

ANNUAL REPORT | 2006 - 2007

MPUMALANGA ECONOMIC GROWTH AGENCY





## Vision, Mission, Core Values, and Objectives

### Vision :

To be the leading catalyst for integrated economic development solutions through partnerships in Mpumalanga.

### Mission :

To promote growth and empowerment through sustainable enterprises.

### Core Values :

Honesty, integrity, loyalty, respect, transparency, trust, ethos, accountability, efficiency.

### Objectives :

The Mpumalanga Economic Growth Agency (MEGA) was formed in terms of the MEGA Act (Act no. 4 of 2005) through a merger of the Mpumalanga Economic Empowerment Corporation (MEEC) and the Mpumalanga Investment Initiative (MII). MEGA became fully operational and commenced its business activities on April 1<sup>st</sup>, 2006. MEGA is accountable to the Board of Directors who in turn account to the Mpumalanga Department of Economic Development and Planning.

In terms of Section 3(1) of the Act, the legal mandate of MEGA incorporates the following broad objectives:

- (a) To promote trade and investment
  - (b) To provide funding in respect of approved enterprise development focusing on Historical Disadvantaged Individuals within the province; and
  - (c) To development and manage immovable properties,
  - (d) To endeavour progressively to increase the Agency's own revenue generation and collection
- In addition to the Act, MEGA is bound by a range of acts and national regulations including, but not exclusive to, the Public Finance Management Act of 1999 (Act No. 1 of 1999), as amended.



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## I. NOTE OF APPRECIATION BY THE ACCOUNTING OFFICER

Thank you to everyone who supported us during the accounting period under review. A special word of appreciation to The Executive Council of the Mpumalanga Provincial Government; The Member of the Executive Council for the Department of Economic Development and Planning; The Portfolio Committee on Economic Development and Planning; Members of the Board of Mpumalanga Economic Growth Agency (MEGA); Industrial Tenants and Loanees; Export traders and investors; our strategic partners; the staff of MEGA, and all Stakeholders with an interest in economic growth and development in the Province of Mpumalanga.

It is with pleasure that I present the Annual Report of MEGA for the period ending March 2007.

**N. Nokwe**  
Chief Executive Officer

*"We need a wise and prudent government which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labour the bread it has earned. This is the sum of good government and this is necessary to secure the circle of our felicities".*

*John Ruskin (1819 - 1900)*

## 2. EXECUTIVE OVERVIEW

### 2.1. FOREWORD BY THE MEMBER OF THE EXECUTIVE COUNCIL

The relations between the Department of Economic Development & Planning and the Mpumalanga Economic Growth Agency (MEGA) can better be understood if we recognize that our actions are very much influenced by basic macro-economic policies. These policies cover fundamental issues such as accelerating economic growth, ensuring high and stable levels of employment, maintaining stable price levels and balance of payments, working towards the equitable distribution of incomes and promoting policies for human resources development. These policies have shaped and will continue to shape the nature of our provincial development policies and plans.

The current Provincial Growth and Development Strategy (PGDS:2004-2014) is influenced by considerations of sustaining the development process through the creation of a stable investment climate which can promote employment and income creation, and through these, spur further investments. Investments can spur growth in an economy but the fruits of the investments may only be enjoyed by a tiny fraction of the provincial population. That is one reason why we as a government have initiated several programmes for facilitating the local development processes. We will continue to open up opportunities to the poor and the marginalized to enable them to participate fully in the mainstream of our growing economy. In this way, the current apparent divide between the first and second economies will be bridged. This will also constitute one way of seeing the developmental state in action in this province.

MEGA is one of the development organizations on which the provincial government relies to contribute to its development efforts. MEGA is tasked with the responsibility for developing the entrepreneurial potential of our people through various forms of financial and non-financial support. We look forward to MEGA to encourage potential locals and foreigners to invest in the economy. We also look forward to MEGA to encourage our businesses to become competitive by venturing into the export sector and through that strengthen our foreign exchange position.

One yardstick which will continue to be used to measure the contributions of MEGA to the provincial development programmes is the extent to which it contributes to the Broad Based Black Economic Empowerment (BBBEE) initiative. MEGA has a specific responsibility for implementing

our provincial economic programmes with a focus on the previously disadvantaged individuals within the province. The key instruments for ensuring the successful achievements of BBBEE development are, among others, access to funding by prospective entrepreneurs, training programmes in business management and planning, and after care support facilities.

MEGA is a consolidation of two entities, namely, Mpumalanga Investment Initiative (MII) and Mpumalanga Economic Empowerment Corporation (MEEC). The merger took place successfully in 2006. The objective was to merge the two organizations in order to achieve higher levels of performance. MEGA has thus been capacitated to take up the challenge of implementing its mandate as per the Mpumalanga Economic Growth Agency Act 4, 2005.

Generally, the performance of the provincial economy as measured by indicators such as per capita income, Human Development Index, Gross Geographic Product, and the performance of the export sector has been below expectation.

These are indeed serious challenges which we look to MEGA and other similar organizations to address through their strategic plans. The role of MEGA as the leading provincial development facilitator is acknowledged and must continue to be elevated over the coming years. Under the current development discourse of "development through partnerships" we need to give all the support we can to ensure that MEGA make its maximum contribution to the provincial development process.

I am confident that MEGA, in its current structure, has the capacity to address such challenges and attract more investments into the province. I wish to thank the members of the Board, the Chief Executive Officer and her staff for their contribution in developing our economy and creating new entrepreneurs.

**M Padayachee**  
NEEDS TITLE



## 2.2. OVERVIEW BY THE CHAIRPERSON OF THE BOARD

The merger between the former Mpumalanga Economic Empowerment Corporation (MEEC) and Mpumalanga Investment Initiative (MII) took effect from 1 April 2006. Out of the merger has been created the MEGA we know today.

The Board of MEGA has been constituted and the compliance procedures; the governance structures and best practice reporting systems are in place.

The business strategy for the period up to 2011 has been formulated and approved by the Board as well as the Department of Economic Development & Planning. The Board is now fully constituted and the Executive Management Team is in place. Board Committees have been established and regular meetings are taking place. I am confident that the business is ready to add value in its mandated objects.

Being a Parastatal, MEGA is expected to comply with certain reporting requirements and to align its key activities to provincial diaries. The Board has accordingly instructed and empowered the Chief Executive Officer to lead the process of ensuring compliance with this reporting requirement of the province.

The Performance Agreement with the Chief Executive Officer has been drafted and will be finalized once the shareholders compact is received from the Department of Economic Development and Planning. MEGA is thus, on course.

I wish to thank the Board members of MEGA, the Executive Management team, the staff and, above all the Department of Economic Planning for their tireless efforts in ensuring a success of MEGA.



P. Dexter  
Chairperson of the Board

## 2.3. CHIEF EXECUTIVE OFFICER

The period 1 April 2006 to 31<sup>st</sup> March 2007 marked the culmination of the merger of former Mpumalanga Investment Initiative [MII] and Mpumalanga Economic Empowerment Corporation [MEEC]. The process has brought renewed responsibilities in the areas of corporate governance and high levels of expectations in the general economic growth performance.

Globally, countries are restructuring their Economic Development Agencies in order to maximize the chance for attracting foreign direct investment [FDI], whilst at the same time ensuring enhanced delivery of economic development targets. The province of Mpumalanga have also followed suit by merging MEEC and MII into Mpumalanga Economic Growth Agency [MEGA].

The objects of MEGA are the promotion of trade and investment; the development of enterprises through financial and non-financial support, development and management of industrial property, and revenue generation.

Job analysis and grading were concluded and staff realignment effected. Several positions were filled with external candidates and training and development is on track. The challenges under corporate services include development of MEGA head quarters, design and development of applications software solutions, gathering of intelligence for economic development policy making, and finalization of the branding process.


South Africa as a trade and investment destination globally was amongst the bottom of the list. The province also performed unsatisfactory in this area. MEGA established one (1) FDI project valued at R5 million, and three projects valued at R79 million are in the pipeline. Twenty-seven (27) exporters were exposed to new markets through trade exhibitions and we are measuring the results thereof.

MEGA has established the necessary structures for promoting links with Mozambique through the Maputo Development Corridor Initiative, and participation in the annual Maputo Trade Fair [FACIM]. This encourages the concept of regional integration.

During the last financial year MEGA has approved thirty-nine (39) loans to Black Economic Empowerment enterprises valued at R12, 4 million. This process has created 637 employment opportunities.

The property portfolio has sustained itself but with the current budget allocation; the property portfolio poses a challenge to MEGA with regard to the state of the building infrastructure and current tenant profile. The portfolio will require recapitalization in order to restore same to acceptable levels. The Ekandustria industrial park was not budgeted for because it was planned for transfer to Gauteng Economic Development Agency [GEDA]. This process was not finalized and has put serious financial strain on the resources of MEGA.

Some assets of MEGA are still in the name of its predecessor companies and it is not certain whether MEGA will be successful in registering these assets in its name. This is an area receiving management attention. MEGA will be consolidating its assets and thence disposes of the non core ones.



N. Nokwe  
Chief Executive Officer



P. Dexter  
Chairperson of the Board



N. Nokwe  
Chief Executive Officer



### 3. SOME OF THE IMPORTANT KEY ECONOMIC INDICATORS DURING THE PERIOD UNDER REVIEW

The provincial economy has experienced considerable growth over the past decade. The strength of Mpumalanga's economy can be glimpsed from Table 1 below which indicates that the Gross Geographic Product which stood at about R95 billion in 2006, produced a per capita income of some R29,000 which was the fourth highest in the country after Gauteng, Western Cape and Northern Province. The table indicates further that Mpumalanga Province performed above the national average in the energy, agriculture and mining sectors.

VARIABLE	SOUTH AFRICA	MPUMALANGA
Population ( 2005)	47.3 million	3.5 million
Growth rate ( 2001-2006)	1.1%	1.5%
Urbanization rate	56.2%	40%
GDP ( 2006)	R 1755 billion	R 94.5 billion
Per capita income ( 2006)	R 37,000	R 29,000
Average annual real GDP growth rate	5%	4.3%
Contributions to GDP by sector in 2006		
Electricity, gas, water	2.3%	4.5%
Construction	2.4%	1.4%
Agriculture	2.7%	3.8%
Personal services	6.1%	4.9%
Mining and quarrying	7.3%	17.9%
Transport and communications	9.6%	8.0%
Wholesale and retail trade	14.0%	10.2%
General government services	15.3%	9.0%
Manufacturing	18.6%	18.6%
Finance and business services	21.4%	11.4%
Exports as % of GDP	22.6%	6%
Unemployment rate ( official definition ) : 2006	25.6%	27.4%
Unemployment rate (expanded definition) : 2006	39.0%	37%
Human Development Index	0.60 ( rank 121 out of 177 countries)	0.54
Gini co-efficient	0.70	0.63

In addition to the above, it needs to be noted that in 2006, Mpumalanga province contributed 41% of the total electricity output in South Africa, 19% of the mining output, 32% of the wood and wood products, 23% of the basic iron and steel output, and some 22% of the chemicals produced in the country. Mpumalanga is the primary forest area in South Africa accounting for about 40% of the forestry plantations in the

Consumer Price Index ( 1997-2003) : Base Year 2000 = 100		
VARIABLE	SOUTH AFRICA	MPUMALANGA
1997	84.4	83.0
1998	90.2	89.6
1999	94.2	94.7
2000	100	100
2001	105.7	105.6
2002	115.4	116.8
2003	122.2	124.7

country providing significant inputs into the paper producing industries. In addition, three of Mpumalanga's tourist attractions are ranked among the top 10 of the attractions in South Africa namely, the Kruger National Park, Blyde River Canyon and Pilgrim's Rest. The province thus occupies a strategic position in the economy of South Africa

This brief overview of the economy of Mpumalanga illustrates some of the key challenges and opportunities facing MEGA in its mission of contributing to the provincial development process.

**Among the sources consulted:**

Department of Economic Planning, Mpumalanga Provincial Government. Mpumalanga Economic Profile Vol. 2 March 2007.

### 4. CORPORATE GOVERNANCE

MEGA is a Schedule III entity governed by a duly elected Board of Directors, acting as the Accounting Authority, in terms of Section 5(1) of the Act, and as contemplated in Section 49(2) (a) of the PFMA. Section 5(3) of the Act stipulates that the Board shall consist of not fewer than nine (9) members and not more than eleven (11) members eligible to vote at Board meetings. In addition, the Head of the Department (HOD), as the Accounting Officer of the Agency, or any other person so designated by the HOD, is an ex officio member of the Board without voting powers.

The Board is accountable to the Member of the Executive Council in the execution of its powers, functions and duties through a mutually agreed Shareholder's Compact. The Board of the Mpumalanga Economic Growth Agency subscribes to good corporate governance principles which are practiced throughout the organization.

During the reporting year, the Chairperson of the Board was Mr. Phillip Dexter. The term of the first Board of MEGA started on April 1<sup>st</sup> 2006. The Board started off with seven Members and on January 2<sup>nd</sup> three additional Board Members were appointed. One Board Member, Dr. Anna Mokgokong resigned on the 30<sup>th</sup> March 2007.

**The Board is responsible for:**

- Strategic leadership;
- Monitoring operational performance of management;
- The protection of the MEGA's financial position;
- Ensuring that MEGA adheres to high standards of ethics and corporate behavior;
- Reviewing and adopting the appropriate risk management and regulatory compliance;
- Setting policy, standards and objectives within the framework issued by the responsible Member of the Executive Council and ensuring implementation by executive management; and
- Ensuring that the majority of the people of Mpumalanga benefit from the services offered by MEGA.

In order to improve the effectiveness of the Board and to facilitate communication and alignment with management, the office of the Board was enhanced with the appointment of a Company Secretary who supports management with the protection of intellectual property matters and all issues of corporate governance to ensure that legal exposure is limited and controlled.



#### 4.1. COMPOSITION OF THE BOARD OF DIRECTORS

- Mr. Phillip Dexter – Chairperson
- Mr. L Jacobs
- Mr. ZE Mncube
- Mr. E Mabuza
- Mr. R Phala
- Ms. SP Makhesha
- Mr. OP Makobe
- Ms. N Chili
- Mrs. AT Maseko
- Ms. J Moloi
- Ms. N Nokwe - Chief Executive Officer (Ex Officio)
- Ms. P Morgan (Company Secretary)

#### 4.2. BOARD MEETINGS

- The Board - meets four times per annum
- Audit Committee - meets at least three times per annum
- Human Resources and Remuneration Committee - meets quarterly
- Credit Committee - meets quarterly
- Executive Committee - meets bimonthly

There may be ad hoc or special meetings during the year.

#### 4.3. BOARD COMMITTEES

The Board has constituted the following Board Committees that assist in ensuring that the Board effectively executes its mandate.

##### 4.3.1. AUDIT COMMITTEE

The objectives of the Audit Committee are to assist the Board of Directors in fulfilling its oversight responsibilities for:

- The integrity of the Agency's financial statements;
- The Agency's compliance with legal and regulatory requirements;
- The external auditor's qualifications; and
- The performance of the Agency's Internal Audit function and external auditors.

The Committee consists of the following members

- Ms. N. Chilli (Chairperson)
- Mr. Z. Mncube
- Ms. P. Mothibi

#### 4.3.2. HUMAN RESOURCES AND REMUNERATION COMMITTEE

The objectives of the Human Resources and Remuneration Committee are to recommend and advise the Board on reward and remuneration and other personnel related policies. The Committee, in discharging its function, aims to ensure compliance to relevant legislation, including the Basic Conditions of Employment Act, the Employment Act, the Labour Relations Act and the Skills Development Act.

The Human Resources and Remuneration Committee consists of the following members:

- Mr. E. Mabuza (Chairperson)
- Mr. R. Phala (Member)
- Ms. P. Makhesha (Member)
- Mrs. J. Moloi (Member)
- Ms. N. Nokwe (CEO)

#### 4.3.3 CREDIT COMMITTEE

The objectives of the Credit Committee are to provide rules and guidelines to be followed by Management for consideration of financial assistance proposals submitted by potential clients to MEGA. Also, making sure that MEGA complies with the terms of the National Credit Act in its consideration of financial assistance' requests.

The Credit Committee consists of the following members:

- Mr. O.P. Makobe (Chairperson)
- Mr. Z. Mncube (Member)
- Mrs. A.T. Maseko (Member)
- Mr. L. Jacobs (Member)

#### 4.4. EXECUTIVE MANAGEMENT COMMITTEE (EXCO)

EXCO under the leadership of the CEO consists of all Heads of Divisions. It is the forum through which the business of MEGA is driven. It is the pivotal point where input is developed, debated, formulated and delivered into the business in such a way that it ensures the achievement of the business plan and ensures that the business best practice is implemented.

The purpose of EXCO is to support all areas of MEGA operations by:

- Leading the business units of the organization;
- Ensuring the attainment of business and performance targets;

- Establishing, coordinating and maintaining clear directives in terms of strategy, standards, guidelines, policies and procedures;
- Exercising appropriate governance principles and quality assurance activities to identify and mitigate operational risk;
- Providing support, advice and skilled resources to all

- departments and where appropriate, initiating interventions to optimize group assets; and
- Ensuring an effective integration, consultation and communication of inputs across departments, alliance partners and stakeholders and service providers

#### 4.5. BOARD MEMBERS ATTENDANCE/ BOARD MEETINGS

Board Member	Nature of Meeting	No. of Meetings	Meetings Attended
Mr. P.D. Dexter	Board	6	6
Mr. L. Jacobs	Board	6	5
Mr. Z.E. Mncube	Board	6	5
Mr. E. Mabuza	Board	6	5
Mr. R. Phala	Board	6	5
Mrs. J. Moloi	Board	2	2
Mrs. A.T. Maseko	Board	2	2
Ms. S.P. Makhesha	Board	6	3
Mr. O.P. Makobe	Board	6	5
Ms. N. Chilli	Board	6	2

#### 4.6. AUDIT COMMITTEE MEETINGS

Board Member	Nature of Meeting	No. of Meetings	Meetings Attended
E Mabena (Chairperson)	Audit	3	2
S Cousins	Audit	3	2
R Kalidass	Audit	3	1

#### 4.7. HUMAN RESOURCES COMMITTEE MEETINGS

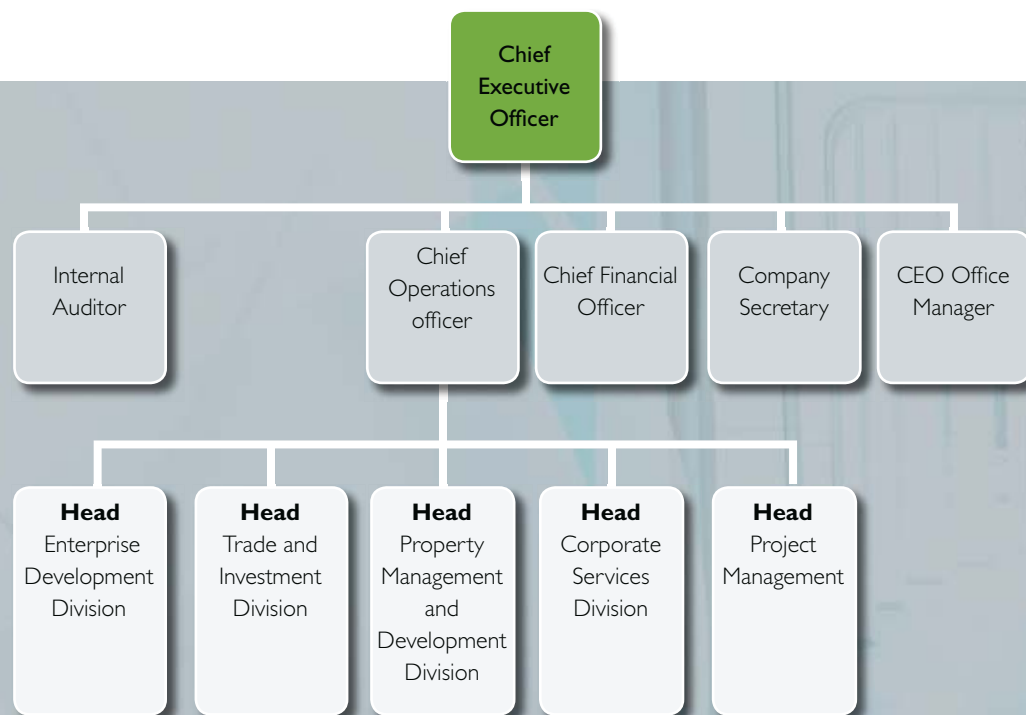
Board Member	Nature of Meeting	No. of Meetings	Meetings Attended
Mr. E. Mabuza (Chairperson)	HR	3	2
Mr. R. Phala	HR	3	3
Ms. P. Makhesha	HR	3	2
Mrs. J. Moloi	HR	1	0

4.8. CREDIT COMMITTEE MEETINGS

Board Member	Nature of Meeting	No. of Meetings	Meetings Attended
Mr. O.P. Makobe (Chairperson)	Credit	7	4
Mr. Z. Mncube	Credit	7	6
Mrs. A.T. Maseko	Credit	0	0
Mr. L. Jacobs	Credit	7	6

5. OPERATIONAL PERFORMANCE

5.1. MEGA HIGH LEVEL ORGANISATION



The organization mirrors the objects of the Act and thus the mandate of MEGA in terms of Enterprise Development, Trade and Investment, Industrial Property management and Development and Projects.

5.2. CORPORATE SERVICES

Corporate services provide shared services to MEGA. Its main functions are:-

- Human Resources
- Marketing and communication
- Research and Information management
- Information Communication and Technology
- Legal Services, and
- Office Facilities management

The Corporate Services managed to meet most of its planned deliverables under a high staff shortage which resulted from the merger of Mpumalanga Investment Initiatives and Mpumalanga Economic Empowerment Corporation.

5.2.1. HUMAN RESOURCES MANAGEMENT

Achievements

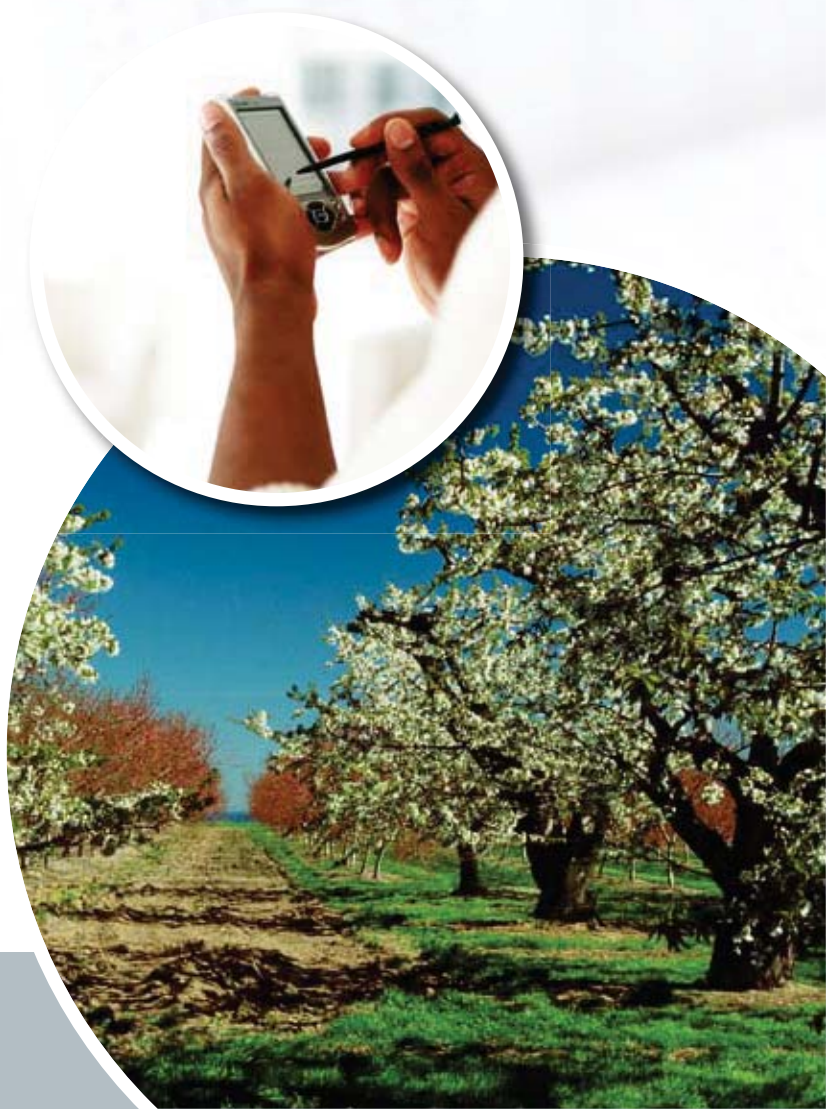
The Human Resources policies of the two predecessor companies i.e. MII and MEEC were merged into interim policies to assist MEGA in achieving its objectives. The organization has an agreed organizational structure wherein appropriate staff were recruited and placed into critical positions. A performance management system was also approved and implemented during the past year. Training and development is implemented continuously in line with the organizational objectives. The department successfully merged the payrolls of the predecessor companies into a single system. MII was running its payroll internally while MEEC had its payroll outsourced. All disciplinary and grievance- related matters were attended to on time.

Challenges

- MEGA is currently reviewing its human resources policies and the process is near completion.
- The process of recruitment and filling of vacant positions is not yet completed and will continue into the next financial year.
- Performance management is still a challenge. The Agency is still working hard to create the required culture of performance management.

Objectives

To put human resources policies in place which will assist MEGA to achieve its objectives; an agreed organizational structure, appropriate staff recruited, appointed and retained; management of staff performance, continuous improvement of staff capabilities and organizational performance; to promote sound industrial relations, efficient administration of the payroll, and Human resources administration.



### 5.2.2. HUMAN RESOURCE STAFF ESTABLISHMENT ANALYSIS

The staff complement at the end of March 2007 in terms of occupational categories

Employees & Levels	MALE				FEMALE				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Chief Exec. Officer	1				1				1
Chief Operations Officer									
Chief Financial Officer									
Company Secretary						1			1
Internal Auditor					1				1
Divisional Managers	1			1					2
Departmental Managers	9		1	1	1	1			13
Leasing Officers					1				1
Advisors	7			1	6			2	16
Secretaries/Clerks/Technical workers/General workers and Cleaners	39	1			35	3	2	1	81
<b>TOTAL</b>	<b>56</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>45</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>116</b>

The staff complement at the end of March 2007 in terms of national groups and gender is categorized as follows

	MALES	%	FEMALES	%	TOTAL	%
African	56	48	45	38.8	101	87
Whites	3	2.6	3	2.6	6	5.2
Coloureds	1	.9	5	4.3	6	5.2
Indians	1	.9	2	1.7	3	2.5
<b>TOTAL</b>	<b>61</b>	<b>53</b>	<b>55</b>	<b>47</b>	<b>116</b>	<b>100</b>

Youth representation : 32%

Women representation : 46%

Disabled representation : 0.86%

### 5.2.3. ANALYSIS OF WORKFORCE MOVEMENT AS AT 31 MARCH 2007

Workforce Analysis	Staff on the 1 <sup>st</sup> April 2006	New appointments	Terminations	Workforce as an 31 <sup>st</sup> March 2007
White Males	5		1	3
White Females	2	2	1	3
Coloured Males	2		1	1
Coloured Females	5	1		5
Indian Males	1			1
Indian Females	1	1		2
African Males	59	11	12	56
African Females	37	12	5	45
<b>Total</b>	<b>112</b>	<b>27</b>	<b>20</b>	<b>116</b>

### 5.2.4 HUMAN RESOURCE DEVELOPMENT

Training and Educational Assistance

Course	CEO's Office	Finance	Corporate Services	Enterprise Development	Properties	Trade & Investment
Risk Management / Fraud Conference /IFRS and Internal Audit	1					
PFMA / Introduction to Corporate Governance	3					
Effective meetings	1					
CIS	1					
Credit Risk / Credit Management for Govt. and Parastatals		1				
First Aid Training			2			
Commercial Contract Administration			1			
Skills Prog. in Office Administration	1	1				
Customer Care			3			
Information Retention			2			
Payroll Administration			1			
Tax Year-end Workshop			1			
Employment Equity Speed session			1			
Skills Development Facilitation			1			
IPM 50 <sup>th</sup> Anniversary Convention			1			
Finance for non-financial managers				1		
International Marketing						1
Masters in Business Administration						1
Cert. in International Trade						2
Short-course in imports and exports						2
Performance Mngt / Induction	4	4	11	15	28	9
Cert in Shopping Centre Management					1	
<b>TOTALS</b>	<b>10</b>	<b>6</b>	<b>24</b>	<b>16</b>	<b>29</b>	<b>15</b>

### 5.2.5 PERFORMANCE MANAGEMENT

The Agency has successfully put performance management in place. All staff members are evaluated quarterly.

Performance bonuses were awarded at 3% across the board except for non participating employees.

### 5.2.6. INFORMATION AND COMMUNICATION TECHNOLOGY

#### Achievements

New infrastructure for Head Office and the regions was put in place and appropriate office equipment provided.

#### Challenges

The organization is currently using different IT systems that do not link to each other in enhancing the performance of the organization. A process is being put in place to review the current systems and identify a suitable integrated system for the organization.

#### Objectives

To enable the Divisions of MEGA to achieve their objectives through the provision of ICT systems, infrastructure and equipment.

**5.2.7. MARKETING AND COMMUNICATION**

**Achievements**

MEGA was launched during the past year and the MEGA name branded. Business cards with the MEGA logo were produced for the staff.

**Challenges**

The Agency does not have a marketing and communication strategy. This should be in place before the end of the current year. Aggressive marketing of the Agency is still yet to be done.

**Objectives**

To develop and implement a marketing and communications strategy for MEGA.

**5.2.8. INFORMATION AND KNOWLEDGE MANAGEMENT**

**Achievements**

The department provided business intelligence to the Enterprise Development, Trade and Investment, and Property Management Divisions to enable them to address specific tasks.

Benchmark research information for evaluating operational performance was provided to enable the Divisions to compare their achievements against other organizations.

**Challenges**

As MEGA expands its operations to manage various projects on behalf of the provincial government, more demands are being put on the resources of the Information and Knowledge Management department.

**Objectives**

The activities of the Information and Knowledge Management department in MEGA'S day-to-day operations are based on the principle that research information is a key requirement in the processes of plan formulation and implementation by the divisions. The efficiency and effectiveness of the decision making processes at MEGA depend very much on the quality of research information held by and utilized by the Divisions. Access to high quality information is therefore a central imperative at MEGA.

**5.2.9. OFFICE FACILITIES MANAGEMENT**

**Achievements**

New offices established at Nelspruit and made fully operational. The regional offices were upgraded and equipped.

**Challenges**

The current office infrastructure for Head Office is inadequate and efforts are being made to identify an alternative office accommodation for the coming year.

**Objectives**

The department provides and maintains work stations and office equipment for all MEGA staff. It is also responsible for document management and front desk services.

**5.2.10. LEGAL SERVICES AND ADVICE**

**Achievements**

The department managed to provide timeous legal advice and support to all the Divisions of MEGA although it was challenged as it had to operate without staff from time to time. Most of the activities were to be contracted out.

**Challenges**

The department did not have a full time Legal Advisor for most part of 2006/7 as a result private firms were contracted to handle legal issues for the MEGA.

**Objectives**

The purpose of this department is to provide timeous legal advice and support.

**5.2.11. PLANS FOR THE YEAR 2007/8**

The human resources department need to complete the review of the human resources policies, filing of all vacant positions, conduct skills audit and building capacity for MEGA staff, implementing performance management through the balance score card, creation of a sound industrial relations and effective and efficient payroll.

The ICT department will conduct an audit of the current ICT systems and implement the recommendations.

In communications and marketing a marketing and communication strategy will be developed, research conducted in identifying target market for MEGA and the sustenance of the branding of the Agency.

The Information and Knowledge Management department is currently coordinating the design and development of MEGA corporate scorecard and the generation of economic intelligence for economic growth and job creation in the focus areas of the Agency. Part of the plan is also to design models to serve as inputs to the economic policy design by the Department of Economic Development and planning.

The legal service will provide a framework for debt collection and standardize and optimize contracts of lease and funding.

The Office facilities and maintenance has a major task of identifying alternative office space for the Head office as the current one cannot cater for the ever growing needs of MEGA and staff.

**5.3. TRADE & INVESTMENT PROMOTION**

**Purpose**

The division will actively promote, foster and develop trade and investment in the province for the benefit of all with specific emphasis on previously disadvantaged individuals and communities within the province by broadening the participation of such individuals and communities in the business sector by liaising and consulting with all relevant stakeholders

The 2006/07 year was a year where the main aim was the implementation of the merger of the former MII and MEEC into MEGA.

While the merger processes were continuing, the core activities of the three core Divisions also continued although with very limited budgets. Strict cost curtailment measures were implemented in September 2006 when it was realized that the allocated budget to the new organization was insufficient. This resulted in the canceling of most of the Trade and Investment promotion activities, including foreign missions and exhibitions. This resulted in a backlog as far as keeping a presence in the market was concerned. This also made the establishment of the new MEGA brand quite difficult.

Worldwide inward investment remained far below the 2000 peak of US\$ 1.4 trillion. There has however been an upsurge in Foreign Direct Investments (FDI) during the past year. This increase is mainly reflected in a greater level of cross border mergers and acquisitions, mainly in the banking and mining sectors.

Developing countries received only 36% of the total FDI during this period with China, Singapore, Mexico and Brazil the top four investment destinations. South Africa with a total FDI of US\$ 6.4 billion out of a total of US\$ 334 billion is near the

bottom of the list. It is therefore clear that South Africa has a long way to go to market itself as a preferred investment destination.

**5.3.1. TRADE AND INVESTMENT**

**Export promotion**

The Trade Division exposed twenty-seven (27) new small exporters to new markets through exhibitions. The Maputo Trade Fair (FACIM) generated in excess of R 20 million of business for twenty (20) small exporters who were sponsored by MEGA.

**Investment promotion**

Foreign Direct Investment

Projects established : 1 Project valued R 5 million in the Construction Sector  
Projects in the pipeline : 3 Projects valued R 79 million

Local Investment Projects

Projects established : 4 Projects valued R 51 million in the Tourism sector - R 7 million, and the Construction sector valued R 44 million  
Projects in the pipeline : 13 Projects valued R 2.4 billion

Direct Employment Creation through Investment Projects

Nkangala District : 40  
Ehlanzeni District : 525  
Total : 565



Geographic Spread of Investment Projects

Nkangala District : 3 projects  
Ehlanzeni District : 2 projects  
TOTAL : 5 projects



Ehlanzeni 40% Nkangala 60%

**Challenges**

MEGA is facing the following challenges regarding attracting foreign direct investment and promoting exports:

- Economic/political instability of South Africa's neighbour, Zimbabwe.
- General lack of knowledge about South Africa in foreign countries.
- Fierce competition from other developing countries for FDI.
- Lack of investment incentives from Department of Trade and Industry (DTI).
- Delay in finalizing the Investment Strategy for South Africa by DTI.
- The fluctuation of the Rand against the US Dollar is negatively influencing exports as well as investments.
- General decline in foreign direct investment worldwide.
- Establishing the MEGA brand in the market.

**Objectives for 2007/08**

- To identify and package at least 5 new investment projects for promotion purposes.
- To facilitate new direct investment to the value of at least R 120 million
- To facilitate at least 10 new export deals
- To establish 3 export based development programmes.
- To expose at least 20 new exporters to foreign markets.
- To register at least 25 new Provincial exporters

- To facilitate export deals to the value of at least R 60 million.

**5.3.2. PLANS FOR 2007/08**

This will be the year of consolidation and implementation of all the activities of the previous year:

**5.4. ENTERPRISE DEVELOPMENT**

**Purpose**

The main focus of the Enterprise Development Division is to provide support to SMMEs and co-operatives in the Mpumalanga Province through the provision of financial and non-financial services.

The strategy of the Division is in line with MEGA's overall strategy is to form strategic partnerships to supplement the Agency's financial resources and to source specialist expertise. The formation of strategic partnerships is critical for the Division

**Achievements**

The activities of the Division were hampered by the consolidation processes related to the merger of MEEC and MII. During this period of restructuring, the Division was able to receive and evaluate applications for funding and process these, albeit with a limited budget.

MEGA has approved thirty-nine (39) loans to BEE enterprises in the Province. The value of the approved loans for the period is R12, 4 million. The Divisions financing activities has led to the creation of six hundred and eighty-four (684) employment opportunities. MEGA has funded enterprises in three municipal districts of the Province, namely, Ehlanzeni, Nkangala, and Gert Sibande. More than 17% by value of MEGA's loans went to youth-owned enterprises.

**Summary of Approvals | April 2006 to March 2007**

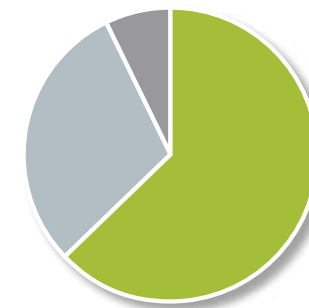
Summary	Ehlanzeni	Nkangala	Gert Sibande	Total
No. of Approvals	20	17	2	39
Value of Approvals	R 7,800,850	R 3,725,046	R 825,000	R 12,350,896
Jobs Created	472	198	14	684
Urban	9	6	1	16
Rural	11	11	1	23
Male	12	13	2	27
Female	8	4	0	12
Youth No.	5	3	0	8
Youth Value	R 1,128,015	R 1,056,916	R 0	R 2,184,931

The number of approvals for period ending March 2007



Ehlanzeni 51% Nkangala 44% Gert Sibande 5%

The value of approvals for period ending March 2007



Ehlanzeni 63% Nkangala 30% Gert Sibande 7%

**Highlights for the 2006-7 financial year**

- The creation of 637 jobs.
- Improved debt collections - repayments increased by 110%.
- More than 39 entrepreneurs were assisted
- Budgeted income for the year : R 3 486 000
- Actual income for the year : R 8 680 000

**Challenges faced by the Division**

- Lack of adequate budget allocation to address the huge need for financial support.
- Lack of knowledge and experience regarding the running of co-operatives;
- Low levels of business skills among emerging entrepreneurs;
- The culture of non-payment of loans;
- Lack of suitably qualified staff to assess economic viability of applications.

**Objectives for 2007/8**

- To decentralize the delivery channels of the Division by having representations in the District Municipalities.
- To source additional funding from partners to complement the budgetary allocations.
- To establish and fund 15 co-operatives, especially in the rural areas of the province.

**5.5. INDUSTRIAL AND COMMERCIAL PROPERTY DEVELOPMENT AND MANAGEMENT**

**Introduction**

The industrial Property Development and Management division of MEGA has set many strategic objectives for the Division to achieve the following: improved performance of property portfolio, divestment of non performing property portfolio, and investment in new, high-growth industrial properties.

The Division has a mandate to provide rental premises for local and foreign investors in Mpumalanga. It provides premises that are tailor-made for industrial and commercial businesses, in particular, for Small, Medium and Micro Enterprises (SMME's). MEGA properties have assisted many investors in Mpumalanga to find suitable locations for their operations.

**Achievements**

The Division was largely involved with re-organizing and updating its records and operations with a view to formulating more effective strategies for running the properties. Following a series consultations with the relevant stakeholders the foundations were laid for more effective management of the properties.

The following tenants were established at the Ehlanzeni and Gert Sibande district municipalities:

- Tlapi's Driving academy
- Buhle Bem Africa Co-operatives
- Busana Trading
- Sekunjalo Printers
- Akanjobu Construction

The tenants have created 59 job openings.

Statistical data on occupancy rates at the properties indicated the following:

	Ehlanzeni	Gert Sibande	Nkangala	Ekandustria
Factories	97%	NA	80%	96%
Shopping centres	68%	99%	98%	NA
Small Industrial Parks	100%	98%	53%	41%
Loose buildings	95%	86%	91%	NA

Statistical data on the active tenants was as follows:

	Ehlanzeni	Gert Sibande	Nkangala	Ekandustria
Factories	42	NA	25	105
Shopping centres	41	16	77	NA
Small industrial parks	68	49	29	41
Loose buildings	10	5	11	NA

On debt recovery, an amount of R709,777.15 was collected for the Nkangala region. This excludes the direct deposits made by other anchor tenants from January to July. There was also much success in recovering arrears to the value of R1.7 million. Arrangements were also made with a number of tenants to pay off their accounts within 6 months. In addition, a list of tenants with bad debts was submitted to the MEGA Executive Council for approval.

The table below provides information on Employment Equity

**Challenges**

MEGA properties continue to attract a lot of investors because of the low rental rate. From the records of RODE (an organization which supplies information on the South African property market), the normal market rates for industrial and commercial properties for the highveld and lowveld regions where MEGA operates are significantly higher than the rates charged by MEGA.

Other challenges include lack of proper maintenance of some of the properties, poor security at some of the properties, the delays experienced in evicting defaulting tenants, and the low maintenance budget for the Division.

Objectives for the period ending March 2007

The demand for industrial and commercial property in Mpumalanga is quite insatiable given current market conditions. The Division is responding to this favourable market situation by putting in place plans to facilitate investment in new high growth areas such as Kruger Mpumalanga International Airport (KMIA) and industrial parks at Middleburg, Witbank and Secunda. These areas have been identified as potential growth centres for developing the provincial economy.

In addition there are plans in place to negotiate with the tenants on market-related rental tariffs, upgrading the properties to attract more investors, improving the strategy of rental debt collection, improving security at the properties, and selling properties which are proving difficult to manage.

**5.6. PROJECT MANAGEMENT**

MEGA is involved in the management of certain projects on behalf of the provincial government. There has been a significant increase in the number of such projects over the past two years, an indication of a broadening of the activities of the organization. MEGA is in the process of putting the necessary mechanisms in place to ensure successful execution of its role in the provincial projects. High-lights on the projects are given below:-

Project Objective	Description/Objectives	Progress	Way Forward
MAPUTO CORRIDOR :	To revitalise the axis between Gauteng, Mpumalanga and Maputo and thus rehabilitate the primary infrastructure network along the corridor; to maximise investments in the corridor; to maximise social development in the corridor; to ensure sustainable development	With MEGA's recent mandate to become involved, a background briefing report has been prepared	To take appropriate steps to ensure MEGA's appropriate participation
INTERNATIONAL CONVENTION CENTRE:	To establish an ICC in the Mbombela area. To ensure the construction of an ICC capable of accommodating at least 5,000 delegates on land donated to MEGA by H L Halls & Sons	Active. In early 2007, a political task team was established to oversee the project	Mega to sign an MOU with Halls & Co. and facilitate an investor to construct the ICC
MEGA CONNECT :	The long-term goal is to establish a one-stop call-centre for investors, traders, established businesses and new entrepreneurs to access information on Mpumalanga province	On hold, pending the resolution of some outstanding issues	N/a
ZITHABISENI/ LOSKOP:	Involves 3 separate projects, the development of the Zithabiseni Resort, Loskop dam / Mabusa Nature Reserves  To up-grade the chalets and infrastructure at Zithabiseni ; to integrate and develop the Loskop Dam and Mabusa Nature Reserves	On hold	N/a
KOMATIPOORT DRY PORT	Dry port to establish and develop a cargo handling facility on the South African/Mozambican border .  There are 3 options: (i) Expanding a private sector initiative on the South African side of the border; (ii) building a new facility on the Mozambican side of the border;(iii) establishing a formal one stop border post with integrated cargo-handling facilities	Although MEGA has met with the private sector developer, and MCLI was involved with the second option, subsequently it appears that national agreement has recently been reached on the establishment of a complete overhaul of the border facilities at Komatipoort	As far as the projects section is concerned, this project is cancelled

Project Objective	Description/Objectives	Progress	Way Forward
BIOFUELS :	To generate bio-diesel, bio-ethanol, and/or biogas from local renewable sources, thereby creating employment in Mpumalanga.  There are a variety of options, including: (i) producing first generation bio-diesel or bio-ethanol from agricultural feedstock; (ii) producing first-generation biogas from urban or forestry waste, (iii) producing second-generation bio-diesel from industrial waste; or (iv) producing second-generation bio-ethanol from any plant matter	Active. Mega is considering 3 proposals for funding	To establish more details of the existing biogas technology in which Germany is a world leader-through the co-operation agreement with North-Rhine Westphalia authorities
WATER TREATMENT:	To assist relevant bodies to resolve the water shortage problem in Mbombela and the Lowveld.  There are a number of options to resolve the water shortage problem such as building more dams, better regulation and control of water usage, as well as increasing the amount of water reaching the rivers ( through alien vegetation control and better land use management)	Active – MEGA's project section is an observer on the KNPSF. This project is therefore classified as active	To determine whether it is appropriate to establish a public sector forum, and MEGA's role in such a set up.

**UDIT COMMITTEE REPORT TO THE BOARD**

**MPUMALANGA ECONOMIC GROWTH AGENCY**

In terms of its obligations according to Treasury Regulation 27.1 10, the Audit Committee report as follows on certain events as well as actions and findings in respect of the financial year ended 31 March 2007.

**Audit Committee Members and Attendance**  
Notwithstanding the establishment of the Mpumalanga Economic Growth Agency on 01 April 2007 from the simultaneously disestablished Mpumalanga Economic Empowerment Corporation and the Mpumalanga Investment Initiative, a certain amount of time was needed to provide for and phase in a suitable management and executive authority structure. Subsequently, the following Board members were appointed to fulfil the oversight function in respect of the Audit Committee until their resignations and/or non-attendance:

Name of Member	Designation	Meetings			
		Appointed (D/M/Y)	Resigned (D/M/Y)	Total meetings Financial year	Number meetings attended
N Chili	Former Chairperson	29/03/2006		3	3
Z E Mncube	Member	29/03/2006		3	3
P Makhesha	Member	29/03/2006		3	2
G Msiza	Provincial appointee	01/04/2007		3	1

A new Audit Committee was appointed from 01 March 2007 comprising the following members:

Name of Member	Designation	Meetings			
		Appointed (D/M/Y)	Resigned (D/M/Y)	Total meetings Financial year	Number meetings attended
E Mabena	Chairperson	01/03/2007		1	1
S Cousins	Member	01/03/2007		1	1
R Kalidaas	Chairperson (March 2007)	01/03/2007	11/04/2007	1	1

**Audit Committee Responsibility**

The Audit Committee reports that it has complied with its responsibilities arising from Section 38 (1) (a) of the PFMA and Treasury Regulation 27.

The Audit Committee has adopted appropriate formal terms of reference as its Audit Committee Charter; has regulated its affairs in compliance with this Charter; and has discharged all its responsibilities as contained therein.

**Effectiveness of Internal Controls**

Numerous management positions remained vacant for the most part of the financial year. This deficiency subsequently undermined prudent, effective and efficient continual practices like supervision and evaluation of compliance, and impacted negatively on the internal control environment, and also on ensuring accountability in all respects.

This is clear from internal audit reports as well as the Auditor-General's report. The Auditor-General's report especially draws attention to the ineffective administration of rental agreements, substantiating documentation, collateral security, debtors and creditors reconciliations, compliance and follow-up issues, policies, and accounting procedures. The internal control environment therefore still needs special focus for improvement and implementation of effective procedures and policies.

The Audit Committee was also concerned about management processes needed for solving formidable challenges pertaining to the control of rentals on properties, impaired trade and business loans receivables, ownership of land assets, and the recovery of material outstanding rentals owing to the Agency, which situation impacts heavily on an already stretched cash flow. The issue of availability of a complete set of procedures and policies also requires focussed attention. These issues have been brought into the Audit Committee's scope of agenda, and will be progressively evaluated for strategy and action.

The Audit Committee is at this stage encouraged by the positive attitude and enthusiasm displayed by the new management in order to overcome the said challenges.

**THE QUALITY OF IN-YEAR MANAGEMENT AND MONTHLY/QUARTERLY REPORTS SUBMITTED IN TERMS OF PFMA AND THE DIVISION OF REVENUE ACT.**

Although the Committee requested the submission of the said prescribed quarterly reports, this had not been adhered to. Consequently none of these reports were evaluated and the Committee is not in the position to express an opinion regarding these requirements.

**EVALUATION OF FINANCIAL STATEMENTS**

**The Audit Committee has:**

- reviewed and discussed the audited financial statements to be included in the annual report with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General's management letter and management's response thereto;
- reviewed changes in accounting policies and practices; and
- reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.



**Elias Mabena**  
Chairperson of the Audit Committee

## ANNUAL FINANCIAL STATEMENTS

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### DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors of the Agency are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatements and loss. The systems are implemented and monitored by suitable trained personnel with appropriate segregation of authority and duties. During the 2007 financial year the Agency

The annual financial statements are prepared on the going concern basis. This basis presumes that assets will be realised and liabilities settled in the ordinary course of business which in turn is dependant upon the resumption of profitable operations and the availability of adequate ongoing finance. The annual financial statements do not include adjustments that may be necessary if the Agency would not continue as a going concern.

As stated above, the directors have a reasonable expectation that the Agency has, with the continued grant funding from government, adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt a going concern basis in preparing the financial statements.

The annual financial statements set out on pages 1 to 29 were approved by the directors on and are signed on their behalf by:



DIRECTOR



DIRECTOR



## REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MPUMALANGA ECONOMIC GROWTH AGENCY FOR THE YEAR ENDED 31 MARCH 2007

### Introduction

I have audited the accompanying financial statements of the Mpumalanga Economic Growth Agency (MEGA) which comprise the balance sheet as at 31 March 2007, income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

### RESPONSIBILITY OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Auditor-General Audit Circular 1 of 2005 and the MEGA Act, 2005. This responsibility includes:

- Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Selecting and applying appropriate accounting policies
- Making accounting estimates that are reasonable in the circumstances.

### RESPONSIBILITY OF THE AUDITOR-GENERAL

As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance

whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- Appropriateness of accounting policies used
- Reasonableness of accounting estimates made by management
- Overall presentation of the financial statements.

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

#### Basis of accounting

The entity's policy is to prepare financial statements in accordance with South African Statements of Generally Accepted Accounting Practice.

#### Basis for qualified opinion

The process to transfer certain land and buildings into the name of the Agency had not been effected at the balance sheet date. We were unable to verify the ownership of investment properties and owner occupied land and buildings stated at R217 095 749 and R2 717 194 respectively as at 31 March 2007.

#### Qualified opinion

In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Mpumalanga Economic Growth Agency as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice.

### OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

- Internal control
- Granting of loans

The results of audit fieldwork procedures highlighted shortcomings in the supervision and monitoring of the loan originating processes. This could impact on the successful loan repayment processes.

### MATERIAL NON-COMPLIANCE WITH APPLICABLE LEGISLATION

#### Listing of the provincial public entity

The MEGA is currently not listed in Schedule 3 of the PFMA. The Accounting Authority has notified National Treasury of this fact in accordance with section 47(2) of the PFMA.

#### PAYMENTS

Per inspection of the creditors' age analysis for the period under review it was noted that a significant portion of creditors have been outstanding for longer than 30 days.

#### BANK AND CASH MANAGEMENT

Per inspection of the debtors' age analysis it was noted that the majority of debtors have been outstanding for more than 90 days. Debtors should be pursued with the appropriate sensitivity and rigour to ensure that amounts receivable are collected and banked promptly. It was further noted that bank accounts are still in the name of the predecessor entities namely Mpumalanga Economic Empowerment Corporation and Mpumalanga Investment Initiative.

### MATERIAL CORRECTIONS MADE TO THE FINANCIAL STATEMENTS SUBMITTED FOR AUDIT

The financial statements approved by the accounting authority and submitted for audit on 31 May 2007 have been significantly revised in respect of journal entries which were processed after the financial statements were submitted to the Auditor General. The net effect of material corrections are summarized below:

- Expenditure in the Income Statement was understated by R5 316 771
- Non current assets in the Balance Sheet was overstated by R4 646 104
- Equity in the balance sheet was understated by R9 715 846
- Current liabilities in the Balance Sheet was understated by R670 668
- Non current liabilities in the Balance Sheet was overstated by R9 715 846

### OTHER REPORTING RESPONSIBILITIES

#### Reporting on performance information

I have audited the performance information as set out on pages xx to xx.

#### Responsibility of the accounting authority

The accounting authority has additional responsibilities as required by the Auditor-General Audit Circular 1 of 2005 to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.

In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.


I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

### AUDIT FINDINGS

The entity has not reported its performance against predetermined objectives as contained in the strategic plan in the annual report.

### APPRECIATION

The assistance rendered by the staff of the Mpumalanga Economic Growth Agency during the audit is sincerely appreciated.

  
**BMM Madliwa**  
for Auditor-General Nelspruit  
31 July 2007

  
AUDITOR-GENERAL

## DIRECTORS REPORT

### Compliance statement

MEGA is committed to an open governance process embracing the principles of integrity and accountability such that all stakeholders may derive assurance that the Agency is being managed ethically by its directors and managers. The Board supports the principles of The Code of Corporate Practices and Conduct as set out in the King Report and the Public Finance Management Act and substantially complies therewith.

### The Board of Directors

The Board of Directors comprises eight non-executive directors and two ex officio directors. Directors are appointed on the basis of skill, experience and level of contribution to, and impact on, the activities of the Agency.

The Chief Executive Officer is responsible for making and implementing operational decisions on running the Agency's businesses. This is achieved through the Executive Committee within the Agency with the Chief Executive as Chairperson.

Non-executive directors complement the skills and experience of the Executive Director contributing to the formulation of policy and decision-making. Board meetings are held quarterly with additional meetings called where considered necessary. The Board considers issues of strategic direction, major acquisitions and disposals, and approves major capital expenditure and other matters having a material effect on the Agency. Presentations are made to the Board on the activities of operations and both ex officio and non-executive directors undertake regular visits to operations and projects.

All directors have access to management, including the Corporate Secretary, and to such information as is required to carry out their duties and responsibilities fully and effectively. Furthermore, all directors are entitled and authorized, at the Agency's expense, to seek independent professional advice about the affairs of the Agency.

Subject to specific fundamental, strategic and formal matters reserved for its decision, the Board delegates certain responsibilities to a number of ad hoc committees and divisional boards of directors, which operate within defined terms of reference, laid down by the Board.

The non-executive directors are appointed by the Member of Executive Council for The Department of Economic Development and Planning (DEDP), for a period of three years after a public, transparent consultative nomination process. The MEGA Act stipulates that the holder of the office of Head of Department - DEDP and Chief Executive Officer - MEGA shall be ex officio directors of MEGA.

### Audit Committee

The Audit Committee is fully mandated by the Board by means of terms of reference as to its membership, authority and duties. The Committee is responsible for the consideration of the appointment of external auditors, the maintenance of a professional relationship with them, and reviewing accounting principles, policies and practices adopted in the preparation of public financial information.

In addition, it reviews the adequacy and continuous operation of the internal control systems and their audit. Parameters of the audit and of internal controls are discussed between the Audit Committee and the external auditors as part of the process of each audit. Material issues are reported to the Audit Committee. The external auditors have unrestricted access to the chairman of the Audit Committee and attend meetings to report on their findings and to discuss accounting, auditing, internal control and financial reporting matters.

The Audit Committee comprises three non-executive directors and is chaired by an independent professional. Meetings are also attended by appropriate members of executive management, including those involved in risk management, internal control and finance.

The internal audit function is an independent appraisal function, which was temporarily co-sourced to PriceWaterhouseCoopers and managed by the Head of Internal Audit, due to vacancies in the division. The internal audit function has unrestricted access to the audit committee. They appraise, evaluate and, where necessary, recommend improvements to the systems of internal controls and accounting practices.

### Accountability and audit

The directors confirm that they are satisfied that the Agency has adequate resources to continue in business, with continued grant funding, for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the financial statements. The directors acknowledge that they are responsible for instituting internal control systems that should provide reasonable assurance regarding the safeguarding of assets and the prevention of their unauthorised use or disposition, maintenance of proper accounting records and ensuring the reliability of financial information produced.

### Risk management

The focus of risk management in the Agency is on identifying, assessing, managing and monitoring all known forms of risk across the Agency. While operating risk cannot be fully eliminated, the Agency endeavours to minimise it by ensuring that the appropriate infrastructure, controls, systems and ethics are applied throughout the Agency and managed within predetermined procedures and constraints.

### Financial reporting

The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the Agency will not remain a going concern for the foreseeable future.

MEGA has a comprehensive system for reporting financial results to the Board. Each business division prepares detailed budgets and monthly management accounts are prepared. Performance against budget is monitored and variances analysed. Forecasts to the end of the year are reviewed and include an analysis of material changes.

The assessment of the level at which to set the provision for doubtful receivables is judgmental as it depends on a number of future events and uncertain circumstances. These include levels of unemployment, the commitment to repayments, the political situation in certain areas, and action taken by the MEGA to encourage and collect installments. Due consideration has been given to the quality and value of securities held in assessing the adequacy of the provision for doubtful receivables.

The directors consider that adequate provision has been made to cover doubtful receivables as at 31 March 2007 in the light of known and anticipated factors and circumstances. The provision covers all amounts considered irrecoverable as well as those, which may become irrecoverable in future.

### Employment equity and practices

The Agency subscribes to and complies with the requirements of equity employment, skills development and good labour relations, believing that it is in the best interest of all concerned. Appropriate policies have been adopted and the required structures have been set up in each of the above mentioned areas. The directors believe that affirmative action, structured in an economically viable and self-sustaining manner, is an essential and integral part of corporate governance within any business unit of the Agency operating within South Africa.

**BALANCE SHEETS**

for the year ended 31 March 2007

	Notes	Group 2007 R	Agency 2007 R
<b>ASSETS</b>			
<b>Non - current assets</b>			
Property, plant and equipment	2	4,505,311	4,505,311
Investment property	3	217,095,749	217,095,749
Subsidiaries	4	-	-
Unlisted investments	5	1,125,896	1,125,896
Loans receivable and investments	6	2,701,889	2,701,889
		<b>225,428,845</b>	<b>225,428,845</b>
<b>Current assets</b>			
Inventories	7	6,195	6,195
Trade and other receivables	8	5,609,312	5,609,312
Prepayments		477,406	477,406
Cash and cash equivalents		14,318,937	14,318,937
		<b>20,411,850</b>	<b>20,411,850</b>
<b>Total assets</b>		<b>245,840,695</b>	<b>245,840,695</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	9	597,000	597,000
Accumulated funds		199,593,776	199,593,776
Shareholder's interest		<b>200,190,776</b>	<b>200,190,776</b>
<b>LIABILITIES</b>			
<b>Non - current liabilities</b>			
Long term liabilities	10	1,623,071	1,623,071
		<b>1,623,071</b>	<b>1,623,071</b>
<b>Current liabilities</b>			
Trade and other payables	11	24,607,738	24,607,738
Current portion of long term liabilities	10	19,419,110	19,419,110
		<b>44,026,848</b>	<b>44,026,848</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>245,840,695</b>	<b>245,840,695</b>

**INCOME STATEMENTS**

for the year ended 31 March 2007

	Notes	Group 2007 R	Agency 2007 R
<b>REVENUE</b>			
Cost of Sales		17,486,960	17,486,960
<b>GROSS PROFIT</b>		<b>5,236,936</b>	<b>5,236,936</b>
Rent received		19,035,011	19,035,011
Interest on loans and other receivables		5,897,881	5,897,881
Dividends received		495,149	495,149
Other operating income		1,692,521	1,692,521
Depreciation		(3,632,339)	(3,632,339)
Human resource expenses		(32,809,466)	(32,809,466)
Infrastructure expenses		(6,579,856)	(6,579,856)
Other operating expenses		(22,002,585)	(22,002,585)
Professional services		(14,640,460)	(14,640,460)
Bad debts written off		(1,442,792)	(1,442,792)
Movement in impairment		(39,793,024)	(39,793,024)
<b>OPERATING DEFICIT</b>	13	<b>(88,543,024)</b>	<b>(88,543,024)</b>
Finance costs	14	(2,304,838)	(2,304,838)
Grants received		59,100,007	59,100,007
Investment income	15	701,108	701,108
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>		<b>(31,046,747)</b>	<b>(31,046,747)</b>

## STATEMENTS OF CHANGE IN EQUITY

for the year ended 31 March 2007

	Share capital	Accumulated Funds	Total
	R	R	R
<b>Group</b>			
Balance at 31 March 2006	597,000	230,640,523	231,237,523
Deficit for this year	-	(31,046,747)	(31,046,747)
Balance as at 31 March 2007	<b>597,000</b>	<b>199,593,776</b>	<b>200,190,776</b>
<b>Agency</b>			
	Share capital	Accumulated Funds	Total
	R	R	R
Balance at 31 March 2006	597,000	230,640,523	231,237,523
Deficit for this year	-	(31,046,747)	(31,046,747)
Balance at 31 March 2007	<b>597,000</b>	<b>199,593,776</b>	<b>200,190,776</b>

## CASH FLOW STATEMENTS

for the year ended 31 March 2007

	Notes	Group 2007	Agency 2007
		R	R
<b>OPERATING ACTIVITIES</b>			
Cash utilised in operations before working capital changes	A	(33,612,179)	(33,612,179)
Working capital movements	B	(13,849,522)	(13,849,522)
Cash utilised in operations		(47,461,701)	(47,461,701)
Investment income		701,108	701,108
Finance cost		(2,304,838)	(2,304,838)
Grants received		59,100,007	59,100,007
<b>Net cash inflow from operating activities</b>		<b>10,034,576</b>	<b>10,034,576</b>
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(524,309)	(524,309)
Additions to investment property		(5,180,868)	(5,180,868)
Proceeds from disposal of property, plant and equipment		35,669	35,669
Increase in loans advanced		(11,171,399)	(11,171,399)
Increase in investments		(5,772,000)	(5,772,000)
<b>Net cash outflow from investing activities</b>		<b>(22,612,907)</b>	<b>(22,612,907)</b>
<b>FINANCING ACTIVITIES</b>			
Long term loans repaid		-	-
<b>Net cash outflow from financing activities</b>		<b>-</b>	<b>-</b>
DECREASE IN NET CASH AND CASH EQUIVALENTS		(12,578,331)	(12,578,331)
Cash and cash equivalents at beginning of the year		26,897,268	26,897,268
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>14,318,937</b>	<b>14,318,937</b>

## OPENING BALANCES

as at 1 April 2006

	MEEC	MII	Total
	R	R	R
Property, plant and equipment	5,935,662	333,509	6,269,171
Investment property	213,261,548	-	213,261,548
Loans receivable and investments	19,592,576	6,861,935	26,454,511
Inventories	30,903	-	30,903
Trade and other receivables	5,949,565	82,488	6,032,053
Prepayments	246,611	-	246,611
Cash and cash equivalents	21,464,078	5,433,190	26,897,268
Accumulated funds	(221,154,314)	(10,083,209)	(231,237,523)
Long term liabilities	(21,042,181)	-	(21,042,181)
Trade and other payables	(24,284,448)	(2,627,913)	(26,912,361)
	-	-	-

## NOTES TO THE CASH FLOW STATEMENTS

for the year ended 31 March 2007

	Group 2007	Agency 2007
	R	R
<b>A. RECONCILIATION OF OPERATING DEFICIT TO CASH UTILISED IN OPERATIONS BEFORE WORKING CAPITAL CHANGES</b>		
Operating deficit	(88,543,024)	(88,543,024)
Adjusted for:		
Depreciation	3,632,339	3,632,339
Surplus on sale of assets	(33,172)	(33,172)
Impairment - unlisted investment	4,646,107	4,646,107
Impairment - Loans receivable	34,924,018	34,924,018
Impairment - trade and other receivables	10,318,761	10,318,761
Bad debts written off	1,442,792	1,442,792
	(33,612,179)	(33,612,179)
<b>B. WORKING CAPITAL MOVEMENTS</b>		
Decrease in inventories	24,708	24,708
Increase in trade and other receivable	(11,338,812)	(11,338,812)
Increase in prepayments	(230,795)	(230,795)
Decrease in trade and other payables	(2,304,623)	(2,304,623)
	(13,849,522)	(13,849,522)

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

## I. ACCOUNTING POLICIES

## BASIS OF PREPARATION

## Accounting Framework

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice using the historical cost convention, except for investment properties and financial instruments carried at fair value.

## Comparative Figures

Comparative figures are not presented, as the Agency started trading during the current financial year, after the merger of the Mpumalanga Economic Empowerment Corporation and Mpumalanga Foreign Direct Investment t/a Mpumalanga Investment Initiative on 1 April 2006.

## SEPARATE FINANCIAL STATEMENTS

## Subsidiaries, Associates and Joint Ventures

Investments in subsidiaries, associates and joint ventures in the separate financial statements are recognised at cost, less provision for permanent diminution in value of the investment. Provision for losses are made where in the opinion of the directors, a permanent diminution in the value of an investment has occurred.

## GROUP FINANCIAL STATEMENTS

## Interest in Subsidiaries

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the Agency and its subsidiaries as if they are a single economic entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal. Inter-company transactions and balances between group entities are eliminated on consolidation.

## Property, Plant and Equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure on additions and improvements to tangible property, plant and equipment is capitalised.

Owner occupied properties and investment properties in the course of construction are carried at cost, less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged so as to write off the depreciable amount of the assets, other than land, over their estimated useful lives, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The following methods and rates were used during the year:

Asset Category	Method	Rate
Own use buildings and facilities	Straight line	5%
Office furniture and equipment	Straight line	10% - 33.33%
Motor vehicles	Straight line	20%
Plant machinery and equipment	Straight line	20%

The residual value, if not insignificant, is reassessed annually together with the estimated useful life. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

## Investment Property

The cost model is applied in accounting for investment property, i.e. the investment property is recorded at cost less any accumulated depreciation and impairment losses. Projects under construction are included in investment property at cost.

Asset Category	Method	Rate
Own use buildings and facilities	Straight line	20 years

## Impairments

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under the standard.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on an average cost basis.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated. Provisions are measured at the expenditure required to settle the present obligation. Where the effect of discounting is material, provisions are measured at their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks for which future cash flow estimates have not been adjusted.

**FINANCIAL INSTRUMENTS****Financial Assets**

Long-term investments, where the Agency is not in a position to exercise significant influence or joint control are stated at cost less impairment adjustments, where the investments carrying amount exceeds its estimated recoverable amount. Trade and other receivables are classified as loans and receivables and are measured at amortized cost less impairment adjustments. Adjustments of these assets are expensed in the income statement. Cash and cash equivalents are measured at fair value, with changes in fair value being included in profit or loss.

**Financial Liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include interest-bearing loans, bank loans and overdrafts, and trade and other payables.

Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the

instrument to the extent that they are not settled in the period in which they arise.

**Revenue Recognition**

Revenue is measured at the amount received or receivable. VAT, cash discounts and rebates are excluded from revenue. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods.

Revenue from the rendering of services is recognised when the amount of the revenue, the related costs and the stage of completion can be measured reliably and when it is probable that the debtor will pay for the services.

Revenue from royalties is recognised on the accrual basis in accordance with the substance of the relevant agreements. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Grants Received**

Grants other than those related to specific projects are acknowledged in the income statement, when received. Grants received which are conditional upon the carrying out of specified activities are deferred until the activities have taken place.

**Finance Leases**

Finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments at the time of acquisition. Finance costs represent the difference between the total leasing commitments and the fair value of the asset acquired. Finance costs are charged to the income statement over the term of the lease and at interest rates applicable to the lease on the remaining balance of the obligation.

**Borrowing Costs**

All borrowing costs are expensed in the period in which they are incurred.

**Retirement Benefit Costs**

It is the policy of the Agency to provide retirement benefits for employees. Contributions to provident funds are charged to income in the year in which they become payable.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

	Group 2007	Agency 2007
	R	R
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
Land and buildings		
At cost	3,729,448	3,729,448
Accumulated depreciation	1,047,258	1,047,258
	<u>2,682,190</u>	<u>2,682,190</u>
Office furniture and equipment		
At cost	5,107,509	5,107,509
Accumulated depreciation	4,446,040	4,446,040
	<u>661,469</u>	<u>661,469</u>
Plant, machinery and equipment		
At cost	1,791,370	1,791,370
Accumulated depreciation	1,241,617	1,241,617
	<u>549,753</u>	<u>549,753</u>
Vehicles		
At cost	1,844,199	1,844,199
Accumulated depreciation	1,267,300	1,267,300
	<u>576,899</u>	<u>576,899</u>
Projects under construction	4,470,311	4,470,311
	<u>35,000</u>	<u>35,000</u>
	<b>4,505,311</b>	<b>4,505,311</b>

**Analysis of the Movement of Property, Plant and Equipment**

	Land and buildings	Office furniture and equipment	Plant machinery and equipment	Motor Vehicles	Total Agency	Subsidiaries Land, buildings and equipment	Group Total
2007	R	R	R	R	R	R	R
Carrying value at 1 April 2006	3,981,340	862,412	606,173	819,246	6,269,171	-	6,269,171
- additions	239,575	91,350	193,384	-	524,309	-	524,309
- disposals	-	(2,498)	-	-	(2,498)	-	(2,498)
- transfers	(1,330,886)	-	-	-	(1,330,886)	-	(1,330,886)
- depreciation	(172,835)	(289,795)	(249,808)	(242,347)	(954,785)	-	(954,785)
	<u>(1,264,146)</u>	<u>(200,943)</u>	<u>(56,424)</u>	<u>(242,347)</u>	<u>(1,763,860)</u>	<u>-</u>	<u>(1,763,860)</u>
Carrying value at 31 March 2007	<b>2,717,194</b>	<b>661,469</b>	<b>549,749</b>	<b>576,899</b>	<b>4,505,311</b>	<b>-</b>	<b>4,505,311</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

	Group 2007	Agency 2007
	R	R
<b>3. INVESTMENT PROPERTY</b>		
At cost		
Ekandustria Estate	166,222,229	166,222,229
Other investment properties	48,074,583	48,074,583
Projects under construction	5,476,490	5,476,490
	<u>219,773,302</u>	<u>219,773,302</u>
Less accumulated depreciation	(2,677,553)	(2,677,553)
	<u><b>217,095,749</b></u>	<u><b>217,095,749</b></u>

## Analysis of the Movement of Investment Property

	Group 2007	Agency 2007
Carrying value at 1 April 2006	213,261,548	213,261,548
Current year movement		
- additions	5,180,868	5,180,868
- transfers	1,330,886	1,330,886
- depreciation	(2,677,553)	(2,677,553)
End of year net carrying value	<u><b>217,095,749</b></u>	<u><b>217,095,749</b></u>

Freehold rights, deeds of transfer and concession of occupancy in respect of certain of the fixed properties of the Agency have not yet been issued by the relevant government authorities or are in process of registration in the Agency's name. At the balance sheet date, properties with a carrying value of approximately R 214 million were leased out under operating leases. A schedule of land and buildings is available for inspection by the member or his authorised agents at the registered offices. Certain properties are encumbered as security for the group (note 10)

## 4. INTEREST IN SUBSIDIARIES

	Number of shares	% Holding	Agency 2007
Shares at cost			R
KaNgwane Mineral Exploration (Pty) Ltd	300,000	100%	150
Principal activity is investment in mining rights.			
Loan accounts			
KaNgwane Mineral Exploration (Pty) Ltd			<u>52,084</u>
			<u>52,234</u>
Less impairment adjustment			<u>52,234</u>
			<u>-</u>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

	Group 2007	Agency 2007
	R	R
<b>5. UNLISTED INVESTMENTS</b>		
Shares at cost	5,994,120	5,994,120
Loan accounts		
Amount outstanding	937,330	937,330
	<u>6,931,450</u>	<u>6,931,450</u>
Less impairment adjustment		
Opening balance	(937,330)	(937,330)
Current year adjustment	(4,868,224)	(4,868,224)
	<u>(5,805,554)</u>	<u>(5,805,554)</u>
Closing balance	<u><b>1,125,896</b></u>	<u><b>1,125,896</b></u>

## Shares in unlisted investments are as follows:

	Number of shares	% Holding	Group 2007	Agency 2007
	40	40%		
Cementcor (Pty) Ltd	40	40%	40	40
Kangwane Anthracite (Pty) Ltd	40	40%	40	40
Nkomati Anthracite (Pty) Ltd	40	40%	40	40
Thabiso Chemicals (Pty) Ltd	222 000	22%	222,000	222,000
Highveld Fruit Packers (Pty) Ltd	5 772 000	26%	5,772,000	5,772,000

## 6. LOANS RECEIVABLE

	Group 2007	Agency 2007
	R	R
<b>Business loans</b>		
Amounts outstanding	125,084,791	125,084,791
Less: Impairment adjustment	122,777,699	122,777,699
	<u>2,307,092</u>	<u>2,307,092</u>
<b>Held-to-Maturity Investments</b>		
Initial investment at cost	7,311,355	7,311,355
Less impairment adjustments	6,916,558	6,916,558
	<u>394,797</u>	<u>394,797</u>
	<u><b>2,701,889</b></u>	<u><b>2,701,889</b></u>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

	Group 2007 R	Agency 2007 R
<b>7. INVENTORIES</b>		
Consumables		
At cost	<u>6,195</u>	<u>6,195</u>
<b>8. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	73,384,130	73,384,130
Deposits	17,601	17,601
Self insurance fund	467,592	467,592
Sundry	2,242,821	2,242,821
	<u>76,112,144</u>	<u>76,112,144</u>
Less: Impairment adjustment	70,502,832	70,502,832
	<u>5,609,312</u>	<u>5,609,312</u>
<b>9. SHARE CAPITAL</b>		
Capital grants	<u>597,000</u>	<u>597,000</u>
<b>10. LONG TERM LIABILITIES</b>		
(refer appendix 1)		
Development Bank of Southern Africa	21,042,181	21,042,181
	<u>21,042,181</u>	<u>21,042,181</u>
The loan is secured by guarantees from the Mpumalanga Provincial Government.		
Less: Short term portion classified as current liabilities.	19,419,110	19,419,110
	<u>1,623,071</u>	<u>1,623,071</u>

The borrowings are repayable as follows:

	Within one year R	From 2 to 5 years R	Exceeding 5 years R	Total loan R
Group	19,419,110	1,280,395	342,676	21,042,181
Agency	19,419,110	1,280,395	342,676	21,042,181

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

	Group 2007 R	Agency 2007 R
<b>11. TRADE AND OTHER PAYABLES</b>		
Trade payables	11,101,008	11,101,008
Provisions	4,712,222	4,712,222
Project funding	6,330,940	6,330,940
Deposits received	2,138,956	2,138,956
Leased assets	140,730	140,730
Severance pay payable	183,882	183,882
	<u>24,607,738</u>	<u>24,607,738</u>
<b>12. REVENUE</b>		
Revenue comprises electricity sales and the rendering of municipal services.		
<b>13. OPERATING DEFICIT</b>		
Operating deficit is arrived at after taking the following items into account:		
<b>Income</b>		
Gains on sale of assets	33,172	33,172
<b>Expense</b>		
Auditor's remuneration		
Audit fees - External audit	-	-
Audit expenses - External Audit	-	-
Audit fees - Internal Audit	304,316	304,316
Other services		
Depreciation		
Investment property	2,677,553	2,677,553
Own use buildings	172,835	172,835
Office furniture and equipment	289,795	289,795
Plant, machinery and equipment	249,808	249,808
Vehicles	242,347	242,347
Bad debts written off	1,442,792	1,442,792

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

	Notes	Group 2007 R	Agency 2007 R
Directors' remuneration			
Executive director	18	1,183,487	1,183,487
Non - executive directors			
Directors' remuneration	18	1,207,318	1,207,318
Directors' expenses		683,098	683,098
Operating lease			
Buildings		1,010,568	1,010,568
Machinery and equipment		716,351	716,351
Professional and consulting fees		14,640,460	14,640,460
Retirement benefit costs		2,162,388	2,162,388
Impairment			
Unlisted investments		4,646,107	4,646,107
Loans receivable		29,451,880	29,451,880
Trade and other receivables		10,318,761	10,318,761
Held-to-maturity investment		5,472,138	5,472,138
<b>14. FINANCE COSTS</b>			
Development Bank of Southern Africa		2,177,438	2,177,438
Other interest paid		127,400	127,400
		<b>2,304,838</b>	<b>2,304,838</b>
<b>15. INVESTMENT INCOME</b>			
Interest on bank deposits		701,108	701,108
		<b>701,108</b>	<b>701,108</b>
<b>16. INCOMETAX</b>			
No provision for income tax is made as the Agency is exempt from tax in terms of Section 10(1)CA(ii) of the Income Tax Act.			
<b>17. RETIREMENT BENEFITS</b>			
All employees of the Agency are currently members of the Multikor fund which is a defined contribution plan. The fund is registered and controlled by the Pension Funds Act, 1956. The assets of the plan are separately held from these of the Agency in fund under the control of the trustees.			

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

	Board fees R	Travelling and accommodation R	Total R
<b>18. DIRECTORS REMUNERATION AND MANAGEMENT REMUNERATION</b>			
Directors remuneration			
P D Dexter (Chairperson)	541,655	619,363	1,161,018
O P Makobe	47,518	3,591	51,109
Z Mncube	146,340	13,008	159,348
R Phala	92,315	6,711	99,026
L Jacobs	100,083	5,070	105,153
E Mabuza	123,851	7,630	131,481
S P Mothibi	91,806	9,326	101,132
G N Chilli	63,750	18,399	82,149
	<b>1,207,318</b>	<b>683,098</b>	<b>1,890,416</b>
Management remuneration			
A L Scheepers (Acting CEO)	878,820	40,863	919,683
N Nokwe (CEO)	91,667	-	91,667
G A Kinnear (Acting CFO)	885,368	88,072	973,440
	<b>1,855,855</b>	<b>128,935</b>	<b>1,984,790</b>
<b>19. CAPITAL COMMITMENTS</b>			
		Group 2007 R	Agency 2007 R
Authorised by the directors and contracted		<b>1,847,819</b>	<b>1,847,819</b>
These commitments will be funded by existing funds.			

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

## 20. CONTINGENT LIABILITIES

The Agency guaranteed the payment of interest free loans to the value of R1 528 878 granted by Total S.A. Ltd to four service station owners. The Agency's liability decreases as petrol and diesel sales take place through these service stations. On 31 March 2007 the Agency's contingent liability in respect of these guarantees amounted to R149 116.

A District Municipality billed the Agency for assessment rates to a total amount of R3 564 291, which are in dispute.

20.1 The Agency is in dispute over a breach of a shareholders agreement between the predecessor company in title, the Mpumalanga Development Corporation ("MDC") and the two other companies. As the matter was not re-enrolled for trial, it is thus not possible to determine whether there will be an outflow of economic benefits.

20.2 The reconstruction of a factory led to a dispute with the former Mpumalanga Economic Empowerment Corporation and its principle agent as well as several contractors who are claiming R3 million from MEGA in respect of reconstruction of the factory. These claims are disputed.

20.3 A number of contractors and sub-contractors have initiated claims totalling approximately R2 million against MEGA for the construction and extension of a factory which are in dispute.

20.4 One of the tenants at Ekandustria bought a stand and as a result of the Financial Intelligence Centre Act, the transaction could not be finalised. A breach of agreement was alleged which is still not resolved.

20.5 The South African Revenue Service performed a payroll audit from 2002 to 2006 of assessments on MEGA's predecessors. It was found that pay as you earn was not deducted from certain employees and service providers as required by the Act. SARS is demanding R4 448 436, of which R2 923 554 is capital, R292 355 penalties and R1 232 527 interest in terms of paragraph 6(2A) of the Fourth Schedule. The Agency referred the matter to auditors to file an objection. At this stage it is not possible to determine the outcome as the objection is to be filed on 31 July 2007.

20.6 Amendments were effected in 2003 to the Value Added Tax Act, 1991, pertaining to the VAT implications of the payment of government grants to public entities. The effective implementation date of the change was 1 April 2006. The grant funding is deemed to be inclusive of VAT only in respect of the grant funding relating to taxable supplies made by the entity. Based on preliminary calculations it appears unlikely that any output VAT cash outflows will occur following the implementation of the amendments. However should this be different it could give rise to a VAT liability, penalties and interest. The directors believe that the implementation of the amendments to the VAT Act is unlikely to have an impact on the entity's financial position.

An operating lease agreement exists for the lease of office equipment. The lease is payable in 60 monthly payments of R110 876 (excluding VAT) started on 1 September 2006.

20.7

Total future minimum lease payments

Payable within the next year	Payable within 2 - 5 years
R	R
1,330,512	4,435,040

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

## 21. FINANCIAL INSTRUMENTS

## Credit Risk

The Group's credit risk is primarily attributed to its trade and business loans receivables. The amounts presented on the balance sheet are net of impairment adjustments, estimated by the Agency's management based on prior experience and current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers.

## Interest Rate Risk

The Agency is exposed to interest price risk on its fixed rate borrowings and interest cash flow risk on its floating rate borrowings.

## Maturity profile of financial instruments

For the year ended 31 March 2007

	1 year	2 - 5 years	> 5 years
	R	R	R
<b>Financial assets:</b>			
Trade and other receivables	5,609,312	-	-
Prepayments	477,406	-	-
Cash and cash equivalents	14,318,937	-	-
Loans receivable	2,004,589	273,540	28,963
<b>Financial liabilities:</b>			
Trade and other payables	24,607,738	-	-
Long term liabilities	19,419,110	1,280,395	342,676
Finance lease	70,365	70,365	-

## Liquidity Risk Management

The Group is exposed to liquidity risk as a result of uncertain debtor related cash flows and the capital commitments of the Group. The Group ensures that adequate funds are available to meet its expected and unexpected financial commitments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2007

22. RELATED PARTIES

Transactions with management

The aggregate value of transaction relating to key management personnel were as follows

		Transaction Value
P D Dexter (Director)	Acted as CEO for the Agency	213,000
G N Chilli (Director)	Investigated and reported on allegations against a certain staff member.	316,500

23. INTEREST IN SUBSIDIARIES

Carrying value of holding Agency interest

	Issued share capital	Effective percentage holding	2007 Shares at cost	Loan to/(from)
			R	R
Kangwane Minerals Exploration (Pty) Ltd	300,000	100%	150	52,084
			150	52,084
Less: Provision for permanent diminution in value and irrecoverable amounts			150	52,084
Investment in subsidiaries			-	-

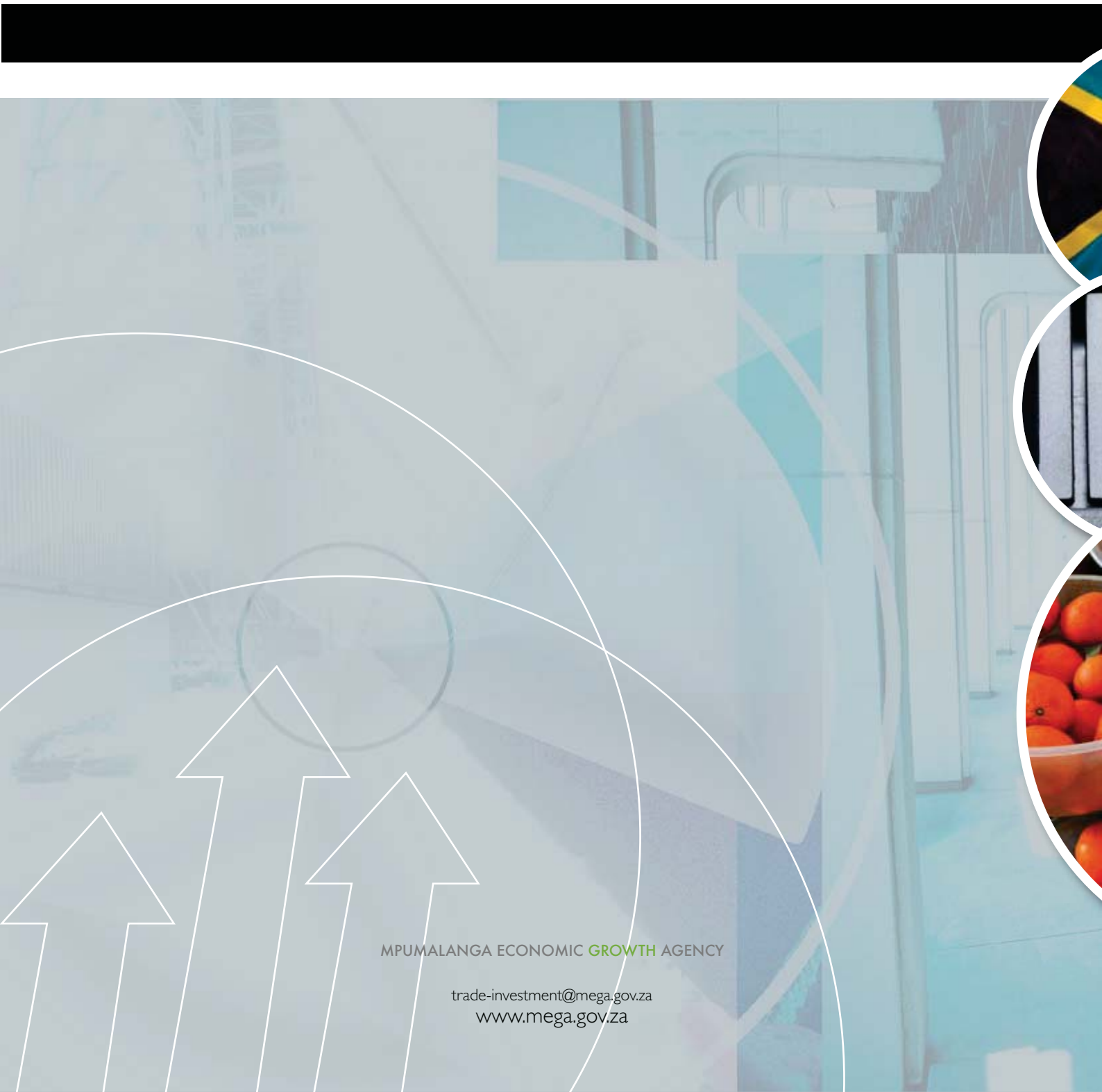
The Agency's interest in losses incurred by subsidiaries amounts to:

	2007
	R
Kangwane Minerals Exploration (Pty) Ltd	-
	-

APPENDIX

Development Bank of Southern Africa

					Group 2007	Agency 2007
					R	R
<b>Loan</b>		<b>Interest rate</b>	<b>Frequency of payment</b>	<b>Final installment date</b>		
<b>Investment Development</b>						
Jan-09	Factories	9.00%	Bi annual	31-03-2004	10,930,491	10,930,491
Feb-09	Infrastructure	8.00%	Bi annual	31-03-2009	2,750,530	2,750,530
Jan-71	Factories	12.00%	Bi annual	30-09-2006	4,393,486	4,393,486
Jan-89	Waste water works	13.00%	Bi annual	31-03-2015	1,288,039	1,288,039
<b>Small business development</b>						
Feb-64	Facilities	10.00%	Bi annual	31-03-2006	444,561	444,561
Mar-20	Working capital and equipment	7.00%	Bi annual	30-09-2007	743,032	743,032
Mar-40	Facilities	7.00%	Bi annual	31-03-2009	492,042	492,042
					21,042,181	21,042,181
Less: short term portion - disclosed under current liabilities					19,419,110	19,419,110
					<b>1,623,071</b>	<b>1,623,071</b>



MPUMALANGA ECONOMIC GROWTH AGENCY

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