence holder, SEZ entity and the operator, each with specific roles to ensure that the SEZ is developed, operated and managed in accordance with the requirements of the SEZ Act. The Department of Trade and Industry granted the Free State Development Corporation the licence and MAP IDZ the operator's permit on 18 April2017. The third role player, the SEZ entity, was not established as a separate entity because the corporation assumes the role of both the SEZ entity and licensee. This poses a risk to the effective implementation of the SEZ Act, with regard to reporting, oversight and accountability.

16. The MAP IDZ prepared separate financial statements for the year and is consolidated in the financial statements of the group. Revenue from rental income, grants received for the development of the SEZ and assets constructed for the SEZ are recorded in the financial statements of the Free State Development Corporation due to the controlling role of the corporation.

Responsibilities of the accounting authority for the financial statements

17. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with SA Statements of GMP 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.

18. In preparing the consolidated and separate 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 the accounting authority either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

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

19. 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

Report on the audit of the annual report

Introduction and scope

21. 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.

22. 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/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

23. 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 2018:

Programmes	Pages in the annual performance report
Programme 1 - Investment facilitation and management	19
Programme 2 - SMME (financing, develoment and support)	20
Programme 3 - Property management	21

24. 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.

25. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following programmes:

- Programme 1 - Investment facilitation and management
- Programme 2 - SMME financing, development and support
- Programme 3 - Property management

Other matter

26. I draw attention to the matter below.

Achievement of planned targets

27. Refer to the annual performance report on pages 19 to 23 for information on the achievement of planned targets for the year.

Introduction and scope

28. 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.

29. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

30. 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) and (b) of the PFMA. Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

31. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R109 797 410 as disclosed in note 38 to the financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by noncompliance with procurement legislation.

Procurement and contract management

32. Some of the goods, works or services were not procured through a procurement process, which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

33. The preference point system was not applied in some of the instances of 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) (PPPFA). Similar non-compliance was also reported in the prior year.

34. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding and quotations, as required by the 2017 preferential procurement regulation 5(6) and (7).

35. Some of the commodities designated for local content and production were procured from suppliers who did not submit a valid declaration on local production and content as required by the 2011 preferential procurement regulation 9(1).

Other information

36. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report and the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

37. 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.

38. 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.

39. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

40. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

41. Slow response by management resulted in material adjustments to the financial statements as well as repeat findings on the information technology systems due to inadequate actions to address some of the matters identified by the auditors in the previous financial years.

42. Lack of adequate understanding and application of the relevant laws and regulations applicable to supply chain management, weaknesses with the administration of documentation which make documents not to be easily accessible and retrievable and lack of adequate implementation of the supply chain management policy by management resulted in material non-compliance findings as well as irregular expenditure.

Auditor - General

Bloemfontein

31 July 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure - Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the 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

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this 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 accounting authority.

    - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Free State Development Corporation group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a corporation to cease continuing as a going concern

    - evaluate the overall presentation, structure and content of the financial statements, including the disclosures,and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

    - 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.

    I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Board, Audit and Risk Committee Report

The audit committee hereby presents the report for the financial year ended 31 March 2018 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, as recommended by King IV.

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

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the directors; reviewed the Auditor-General of South Africa's management report and management's response thereto; reviewed changes in accounting policies and practices; and
- reviewed the entities compliance with legal and regulatory provisions; reviewed significant adjustments resulting from the audit.

The audit committee concurs with and accepts the Auditor-General of South Africa's report on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Appointment of internal auditors, and review of internal controls

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the entity through its audits.

The committee approved the internal audit plan for the year. 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.

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

From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements, and the management report of the Auditor-General South Africa, revealed that there were some material deficiencies in the system of internal control. Accordingly, we can report that the system of internal control over financial reporting for the period under review was adequate but in-effective. The results of both internal and external quality assurance review highlighted that the CAE and the internal audit function generally conforms with the IIA standards.

Monitoring of predetermined objectives, assured and achieved

Quarterly, the committee satisfied itself that performance was measured against the predetermined objectives. On a continuous basis the committee ensured that the entity complied with the Frameworks and Circulars issued by Treasury. We can report that the Corporation met its performance targets as outlined in the entity' Corporate Plan with no material control deficiencies noted.

Assessment of financial function

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

The audit committee has recommended that the finance function be capacitated and acquire required skills and experience to execute its functions, especially around the financial reporting.

Annual financial statements and Group annual report

The audit committee is satisfied that the annual financial statements are based on appropriate accounting policies supported by reasonable and prudent judgements and estimates.

The audit committee has recommended the annual financial statements and the annual report to the Board for approval.

Ms TN Sandlana

Chairperson - Audit and Risk Committee

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Directors' Responsibilities and Approval

The directors 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 auditor is engaged to express an independent opinion on the 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 directors 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 directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the 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 directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the 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.

The external auditor is responsible for independently auditing and reporting on the group's consolidated financial statements.

The consolidated financial statements set out on pages 48-112, which have been prepared on the going concern basis, were approved by the board of directors on 30 May 2018 and were signed on their behalf by.

S Moyo
Acting Chief Executive Officer

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

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 2018.

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

Directors	Office	Designation
Matseke HB	Chairperson	Non-executive
Chuene MBP	Deputy Chairperson	Non-executive
Osman I	Chief Executive Officer	Executive
Maharaj V	Member	Non-executive
Ntanjana SP	Member	Independent non-executive
Ntshiea ME	Member	Independent non-executive
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 Mabokgole IJ.

6. 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
Cross Point Trading 23 (Pty) Ltd **	25 %	Under liquidation (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
Phiritona Plastics (Pty) Ltd **	38 %	Pending liquidation (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 %	Active (No audit opinion)

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Report of the Board

* Associated companies

** Subsidiaries companies.

Details of the investment in subsidiaries and associates are set out in notes 5 & 6.

7. 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.

8. 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 directors have satisfied themselves that the group is in a sound financial position and that it has access to sufficient reserves 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.

9. 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.

10. Remuneration of directors and senior management

Refer to note 34.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Statement of Financial Position as at 31 March 2018

		Group		Corporation	
	Note(s)	2018 R	2017 Restated * R	2018 R	2017 Restated * R
Assets					
Non-Current Assets					
Property, plant and equipment	2	226 435 442	156 656 543	225 554 113	155 778 213
Investment property	3	665 024 341	637 999 704	665 024 341	637 999 704
Intangible assets	4	675 755	810 581	675 755	810 581
Investments in subsidiaries	5	-	-	-	100
Investments in associates	6	805 808	1 010 944	49 000	49 000
Loan receivables	8	19 205 963	11 111 697	19 205 963	11 111 697
Operating lease asset	9	11 613 072	7 755 199	11 613 072	7 755 199
		923 760 381	**815 344 668**	**922 122 244**	**813 504 494**
Current Assets					
Loan receivables	8	76 207 251	89 382 142	76 207 251	89 382 142
Inventories	10	3 428 990	3 428 990	3 141 289	3 141 289
Trade and other receivables	11	99 438 105	91 964 847	99 538 105	91 964 847
Cash and cash equivalents	12	74 999 802	129 196 680	74 744 530	128 984 224
		254 074 148	**313 972 659**	**253 631 175**	**313 472 502**
Non-current assets held for sale and assets of disposal groups	13	5 350	52 265 350	5 350	52 265 350
Total Assets		**1 177 839 879**	**1 181 582 677**	**1 175 758 769**	**1 179 242 346**
Equity and Liabilities					
Equity					
Equity Attributable to Equity Holders of Parent					
Reserves		9 005 612	8 630 612	9 314 877	8 939 877
Retained income		720 601 078	841 934 868	717 051 873	838 126 442
		729 606 690	850 565 480	726 366 750	847 066 319
Non-controlling interest		(3 121 093)	(3 121 093)	-	-
		726 485 597	**847 444 387**	**726 366 750**	**847 066 319**
Liabilities					
Non-Current Liabilities					
Other financial liabilities	15	783 802	783 802	742 047	742 047
Retirement benefit obligation	16	38 111 000	39 021 000	38 111 000	39 021 000
Deferred income	17	103 268	120 436	103 268	120 436
Long service awards	18	615 498	697 760	615 498	697 760
		39 613 568	**40 622 998**	**39 571 813**	**40 581 243**
Current Liabilities					
Operating lease liability	9	820 182	1 860 592	820 182	1 860 592
Other financial liabilities	15	4 122 623	3 514 546	4 122 623	3 514 546
Deferred income	17	21 201	33 320	21 201	33 320
Trade and other payables	19	406 776 710	288 106 836	404 856 201	286 186 327
		411 740 716	**293 515 294**	**409 820 207**	**291 594 785**
Total Liabilities		**451 354 284**	**334 138 292**	**449 392 020**	**332 176 028**
Total Equity and Liabilities		**1 177 839 881**	**1 181 582 679**	**1 175 758 770**	**1 179 242 347**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Statement of Profit or Loss and Other Comprehensive Income

		Group		Corporation	
	Note(s)	2018 R	2017 Restated * R	2018 R	2017 Restated * R
Continuing operations					
Revenue	20	199 515 360	199 852 495	199 515 360	199 852 495
Cost of sales	21	(185 337 565)	(146 748 723)	(185 337 565)	(146 748 723)
Gross profit		**14 177 795**	**53 103 772**	**14 177 795**	**53 103 772**
Other operating income	22	56 959 840	178 442 959	56 959 840	178 442 959
Administrative expenses	23	(32 332 890)	(9 946 506)	(32 309 998)	(9 946 506)
Employee related costs	24	(82 468 940)	(82 615 407)	(82 468 940)	(82 615 407)
Other operating expenses	25	(91 792 562)	(64 362 780)	(91 761 369)	(64 889 345)
Operating (loss) profit	25	**(135 456 757)**	**74 622 038**	**(135 402 672)**	**74 095 473**
Investment revenue	26	7 729 735	5 490 193	8 048 235	6 147 959
Finance costs	27	(5 944 203)	(6 943)	(5 944 203)	(6 943)
Income from equity accounted investments	6	113 364	471 961	-	-
Other non-operating gains (losses)	29	7 307 021	19 258 186	7 307 021	19 258 186
(Loss) profit from continuing operations		**(126 250 840)**	**99 835 435**	**(125 991 619)**	**99 494 675**
Discontinued operations					
Loss from derecognition of subsidiaries	28	-	(3 397 683)	-	-
(Loss) profit for the year		**(126 250 840)**	**96 437 752**	**(125 991 619)**	**99 494 675**
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Acturial gains (losses) on defined benefit plans		4 917 050	3 828 873	4 917 050	3 828 873
Gains and (losses) on property revaluation		375 000	4 032 495	375 000	4 032 495
Total items that will not be reclassified to profit or loss		**5 292 050**	**7 861 368**	**5 292 050**	**7 861 368**
Other comprehensive income for the year net of taxation		**5 292 050**	**7 861 368**	**5 292 050**	**7 861 368**
Total comprehensive (loss) income for the year		**(120 958 790)**	**104 299 120**	**(120 699 569)**	**107 356 043**
(Loss) profit attributable to:					
Owners of the parent:					
From continuing operations		(126 250 840)	99 835 435	(125 991 619)	99 494 675
From discontinued operations		-	(3 397 683)	-	-
		(126 250 840)	**96 437 752**	**(125 991 619)**	**99 494 675**

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Statement of Changes in Equity

	Revaluation reserve	Other NDR	Total reserves	Retained income	Total attributable to equity holders of the group / company	Non-controlling interest	Total equity
	R	R	R	R	R	R	R
Group							
Opening balance as previously reported	4 907 382	(309 265)	4 598 117	741 668 229	746 266 346	(5 839 066)	740 427 280
Adjustments							
Prior year adjustments	-	-	-	10	10	-	10
Restated* Balance at 01 April 2016 as restated	**4 907 382**	**(309 265)**	**4 598 117**	**741 668 243**	**746 266 360**	**(5 839 066)**	**740 427 294**
Profit for the year	-	-	-	96 437 752	96 437 752	-	96 437 752
Other comprehensive income	-	-	-	7 861 368	7 861 368	-	7 861 368
Total comprehensive income for the year	**-**	**-**	**-**	**104 299 120**	**104 299 120**	**-**	**104 299 120**
Transfer between reserves	4 032 495	-	4 032 495	(4 032 495)	-	-	-
Changes in ownership interest - control not 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 01 April 2017	**8 939 877**	**(309 265)**	**8 630 612**	**841 934 868**	**850 565 480**	**(3 121 093)**	**847 444 387**
Loss for the year	-	-	-	(126 250 840)	(126 250 840)	-	(126 250 840)
Other comprehensive income	-	-	-	5 292 050	5 292 050	-	5 292 050
Total comprehensive Loss for the year	**-**	**-**	**-**	**(120 958 790)**	**(120 958 790)**	**-**	**(120 958 790)**
Revaluation of property	375 000	-	375 000	(375 000)	-	-	-
Total contributions by and distributions to owners of company recognised directly in equity	**375 000**	**-**	**375 000**	**(375 000)**	**-**	**-**	**-**
Balance at 31 March 2018	**9 314 877**	**(309 265)**	**9 005 612**	**720 601 078**	**729 606 690**	**(3 121 093)**	**726 485 597**
Note(s)	14						

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Statement of Changes in Equity

	Share capital	Revaluation reserve	Other NDR	Total reserves	Retained income	Total attributable to equity holders of the group / company	Non-controlling interest	Total equity
	R	R	R	R	R	R	R	R
Company								
Opening balance as previously reported		4 907 382	-	4 907 382	734 802 881	739 710 263	-	739 710 263
Adjustments								
Prior year adjustments		-	-	-	10	10	-	10
Restated* Balance at 01 April 2016 as restated		**4 907 382**	**-**	**4 907 382**	**734 802 894**	**739 710 276**	**-**	**739 710 276**
Profit for the year		-	-	-	99 494 675	99 494 675	-	99 494 675
Other comprehensive income		-	-	-	7 861 368	7 861 368	-	7 861 368
Total comprehensive income for the year		**-**	**-**	**-**	**107 356 043**	**107 356 043**	**-**	**107 356 043**
Transfer between reserves		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 01 April 2017		**8 939 877**	**-**	**8 939 877**	**838 126 442**	**847 066 319**	**-**	**847 066 319**
Loss for the year		-	-	-	(125 991 619)	(125 991 619)	-	(125 991 619)
Other comprehensive income		-	-	-	5 292 050	5 292 050	-	5 292 050
Total comprehensive Loss for the year		**-**	**-**	**-**	**(120 699 569)**	**(120 699 569)**	**-**	**(120 699 569)**
Revaluation of property		375 000	-	375 000	(375 000)	-	-	-
Total contributions by and distributions to owners of company recognised directly in equity		**375 000**	**-**	**375 000**	**(375 000)**	**-**	**-**	**-**
Balance at 31 March 2018		**9 314 877**	**-**	**9 314 877**	**717 051 873**	**726 366 750**	**-**	**726 366 750**
Note(s)		14						

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Statement of Cash Flows

	Note(s)	Group 2018 R	Group 2017 Restated * R	Corporation 2018 R	Corporation 2017 Restated * R
Cash flows from operating activities					
Cash generated from/(used in) operations	30	(17 217 191)	158 311 789	(17 581 602)	158 333 733
Interest income		7 727 904	5 361 162	7 727 904	5 887 731
Dividend income		1 831	129 031	320 331	260 228
Finance costs		(5 944 203)	(6 943)	(5 944 203)	(6 943)
Net cash from operating activities		**(15 431 659)**	**163 795 039**	**(15 477 570)**	**164 474 749**
Cash flows from investing activities					
Purchase of property, plant and equipment	2	(73 501 584)	(87 217 519)	(73 498 585)	(87 217 519)
Retirement of property, plant and equipment	2	-	76 350	-	76 350
Sale of investment property	3	3 585 000	2 803 651	3 585 000	2 803 651
Purchase of other intangible assets	4	(63 307)	(145 566)	(63 307)	(145 566)
Net movement on loans		1 610 848	(1 895 726)	1 610 848	(1 895 726)
Net movement in non-current asset held for sale		28 995 747	-	28 995 747	-
Net cash flows of discontinued operations		-	679 710	-	-
Net cash from investing activities		**(39 373 296)**	**(85 699 100)**	**(39 370 297)**	**(86 378 810)**
Cash flows from financing activities					
Repayment of other financial liabilities		608 077	(248 742)	608 077	(248 742)
Net cash from financing activities		**608 077**	**(248 742)**	**608 077**	**(248 742)**
Total cash movement for the year		**(54 196 878)**	**77 847 197**	**(54 239 790)**	**77 847 197**
Cash at the beginning of the year		129 196 680	51 349 483	128 984 224	51 137 027
Total cash at end of the year	12	**74 999 802**	**129 196 680**	**74 744 434**	**128 984 224**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

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 value at acquisition date, except for non-current assets (or disposal groups) that are classifed as held for sale in accordance with IFRS 5 Non-current assets Held for Sale and Discontunued Operations, which are recognised as fair value less cost 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.

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Accounting Policies

1.1 Consolidation (continued)

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

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 16.

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

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.

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018
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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

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.

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.

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018
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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Accounting Policies

1.12 Impairment of assets (continued)

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.

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.

1.15 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating losses.

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

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 32.

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

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Accounting Policies

1.17 Revenue (continued)

- 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;
- 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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Accounting Policies

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.

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.

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

2. Property, plant and equipment

Group

	2018			2017		
	Cost or revaluation	**Accumulated depreciation**	**Carrying value**	**Cost or revaluation**	**Accumulated depreciation**	**Carrying value**
Buildings	65 723 562	(9 276 071)	56 447 491	24 826 131	(6 199 158)	18 626 973
Plant and machinery	923 148	(175 830)	747 318	890 050	(130 251)	759 799
Furniture and fixtures, machinery and equipment	8 419 350	(6 126 966)	2 292 384	7 701 876	(5 760 051)	1 941 825
Motor vehicles	1 610 913	(1 411 063)	199 850	1 610 913	(1 411 063)	199 850
Computer hardware	6 167 463	(3 943 045)	2 224 418	4 021 138	(3 401 032)	620 106
Assets under construction	164 523 981	-	164 523 981	134 507 990	-	134 507 990
Total	**247 368 417**	**(20 932 975)**	**226 435 442**	**173 558 098**	**(16 901 555)**	**156 656 543**

Company

	2018			2017		
	Cost or revaluation	**Accumulated depreciation**	**Carrying value**	**Cost or revaluation**	**Accumulated depreciation**	**Carrying value**
Buildings	64 755 192	(8 934 674)	55 820 518	23 857 761	(5 857 761)	18 000 000
Plant and machinery	923 148	(175 830)	747 318	890 050	(130 251)	759 799
Furniture and fixtures, machinery and equipment	5 792 060	(3 553 409)	2 238 651	5 077 585	(3 186 494)	1 891 091
Motor vehicles	938 985	(938 985)	-	938 985	(938 985)	-
Computer hardware	6 128 428	(3 904 783)	2 223 645	3 982 103	(3 362 770)	619 333
Assets under construction	164 523 981	-	164 523 981	134 507 990	-	134 507 990
Total	**243 061 794**	**(17 507 681)**	**225 554 113**	**169 254 474**	**(13 476 261)**	**155 778 213**

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Group - 2018

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
Buildings	18 626 973	-	-	40 522 430	375 000	(3 076 912)	56 447 491
Plant and machinery	759 799	33 098	-	-	-	(45 579)	747 318
Furniture and fixtures, machinery and equipment	1 941 825	749 857	(10 081)	-	-	(389 217)	2 292 384
Motor vehicles	199 850	-	-	-	-	-	199 850
Computer hardware	620 106	2 180 208	(28 282)	-	-	(547 614)	2 224 418
Assets under construction	134 507 990	70 538 421	-	(40 522 430)	-	-	164 523 981
	156 656 543	**73 501 584**	**(38 363)**	**-**	**375 000**	**(4 059 322)**	**226 435 442**

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**

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Company - 2018

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
Buildings	18 000 000	-	-	40 522 430	375 000	(3 076 912)	55 820 518
Plant and machinery	759 799	33 098	-	-	-	(45 579)	747 318
Furniture and fixtures, machinery and equipment	1 891 091	746 858	(10 081)	-	-	(389 217)	2 238 651
Computer hardware	619 333	2 180 208	(28 282)	-	-	(547 614)	2 223 645
Assets under construction	134 507 990	70 538 421	-	(40 522 430)	-	-	164 523 981
	155 778 213	**73 498 585**	**(38 363)**	**-**	**375 000**	**(4 059 322)**	**225 554 113**

Reconciliation of property, plant and equipment - Company - 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**

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

2. Property, plant and equipment (continued)

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.

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 47 682 485 (2017: R 10 236 967).

Other information

Included in the above figures are assets with an initial cost price of R 4 908 159 (2017: R 4 349 155) 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.

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

Figures in Rand

3. Investment property

Group

	2018			2017		
	Valuation	**Accumulated depreciation**	**Carrying value**	**Valuation**	**Accumulated depreciation**	**Carrying value**
Investment property	665 024 341	-	665 024 341	637 999 704	-	637 999 704

Company

	2018			2017		
	Valuation	**Accumulated depreciation**	**Carrying value**	**Valuation**	**Accumulated depreciation**	**Carrying value**
Investment property	665 024 341	-	665 024 341	637 999 704	-	637 999 704

Reconciliation of investment property - Group - 2018

	Opening balance	**Disposals**	**Transfers from non-current assets held for sale**	**Fair value adjustments**	**Total**
Investment property	637 999 704	(3 585 000)	11 760 000	18 849 637	665 024 341

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 - Company - 2018

	Opening balance	**Disposals**	**Transfers from non-current assets held for sale**	**Fair value adjustments**	**Total**
Investment property	637 999 704	(3 585 000)	11 760 000	18 849 637	665 024 341

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

Figures in Rand

3. Investment property (continued)

Reconciliation of investment property - Company - 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

Pledged as security

No investment propert is pledged as security:

Amounts recognised in profit and loss for the year

Rental income from investment property	89 022 163	90 739 358	89 022 163	90 739 358
Direct operating expenses from rental generating property	(63 603 141)	(48 553 333)	(63 603 141)	(48 553 333)
Fair value adjustment	18 233 887	21 757 184	18 233 887	21 757 184
	43 652 909	**63 943 209**	**43 652 909**	**63 943 209**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

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.

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
The fair values of these properties are as follows:				
Reahola Shopping Centre, Botshabelo, Erf 139 & 161	20 500 000	20 000 000	20 500 000	20 000 000
Setsing Shopping Centre, Phuthaditjhaba, farm 1922/19 &20	38 950 000	38 000 000	38 950 000	38 000 000
	59 450 000	**58 000 000**	**59 450 000**	**58 000 000**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

3. Investment property (continued)

Details of all investment properties

Fair value				
Commercial/Industrial properties	601 995 070	586 506 654	601 995 070	586 506 654
Residential properties	63 029 271	51 493 050	63 029 271	51 493 050
	665 024 341	**637 999 704**	**665 024 341**	**637 999 704**

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 41 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.

Details of valuation

The effective date of the Fair Value Valuation was March 2018. 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 2018 by independent valuators.

The 2018 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.

The following section explains the approach and methodology of the project:

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

3. Investment property (continued)

“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.

“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 roposed 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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

3. Investment property (continued)

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.Additional text

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.

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 Lightstone 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 2018/19. 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 2018.

Lightstone a provider of comprehensive data, analytics and systems on property indicated that economic conditions for 2018 should remain similar to that of 2017 even though GDP forecasts for 2018 might be slightly subdued. Since it is expected that economic conditions will remain constant in 2018 it is expected that house price inflation will not increase and remain relatively stable.

Property transfers report from 1 January 2017 to 1 March 2018 confirming no significant change in the property market.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

3. Investment property (continued)

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.

4. Intangible assets

Group	2018			2017		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	5 866 913	(5 191 158)	675 755	5 803 607	(4 993 026)	810 581

Company	2018			2017		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	5 866 913	(5 191 158)	675 755	5 803 607	(4 993 026)	810 581

Reconciliation of intangible assets - Group - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	810 581	63 307	(198 133)	675 755

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 - Company - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	810 581	63 307	(198 133)	675 755

Reconciliation of intangible assets - Company - 2017

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

Other information

Included in the above figures are intangible assets with an initial cost price of R 1 879 708 (2017: R 1 879 708), which are fully depreciated and are still in use.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

5. Investment in subsidiaries

Name of company	Date acquired	Status of subsidiaries
Cross Point Trading 23 (Pty) Ltd	March 2007	Pending liquidation
Highland Furniture Factory (Pty) Ltd	January 2002	Pending liquidation
Phirtona Plastics (Pty) Ltd	October 2007	Pending liquidation
Free State Agri SOC RF	February 2015	Inactive (No audit opinion)
Free State Investments SOC RF	February 2015	Inactive (No audit opinion)
Free State Publishers SOC RF	February 2015	Inactive (No audit opinion)
Maluti-A-Phofung IDZ SOC RF	February 2015	Inactive (No audit opinion)

Name of company	Carrying amount 2018	Carrying amount 2017
Cross Point Trading 23 (Pty) Ltd	25	25
Highland Furniture Factory (Pty) Ltd	-	100
Phiritona Plastics (Pty) Ltd	380	380
	405	505
Impairment of investment in subsidiaries	(405)	(405)
	-	100

The carrying amounts of subsidiaries is 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.

The mission and mandate of 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.

Based on the above, the parent entity accquired an equity interest in various SMMEs which are generally start-up companies and disbursed 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 2018	% voting power 2017	% holding	% holding
Cross Point Trading 23 (Pty) Ltd	February	25	25	25	25
Highland Furniture Factory (Pty) Ltd	March	100	100	100	100
Phiritona Plastic (Pty) Ltd	February	38	38	38	38
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 coporation 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 corportation as a result of its loans to the investee.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

5. Investment in subsidiaries (continued)

Restrictions relating to subsidiaries

Up until such time as the commercial loan and all the 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 these entities with year ends that are different to the corporation were obtained. The effect of the transactions that occured between the entities year end date and the corporations year end date were addressed at group level. The impact was found to be insignificant. Minor adjustments were processed to eliminate the intergroup transactions and balances during the consolidation process.

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

Phiritona Plastics (Pty) Ltd	-	(679 710)	-	-

Phiritona Plastics (Pty) Ltd was liquidated in the prior 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.

6. Investments in associates

The following table lists all of the associates in the group:

Group

Name of company	% ownership interest 2018	% ownership interest 2017	Carrying amount 2018	Carrying amount 2017
Mafube Risk and Insurance Consultants (Pty) Ltd	24,50 %	24,50 %	-	-
Cost			49 000	49 000
Accumulated profits			961 944	621 181
Income (loss) from equity accounted investments			113 364	471 961
Less: Dividends paid			(318 500)	(131 198)
			805 808	1 010 944

Corporation

Name of company	% ownership interest 2018	% ownership interest 2017	Carrying amount 2018	Carrying amount 2017
Mafube Risk and Insurance Consultants (Pty) Ltd	24,50 %	24,50 %	49 000	49 000

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

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

Summarised financial information of material associates

Total assets	2 558 386	7 143 244
Total liabilities	70 863	3 818 430
Revenue	639 550	5 654 226
Profit/ (loss)	(105 020)	1 926 371

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

6. Investments in associates (continued)

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 2018.

7. Shareholders loans

Loans to subsidiaries

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
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
Impairment of loans	-	-	(5 488 594)	(5 488 594)
	-	**-**	**-**	**-**

Loans to subsidiaries impaired

As of 31 March 2018, loans to group subsidiaries of R 5 488 594 (2017: R 5 488 594) were impaired and provided for due to the fact that the subsidiaries are not operational anymore.

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

Reconciliation of provision for impairment of loans to subsidiaries

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Opening balance	-	-	5 488 594	5 488 594

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R
8. Loan receivables				
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.	196 309 857	194 827 081	196 309 857	194 827 081
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.	56 638 821	59 028 733	56 638 821	59 028 733
Personnel loans See terms and conditions below.	7 066 105	8 716 998	7 066 105	8 716 998
Other receivables	306 156	-	306 156	-
Briding 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.	107 315 384	106 674 359	107 315 384	106 674 359
	367 636 323	369 247 171	367 636 323	369 247 171
Loans and receivables (impairments)	(272 223 109)	(268 753 332)	(272 223 109)	(268 753 332)
	95 413 214	**100 493 839**	**95 413 214**	**100 493 839**
Non-current assets				
Loans and receivables	19 205 963	11 111 697	19 205 963	11 111 697
Current assets				
Loans and receivables	76 207 251	89 382 142	76 207 251	89 382 142
	95 413 214	**100 493 839**	**95 413 214**	**100 493 839**

Personnel loans

At 31 March 2018, included in personnel loans are loans to former employees to the amount of R 1 342 998 (2017: R 2 131 126).

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

8. Loan receivables (continued)

Loans and receivables past due but not impaired

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

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Business loans				
31-60 days	298 839	-	298 839	-
61-90 days	191 960	198 185	191 960	198 185
91-120 days	-	981	-	981
120+ days	36 986 612	37 106 978	36 986 612	37 106 978
	37 477 411	**37 306 144**	**37 477 411**	**37 306 144**
Housing loans				
31-60 days	291 784	235 390	291 784	235 390
61-90 days	171 471	162 206	171 471	162 206
120+ days	21 461 938	23 462 900	21 461 938	23 462 900
	21 925 193	**23 860 496**	**21 925 193**	**23 860 496**
Personnel loans				
31-60 days	36 209	-	36 209	-
61-90 days	-	83 752	-	83 752
120+ days	6 498 176	2 373 413	6 498 176	2 373 413
	6 534 385	**2 457 165**	**6 534 385**	**2 457 165**
Bridging loans				
31-60 days	543	268 955	543	268 955
61-90 days	2 718	139 674	2 718	139 674
91-120 days	-	149	-	149
120+ days	5 019 973	3 949 480	5 019 973	3 949 480
	5 023 234	**4 358 258**	**5 023 234**	**4 358 258**

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 2018 and 31 March 2017. The effective date of the valuation was March 2018.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

8. Loan receivables (continued)

Reconciliation of provision for impairment of loans and receivables

Housing loans				
Opening balance	16 040 856	24 989 219	16 040 856	24 989 219
Provision for impairment	3 446 092	(8 948 363)	3 446 092	(8 948 363)
	19 486 948	**16 040 856**	**19 486 948**	**16 040 856**
Personnel loans				
Opening balance	1 179 996	1 261 264	1 179 996	1 261 264
Provision for impairment	(519 984)	(81 268)	(519 984)	(81 268)
	660 012	**1 179 996**	**660 012**	**1 179 996**
Business and bridging loans				
Opening balance	264 835 773	251 532 481	251 532 481	238 229 189
Provision for impairment	(3 461 903)	13 303 292	(3 461 903)	13 303 292
	261 373 870	**264 835 773**	**248 070 578**	**251 532 481**

Credit quality of other financial assets

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				
B rating	16 712 014	4 498 073	16 712 014	4 498 073
C rating	22 952 759	62 063 524	22 952 759	62 063 524
Below C rating	56 930 048	33 932 242	56 930 048	33 932 242
	96 594 821	**100 493 839**	**96 594 821**	**100 493 839**

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

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

9. Operating lease asset (liability)

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Non-current assets	11 613 072	7 755 199	11 613 072	7 755 199
Current liabilities	(820 182)	(1 860 592)	(820 182)	(1 860 592)
	10 792 890	**5 894 607**	**10 792 890**	**5 894 607**

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 31 for the minimum lease payments disclosure of the operating lease assets and liabilities.

10. Inventories

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Work in progress	155 904	155 904	-	-
Finished goods	131 797	131 797	-	-
Stands held for re-sale	3 141 289	3 141 289	3 141 289	3 141 289
	3 428 990	**3 428 990**	**3 141 289**	**3 141 289**
Carrying value of inventories carried at fair value less costs to sell	3 273 086	3 273 086	3 141 289	3 141 289

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 (2017: R 0) 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.

11. Trade and other receivables

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Trade receivables	69 219 104	70 959 821	69 219 104	70 959 821
SEZ advance	-	-	100 000	-
Prepayments	2 188 558	2 185 230	2 188 558	2 185 230
Deposits	6 453 990	6 453 990	6 453 990	6 453 990
VAT receivable	8 867 264	313 680	8 867 264	313 680
Sundry debtors	3 456 845	2 213 394	3 456 845	2 213 394
Creditors with debit balances	444 853	277 574	444 853	277 574
Accrued income	8 807 491	9 561 158	8 807 491	9 561 158
	99 438 105	**91 964 847**	**99 538 105**	**91 964 847**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

11. Trade and other receivables (continued)

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.

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 and other receivables that are neither past due nor impaired amounted to R 43 855 245 (2017: R 43 712 338), 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

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Counterparties with external credit rating				
B rating	6 354 355	6 247 713	6 354 355	6 247 713
C rating	13 579 586	8 652 902	13 579 586	8 652 902
Below C rating	49 285 163	56 059 206	49 285 163	56 059 206
	69 219 104	**70 959 821**	**69 219 104**	**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 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:

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
31-60 days	3 904 534	4 708 820	3 904 534	4 708 820
61-90 days	11 862 368	5 321 058	11 862 368	5 321 058
91-120 days	6 771 390	5 350 857	6 771 390	5 350 857
120+ days	35 706 165	32 948 778	35 706 165	32 948 778
	58 244 457	**48 329 513**	**58 244 457**	**48 329 513**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

11. Trade and other receivables (continued)

Trade and other receivables impaired

As of 31 March 2018, trade and other receivables of R 165 581 912 (2017: R 133 798 046) were impaired and provided for.

The ageing of these loans is as follows:

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
1-30 days	1 394 734	939 853	1 394 734	939 853
31-60 days	2 413 943	1 846 275	2 413 943	1 846 275
61-90 days	2 679 044	1 827 713	2 679 044	1 827 713
91-120 days	3 278 813	2 585 363	3 278 813	2 585 363
120+ days	152 680 785	126 598 842	155 815 378	126 598 842
	162 447 319	**133 798 046**	**165 581 912**	**133 798 046**

Reconciliation of provision for impairment of trade and other receivables

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Opening balance	133 798 046	113 821 287	133 798 046	113 821 287
Provision for impairment	28 649 273	19 976 759	28 649 273	19 976 759
	162 447 319	**133 798 046**	**162 447 319**	**133 798 046**

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.

The Corporation experienced budget constraints due to the slow collection of outstanding debtors from loans receivables as well as trade and other receivables. Payment plans were entered into for long outstanding debtors due to the developmental mandate of the corporation. A number of other initiatives have been embarked on during the year in an endeavour to improve collection.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Cash on hand	28 534	28 047	28 047	28 047
Bank balances	69 281 803	118 948 518	69 106 735	118 815 779
Call investments	5 609 748	10 140 398	5 609 748	10 140 398
Short term deposits	79 717	79 717	-	-
	74 999 802	**129 196 680**	**74 744 530**	**128 984 224**

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 under call investments is an amount of R10 018 233 invested with VBS, which is currently under curatorship. Subsequently, a provision for impairment was raised.

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

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Government departments	30 235 686	4 424 587	30 235 686	4 424 587

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

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

13. 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	5 350	52 265 350	5 350	52 265 350
Opening balance	52 265 350	13 109 350	52 265 350	13 109 350
Additions	-	40 500 000	-	40 500 000
Disposal	(40 500 000)	-	(40 500 000)	-
Transfer to investment property *	(11 760 000)	-	(11 760 000)	-
Fair value adjustments	-	(1 344 000)	-	(1 344 000)
	5 350	**52 265 350**	**5 350**	**52 265 350**

* This investment property which was initally classified as held for sale was transferred back to investment property due to the sale agreement being cancelled.

14. Revaluation reserve

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.

Opening balance	8 939 877	4 907 382	8 939 877	4 907 382
Revaluation of property, plant and equipment	375 000	4 032 495	375 000	4 032 495
	9 314 877	**8 939 877**	**9 314 877**	**8 939 877**

15. Other financial liabilities

Held at amortised cost				
Shell South Africa (Pty) Ltd 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 resale 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. This service station is currently non-operational.	742 047	742 047	742 047	742 047
Other financial liabilities The balance includes commercial loans granted with credit balances.	4 164 378	3 556 301	4 122 623	3 514 546
	4 906 425	**4 298 348**	**4 864 670**	**4 256 593**
Non-current liabilities				
At amortised cost	783 802	783 802	742 047	742 047

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

15. Other financial liabilities (continued)

Current liabilities				
At amortised cost	4 122 623	3 514 546	4 122 623	3 514 546
	4 906 425	**4 298 348**	**4 864 670**	**4 256 593**

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

16. 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.

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(39 021 000)	(38 213 000)	(39 021 000)	(38 213 000)
Net actuarial gains not recognised	4 928 000	3 868 000	4 928 000	3 868 000
Past service cost not recognised	(4 018 000)	(4 676 000)	(4 018 000)	(4 676 000)
	(38 111 000)	**(39 021 000)**	**(38 111 000)**	**(39 021 000)**

The fair value of plan assets includes:

Contributions to acturial gain/(loss)				
Actuarial gains and (losses) arising from changes in financial assumptions	2 842 000	2 886 000	2 842 000	2 886 000
Acturial gain and (losses) arising from experience adjustments	2 085 000	982 000	2 085 000	982 000

Movements for the year

Opening balance	(39 021 000)	(38 213 000)	(39 021 000)	(38 213 000)
Benefits paid	1 309 000	1 041 000	1 309 000	1 041 000
Net expense recognised in profit or loss	(399 000)	(1 849 000)	(399 000)	(1 849 000)
	(38 111 000)	**(39 021 000)**	**(38 111 000)**	**(39 021 000)**

Net expense recognised in profit or loss

Current service cost	(1 542 000)	(1 884 000)	(1 542 000)	(1 884 000)
Interest cost	(3 785 000)	(3 833 000)	(3 785 000)	(3 833 000)
Actuarial gains	4 928 000	3 868 000	4 928 000	3 868 000
	(399 000)	**(1 849 000)**	**(399 000)**	**(1 849 000)**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

16. Retirement benefits (continued)

Key assumptions used

Assumptions used on last valuation on Saturday, 31 March 2018.

	2018	2017	2018	2017
Discount rates used	8,77 %	9,70 %	8,77 %	9,70 %
Health cost inflation	7,08 %	8,24 %	7,08 %	8,24 %
General inflation	6,80 %	6,75 %	6,08 %	6,75 %
Expected increase in salaries	7,00 %	6,00 %	7,00 %	6,00 %

The discount rate used is based on government bonds (2017: government bonds)

Other assumptions:

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

Post-retirement mortality rate: PA (90): ultimate table for males and females rated down by one year.

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

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

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**
15-30	16%
31-40	10%
41-50	6%
51-55	2%+
56-60	Nil

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

	2018	**2017**	**2016**	**2015**	**2014**
Experience adjustments	2 085 000	982 000	5 542 000	(6 214 000)	139 000

Sensitivity analysis

The effect of an increase of a 1% (2017: 0.5%) point in the medical cost trend rate and the effect of a decrease of one percentage point on the following would be:

	2018	2017	2018	2017
Effect on the aggregate of the service and interest cost cost				
Increase	5 624 000	3 181 500	5 624 000	3 181 500
Decrease	(4 007 000)	(2 252 000)	(4 007 000)	(2 252 000)
	1 617 000	**929 500**	**1 617 000**	**929 500**
Effect on benefit obligation at end of the year				
Increase	44 653 000	42 202 500	44 653 000	42 202 500
Decrease	32 824 000	36 769 000	32 824 000	36 769 000
	77 477 000	**78 971 500**	**77 477 000**	**78 971 500**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

16. Retirement benefits (continued)

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: 85), 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 7,5% of pension funding salaries.

The expected contribution to the retirement benefit contribution for the year ending 31 March 2019 is R1 309 000.

17. 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 liabilities	103 268	120 436	103 268	120 436
Current liabilities	21 201	33 320	21 201	33 320
	124 469	**153 756**	**124 469**	**153 756**

18. Long service awards

Reconciliation of long service awards - Group - 2018

	Opening balance	**Utilised during the year**	**Total**
Long service award	697 760	(82 262)	615 498

Reconciliation of long service awards - Group - 2017

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

Reconciliation of long service awards - Company - 2018

	Opening balance	**Utilised during the year**	**Total**
Long service award	697 760	(82 262)	615 498

Reconciliation of long service awards - Company - 2017

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

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 2018. We have used the following valuation assumptions:

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

18. Long service awards (continued)

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 2018 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 (2017: 5.0 years). The recommended discount rate is 8.77% (2017: 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

Age	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 65.

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

19. Trade and other payables

Accruals	43 104 159	13 549 253	42 303 594	12 748 688
Debtors with credit balances	10 988 271	14 164 349	10 988 271	14 164 349
Deposits received	10 512 508	10 418 756	10 512 508	10 418 756
Other payables	4 700 297	615 826	4 675 507	591 036
Sundry creditors	14 266 706	16 741 279	14 266 706	16 741 279
Trade payables	292 681 012	227 904 715	291 873 929	227 097 632
VAT payable	288 071	288 071	-	-
Government Departments	30 235 686	4 424 587	30 235 686	4 424 587
	406 776 710	**288 106 836**	**404 856 201**	**286 186 327**

Accruals consists of travelling claims and water and electricity.

Included in trade and other payables is third party cash balances from government departments amounting to R 30 235 686 (2017: R 4 424 587) as disclosed in note 12.

Of the government departments payable R 955 684 (2017: R 738 634) 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.

The extent of trade and other payables may impact on the Corporation's ability to meet its financial obligations as they fall due and achievement of strategic objectives and initiatives as outlined in the corporate plan, as payables decrease the funds available for spending in the next financial year. However, the corporation is implementing its own turnaround strategy in order to improve its cash reserves and profitability. Given that, ninety per cent of the payables relates to municipalities and its entities, there is an on- going engagements to settle the outstanding amounts in the manner that is beneficial to all parties concerned in line with the Inter-governmental Relations Framework Act.

20. Revenue

Broadband income	1 710 971	262 452	1 710 971	262 452
Interest on debtors and loans	14 906 213	13 784 082	14 906 213	13 784 082
Rental income	89 022 163	90 739 358	89 022 163	90 739 358
Utility income	93 876 013	95 066 603	93 876 013	95 066 603
	199 515 360	**199 852 495**	**199 515 360**	**199 852 495**

21. Cost of sales

Rendering of services	124 749 133	98 195 390	124 749 133	98 195 390
Rental costs	60 588 432	48 553 333	60 588 432	48 553 333
	185 337 565	**146 748 723**	**185 337 565**	**146 748 723**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

22. Other operating income

Administration and legal fees received	168 822	242 926	168 822	242 926
Debt recoveries	1 762 131	2 493 826	1 762 131	2 493 826
Fees earned	201 514	244 928	201 514	244 928
Government grants	53 540 248	169 328 459	53 540 248	169 328 459
Insurance claims	95 645	5 964 676	95 645	5 964 676
Service costs	1 191 480	168 144	1 191 480	168 144
	56 959 840	**178 442 959**	**56 959 840**	**178 442 959**

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.

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	8 302 572	8 947 368	8 302 572	8 947 368
SEZ grant	42 096 151	160 381 091	42 096 151	160 381 091
IDC grant	3 141 525	-	3 141 525	-
	53 540 248	**169 328 459**	**53 540 248**	**169 328 459**

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

23. Administrative expense

Assessment rates & municipal charges	345 734	278 140	345 734	278 140
Bank charges	180 065	94 452	177 828	94 452
Cleaning	84 377	201 132	84 377	201 132
Consumables	1 570 731	754 146	1 570 731	754 146
Debt collection	669	1 330 405	669	1 330 405
Entertainment	307 454	408 732	293 361	408 732
Flowers	8 281	12 566	8 281	12 566
Legal expenses *	9 955 718	142 847	9 955 718	142 847
Licenses	573 020	516 330	573 020	516 330
Operational subsidy SEZ	9 568 388	-	9 568 388	-
Printing and stationery	510 775	426 973	504 213	426 973
Recruitment fees	7 245	186 742	7 245	186 742
Security	3 278 186	2 014 066	3 278 186	2 014 066
Subscriptions	47 770	193 283	47 770	193 283
Telephone and postage	2 830 189	2 967 039	2 830 189	2 967 039
Telephone and postage broadband	2 088 607	-	2 088 607	-
Training	975 681	419 653	975 681	419 653
	32 332 890	**9 946 506**	**32 309 998**	**9 946 506**

*Included in legal expenses is a settlement amount for a supplier refer to note 40.

24. Employee related costs

Direct employee costs				
Basic	57 375 363	58 457 522	57 375 363	58 457 522
Bonuses (13th cheque)	3 257 062	2 797 380	3 257 062	2 797 380
Leave provision	2 097 458	1 348 065	2 097 458	1 348 065
Long-term benefits - incentive scheme	121 788	118 314	121 788	118 314
Non-pensionable allowances	13 103 925	13 600 717	13 103 925	13 600 717
Other employee benefits	1 186 344	576 409	1 186 344	576 409
Post-employment benefits - Pension - Defined	5 327 000	5 717 000	5 327 000	5 717 000
	82 468 940	**82 615 407**	**82 468 940**	**82 615 407**

25. Operating profit (loss)

Operating (loss) profit for the year is stated after charging (crediting) the following, amongst others:

Auditor's remuneration - external				
Audit fees	5 030 456	6 331 012	5 030 456	6 331 012

Leases

Operating lease charges				
Contractual amounts	6 842 578	3 856 253	6 842 578	3 856 253

Depreciation and amortisation				
Depreciation of property, plant and equipment	4 059 322	1 701 961	4 059 322	1 701 961
Amortisation of intangible assets	198 133	178 524	198 133	178 524
Total depreciation and amortisation	**4 257 455**	**1 880 485**	**4 257 455**	**1 880 485**

Other

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R
25. Operating profit (loss) (continued)				
Insurance	8 514 327	10 347 167	8 514 327	10 347 167
Net impairment losses	33 034 567	24 250 420	33 034 571	24 250 420
Professional services	16 583 537	15 030 645	16 583 537	15 030 645
Security services	21 054 299	24 904 234	21 054 299	24 904 234

26. Investment income

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Dividend revenue				
Subsidiaries - Local	1 831	129 031	320 331	260 228
Interest income				
Bank	7 727 904	5 357 140	7 727 904	5 883 709
Group companies	-	4 022	-	4 022
Total investment income	**7 729 735**	**5 490 193**	**8 048 235**	**6 147 959**

27. Finance costs

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Bank overdraft	6 342	6 943	6 342	6 943
Trade and other payables	5 937 861	-	5 937 861	-
Total finance costs	**5 944 203**	**6 943**	**5 944 203**	**6 943**

28. Discontinued operations

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Loss with derecognition of subsidiary	-	(679 710)	-	-
Loss with derecognition of minority interest	-	(2 717 973)	-	-
	-	**(3 397 683)**	**-**	**-**

Phiritona Plastics (Pty) Ltd was liquidated during the 2016/2017. 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.

29. Other non-operating gains (losses)

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Gains (losses) on disposals, scrappings or settlements				
Non-current assets held for sale and disposal groups	-	(1 200 350)	-	(1 200 350)
Property, plant and equipment	(11 542 616)	45 351	(11 542 616)	45 351
	(11 542 616)	**(1 154 999)**	**(11 542 616)**	**(1 154 999)**
Fair value gains (losses)				
Investment property	18 849 637	21 757 184	18 849 637	21 757 184
Fair value hedges:				
Non-current assets held for sale	-	(1 343 999)	-	(1 343 999)
	18 849 637	**20 413 185**	**18 849 637**	**20 413 185**
Total other non-operating gains (losses)	**7 307 021**	**19 258 186**	**7 307 021**	**19 258 186**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R
30. Cash generated from/(used in) operations				
(Loss) profit before taxation	(126 250 840)	99 835 435	(125 991 619)	99 494 675
Adjustments for:				
Depreciation and amortisation	4 257 455	1 880 485	4 257 455	1 880 485
Losses on disposals, scrappings and settlements of assets and liabilities	11 542 616	1 154 999	11 542 616	1 154 999
Income from equity accounted investments	(113 364)	(471 961)	-	-
Dividend income	(1 831)	(129 031)	(320 331)	(260 228)
Interest income	(7 727 904)	(5 361 162)	(7 727 904)	(5 887 731)
Finance costs	5 944 203	6 943	5 944 203	6 943
Fair value gains	(18 849 637)	(20 413 185)	(18 849 637)	(20 413 185)
Movements in operating lease assets and accruals	(4 898 283)	(2 804 310)	(4 898 283)	(2 804 310)
Movements in retirement benefit assets and liabilities	4 007 050	4 676 000	4 007 050	4 676 000
Movements in provisions	(82 262)	(16 686)	(82 262)	(16 686)
Impairment	33 034 567	19 976 759	33 034 571	19 976 759
Other equity income	318 500	131 198	-	-
Other	-	(679 707)	-	-
Changes in working capital:				
Inventories	-	(86 864)	-	(86 864)
Trade and other receivables	(37 038 048)	(49 468 740)	(37 138 048)	(49 468 740)
Other investment	-	8 441 428	-	8 441 428
Trade and other payables	118 669 874	101 652 438	118 669 874	101 652 438
Deferred income	(29 287)	(12 250)	(29 287)	(12 250)
	(17 217 191)	**158 311 789**	**(17 581 602)**	**158 333 733**

31. Commitments

Authorised capital expenditure

Tshiame Project SEZ Roads for R 163 164 682 (2017: R 128 800 000)

Tshiame Project SEZ Professional services towards Capex for R 28 793 767 (2017: R 11 200 000)

Operating leases – as lessor (income)

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Minimum lease payments due				
- within one year	34 000 856	29 305 986	34 000 856	29 305 986
- in second to fifth year inclusive	76 629 838	73 384 293	76 629 838	73 384 293
- later than five years	22 336 655	20 250 368	22 336 655	20 250 368
	132 967 349	**122 940 647**	**132 967 349**	**122 940 647**

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.

32. 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 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.

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

32. Contingencies (continued)

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

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.

Mangaung Local Municipality Accounts

The corporation is currently investigating the status of the handed over accounts and bulk billings of the water accounts in the Botshabelo area. The amount in dispute amounts to R 20 597 914.

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.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

33. Related parties

Relationships

Holding company	Free State Development Corporation
Subsidiaries	Refer to note 5
Associates	Refer to note 6
Directors	Refer to directors report
Members of key management	Refer to note 39
Governmern entities with significant influence	Department of Economic Small Business Development, Tourism and Environmental Affairs (DESTEA)
	Free State Gambling and Liquour Authority
Newly incorporated subsidiaries	Free State Investments 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

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Loan accounts - Owing (to) by related parties				
Cross Point Trading 23 (Pty) Ltd			737 756	4 813 114
Highland Furniture Factory (Pty) Ltd			4 299 675	10 281 387
Phiritona Plastics (Pty) Ltd			451 163	5 507 292
Provison for impairment				
Cross Point Trading 23 (Pty) Ltd			(737 756)	(4 813 114)
Highland Furniture Factory (Pty) Ltd			(4 299 675)	(10 281 387)
Phiritona Plastics (Pty) Ltd			(451 163)	(5 507 292)

Related party transactions

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R
Insurance premiums paid to (received from) related parties				
Mafube Risk and Insurance Brokers (Pty) Ltd	8 479 361	11 700 252	8 479 361	11 700 252
Rent paid to (received from) related parties				
Free State Gambling and Liqour Authority	(1 487 360)	(1 928 770)	(1 487 360)	(1 928 770)
Advance paid to (received from) related parties				
SEZ	100 000	-	100 000	-
Grants paid to (received from) related parties				
DESTEA	(8 302 572)	(10 200 000)	(8 302 572)	(10 200 000)
IDC	(3 141 525)	-	(3 141 525)	-

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

34. Directors' emoluments

Executive

2018

	Emoluments	Corporation contributions	Other benefits	Total
Mabokgole IM	549 871	84 618	262 652	897 141
Motloung SJ	887 210	156 743	44 445	1 088 398
Moyo S	1 605 775	195 301	186 114	1 987 190
Nkaiseng DSR	669 562	87 020	509 489	1 266 071
Osman I	1 479 324	312 964	625 205	2 417 493
Shaba G	1 544 101	219 162	105 037	1 868 300
	6 735 843	**1 055 808**	**1 732 942**	**9 524 593**

2017

	Emoluments	Corporation contributions	Other benefits	Total
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
Osman I	1 215 594	296 326	695 944	2 207 864
Shaba G	1 231 314	201 698	335 333	1 768 345
	6 658 486	**1 000 448**	**2 402 510**	**10 061 444**

Non-executive

2018

	Directors' fees	Travel claims	Corporation contribution	Total
Chuene MBP	550 500	13 107	1 636	565 243
Maharaj V	624 000	132 988	1 487	758 475
Matseke HB	459 000	73 326	1 487	533 813
Ntanjana SP *	140 000	61 545	1 164	202 709
Ntshiea ME *	148 500	83 470	1 094	233 064
Phungo LI	169 000	6 248	900	176 148
Sandlana TN	420 500	30 202	1 338	452 040
	2 511 500	**400 886**	**9 106**	**2 921 492**

2017

	Directors' fees	Travel claim	Corporation contribution	Total
Chuene MBP	545 500	102 374	1 458	649 332
Maharaj V	336 000	122 844	977	459 821
Matseke HB	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
	2 443 000	**554 848**	**8 501**	**3 006 349**

* Members of the Board Audit and Risk Committee.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

35. Financial assets by category

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

Group - 2018

	Loans and receivables	Non-financial assets	Total
Investments in associates	805 808	-	805 808
Loan receivables	95 413 214	-	95 413 214
Trade and other receivables	99 438 105	-	99 438 105
Cash and cash equivalents	74 999 802	-	74 999 802
Operating lease asset	-	11 613 072	11 613 072
Inventories	-	3 428 990	3 428 990
	270 656 929	**15 042 062**	**285 698 991**

Group - 2017

	Loans and receivables	Non-financial assets	Total
Investments in associates	1 010 944	-	1 010 944
Loan receivables	100 493 839	-	100 493 839
Trade and other receivables	82 934 943	9 029 904	91 964 847
Cash and cash equivalents	129 196 680	-	129 196 680
Operating lease asset	-	7 755 199	7 755 199
Inventories	-	3 428 990	3 428 990
	313 636 406	**20 214 093**	**333 850 499**

Company - 2018

	Loans and receivables	Non-financial assets	Total
Investments in associates	49 000	-	49 000
Loan receivables	95 413 214	-	95 413 214
Trade and other receivables	99 538 105	-	99 538 105
Cash and cash equivalents	74 744 433	-	74 744 433
Operating lease asset	-	11 613 072	11 613 072
Inventories	-	3 141 289	3 141 289
	269 744 752	**14 754 361**	**284 499 113**

Company - 2017

	Loans and receivables	Non-financial assets	Total
Investments in subsidiaries	100	-	100
Investements in associates	49 000	-	49 000
Loan receivables	100 493 839	-	100 493 839
Trade and other receivables	82 934 943	9 029 904	91 964 847
Cash and cash equivalents	128 984 224	-	128 984 224
Operating lease asset	-	7 755 199	7 755 199
Inventories	-	3 141 289	3 141 289
	312 462 106	**19 926 392**	**332 388 498**

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

36. Financial liabilities by category

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

Group - 2018

	Financial liabilities at amortised cost	Non-financial liabilities	Total
Operating lease liabilties	-	820 182	820 182
Retirement benefit obligation	-	38 111 000	38 111 000
Trade and other payables	406 776 710	-	406 776 710
Deferred income	-	124 469	124 469
Long service award provision	-	615 498	615 498
Other financial liabilities	4 906 425	-	4 906 425
	411 683 135	**39 671 149**	**451 354 284**

Group - 2017

	Financial liabilities at amortised cost	Non-financail liabilities	Total
Operating lease liabilty	-	1 860 592	1 860 592
Retirement benefit obligation	-	39 021 000	39 021 000
Trade and other payables	287 818 765	288 071	288 106 836
Deferred income	-	153 756	153 756
Long service award provision	-	697 760	697 760
Other financial liabilities	4 298 348	-	4 298 348
	292 117 113	**42 021 179**	**334 138 292**

Company - 2018

	Financial liabilities at amortised cost	Non-financial liablilities	Total
Operating lease liability	-	820 182	820 182
Retirement benefit obligation	-	38 111 000	38 111 000
Trade and other payables	404 856 201	-	404 856 201
Deferred income	-	124 469	124 469
Long service award provision	-	615 498	615 498
Other financial liabilities	4 864 670	-	4 864 670
	409 720 871	**39 671 149**	**449 392 020**

Company - 2017

	Financial liabilities at amortised cost	Non-financial liablilities	Total
Operating lease liability	-	1 860 592	1 860 592
Retirement benefit obligation	-	39 021 000	39 021 000
Trade and other payables	286 186 327	-	286 186 327
Deferred income	-	153 756	153 756
Long service award provision	-	697 760	697 760
Other financial liabilities	4 256 593	-	4 256 593
	290 442 920	**41 733 108**	**332 176 028**

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

37. Risk management

Capital risk management

The group manages its retained earnings, which at year end amounted to R 717 051 872 (2017: R 838 126 442) 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 2018	Less than 1 year	Between 1 and 2 years	Total
Other financial liabilities	4 122 623	783 802	4 906 425
Trade and other payables	406 776 710	-	406 776 710

At 31 March 2017	Less than 1 year	Between 1 and 2 years	Total
Other financial liabilities	3 514 546	783 802	4 298 348
Trade and other payables	288 106 836	-	288 106 836

Company

At 31 March 2018	Less than 1 year	Between 1 and 2 years	Total
Other financial liabilities	4 122 623	742 047	4 864 670
Trade and other payables	404 856 201	-	404 856 201

At 31 March 2017	Less than 1 year	Between 1 and 2 years	Total
Other financial liabilities	3 514 546	742 047	4 256 593
Trade and other payables	286 186 327	-	286 186 327

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

37. 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 2018. 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	2018	2017	2018	2017
Increase in profit	2 525 017	1 928 755	2 519 832	1 989 894
(Decrease) in profit	(2 525 017)	(1 928 755)	(2 519 832)	(1 989 894)
	-	-	-	-

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:

Financial instrument	Group 2018	Group 2017	Corporation 2018	Corporation 2017
Loans receivable	95 413 214	100 493 839	95 413 214	100 493 839
Bank balances	69 281 803	118 948 518	69 106 735	118 948 518
Trade and other receivables	99 438 105	91 964 847	99 538 105	91 964 847
Cash and cash equivalents	74 999 802	129 196 680	74 744 530	128 984 224

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.

Free State Development Corporation Group
Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

38. Irregular expenditure

Breakdown				
Opening balance	-	1 352 977	-	1 352 977
Irregular expenditure in prior year	36 191 012	-	36 191 012	-
Irregular expenditure in the current year	73 606 398	-	73 132 834	-
Condoned	-	(1 352 977)	-	(1 352 977)
	109 797 410	**-**	**109 323 846**	**-**

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 has revealed that these two contracts are irregular.

39. Fruitless and wasteful

Breakdown				
Incurred in current year	8 440 088	-	8 440 088	-

The matter relates to a company that was appointed by the FDC to erect a security fence and subsequently discharged of their responsibilities due to non performance, however, the Corporation lost the matter in court and were ordered to pay loss of profits amouting to R8 440 088.

40. Prior period errors

The aggregate effect of the prior period errors on the consolidated financial statements for the year ended 31 March 2017 are as follows:

Statement of Financial Position				
Trade and other receivables	-	(77 004)	-	(77 004)
Operating lease - current asset	-	(4 318 915)	-	(4 318 915)
Operating lease non-current asset	-	5 894 607	-	5 894 607
Operating lease liability - current liability	-	(1 860 592)	-	(1 860 592)
Payables	-	(4 186 788)	-	(4 186 788)
Retained earnings	-	4 548 691	-	4 548 691
Statement of comprehensive income				
Rental income	-	(284 900)	-	(284 900)
Cost of sales	-	(5 497 617)	-	(5 497 617)
Other operating expense	-	1 233 813	-	1 233 813

Statement of Financial Position

The adjustment was made as per Auditor General exception 71 in relation to asset accrual in the prior year relating to the vat contol account.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group 2018 R	Group 2017 R	Corporation 2018 R	Corporation 2017 R

40. Prior period errors (continued)

Trade and other receivables				
Previously stated	-	92 041 851	-	92 041 851
VAT incorrectly treated	-	(77 004)	-	(77 004)
	-	**91 964 847**	**-**	**91 964 847**

The adjustment was made to correct the disclosure for operating lease asset as it was incorrectly disclosed in the prior year.

Operating lease- current asset / (liability)				
Previously stated	-	4 318 915	-	4 318 915
Current asset incorrectly calculated	-	(6 179 507)	-	(6 179 507)
Correctly recognise as current liability	-	1 860 592	-	1 860 592
	-	**-**	**-**	**-**

The adjustment was made to correct the value at which the non-current operating lease asset was disclosed.

Operating lease - non-current asset				
Previously stated	-	1 860 592	-	1 860 592
Ommission of operating leases	-	(284 899)	-	(284 899)
Current asset incorrectly calculated	-	6 179 506	-	6 179 506
	-	**7 755 199**	**-**	**7 755 199**

The adjustment relates to the omission of electricity purchases expense not recognised in 2017 and also as per Auditor General Exception 71 in relation to asset accrual.

Trade payables				
Previously stated	-	(283 920 048)	-	(281 999 539)
Ommission of electricity expense	-	(5 497 617)	-	(5 497 617)
Professional fees incorrectly recognised	-	683 784	-	683 784
Accruals incorrectly recognised	-	627 033	-	627 033
Payable not recognised in 2015/2016	-	8	-	8
	-	**(288 106 840)**	**-**	**(286 186 331)**

Statement of financial performance

The adjustment relates to correct the deferred rental income on operating leases.

Rental income				
Previously stated	-	200 137 395	-	200 137 395
Ommission of operating leases	-	(284 900)	-	(284 900)
	-	**199 852 495**	**-**	**199 852 495**

The adjustment relates to the omission of electricity purchases expense not recognised in 2017.

Free State Development Corporation Group

Consolidated Financial Statements for the year ended 31 March 2018

Notes to the Consolidated Financial Statements

	Group		Corporation	
	2018 R	2017 R	2018 R	2017 R

40. Prior period errors (continued)

Cost of sales				
Previously stated	-	(141 251 106)	-	(141 251 106)
Ommission of electricity expense	-	(5 497 617)	-	(5 497 617)
	-	**(146 748 723)**	**-**	**(146 748 723)**

The adjustment was made as per Auditor General exception 71 in relation to asset accrual in the prior year relating to the vat contol account

Other operating expense				
Previously stated	-	(66 207 491)	-	(66 734 056)
Professional fees incorrectly recognised	-	683 784	-	683 784
Accruals incorrect recognised	-	627 033	-	627 033
VAT incorrectly treated	-	(77 004)	-	(77 004)
	-	**(64 973 678)**	**-**	**(65 500 243)**

41. Events after the reporting period

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

42. Comparative figures

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

Notes

Notes