

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 2009.

1. NATURE OF BUSINESS

1.1 Constitution

Established in terms of section 2 of the Eastern Cape Development Corporation Act, 1997 (Act No. 2 of 1997), the Eastern Cape Development Corporation (the Corporation) is a Provincial Government Business Enterprise listed in Schedule 3 D of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (the PFMA). The Corporation became operational with effect from 1 April 2001. In terms of the PFMA the Board of Directors is the accounting authority of the Corporation.

1.2 Objectives

The objectives of the Corporation are to plan, finance, market, promote and implement the development of the Province of the Eastern Cape and its people in the fields of commerce, industry, transport, agriculture and finance.

The objectives set out above are attained through the following:

- Existing business support;
- Creating opportunities for new business;
- Growing and sustaining existing, and developing new, markets;
- Improving access to finance; and
- Ensuring that business development is supported by skills, infrastructure and policies.

Strategic objectives and activities were set for the Corporation to ensure the long term sustainability of the Corporation, which include:

- Establishing operational and budgetary alignment with the Department of Economic Development and Environmental Affairs;
- Maximising Operating Income to ensure self sustainability of the Corporation;
- Realising return from Investment Assets;
- Providing efficient, effective and integrated development and support services to SMMEs;
- Growing the Loan Book with sustainable businesses;
- Achieving expenditure ratios that are appropriate for the Corporation;
- Increasing the rate of debt collections to acceptable norms;
- Facilitating new investments in priority sectors in line with the Provincial Growth and Development Programme;
- Improving the Return on Assets to levels appropriate to the Corporation as a Development Finance Institution;
- Human Resource Management; and
- Finalising the Corporation's appropriate position of its shareholding in subsidiaries.

For the purpose of achieving its development mandate, the Corporation focuses on the provision of finance and support expertise to all businesses types, including small, medium and micro enterprises (SMMEs) and stimulation of domestic and foreign direct investment, and will continue facilitating high economic development impact projects. The Corporation has a clearly defined role of improving access to finance for business with an economic development impact and in improving entrepreneurial capacity for long term economic development and sustainability.

The Corporation also renders economic development services in the areas of investment promotion, export promotion and support to municipalities and local authorities in the Eastern Cape Province.

2. DEVELOPMENT LOANS ADVANCED

The total disbursement of development loans for the current year amounted to more than R310 million. The bulk of these development loans have been disbursed to SMMEs and are geographically spread throughout the province of the Eastern Cape. Striking a healthy balance between obtaining a commercial return and at the same time effecting sustainable socio-economic development impact remains a challenge due to perceptions in the market that Development Finance Institutions are "soft" lenders. This perception and expectation in the market provides its own challenges in the area of debt collection.

3. INVESTMENT PROPERTIES

The Corporation continued to improve the integrity of the Asset Register by integrating the information from the rental billing system onto the fixed asset register. The tenant and asset verification exercise which commenced in December 2008 is planned for completion during the 2009/10 financial year.

The Corporation continued with the implementation of the Asset Conversion Policy, which consists of disposal of residential properties. The global economic climate has affected rental collection and the sale of properties as financial institutions reviewed their lending criteria. Delays were experienced in transferring some of the properties to purchasers, as well as commencement with identified development projects because of land claims.

4. POST BALANCE SHEET EVENTS REVIEW

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

5. AUTHORISED AND ISSUED SHARE CAPITAL

The authorised share capital of the Corporation remained unchanged at R1 billion worth of ordinary shares. Of this the Corporation issued R298, 683 million worth of ordinary shares to the Provincial Government of the Eastern Cape (Department of Economic Development and Environmental Affairs). The issued share capital is made up of 149, 342 million "A" shares of R1 each and 149, 341 million "B" shares of R1 each.

6. FINANCIAL RESULTS

The results of the Corporation and the group are disclosed in the annual financial statements.

7. POLICY DIRECTIVES

During the year under review, no new policy directives were received by the Corporation from the Member of the Executive Council responsible for the Department of Economic Development and Environmental Affairs.

8. DIVIDENDS

The directors of Transkei Share Investments (Pty) Ltd, a subsidiary, declared a dividend of R31,9 million, including Secondary Tax on Companies and R783,000 due to minority shareholders.

9. INTEREST BEARING BORROWINGS

No new borrowings were incurred during the year. The corporation continued to reduce its existing borrowings with the Development Bank of Southern Africa Limited.

10. SUBSIDIARIES

Financial information in respect of interests of the Corporation in subsidiaries and associates is set out under Supplementary Information (1). During the financial year, funding agreements were concluded with the following subsidiaries in order to improve oversight and governance:

- East London Industrial Development Zone (Proprietary) Limited
- Automotive Industrial Development Company (Proprietary) Limited

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11. DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

The directors are required, in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended), and the Eastern Cape Development Corporation Act, 1997 (Act No. 2 of 1997), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. The directors are further responsible to ensure that the annual financial statements fairly represent the state of affairs of the Corporation as at the end of the financial year, and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements.

The Corporation's annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Acknowledging their responsibility for the system of internal control established by the Corporation, the Directors place considerable importance on maintaining a strong control environment. The Directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. These standards include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls were monitored as far as reasonably possible throughout the Corporation and all employees are required to maintain the highest ethical standards in ensuring the Corporation's business is conducted in a manner that in all reasonable circumstances is above reproach. The risk management focus in the Corporation is on identifying, assessing, managing and monitoring all known forms of risk across the Corporation. It is acknowledged that operating risk cannot be fully eliminated. However, the Corporation endeavours to minimise it by ensuring that appropriate infrastructures, controls, systems and ethical behaviour are applied within predetermined procedures and constraints.

Based on the information and explanations provided by Management, the Directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of annual financial statements. Any system of internal control can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

12. GOING CONCERN STATEMENT

Having reviewed the Corporation's cash flow forecast for the year to 31 March 2010 and, in the light of this review and current financial position, the Directors are satisfied that the Corporation has, or has access to, adequate resources to continue its operational existence for the future.

13. DIRECTORS AND SECRETARY

The details of the Corporation's directors and Secretary are reflected in the Corporate Governance section of this Annual Report. The directors' and Audit Committee fees were paid as follows:

	Fees Board meeting	Fees Audit committee	Total
Nkuhlu, W L – <i>Chairperson</i>	102,500	-	102,500
Buthelezi, S	38,500	22,000	60,500
Fikeni, S	76,500	-	76,500
Ndabeni, M	63,000	-	63,000
Nonkwelo, L	58,500	-	58,500
Nodada-Qhali, T	33,000	2,000	35,000
Pakati, X	51,500	-	51,500
Tabata, S	104,000	-	104,000
Nicholls, RG	-	19,000	19,000
Njeke, JJ	13,000	43,000	56,000
Heynes, E	20,500	22,000	42,500
Grand total	561,000	108,000	669,000



Mr Bhekokuhle Sibiya
Chairperson of the Board
30 July 2009



Mr Mxolisi D Matshamba
Chief Executive Officer
30 July 2009